



LIQUIDITY POLICY

REVIEWED: 30.05.2022

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1. BACKGROUND

Liquidity is the amount of cash and / or "near cash" (which refers to assets or security that can easily and quickly be converted to cash), available to be utilized to meet obligations and / or pay commitments. The marketability or ability to buy or sell an asset without incurring unacceptable large losses thus determines the liquidity of an asset or defines it as near cash.

Various policies and procedures exist that direct the way in which the business of Overberg District Municipality is or should be conducted in a prudent manner. Generally, these policies and procedures follow from prescription in Legislation, i.e., the Municipal Finance Management Act ("MFMA") and / or directives issued by a national department such as National Treasury.

Guidelines provided by National Treasury indicate that an acceptable level of cash resources needs to be available for working capital requirements.

It is for this reason that the need to have an official Liquidity Policy was identified.

2. PURPOSE OF THE POLICY

This documented Liquidity Policy sets out the minimum risk management measures that the municipality must implement and adhere to to ensure that its current and future liquidity position is managed in a prudent manner.

This Policy is implemented to provide guidance on the minimum liquidity level that the municipality must maintain to comply with relevant legislation and / or National Treasury directives and within the overall financial management objectives as approved / reviewed by the Council from time to time.

3. DEFINITIONS

"JSE" refers to the Johannesburg Stock Exchange

"MFMA" refers to the Local Government: Municipal Finance Management Act (56 of 2003).

"Municipality" refers to the Overberg District Municipality.

4. LEGAL FRAMEWORK

4.1 The MFMA circular 71 stipulates the following two prescribed ratios to manage liquidity:

Cash/Cost Coverage Ratio (Excluding Unspent Conditional Grants) is calculated as:

$$\frac{((\text{Cash and Cash Equivalentents} - \text{Unspent Conditional Grants} - \text{Overdraft}) + \text{Short Term Investment})}{\text{Monthly Fixed Operational Expenditure excluding (Depreciation, Amortisation, Provision for Bad Debts, Impairment and Loss on Disposal of Assets)}}$$

Criteria: 1 – 3 times

Current Ratio is calculated as:

Current Assets / Current Liabilities

Criteria: 1.5:1 - 2:1

- 4.2 The above guidelines are noted but the proposed policy is more conservative to ensure that the municipality secures its strong financial position thereby providing comfort to investors / creditors and other stakeholders.

5. SCOPE FOR APPLICATION

- 5.1 This policy provides guidance on the determination of the minimum required liquidity of the municipality and the calculation of the liquidity available from time to time.

6. LIQUIDITY POLICY

- 6.1 Notwithstanding the requirements as reflected in this policy, the municipality will ensure that its Current Assets (excluding debtors older than 90 days) cover all its Current Liabilities at least 1.75 times.
- 6.2 The following constitute the key elements to take into consideration when determining the liquidity requirement of the municipality:
- 6.2.1 To comply with statutory requirements it is proposed that the following funds, reserves and provisions must be fully covered by unencumbered cash and investments:
- 6.2.1.1 All earmarked or conditional grant transfers from other spheres of Government or from Public Contributions made to the municipality that have not yet been utilized;
 - 6.2.1.2 All commitments resulting from the legally entrenched rights and benefits employees have, with specific reference to the Council's short-term commitment to staff retirement benefits and medical fund claims payable;
 - 6.2.1.3 All funds received but not yet utilized in relation to agency services provided on behalf of Provincial or National Government, should also be treated as earmarked funds; and
 - 6.2.1.4 All reserves stated by the municipality on its Statement of Financial Position that have been established for the purposes of making provisions for a defined purpose.
- 6.2.2 Cognisance also needs to be taken of the external loan commitments and the servicing of capital and interest on these loans. Therefore, provision should

be made that the municipality can meet its external loan/financial commitments together with the normal operational expenditure, as well as its liabilities to staff.

