ANNEXURE B10

HESSEQUA

Munisipaliteit / Municipality

Draft Beleid / Draft Policy

FOR IMPLEMENTATION ON 1 JULY 2026

LIQUIDITY POLICY 2026/27

"In terme van Hessequa Munisipaliteit se Anti-Korrupsie strategie en die implementering van Anti-Korrupsie prosedures in al die fasette van Administrasie is dit vir ons belangrik dat hierdie beleidsdokument aan die Raad se Anti-Korrupsie doelwitte voldoen en daarom vom dit deel van die Hessequa Munisipaliteit se Anti-Korrupsie beleid."

"In terms of Hessequa Municipality's Anti-Corruption strategy and the implementation of the Anti-Corruption procedures in all the facets of Administration it is important that this policy document apply to the Council's Anti-Corruption aims and therefore form part of the Hessequa Municipality's Anti-Corruption policy."

Goedgekeur / Approved:

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INTRODUCTION

The documented Liquidity Policy sets out the minimum risk management measures that Hessequa Municipality must 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 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.

This Policy is implemented to provide guidance on the minimum liquidity level that Hessequa Municipality must 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.

1. BACKGROUND AND APPROACH

Various policies and procedures exist that direct the way in which the business of Hessequa 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.

Whereas it is required for Hessequa Municipality and other municipalities to have an Investment Policy, no specific legislative requirement exists as it relates to the level of cash or near cash (broadly defined as liquidity) that needs to be held by municipalities.

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.

2. LEGISLATIVE REQUIREMENTS

National Treasury has issued guidelines for municipalities to follow in managing their liquidity requirements. The National Treasury guidelines indicate that a municipality should hold sufficient cash and near cash to cover at between 1 - 3 months of operational expenditure.

The MFMA does not specifically address the liquidity requirements and methods of quantifying same. Section 13 of the MFMA only refers to cash management and investments.

Other specific requirements exist as to earmarked reserves or provisions that need to be cash backed at all times, which also provides guidance as to the amount of cash that should be available to cover the short term liabilities / commitments of the municipality.

3. LIQUIDITY POLICY

This policy provides guidance on the determination of the minimum liquidity requirement and the calculation of the liquidity available of Hessequa Municipality from time to time~~.~~

Notwithstanding the requirements as reflected in this policy, Hessequa Municipality should ensure that its Current Assets (excluding debtors older than 90 days) cover all of its Current Liabilities at least one time.

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

3.1. Key components of minimum liquidity required:

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

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

3.1.1.1. All earmarked or conditional grant transfers from spheres of Government or from Public Contributions made to Hessequa Municipality that have not yet been utilized;
3.1.1.2. 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;
3.1.1.3. 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;
3.1.1.4. All reserves stated by Hessequa Municipality on its Statement of Financial Position that have been established for the purposes of making provisions for a defined purpose.

3.1.2. 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 Hessequa Municipality can meet its external loan/financial commitments together with the normal operational expenditure, as well as its liabilities to staff.

3.1.3. 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.

3.1.4. 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 Hessequa Municipality, Hessequa 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. One month's operational expenditure excluding debt impairments should be available for liquidity cover.

