



## LIQUIDITY POLICY

Council Resolution No : ..... A63 .....

Date : ..... 29.05.2025 .....

Municipal Manager : ..... [Signature] .....

Executive Mayor : ..... [Signature] .....

Reference No : ..... 6/1/1/13 .....

Municipal Code No : ..... P-L-03.5 .....

REVIEWED 29.05.2025

## TABLE OF CONTENT

1. BACKGROUND.....	3
2. PURPOSE OF THE POLICY .....	3
3. DEFINITIONS .....	3
4. LEGAL FRAMEWORK.....	3
5. SCOPE FOR APPLICATION.....	4
6. LIQUIDITY POLICY .....	4
7. CALCULATION OF AVAILABLE LIQUIDITY .....	5
8. IMPLEMENTATION AND MONITORING OF COMPLIANCE WITH THIS POLICY.....	7
9. CORPORATE GOVERNANCE (OVERSIGHT).....	7
10. RELATED POLICIES.....	7
11. REVIEW .....	7
12. EFFECTIVE DATE.....	8
ANNEXURE 1.....	9

## 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 has to implement and adhere to in order 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 has to maintain in order 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:

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

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 of 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.

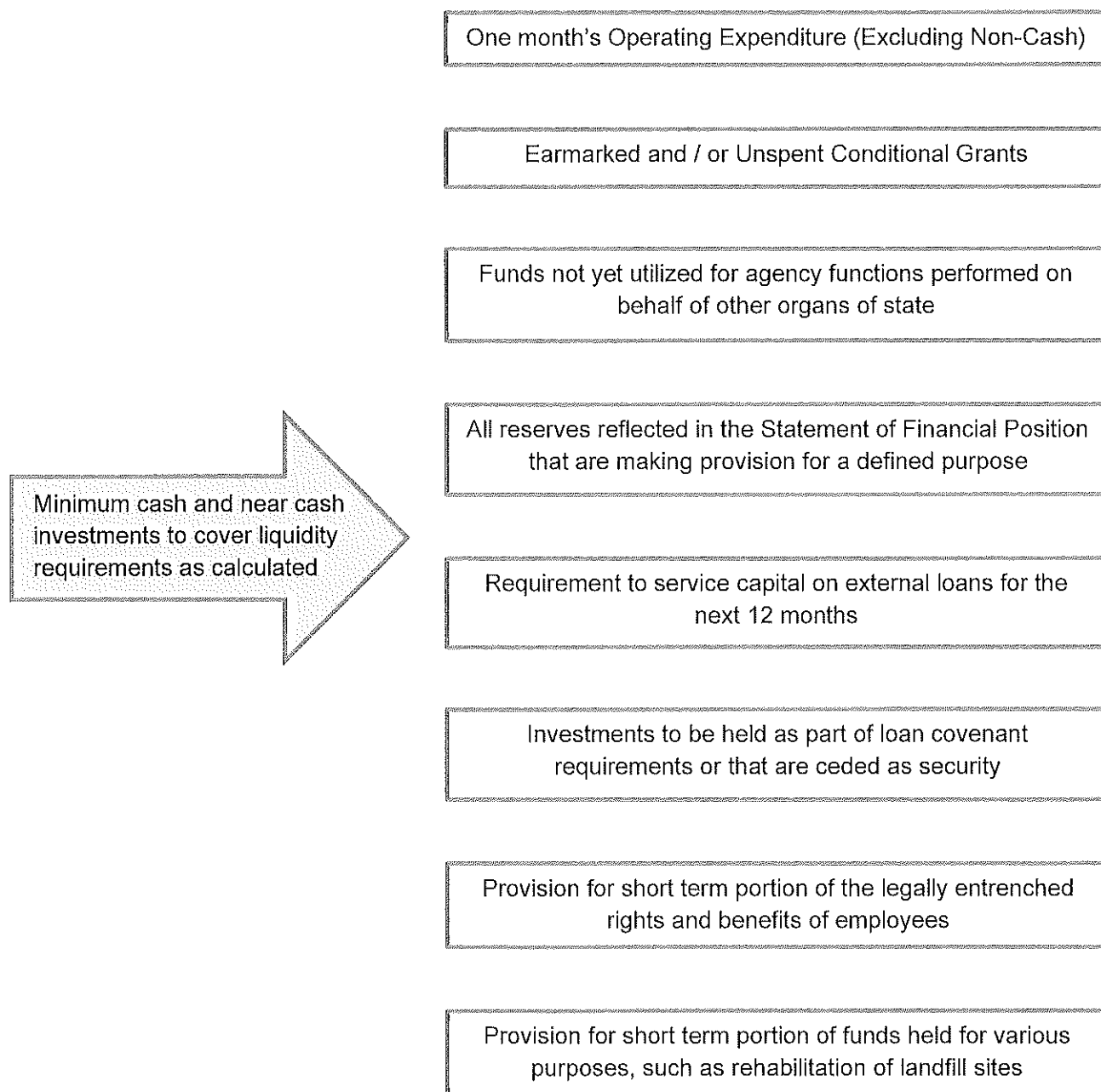
- 6.2.3 All investments ceded as security against long term loans need to be excluded from total cash and investment balances for calculation of the minimum liquidity level required.
- 6.2.4 In addition, a level of cash available for normal operational expenditure needs to be held in cash to ensure that, notwithstanding fluctuations in the monthly income levels of the municipality, the municipality will be in a position 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 aforementioned 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 taken into account 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 on a monthly basis (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 2025.