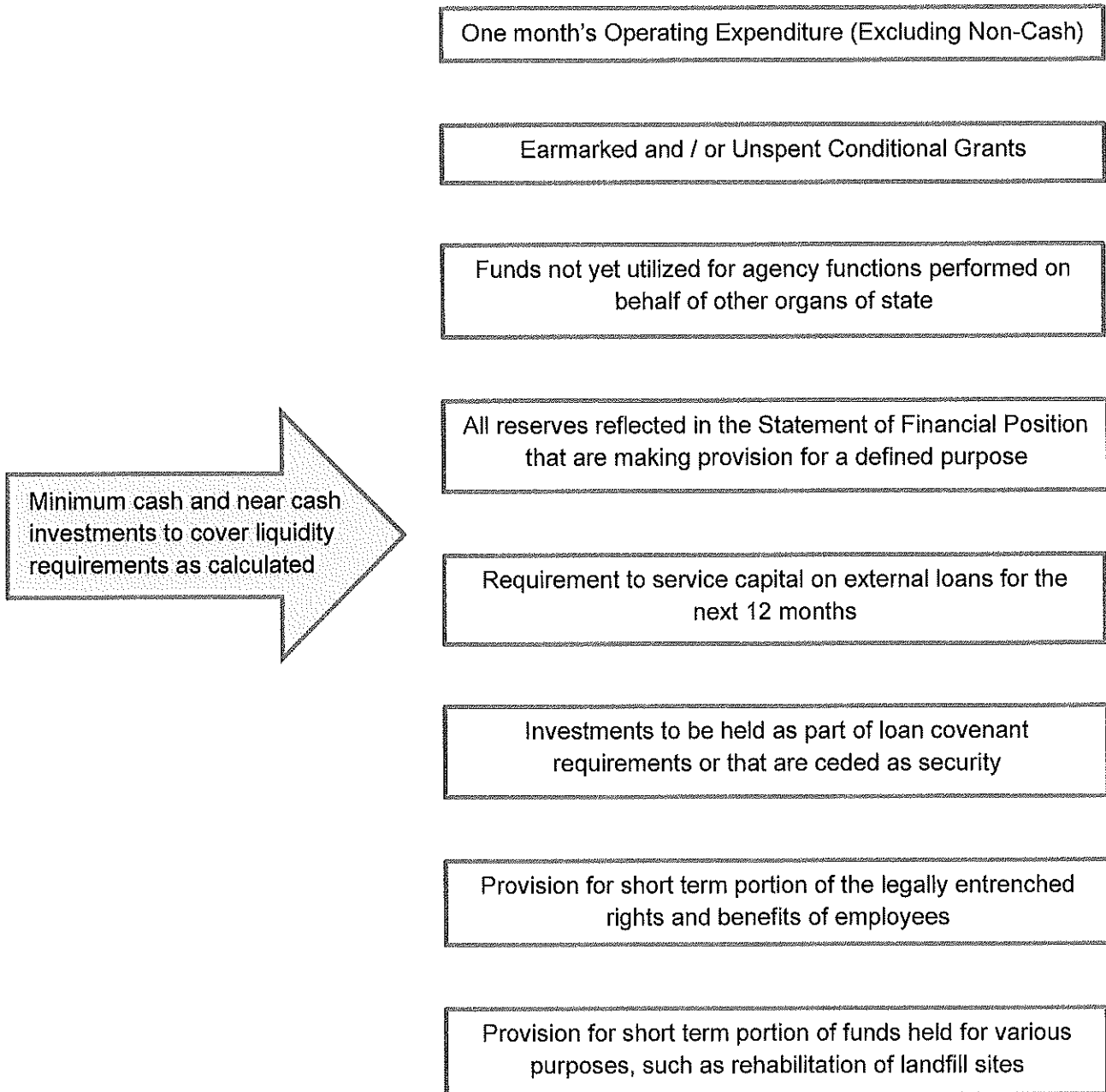
- 6.2.3 All investments ceded as security against long term loans need to be excluded from total cash and investment balances for calculation of the minimum liquidity level required.
- 6.2.4 In addition, a level of cash available for normal operational expenditure needs to be held in cash to ensure that, notwithstanding fluctuations in the monthly income levels of the municipality, the municipality will be able to meet its financial requirements. In this respect, the average monthly operational expenditure needs to be used as a guide of the minimum buffer required. At least one month's operational expenditure excluding debt impairments, depreciation and other non-cash expenses should be available for liquidity cover.
- 6.2.5 The "golden rule" is to ensure that the municipality will have adequate liquid assets (those that can be made into cash within 24 hours, weekly or monthly as the requirement might be) to meet its short-term financial commitments.

