



Western Cape  
Government

Provincial Treasury

# CASH MANAGEMENT 2012

## CFO - FORUM

### JUNE 2012



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# Overview

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## Cash management:

- Refers to the collection, concentration, and disbursement of cash
- Good indication of a Municipality's level of liquidity
- It is the management of cash balance as well as short/long-term investment strategies.
- Municipalities must efficiently manage their cash resources to avoid overdraft situations.
- Efficient cash management means more than just preventing overdrafts within Municipalities, it improves the profitability and reduces the risk to which the Municipality is exposed to both internally and externally.
- Cash management is not a function on its own it is a coherent working cycle (Revenue, Expenditure, Cash flow & Planning) that needs to be managed efficiently.

## Planning Cash Flow

### Revenue :

Conditional Grants

Equitable Share

Property Rates and Taxes

Service Charges      Other  
income(Rental, Interest,  
etc)

### Expenditure:

#### Operational Expenditure:

Salaries

Eskom – Electricity

Other Service  
providers(Telephone,  
Stationery etc)

#### Capital Expenditure

Infrastructure - Projects

### Cash flow:

The cash flow revolves around timing, matching and managing Cash inflows and Outflows whilst maximising investment return. Managing the cycle is most important and ultimately collecting of outstanding debt is key to ensure efficient cash cycle



# State of Local Government Finances

- **During 2009/10 National Treasury released a report on the State of Local Government Finances:**
  - Highlighted that the majority of municipalities finances are at risk.
  - States that the deployment of support to municipalities by national and provincial departments and interventions in terms of section 139 of the Constitution were not aligned to where the need was the greatest.
  - Indicated municipalities with overdraft cash positions as at 30 June 2011, closing off the financial year with overdrafts/short term loans contravening section 45(4)(a) and (b) of the MFMA.
  - Analysis of the current CFA return form of the municipalities in the Western Cape as 30<sup>th</sup> April 2012 reveals, five municipalities CFA return form with negative closing cash/cash equivalents balances - credibility of this return form remains a challenge indicating the municipalities lack of managing their cashflow on a daily basis.
  - Cash positions of municipalities is only sufficient to cover 1 months operational expenditure
  - The report expressed a high concern of cash and investments on hand which is not sufficient to fulfil the legal obligations of cash-backing reserves and other working capital requirements.
  - Municipalities fail to complete bank reconciliations, close their books on a monthly basis all impacting negatively on the S71 return forms analysed by Provincial Treasury

# State of Local Government Finances(continued)

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- The report revealed consumer debtors balances are spiraling out of control this impacts negatively on the cash flow as the municipalities are not able to realize the cash value of billed revenue on a monthly basis.
- This has bigger ramifications – reduces equitable share available, reduces service delivery as municipality must finance their debtors on a monthly basis from their own income to their own detriment, municipalities become grant dependent due to non collection of outstanding debt.
- Significant debt write offs by municipalities on an annual basis equals cash flow “down the drain” this due to: Poorly designed indigent policies, staff capacity constraints in the revenue collection department even service delivery protests.

# IYM Reporting – Cash Management Compliance

- **Section 71 – In year monitoring(CFA)**

Challenges:

- CFA return form submitted to Provincial Treasury and National Treasury - 10<sup>th</sup> working day of each month.
- Challenges:
- Omission of opening Cash/cash Equivalents on the CFA return form/ not reconciling with the audited AFS closing Cash/cash equivalents position.
- Not utilising all the line items on the CFA return form applicable to the municipality
- Non submission of Bank Reconciliations on a monthly basis reconciling to the CFA

- **Investment portfolios submitted to Provincial Treasury – 10<sup>th</sup> working day of the month**

Challenges:

- Non submission of information
- Credibility of the populated sheet remains questionable
- Not populating the interest earned on a monthly and year-to-date basis on the sheet
- Not providing a breakdown of how investment balances are funded eg. CRR, Grants etc.

# IYM Reporting – Cash Management Compliance

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- Quarterly Reporting – In year monitoring
  - Submission of QBMR(quarterly borrowing monitoring report) on a quarterly basis(within 30 days after the quarter)

Challenges:

- Non submission within the required time frame
- Non alignment of QBMR to CFA return form(credibility)



# Circular 61 - Cash Management Compliance

- **Annual Compliance:**

- Submission of bank account details prior to the start of the financial year(See Circular 61), MFMA, Chapter 3, section 9(b)

- **Circular 61(part 1):**

- Distribution of Primary Bank Account Information before a new financially year
- Quarterly Withdrawals from Municipal Bank Accounts i.to section 11
- Irregular withdrawals to be reported (section 11(i)(a – j )

- **Circular 61 (part 2):Overdraft and Investments**

- Overdraft reporting (Sections 70, 74 and 101 of the MFMA) to PT
- Net overdraft for a period exceeding 3 months for municipalities and 21 days for municipal entities
- Amount of each bank account overdrawn
- Reasons for being overdrawn
- Steps taken to correct the matter

# Circular 61 - Cash Management Compliance

- **Form A** – Primary bank account of the municipality - when new accounts are opened or amendment made to old accounts;
- **Form B** – All other bank accounts of the municipality and municipal entities - when new accounts are opened;
- **Form C** – Annual listing of bank account details – for municipalities and entities – annually before the commencement of the new financial year;
- **Form D** – Withdrawals not in terms of an approved budget - at the end of each quarterly;
- **Form E** – Annual listing of bank accounts, cash management and investments of municipalities - to be completed and submitted by banks, financial institutions and insurance companies; and
- **Form F** – Bank overdraft reports of municipalities and municipal entities - at the end of each quarter.

# Initiatives 2012/13

- **Initiatives :**

- Training guidelines for extending cash management and Investments policy to incorporate a cash management framework to assist with daily, weekly and monthly cash flow planning.
- Training guidelines for the incorporation of a borrowing policy into existing cash management and investment policy.
- University of Stellenbosch(USB) training initiative is work in progress. Project to enhance Cash flow Management within in municipalities as well as enhance cash flow analysis.
- SAMRAS – increase operational efficiency within municipalities from a systems point of view specifically cash management
- All these initiatives could assist a municipality to efficiently manage their daily cash flow allow for long term financial planning and maximising potential interest income.
- Significant improvement on the credibility of the CFA return form and all other cash management requirements.

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**THANK YOU**