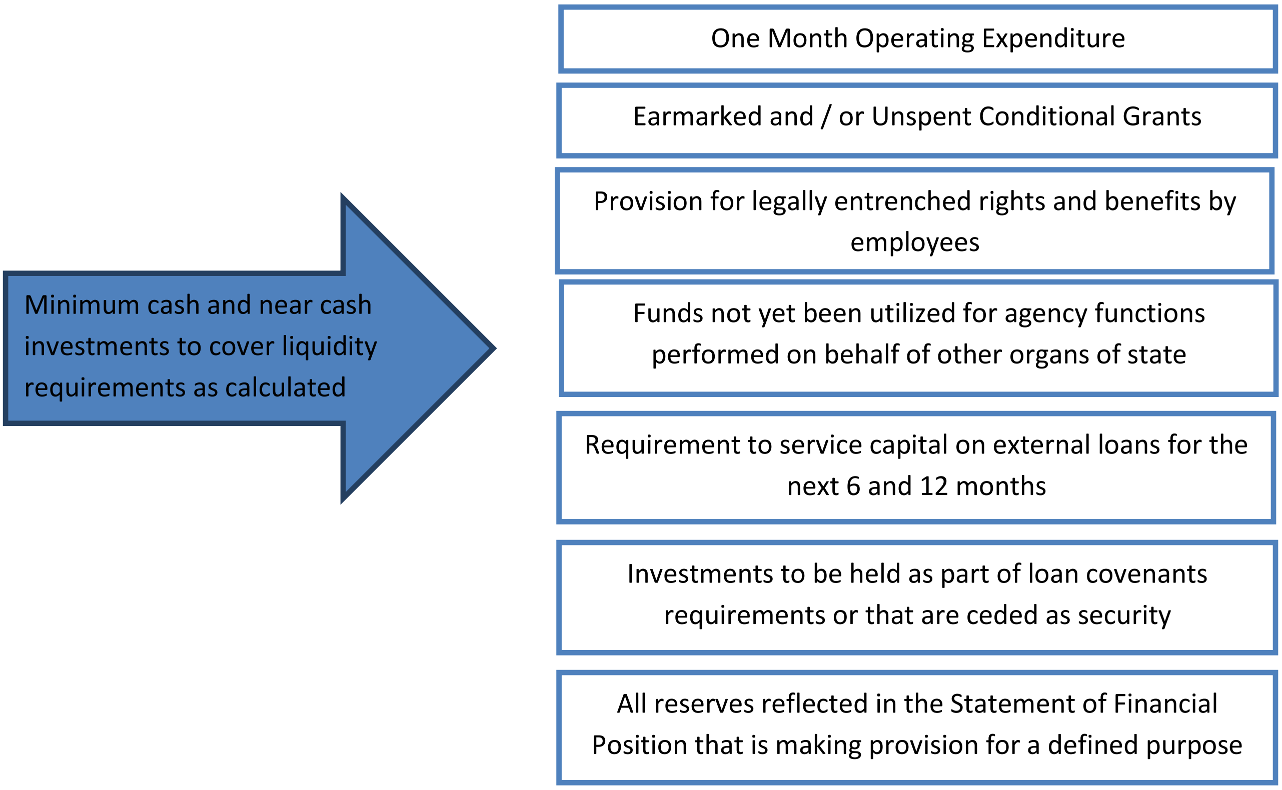
3.1.5. The "golden rule" should be to ensure that Hessequa Local Municipality will have adequate liquid assets (those that can be made into cash within 24 hours, weekly or monthly as the requirement might be) to meet its short-term financial commitments.

3.2. 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:

3.2.1. All cash held in a bank account or invested with a money market fund;
3.2.2. 95% of the value of all NCD's or other tradable instruments issued by a bank that are not already ceded;
3.2.3. 90% of the market value of all listed bonds on the JSE in which Hessequa Municipality is allowed to invest in;
3.2.4. 100% of the budgeted monthly equitable share that needs to be paid to Hessequa Municipality by National Treasury;
3.2.5. 85% of the monthly billings issued by Hessequa Municipality;
3.2.6. Amount of unspent conditional grants and public contributions excluded from own funds held in bank accounts;
3.2.7. 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;
3.2.8. The employment benefit reserve fund resulting from medical and / or retirement benefits for staff, not included in bank balance (e.g. invested by independent investment managers);
3.2.9. Cash amounts that need to be held by Council resulting from loan covenants' that are part of the conditions of loans extended, but not ceded outright to lenders;
3.2.10. The undrawn portion of unconditional bank overdraft facility or liquidity facility available to Hessequa Municipality.

The aforementioned in paragraphs 4.1. and 4.2. can schematically been reflected as follows:



3.3. 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 been built-up to meet 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 reported Annually to the Finance Committee.

Notwithstanding National Treasury's one to three months' operational expenditure guideline and the one-month operational expenditure buffer proposed as a minimum by the liquidity policy, it is recommended that Council set a target of two month's operational expenditure liquidity buffer.

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.

4. Corporate Governance (Oversight)

The minimum liquidity requirements must be determined for the next financial year and should be calculated on an annual basis at the current financial year end by the Chief Financial Officer and reported to the Finance Committee.

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 annually.

5. Policy Management

The Liquidity Policy forms part of Hessequa Municipality overall financial objectives and therefore forms part of approved Budget Policies. The policy must be reviewed annually during the budget revision and presented to Council for approval. The policy is effective from the date it is approved by Council.

DOCUMENT AND VERSION CONTROL

Version: Final– 2026/2027

Date: 26 March 2026

Summary: This document describes the Liquidity Policy that will be applicable to the Hessequa Municipality, with effect from 01 July 2026.

ASA de Klerk **Municipal Manager**	**G RIDDLES** **Executive Mayor:**
Date: 26 March 2026	**Date: 26 March 2026**