7. CALCULATION OF AVAILABLE LIQUIDITY

- 7.1 The amount of liquidity available should be determined at least once a month. Annexure 1 provides the detail format for the calculation thereof.
- 7.2 The following, should be regarded as cash and or near cash in calculating the available liquidity:
 - 7.2.1 All cash held in a bank account or invested with a money market fund, including funds held in the municipality's bank accounts but ring fenced for other purposes, viz.:
 - 7.2.1.1 Amount of unspent conditional grants and public contributions;
 - 7.2.1.2 Funds advanced for expenditure on activities executed on behalf of other spheres of Government (Provincial and / or National) as part of an agency function;
 - 7.2.1.3 Funds ring-fenced for cash backed reserves;
 - 7.2.1.4 Cash amounts that need to be held by Council resulting from loan agreements that are part of the conditions of loans extended, but not ceded outright to lenders;
 - 7.2.2 95% of the value of all tradable instruments issued by a bank that are not already ceded;

- 7.2.3 90% of the market value of all listed bonds on the JSE in which *the municipality* is allowed and has invested in;
- 7.2.4 Consumer debtors aged current to 60 days;
- 7.2.5 The undrawn portion of unconditional bank overdraft facility or liquidity facility available to the municipality.

The paragraphs are schematically reflected below:



8. IMPLEMENTATION AND MONITORING OF COMPLIANCE WITH THIS POLICY

- 8.1 The Chief Financial Officer must ensure that the minimum cash to meet the requirements as set out in this policy is held.
- 8.2 The minimum required liquidity level should be calculated based on audited annual financial statements and the monthly cash projections.
- 8.3 When compiling the annual budget or any adjustment budget the level of liquidity required in terms of this policy needs to be maintained considered budgeted revenue (amended by the expected collection rates) and the expenditure (both capital and operational in nature).
- 8.4 The liquidity level must be reported to the Council and its committees on a quarterly basis or as might be stipulated by Council.

9. CORPORATE GOVERNANCE (OVERSIGHT)

- 9.1 The minimum liquidity requirements must be determined monthly (at least) by the Chief Financial Officer and reported to the Municipal Manager.
- 9.2 Compliance with this policy will be monitored by the Chief Financial Officer and the Accounting Officer. The Chief Financial Officer must present the liquidity compliance reports to the Finance Committee and the Audit Committee of the municipality.
- 9.3 Where compliance has been breached the Chief Financial Officer must present an action plan to correct the non-compliance. The Finance Committee must monitor the successful implementation of the corrective action plans and report progress to Council.

10. RELATED POLICIES

- 10.1 The Liquidity Policy forms part of the municipality's overall financial objectives and is therefore related to the following policies:
 - 10.1.1 Budget policy;
 - 10.1.1 Borrowing policy;
 - 10.1.3 Funds and reserves policy.

11. REVIEW

- 11.1 The policy must be reviewed at least annually during the budget revision and presented to Council for approval.

12. EFFECTIVE DATE

12.1 The policy is effective from 1 July 2022

ANNEXURE 1

Liquidity Requirement as per Liquidity Policy

Financial Year End: _____

Liquidity Requirement Calculation [as stipulated in Paragraph 6.2]

All earmarked and/or conditional grants received but not yet utilised	
Value of the short-term provisions held in cash for defined purposes, such as the rehabilitation of landfill sites	
Value of legally entrenched short-term rights and benefits of employees related to Medical benefits & Retirement benefits	
Unspent Loan Funds	
Funds held for agency services not yet performed	
Reserve funds reflected in Statement of Financial Position that are assumed to be held in cash	
Capital redemption and interest payments on external loans not reflected as part of normal operational expenditure	
1 month's operational expenditure excluding non-cash items	
Commitments resulting from contracts concluded as part of Capex Programme, not reflected in operational budget	
TOTAL LIQUIDITY REQUIREMENT	

Actual available liquidity held [reference paragraph 7.2]

