

## CASH MANAGEMENT POLICY

Item A-F (17-2017) CM 25/05/2017	REVIEWD INTEGRATED DEVELOPMENT PLAN (IDP) AND MEDIUM TERM REVENUE AND EXPENDITURE FRAME WORK (MTREF): 2017/2018 TO 2019/2020
-------------------------------------	---

### Resolved:

5. That to guide the implementation of the municipality's annual budget, the Council of the EMM **APPROVES** the policies as set out in the following Annexures of this document:

<b>Annexure D1</b>	Medium-term Budget Policy Statement (reviewed)
<b>Annexure D2</b>	Pricing Policy Statement (reviewed)
<b>Annexure D3</b>	Property Rates Policy (reviewed)
<b>Annexure D4</b>	Provision of Free Basic Electricity Policy (reviewed)
<b>Annexure D5</b>	Waste Management Services Tariff Policy (reviewed)
<b>Annexure D6</b>	Consumer Deposit Policy (reviewed)
<b>Annexure D7</b>	Indigent Policy (reviewed)
<b>Annexure D8</b>	Credit Control & Debt Collection Policy (reviewed)
<b>Annexure D9</b>	Provision for Doubtful Debtors and Debtors Write Off (reviewed)
<b>Annexure D10</b>	Budget Implementation and Monitoring Policy (remains unchanged)
<b>Annexure D11</b>	Municipal Entity Financial Support Policy (reviewed)
<b>Annexure D12</b>	Accounting Policy (reviewed)
<b>Annexure D13</b>	Funding and Reserve Policy (remains unchanged)
<b>Annexure D14</b>	Borrowing Policy (remains unchanged)
<b>Annexure D15</b>	Cash Management Policy (remains unchanged)
<b>Annexure D16</b>	Policy on electricity metering for residential and small business customers in the EMM (reviewed)
<b>Annexure D17</b>	Policy for the Vending of Pre-paid Electricity (reviewed)
<b>Annexure D18</b>	Policy for Correction of Meter Reading and Billing Data (reviewed)
<b>Annexure D19</b>	Electricity Tariff policy (reviewed)
<b>Annexure D20</b>	Virement Policy (remains unchanged)
<b>Annexure D21</b>	Consumer Agreement Policy (reviewed)
<b>Annexure D22</b>	Renewable Energy Revenue Loss Mitigation Policy (unchanged)
<b>Annexure D23</b>	Supply Chain Management Policy (Reviewed)

# CONTENTS

<b>1. APPLICATION AND SCOPE .....</b>	<b>2</b>
<b>2. OBJECTIVES OF POLICY .....</b>	<b>2</b>
<b>3. INTRODUCTION .....</b>	<b>2</b>
4.1 INVESTMENT IN MUNICIPAL ENTITIES.....	2
4.2 ENCUMBERED INVESTMENTS.....	2
4.3 BALANCE SHEET RESERVES AND PROVISIONS: .....	3

# CASH MANAGEMENT POLICY

## 1. APPLICATION AND SCOPE

The Borrowing Policy is applicable to the City of Ekurhuleni as well as to all of the municipal entities of the Metro, being:

- ▶ Brakpan Bus Company;
- ▶ East Rand Water Care Company; and
- ▶ Ekurhuleni Development Company, including Pharoe Park, Phase Two and Lethabong Housing Institute.

Cash management will include all amounts disclosed on the financial statements on the following line items:

- ▶ Investments (long term and short term):
- ▶ Investments in municipal entities; and
- ▶ Cash and cash equivalents.

The policy *as amended* will be effective as from 1 July 2014.

## 2. OBJECTIVES OF POLICY

- ▶ To maintain an acceptable level of cash for operational and other requirements.
- ▶ To maintain a minimum long-term credit rating of AA3za according to Moody's Investor Services Credit Rating Scale.

## 3. INTRODUCTION

Availability of cash is one of the key requirements for financial sustainability for any organisation. Accumulated surplus is not an indicator of available cash and should not be seen as having a direct correlation with surplus cash.

One of the first and most important issues that must be borne in mind is that financial statements of municipalities are compiled on the accrual basis (GRAP/GAAP accounting standards used as basis of compilation) and not on the cash basis as Provincial and National Government. In the past (prior to 1 July 2004) the accrual basis was used, but fund accounting was applied and not GRAP. This change in accounting basis led to the generation of larger than expected accounting surpluses.

## 4. DETERMINATION OF MINIMUM CASH LEVEL TO RETAIN

### 4.1 INVESTMENT IN MUNICIPAL ENTITIES

The amounts shown as Investments in Municipal Entities are to be regarded as a "non-distributable reserve" and no cash made available to fund either the operational or capital budget. The amount shown as investment is not required to be held in cash.

