CASH MANAGEMENT AND RESERVES POLICY

2026-27

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1. PREAMBLE

As a public institution, the Municipality is entrusted with public funds. The prudent management of these funds is critical to ensuring financial sustainability, liquidity, and the ability to deliver uninterrupted service delivery. This Cash Management and Reserves Policy sets out the framework for managing the Municipality's cash inflows, outflows, and the establishment and maintenance of cash-backed reserves.

2. LEGISLATIVE FRAMEWORK

This policy is developed in compliance with the following South African legislation and guidelines:

- The Constitution of the Republic of South Africa, 1996.
- The Local Government: Municipal Finance Management Act, No. 56 of 2003 (MFMA) – specifically Sections 8, 11, and 13.
- The Municipal Budget and Reporting Regulations (MBRR).
- Generally Recognised Accounting Practice (GRAP) standards.
- National Treasury Circulars and Guidelines regarding Cash and Investment Management.

3. PURPOSE AND OBJECTIVES

The objectives of this policy are to:

- Ensure that the Municipality maintains adequate liquidity to meet its operational and capital obligations as they fall due.
- Safeguard municipal funds through strict internal controls and risk management.
- Optimise the return on surplus cash through short-term and long-term investments without compromising capital security.
- Ensure that all statutory and internally mandated reserves are fully cash-backed.
- Establish clear reporting and accountability structures for cash management.
- Parameters and assumptions for the compilation of the operating and capital budget over the MTREF.
- The Rates Policy that sets out the manner in which the municipality may impose property rates. Property rates are levied in accordance with the Municipal Property Rates Act 6 of 2004 as a cent in the randage based on the property value in municipality's General Valuation Roll and Supplementary Valuations.

- The Tariff policies prescribed by section 74 of Municipal Systems Act 117 of 1998 which guides the annual setting/revision of tariffs which includes the annual approved consumptive tariffs, rates, basic charges for electricity, water and waste management services.
- The Credit Control Policy, Debt Collection Policy and Indigent Policy whose objectives are primarily focus on all the outstanding debt to promote a culture of good payment and provide efficient debt collection methods.
- The Cash and Investment Policies promote sound and sustainable management of the municipality's surplus cash and investments. The funds expected to be received from investments are calculated based on the budgeted cash flow, taking into account the timing of anticipated inflows and outflows of cash during the year.
- The proceeds that the municipality expect to receive from the transfer or disposal of assets are informed by the Asset Management Policy and the Supply Chain Management Policy.
- The Municipality's borrowing requirements are done in terms of the Borrowing Policy. The borrowing requirements are determined in accordance with affordability using various metrics.
- The Funds set aside in reserves is determined by affordability as dictated by the liquidity position from time to time.

PART A. CASH MANAGEMENT POLICY

4. BANKING ARRANGEMENTS

- **Primary Bank Account:** The Municipality shall maintain a primary bank account with a commercial bank registered in terms of the Banks Act, 1990.
- **Withdrawals:** All withdrawals from the primary bank account must be strictly governed by Section 11 of the MFMA and authorised by the Accounting Officer (Municipal Manager) or the Chief Financial Officer (CFO) under delegated authority.
- **Bank Reconciliations:** Bank reconciliations must be performed regularly and formally signed off monthly by the designated manager.

5. CASH RECEIPTS AND COLLECTIONS

- All monies due to the Municipality must be collected promptly and deposited into the municipal primary bank account daily or by the next business day.
- The use of electronic funds transfer (EFT), debit orders, and direct bank deposits by customers is prioritised to reduce cash-handling risks.
- Strict physical security and cash-in-transit protocols must be maintained at all cash receipting points (e.g., Margate and Port Shepstone offices).

6. PAYMENTS AND EXPENDITURE MANAGEMENT

- All payments to creditors must be made within 30 days of receiving the relevant invoice or statement, in compliance with Section 65(2)(e) of the MFMA, to avoid interest charges and penalties.
- Early settlement discounts should be capitalised on where it is financially beneficial.
- Payments shall strictly be made via EFT; the use of petty cash is restricted and governed by a separate Petty Cash Policy.