Bank Balance at e.g.:	
- ABSA, FNB, Standard Bank, Nedbank, Investec, Money Market	
Bank balance sub total	
95% of all other term investments with Banks	
90% of Market value of all Bonds on the JSE that are held	
Consumer debtors (current – 60 days)	
Other reserves held in cash not reflected in bank balances mentioned above for e.g.:	
- Unspent conditional grants	
- Payments received for agency functions not yet performed	
- The cash value of reserves held	
- Cash deposits held as part of loan covenants or ceded	
- Undrawn bank overdraft facility or committed liquidity lines available	
TOTAL LIQUIDITY AVAILABLE	

LIQUIDITY SURPLUS (SHORT FALL)

SURPLUS TO BE APPROPRIATED TO CAPITAL REPLACEMENT RESERVE

(See Borrowing, Funds and Reserves Policy)

Liquidity Ratio (Minimum 1.75:1):

Current Asset /Current Liabilities



EXTRACT FROM THE COUNCIL MINUTES HELD ON 30 MAY 2022

Item A63. 30.05.2022

MTREF BUDGET: 2022-2023 TO 2024/2025 OPERATING AND CAPITAL BUDGET, IDP AND POLICY DOCUMENTS (Ref.-.6/1/1/3)

N Kruger : Chief Financial Officer

(Ref.:6/1/1/B & 6/1/1/1)

PURPOSE

The purpose of the report is to submit the budget for 2022/2023 MTREF to Council for consideration of approval.

BACKGROUND

In terms of section 16 of the Local Government: Municipal Financial Management Act, 2003 (Act 56 of 2003) Council must approve an annual budget before the start of the financial year.

LEGAL FRAMEWORK

The Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) stipulates as follows:

Municipal budgets

16. (1) The Council of a municipality must for each year approve an annual budget for the municipality before the start of the financial year.
(2) In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

Contents of annual budgets and supporting documentation

17. (1) An annual budget of a municipality must be a schedule in the prescribed format—
- (a) setting out realistically anticipated revenue for the budget year from each revenue source;
 - (b) appropriating expenditure for the budget year under the different votes of the municipality;
 - (c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
 - (d) setting out—
 - (i) estimated revenue and expenditure by vote for the current year; and (ii) actual revenue and expenditure by vote for the financial year preceding the current year; and
 - (e) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.
- (2) An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.
(3) When an annual budget is tabled in terms of section 16(2), it must be accompanied by the following documents:

- (a) Draft resolutions—

- (i) approving the budget of the municipality;
- (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and
- (iii) approving any other matter that may be prescribed;

(b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;

(c) a projection of cash flow for the budget year by revenue source, broken down per month;

(d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;

(e) any proposed amendments to the budget-related policies of the municipality;

(f) particulars of the municipality's investments;

(g) any prescribed budget information on municipal entities under the sole or shared control of the municipality;

(h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;

(i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;

(j) particulars of any proposed allocations or grants by the municipality to— (i) other municipalities;

(ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;

(iii) any other organs of state; (iv) any organisations or bodies referred to in section 67(1);

(k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of—

(i) each political office-bearer of the municipality;

(ii) councillors of the municipality; and

(iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;

(l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of— (i) each member of the entity's board of directors; and

(ii) the chief executive officer and each senior manager of the entity; and (m) any other supporting documentation as may be prescribed.

22. Publication of annual budgets —

(1) Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must—

(a) in accordance with Chapter 4 of the Municipal Systems Act—

(i) make public the annual budget and the documents referred to in section 17(3); and

(ii) invite the local community to submit representations in connection with the budget; and

(b) submit the annual budget—

(i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and

(ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

23. Consultations on tabled budgets —

- (1) When the annual budget has been tabled, the municipal council must consider any views of—
 - (a) the local community; and
 - (b) the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- (2) After considering all budget submissions, the council must give the mayor an opportunity—
 - (a) to the submissions; and
 - (b) if necessary, respond to revise the budget and table amendments for consideration by the council.
- (3) The National Treasury may issue guidelines on the manner in which municipal councils should process their annual budgets, including guidelines on the formation of a committee of the council to consider the budget and to hold public hearings.
- (4) No guidelines issued in terms of subsection (3) are binding on a municipal council unless adopted by the council.

