



MOGALE CITY LOCAL MUNICIPALITY

LIQUIDITY POLICY

2026 -2027

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APPROVED

1. INTRODUCTION

The documented Liquidity Policy sets out the minimum risk management measures that Mogale City Local Municipality has to implement and adhere to in order to ensure that its current and future liquidity position is managed in a prudent manner.

Liquidity is the amount of 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.

This Policy is implemented to provide guidance on the minimum liquidity level that Mogale City Local Municipality has to maintain in order to comply with required legislative and / or National Treasury directives and within the overall financial management objectives as approved/reviewed by the Council from time to time.

2. BACKGROUND AND APPROACH

Various policies and procedures exist that direct the way in which the business of Mogale City Local Municipality is or should be conducted in a prudent manner. Generally, these policies and procedures flow from the prescription made 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 (see below).

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

3. LEGISLATIVE REQUIREMENTS

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

Cash/Cost Coverage Ratio (Excluding Unspent Conditional Grants) is calculated as: $((\text{Cash and Cash Equivalents} - \text{Unspent Conditional Grants} - \text{Overdraft}) + \text{Short Term Investment}) / \text{Monthly Fixed Operational Expenditure excluding (Depreciation, Amortisation, Provision for Bad Debts, Impairment and Loss on Disposal of Assets)}$

Criteria: 1 – 3 months

Current Ratio $\text{Current Assets} / \text{Current Liabilities}$

Criteria: 1.5 - 2:1

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.

4. LIQUIDITY POLICY

This policy provides guidance on the determination of the minimum liquidity requirement and the calculation of the liquidity available of Mogale City Local Municipality from time to time.

The requirements as reflected in this policy, Mogale City Local Municipality should ensure that its Current Assets (excluding debtors older than 120 days) cover all of its Current Liabilities at least two times.

The policy encapsulates certain key aspects and considerations which have been outlined below:

4.1. KEY COMPONENTS OF MINIMUM LIQUIDITY REQUIRED:

The following constitutes the key elements to take into consideration when determining the liquidity requirement of Mogale City Local Municipality:

4.1.1. To comply with statutory requirements, it is proposed that the following funds, reserves and provisions be fully covered by unencumbered cash and investments:

4.1.1.1. All earmarked or conditional grant transfers from spheres of Government or from Public Contributions made to Mogale City Local Municipality that have not yet been utilized;

4.1.1.2. 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;

4.1.1.3. All funds not yet been utilized in relation to agency services provided on behalf of Provincial or National Government should also be treated as earmarked funds;

4.1.1.4. All reserves stated by Mogale City Local Municipality on its Statement of Financial Position that have been established for the purposes of making provisions for a defined purpose.

4.1.2. 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 Mogale City Local Municipality can meet its external loan/financial commitments together with the normal operational expenditure, as well as its liabilities to staff.

4.1.3. 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.

4.1.4. 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 Mogale City Local Municipality, Mogale City Local Municipality will be in a position to meet its financial requirements. Two month's operational expenditure excluding debt impairments, depreciation and other non-cash expenses should be available for liquidity cover.

4.1.5. The "golden rule" should be to ensure that Mogale City Local Local 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

4.2. CALCULATION OF AVAILABLE LIQUIDITY

The amount of liquidity available should be determined from time-to-time. The following, should be regarded as cash and or near cash in calculating the available liquidity:

4.2.1. All cash held in a bank account or invested with a money market fund;

4.2.2. Consumer debtors aged current to 90 days;

4.2.3. Amount of unspent conditional grants and public contributions excluded from own funds held in bank accounts;

4.2.4. Funds provided to Council for expenditure on activities executed on behalf of other spheres of Government (Provincial and / or National) as part of an agency function, excluded from own funds held in bank accounts;

4.2.5. Funds ring-fenced for cash backed reserves that are excluded from own funds held in bank account

4.2.6. The undrawn portion of unconditional bank overdraft facility or liquidity facility available to Mogale City Local Municipality

4.3. IMPLEMENTATION AND MONITORING OF COMPLIANCE WITH LIQUIDITY POLICY:

Once the policy is approved, the CFO is to be tasked to ensure that the required cash has to be maintained to continue meeting the requirements as set out in this policy.

Firstly, the minimum required liquidity level should be calculated based on audited annual financial statements. This level of liquidity required needs to be specifically budgeted for and on a quarterly basis be reported to the Finance Committee and / or other Committees as might be stipulated by Council as well as to Council. The cash provisions made to repay external loan commitments, if specifically earmarked, should also be added to this minimum working capital liquidity, to prevent fluctuations in the working capital reserve that could put the minimum level of liquidity levels under pressure.

5. CORPORATE GOVERNANCE (OVERSIGHT)

The minimum liquidity requirements must be determined, at least, on a monthly basis by the Chief Financial Officer and reported to the Municipal Manager.

Compliance with this policy will be monitored by the Chief Financial Officer. The Chief Financial Officer must present the liquidity compliance reports to the Finance Committee and the Audit Committee of the municipality.

6. POLICY MANAGEMENT

The Liquidity Policy forms part of Mogale City Local Municipality overall financial objectives and therefore forms part of approved Budget Policies. The policy must be reviewed at least annually during the budget revision and presented to Council for approval.

.After the approval of the Municipal Council, this Policy will be in effect from 1 July 2026.