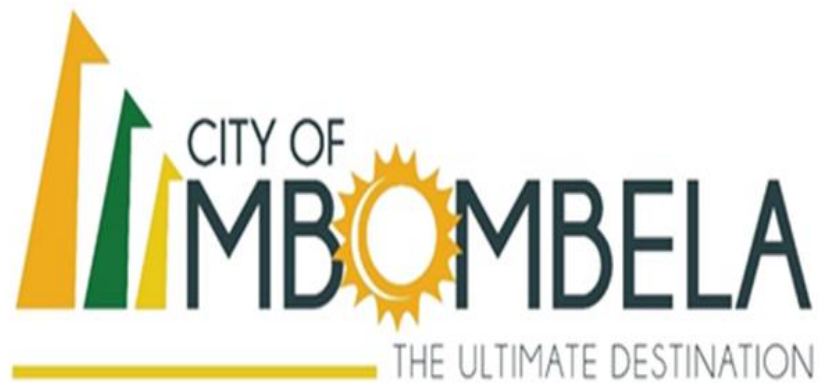


CITY OF MBOMBELA



LIQUIDITY POLICY

1. Introduction

Liquidity reflects the City's ability to fund assets and meet financial obligations when it becomes due.

Liquidity risk reflects the possibility that the City will be unable to meet its short term financial commitments or obligations in a timely manner when they become due.

2. Legislative Mandate

This policy is required in terms of Section 8 of the Local Government: Municipal Budget and Reporting Regulations which is in accordance with Section 17 and 168 of the Municipal Finance Management Act No. 56 of 2003.

3. Objective of the Policy

The objective of the policy is to ensure sustainable liquidity management in so far as maintaining sufficient liquidity intensities to meet the liabilities when due under both normal and stressed conditions without incurring any prohibited expenditure.

2 Liquidity Management

2.1 Cash Coverage

Cash coverage is the City's ability to meet at least its monthly fixed operating commitments from cash and short-term investment without collecting any additional revenue, during that month. The ratio is adjusted for unspent conditional grants as the cash is not available for the normal day to day operational expenditure of the City but rather reserved specifically for grants related expenditure.

The municipality shall maintain a cash/cost coverage ratio of between one month to three months excluding unspent conditional grants. This shall take into account the following:

- 2.1.1 Cash and cash equivalent as at each period.
- 2.1.2 Unspent conditional grants.
- 2.1.3 Overdraft (If any).
- 2.1.4 Short term investments.
- 2.1.5 Total operating expenditure for the period.

2.2 Current ratio

Current ratio is used to assess the City's ability to pay back its short-term liabilities (Debt and Payables) with its short-term assets (Cash, Inventory, Receivables).

The current ratio shall be maintained at the acceptable norm as set by National Treasury.

3 Management of Liquidity Risk

3.1 Budgeting

The City shall ensure credible balanced sheet budgeting approach is adopted to manage liquidity risk. A liquidity forecast methodology shall be undertaken by estimating the municipality's current liabilities and assets. This entails making use of all applicable macro and micro economic indicators, sovereign credit rating and other related assumptions. The five years budget projections and forecast shall be prepared for each budget year. An operating surplus budget approach shall be adopted as a budget model that will ensure the municipality can start to building up cash reserves.

3.2 In year reporting

The City shall put measures and controls in place to monitor and ensure that an acceptable liquidity management level is maintained above the norm. Should the actual liquidity be below the set norms, the municipality shall develop and implement stringent interventions to maintain the liquidity within the set norms and mitigate the liquidity risk. The actual norm outcome shall be reported during the financial year to the relevant internal stakeholders.

3.2 Annual Reporting

The audited actuals shall be reported with the audited annual financial statements for each financial year. The liquidity levels shall be reported together with all other ratios in order to present the overall financial performance and position of the municipality.

3.4 Risk Mitigation

The municipality shall mitigate the liquidity risks to avoid vulnerability and inability to provide basic services or financial commitment. The liquidity risks should be viewed along with other debtor's management risks in order to assess the overall cash flow risks of the municipality.

4. Funding

The municipality shall implement the funding and reserves policy together with all other applicable policies to give effect to the liquidity policy.

6. Implementation and review of the policy

This policy shall be effective from 01 July 2018 and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives and applicable legislations.