## 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 months operational expenditure excluding non-cash items	
Commitments resulting from contracts concluded as part of Capex Programme, not reflected in operational budget	
<b>TOTAL LIQUIDITY REQUIREMENT</b>	

*Actual available liquidity held [reference paragraph 7.2]*

Bank Balance at e.g.:	
- ABSA, FNB, Standard Bank, Nedbank, Investec, Money Market	
<b>Bank balance sub total</b>	
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 <b>not reflected in bank balances mentioned above</b> 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	
<b>TOTAL LIQUIDITY AVAILABLE</b>	

**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 29 MAY 2025

Item A63. 29.05.2025

### MTREF BUDGET: 2025-2026 TO 2027/2028 OPERATING AND CAPITAL BUDGET, IDP AND POLICY DOCUMENTS

S Stanley: Chief Financial Officer

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

#### PURPOSE

The purpose of the report is to submit the Final budget for 2025/2026 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

- (a) The Council of a municipality must for each year approve an annual budget for the municipality before the start of the financial year.
- (b) 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

16. (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

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- (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 respond to the submissions; and
  - (b) if necessary, 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 2025/26 Medium Term Revenue and Expenditure Framework (MTREF) report inclusive of the budget schedules have been tabled to Council on the 31 March 2025. The budget documentation has been compiled in terms of the Municipal Budgeting and

Reporting Regulations (MBRR). After tabling of the budget, a notice has been placed in the local newspapers to invite the public/community to submit comments on the draft/tailed budget. The due date for the submission of these comments was 26 April 2025.

### Input from Provincial Treasury

The Provincial Treasury as part of their legislative oversight and support function also engage the municipality on the tabled budget as part of the Public participation process. A formal engagement with the municipality was held on the 5<sup>th</sup> of May 2025 whereby the assessment report was tabled and discussed as part of this oversight functions. This engagement is classified as the SIME / LGMTECT engagement, and the Provincial departments issue a formal report to the municipality for considering as part of the final budget compilation process.

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.**

- (a) The Municipality tabled an operating surplus budget over the 2025/26 MTREF period including the Capital grant transfers received. A surplus budget should reflect before the Capital grants are considered. As a district municipality, the Municipality has limited revenue sources, but great effort is noted in identifying additional revenue sources. Tariffs are proposed slightly above inflation and may influence the revenue growth assumptions.
- (b) The Municipality's tabled budget is funded over the 2025/26 MTREF, however sacrifices were required, suggesting that the Municipality is compliant with section 18 of the Municipal Finance Management Act, No. 56 of 2003 (MFMA).
- (c) Over the last few financial years, the municipality has 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 deficit budgets but managed to achieve operating surpluses in prior financial years.
- (d) It is clear from the budgetary allocation to the strategic goals that the bulk of the 2025/26 MTREF allocation is focused toward SG1 'To ensure the health and safety of all in the Overberg through the provision of efficient basic services and infrastructure'. This SG incorporates many of the functional work areas, including waste

management, municipal health services (including water quality monitoring, food control, health surveillance), environmental management services (including coastal and catchment management, solid waste management, spatial planning), emergency (fire) services and roads. This SG comprises of an operating budget allocation of R215.618 million (70.28 per cent of total Operational expenditures) and a capital allocation of R13.008 million (87 per cent of total Capital expenditures) in 2025/26.