COMMENTS

The draft 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) report inclusive of the budget schedules, which have been compiled in terms of the Municipal Budgeting and Reporting Regulations (MBRR), have been distributed after tabling it in the Council meeting of 28 March 2022, while a notice has been placed in the local newspapers to invite the public/community to submit comments on the draft/taled budget.

Input from Provincial Treasury

Provincial Treasury has submitted their 2022 SIME/ LG MTEC Assessment Report on 26 April 2022 and the municipal response was discussed with Provincial Treasury on 6 May 2022. The following aspects were highlighted by the Province Treasury and herewith the issues raised as well as the respective response from ODM Management :

The Municipality's budget reflects funded, but the nett surplus after the application of cash is on a declining trajectory over the MTREF indicating risks to future sustainability

- a) The Municipality tabled an operating surplus budget over the 2022/23 MTREF period which is commendable. As a district municipality, the Municipality has limited revenue sources, but great effort is noted in identifying additional revenue sources. Tariffs are proposed above inflation and may influence the revenue growth assumptions.
- b) The Municipality has over the last two (2) financial years shown great resilience to remain financially stable under exceptionally uncertain economic conditions. The Municipality's continued success depends on its ability to recognise when to adapt and adjust plans during any uncertainty. The Municipality is encouraged to continue with ongoing assessments of assumptions to ensure that revenue, expenditure projections and policy decisions to be accurately informed over the MTREF. It should be noted that based on the prior year audited outcomes, the Municipality has reported a deficit budget in 2018/19 but managed to achieve operating surpluses in 2019/20 and 2020/21 financial years. It has been noted on the Municipality's performance that in the 2021/22 financial year, operational expenditure has increased by two (2) per cent whilst the operating revenue has also increased by six (6) per cent.

- c) It is clear from the budgetary allocation to the strategic objectives that the bulk of the 2022/23 MTREF allocation is focused towards Strategic Goal (1): 'To ensure the well-being of all in the Overberg through the provision of efficient basic services and infrastructure'; this includes an operating budget allocation of R180.9 million (71.2 per cent) and a capital allocation of R7.5 million (73.7 per cent) in 2022/23. It is evident that the Municipality's 2022/23 budget prioritised spending towards delivering on its service delivery mandate.
- d) Annual growth in operating expenditure is below projected inflation in 2023/24 and 2024/25, while capital expenditure declines from a high of R10.2 million 2022/23 over the MTREF, to R3.4 million in 2024/25.
- e) This largest of the allocations, for road transport, will mainly be directed towards refurbishment and rehabilitation as well as upgrades and additions to existing road transport infrastructure, the biggest of these for 2022/23 being for the Hermanus-Gansbaai project (R130.0 million), the reseal of the Stanford-Riviersonderend road (R105.0 million), refurbishment of the Caledon-Sandbaai road (R93.8 million), upgrades and additions to the Draaiberg road and refurbishment of the Barrydale – Ladismith road (R60.0 million).
- f) The District has allocated R20.8 million towards its municipal health function (operating budget) and as well as a capital budget allocation of R40 000 (mostly office equipment) in 2022/23. Districts are mandated to provide municipal health services, which includes the surveillance and prevention of communicable diseases such as the current COVID-19. The allocation for municipal health is part of an investment in future health provision. The importance of strengthening this function and providing it with adequate resources is crucial to attaining and maintaining levels and safety standards with regards to our physical environment. The District has significantly increased its municipal health operating budget allocation in the 2022/23 financial year (21.2 per cent) compared to its 2021/22 allocation.
- g) The District has allocated a total operating budget of R36.0 million to the provision of fire-fighting services for 2022/23. This represents a 7.2 per cent increase from its 2021/22 allocation. A capital budget of R2.6 million is geared primarily towards vehicle replacement (R2.2 million) and vehicle upgrades/refurbishment (R300 000). In total, allocations towards fire-fighting services equates to 14.6 per cent of the overall 2022/23 budget.
- h) For 2022/23, the District has allocated R16.2 million of its operational expenditure budget to 'Sport and Recreation'; the corresponding capital allocation for the year is R1.4 million. If resorts are well managed and maintained, upgraded, and appropriately marketed, it can play a role in promoting domestic and international tourism within the region. The Municipality must consider if the allocation for this function is sufficient given the 1.9 per cent drop in operating expenditure in 2022/23.
- i) Firefighting and health services remain an essential part of the Municipality's service delivery to its community, however huge deficits are incurred in the process of providing these services. The Municipality must identify efficiencies within these functions to minimise the cost and negative financial impact. In this regard, ODM raised the Health Service funding issues at the Cabinet and Municipalities "Meet & Greet Sessions" on 22 April 2022 and ODM was advised to approach Provincial Treasury to make a submission to National Treasury. This was to motivate sufficient funding through an Equitable Share formula review for District Municipalities which would provide a framework for funding of Municipal Health Workers in line with required norms and standards. Currently ODM reflects a deficit of EHP's based on population figures (1 EHP/10 000). An item was placed on the next CFO Forum for 10 June 2022 to discuss this issue with District CFO's.