7. CASH FLOW FORECASTING

- The CFO must ensure that a comprehensive cash flow forecast is maintained.
- The cash flow forecast must map expected inflows against anticipated outflows to identify potential liquidity shortfalls in advance.
- Investment of surplus funds shall only occur when the cash flow forecast confirms that the funds are not required for immediate operational needs and must align with the prescripts of the investment policy.

PART B. RESERVES POLICY

8. PRINCIPLES OF MUNICIPAL RESERVES

The creation and maintenance of reserves are essential for long-term financial stability, infrastructure replacement, and mitigating unforeseen risks. **All statutory and internally established reserves must be 100% cash-backed, this will be dependent on availability of funds to establish and hold reserves (as per section 3 of this policy).**

9. TYPES OF RESERVES

9.1. CAPITAL REPLACEMENT RESERVE (CRR)

- **Purpose:** To finance future capital expenditure and reduce reliance on external borrowings or government grants.
- **Funding:** The CRR is funded from cash-backed unappropriated surpluses, proceeds from the sale of land/assets, and specific budgetary appropriations.
- **Utilisation:** Funds may only be utilised for approved capital projects as detailed in the Integrated Development Plan (IDP) and MTREF.

9.2. INSURANCE RESERVE

- **Purpose:** To provide a buffer for the replacement of municipal assets in the event of damage or loss that is not fully covered by external insurance policies, and to fund insurance excess payments. The balance of the Insurance reserve is determined based on insurance risk carried by the municipality and past claims history and, is increased by a transfer from the accumulated surplus/(deficit). Claims are settled by transferring a corresponding amount from the Insurance reserve to the accumulated surplus.
- **Funding:** Annual premiums/contributions from the operating budget.
- **Utilisation:** Funds are to be utilised for approved insurance related claims etc.

9.3. EMPLOYEE BENEFITS AND COID RESERVE (PROVISIONS)

- **Purpose:** To ensure that sufficient cash is available to fund long-term employee benefits (e.g., Post-Retirement Medical Aid, Long-Service Awards) and short-term provisions (e.g., accumulated leave).
  The COID reserve is established for Compensation for Occupational Injuries and Diseases where permission to retain contributions has been obtained from the Compensation Commissioner.

- **Funding:** An actuarial valuation must be performed annually, and the required cash is to be ring-fenced to back the GRAP liability.

9.4. HOUSING DEVELOPMENT FUND

- **Purpose:** Maintained in terms of the Housing Act. Ring-fenced to fund housing developments. The fund is established in terms of the Housing Act, (Act No 107 of 1997).
- **Funding:** Funds received in the form of grants from National and Provincial Human Settlements departments as well as any proceeds from the sale of municipal houses (if applicable).

9.5. OPERATIONAL RESERVES

- **Purpose:** Maintaining reserves for operational purposes to assist as and when there are funding requirements outside the normal budgeting process.
- **Funding:** Reserves will be funded from revenue generated by the municipality when it is determined that there is surplus funds after settling normal operational costs.

10. UNAPPROPRIATED SURPLUSES

- Any cash-backed unappropriated surplus remaining at the end of the financial year must be evaluated by the CFO.
- The Accounting Officer may recommend to the Municipal Council that such surpluses be transferred to the CRR or used to settle high-interest external debt early or allocated to the operational reserves fund.

PART C. GOVERNANCE AND REPORTING

11. ROLES AND RESPONSIBILITIES

- **Municipal Council:** Approves the Cash Management and Reserves policy and the annual budget dictating reserve contributions.
- **Accounting Officer (Municipal Manager):** Ultimately accountable for the implementation of this policy and ensuring compliance with the MFMA.
- **Chief Financial Officer (CFO):** Responsible for the day-to-day execution of cash management, authorising investments, monitoring cash flows, and ensuring reserves are adequately cash-backed.

12. REPORTING

- The CFO must submit monthly reports to the Accounting Officer and relevant committees detailing the cash flow position, bank balances, and the status of cash-backed reserves, in terms of the MFMA.
- The CFO must submit quarterly reports in terms of the cash management and reserves must be submitted to the Mayor and the Finance Portfolio Committee.

13. POLICY ADOPTION AND REVIEW

This policy will be reviewed annually during the budget preparation process to ensure it remains aligned with legislative changes, National Treasury directives, and the strategic objectives of the Municipality.