- (e) The District has allocated R22.648 million towards its municipal health function (operating budget) and as well as a capital budget allocation of R1.87 million (furniture and office equipment) in 2025/26. The municipal health operating budget allocation in the 2025/26 financial amounts to R23.806 million.
- (f) The road allocation for the 2025/26 financial year amounts to R131.694 million or a sizeable 43 per cent of the District's total operating budget.
- (g) The District has allocated a total operating budget of R46.060 million to the provision of fire-fighting services for 2025/26.
- (h) For 2025/26, the District has allocated R22.250 million of its operational expenditure budget to 'Recreational facilities'; the capital allocation for LED, tourism, resorts and EPWP for the same year totals R250 000,
- (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. The respective equitable share allocation in the community service component will be allocated proportionally to each service and combined with the revenue for own sources, it will reflect the shortfall in rendering the service.
- (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) The budget data strings over the MTREF period indicates that the Municipality is not exposed to a liquidity risk.

**Comments received from the public on the proposed tariff increases at the municipal resorts (semi-permanent).**

A total of 180 objections were received on the advertised budget and tariffs on the Uilenkraalsmond resort's rental of plots.

The administration analyses and review the comments and a outcome decision was taken to reduce the proposed tariff. This was done based on the affordability of the tariffs as per input received.

Other necessary amendments based on changed assumptions and additions were made in the 2025/26 budget document, as proposed, and tabled to the Budget Steering Committee for consideration on 19 May 2025.

The 2025/26 Medium Term Revenue and Expenditure Framework (MTREF) report, inclusive of the budget schedules, which are compiled in terms of the Municipal Budgeting Reporting Regulations (MBRR), will be distributed prior to the Council meeting of 29 May 2025.

**RESOLVED:** (Proposed by Ald. A Franken and seconded by Ald. H Coetzee)

- 1) The consolidated budget of **R306 811 902**, consisting of an **Operating budget of R306 766 992** (resulting in a **surplus R 544 909** after tariff increases). Capital transfers amounts to R500 000 in addition, and a **Capital budget of R14 877 500** 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 2025/2026 financial year as well as the medium term (indicative) budgets for the 2026/2027 and 2027/2028 financial years.
- 2) The tariffs as per tariff list was approved per attached schedules to the budget document.
- 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 and that accompany the budget document, is approved.
- 4) That all grant allocations in the 2025 Division of Revenue Bill published on 21 May 2025, are included in the 2025/26 MTREF budget.
- 5) That the measurable performance objectives for 2025/2026 for operating revenue by source and by vote, is approved.
- 6) Cognisance was taken that the final budget information may be reviewed and updated with the final report distributed, in the event that changes are communicated to the municipality via Provincial and National DORA allocations.

- 7) That the following budget related policies are approved as unchanged or reviewed/amended.

No	Detail	Unchanged	Reviewed
(i)	Asset Management Policy	X	
(ii)	Credit Control and Debt Collection Policy	X	
(iii)	Bad debt provision Policy	X	
(iv)	Bad debt write-off Policy	X	
(v)	Cash Management and Investment Policy	X	
(vi)	Tariff Policy	X	
(vii)	Supply Chain Management Policy		X
(viii)	Virement Policy	X	
(ix)	Borrowing Policy	X	
(x)	Funding and Reserves Policy	X	
(xi)	Budget Policy	X	
(xii)	Customer Care Policy	X	
(xiii)	Demand Management Policy	X	
(xiv)	Infrastructure investment and Capital projects Policy	X	
(xv)	Liquidity Policy	X	
(xvi)	Long term Financial Planning Policy	X	
(xvii)	Management and Admin of Immovable Assets Policy	X	
(xviii)	Payroll Management and Administration Policy	X	
(xix)	Preferential Procurement Policy	X	
(xx)	Cost containment Policy	X	
(xxi)	Travelling and Subsistence Policy	X	

That the budget summary document, as presented to Council, be included as part of the budget documentation of the items tabled to Council.

**CERTIFIED A TRUE EXTRACT FROM THE MINUTES OF THE COUNCIL MEETING HELD ON 29 MAY 2025.**



**R BOSMAN**  
**MUNICIPAL MANAGER**