### 4.2 ENCUMBERED INVESTMENTS

Certain long terms investments were ceded to financial institutions as guarantees for long term loans taken up. These investments are not available to the City of Ekurhuleni for any purpose other than the redemption of the loans and the cash can therefore not be made available to fund either the operational or capital budget.

#### **4.3 BALANCE SHEET RESERVES AND PROVISIONS:**

The Accounting Policy of the City of Ekurhuleni contains the following sections relating to provisions:

A provision is recognised when the economic entity has a present obligation (legal or constructive) as a result of a past event and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The economic entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Provisions are reviewed annually and those estimated to be settled within the next twelve months are treated as current liabilities. All other provisions are treated as long term liabilities.

##### ***LEAVE PROVISION***

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end.

**Due to the fact that not all leave balances are redeemed for cash, only 50% of the leave provision is cash backed.**

##### ***BONUS PROVISION***

The provision is to provide for performance bonuses of the economic entity's section 57 employees.

**The Bonus Provision must be cash backed to ensure availability of cash for payment of approved bonuses.**

##### ***PROVISION FOR WORKMEN'S COMMISSIONER COMPENSATION***

The provision is for the unpaid periods, estimated in the latest return submitted to the compensation commissioner.

**The Workmen's Commissioner Compensation Provision must be cash backed to ensure availability of cash for payment of claims.**

##### ***COID PROVISION***

The provision for COID pensions and medical aid liability is based on eligible members, their current age and their future life expectancy. Cash flows are projected on the basis of current pension payments escalated at 7% per annum over member's expected lives. Resulting cash flows have been discounted to Net Present Value applying a discount rate.

**The COID Provision must be cash backed to ensure availability of cash for payment of claims.**

### ***GMRF PROVISION***

The provision is for the economic entity's obligation to the Germiston Municipal Retirement Fund due to the economic entity failing to meet its obligation to contribute to the fund due to the required investment yield not being achieved.

**The GMRF Provision must be cash backed to ensure availability of cash for payment of claims.**

### ***LANDFILL REHABILITATION PROVISION***

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure.

The value of the Provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the cost of capital.

The economic entity has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which an economic entity incurs as a consequence of having used the property during a particular period for landfill purposes. The economic entity estimates the useful lives and make assumptions as to the useful lives of these assets, which influence the provision for future costs.

The asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit;
- and
- (c) if the adjustment results in an addition to the cost of an asset, the economic entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount, and any impairment loss is recognised in surplus or deficit.

**The Landfill Rehabilitation Provision must be cash backed to ensure availability of cash for the rehabilitation of the landfill sites.**

### ***PROVISION FOR POST-RETIREMENT BENEFITS***

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan

assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised when the economic entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

**Due to the fact that the social contributions to employees are budgeted for on an annual basis, the Provision for Post-Retirement Benefits is not cash backed.**

#### ***PROVISION FOR LONG SERVICE AWARDS***

The economic entity offers various types of long service awards to its employees. The provision is to recognise the present value of the obligation as at the reporting date.

**Due to the fact that the long service awards to employees are budgeted for on an annual basis, the Provision for Long Service Awards is not cash backed.**

#### ***DONATIONS, PUBLIC CONTRIBUTIONS AND UNSPENT GRANT FUNDING (INCLUDING DEVELOPER'S CONTRIBUTIONS TO BULK SERVICES)***

The Accounting Policy of the City of Ekurhuleni contains the following section relating to donations and public contributions:

“Revenue received from conditional grants, donations and funding is recognised as revenue to the extent that the Municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a current liability is recognised.”

**Unspent amounts in relation to donations, public contributions and unspent grant funding are therefore retained in cash and are not available to fund any items on the operating or capital budget other than in terms of the conditions of the donations, public contributions or grants.**

#### ***CONSUMER DEPOSITS, INCLUDING RENTAL DEPOSITS***

Consumer deposits are regarded as creditors, i.e. the funds are owed to consumers and can therefore not be utilised to fund the operating or capital budget.

**Only 50% of Consumer Deposits and Rental Deposits should be retained in cash.**

### ***WORKING CAPITAL***

Working capital is required to ensure cash availability to fulfil operating requirements of the Metro.

In line with National Treasury recommendations, the difference between current creditors and current debtors must be retained in cash as working capital.

### ***DEPRECIATION AND CAPITAL REPLACEMENT RESERVE***

Depreciation: The depreciation cost item (net after offset depreciation) is to be appropriated towards the following cash expenditures:

- ▶ Redemption of external loans
- ▶ Investments made to provide for the redemption of external loans
- ▶ Capital funded from revenue

Any amounts left from the depreciation cost item (net after offset depreciation) after the above has been provided for, must be retained in cash to fund future asset renewals. This is to be done via the Capital Replacement Reserve.

**Non-compliance with the cash requirements will not be seen as a going concern risk as the municipality has the legal power to raise rates and taxes to meet cash requirements.**