- j) The Municipality is reliant on own funding to contribute to capital budget and must consider the return on investment to ensure ongoing sustainability. The main fiscal challenge facing the Municipality is the limited revenue base and the identification of revenue opportunities within a cost-efficient governance model of service delivery. Balancing affordability and increasing spending demands is key to maintain a healthy funding position with active contributions to the capital replacement reserve fund.
- k) The liquidity ratios of the Municipality indicate that the Municipality can take care of their financial commitments.
- l) (l) The draft budget data strings over the MTREF period indicates that the Municipality is not exposed to a liquidity risk.

FURTHER COMMENTS

No other comments or inputs had been received on the advertised budget and tariffs.

Other necessary amendments based on changed assumptions and additions were made in the 2022/23 budget document, as proposed and tabled to the Budget Steering Committee for consideration on 17 May 2022.

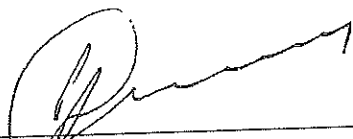
The 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) report, inclusive of the budget schedules, which are compiled in terms of the Municipal Budgeting and Reporting Regulations (MBRR), will be distributed prior to the Council meeting of 30 May 2022.

RESOLVED : (Proposed by Ald A Franken and seconded by Ald J Nieuwoudt)

- 1) The consolidated budget of **R253 440 054**, consisting of an **Operating budget of R253 345 851** (resulting in a **surplus R 94 203** after tariff increases) and a **Capital budget of R10 273 000** and budgeted cash flows, as set out in the Municipal Budget is adopted and approved by Council and that it constitutes the Budget of the Council for 2022/2023 financial year as well as the medium term (indicative) budgets for the 2023/2024 and 2024/2025 financial years.
- 2) The tariffs as per tariff list be approved. That an application for waiver of tariffs be considered by the Municipal Manager, on written application.
- 3) That all other matters prescribed in sections 17(1) (a-e); 17(2) and 17(3) (a-m) of the Municipal Finance Management Act 56 of 2003, are included in or that accompany the budget document be approved.
- 4) The measurable performance objectives for 2022/2023 for operating revenue by source and by vote is approved.
- 5) That the following budget related policies are approved:
 - i Asset Management Policy (as amended)
 - ii Credit Control and Debt Collection Policy (as amended)
 - iii Cash Management and Investment Policy (as amended)
 - iv Tariff Policy (as amended)
 - v Supply Chain Management Policy (as amended)
 - vi Virement Policy (as amended)
 - vii Borrowing Policy (as amended)
 - viii Funding and Reserves Policy (as amended)

- ix Budget Policy (as amended)
- x Customer Care Policy (as amended)
- xi Demand Management Policy (as amended)
- xii Infrastructure and delivery Management Policy (Repealed)
- xiii Infrastructure investment and Capital projects Policy (as amended)
- xiv Liquidity Policy (as amended)
- xv Long term Financial Planning Policy (as amended)
- xvi Management and Admin of Immovable Assets Policy (as amended)
- xvii Payroll Management and Administration Policy (as amended)
- xviii Preferential Procurement Policy (Repealed)
- xix Cost containment Policy (as amended)
- xx Travelling and Subsistence Policy (as amended)

**CERTIFIED A TRUE EXTRACT FROM THE MINUTES OF THE COUNCIL MEETING HELD
ON 30 MAY 2022.**



**P. OLIVER
MUNICIPAL MANAGER (ACTING)**