

UMUZIWABANTU MUNICIPALITY



BANKING INVESTMENT AND CASH MANAGEMENT POLICY

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1. DEFINITIONS

In this Investment and Cash Management Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Local Government: Municipal Finance Management Act No. 56 of 2003 and other related legislations/Regulations, has the same meaning as in that Act.

“Accounting Officer”	is the Municipal Manager.
“Act”	means the Local Government: Municipal Finance Management Act No. 56 of 2003, the Local Government: Municipal Systems Act No. 32 of 2000.
“Accounting Principles”	mean stipulated guidelines to be followed.
“Acquisition”	means acquiring goods or services through procurement policies.
“Agents”	mean professional bodies appointed to execute a specific task on behalf of the UMuziwabantu Municipality.
“Accounts”	mean statement of moneys received.
“Assignee”	means a person with a delegated authority.
“Bank”	means an institution recognized by the Registrar of Banks.
“Bank Accounts”	are the recognized statements of financial holdings on behalf of the municipality.
“Cash”	means money, such as bank notes and coin, or cash equivalents.

- “Chief Financial Officer”** means a responsible official for financial affairs of the municipality.
- “Cash Management”** means efficient and effective management of funds .
- “Delegate”** means an official/person delegated to perform tasks on behalf of another person.
- “Delegated Authority”** means any person/persons/committee delegated with the authority to act for on behalf of UMuziwabantu Municipality.
- “Diversification of Investments”** means investing in more, or more than one type of financial instrument.
- “Investment Ethics”** mean ethical framework within which investments must take place.
- “Liquidity”** means the ease with which financial instruments can be converted to cash or cash equivalents.
- “Municipal Entity”** means the developmental arm of the municipality established in terms of the Local Government: Municipal Finance Management Act No. 56 of 2003, in particular.
- “Municipality”** means the UMuziwabantu Municipality.
- “Ownership means”** all investments must be made in the name of the UMuziwabantu Municipality.
- “Short term investment”** means a financial instrument with a lifespan or maturity of less than 1 year.
- “Long term investment”** means financial instrument with a lifespan or maturity of greater than a year.

2. INTRODUCTION

- 2.1 In terms of the Municipal Finance Management Act, Act 56 of 2003, and Section 13(2): “Each Municipal Council and Governing body shall adopt by resolution an investment policy regarding the investment of its money not immediately required.
- 2.2 An Accounting Officer has an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible. Competitive investment and effective cash management ensures both short term and long-term viability and sustainability of the municipality. Hence, it is critical for the UMuziwabantu Municipality to have its own investment and cash management policy located within the local government legislative framework. This policy should be read and understood against this background.

3. OBJECTIVE OF THE POLICY

The primary and the ultimate goal of the investment of funds is to earn the safety of returns on investment principal, an amount invested whilst managing liquidity requirements and, providing the highest return on investment at minimum risk, within the parameters of authorized instruments as per the MFMA.

4. CASH FLOW ESTIMATES

- 4.1 Before money can be invested, the Accounting Officer or his/her delegate must determine whether there will be surplus funds after meeting the necessary obligations.
- 4.2 To be able to make investments for any fixed terms; it is essential that cash flow estimates be drawn up.
- 4.3 The Auditor-General requires the financial institution, where the investment is made, to issue a certificate for each investment made. This certificate must state that no

commission has, nor will, be paid to any agent or third party, or to any person nominated by the agent or third party.

5. INVESTMENT ETHICS

5.1 The following ethics and principles must apply when dealing with financial institutions and other interested parties.

5.1.1 The chief financial officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in consultation with the Accounting Officer, as the case may be, and in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance.

5.1.2 In making such investments the chief financial officer, shall at all times have only the best considerations of the municipality in mind, and, except for the outcome of the consultation process with the accounting officer, as the case may be, shall not accede to any influence by or interference from councilors, investment agents or institutions or any other outside parties.

5.1.3 Neither the chief financial officer nor the accounting officer as the case may be, may accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than a token of goodwill by the donor, from any investment agent or institution or any party with which the municipality has made or may potentially make an investment.

5.1.4 Any gift regarded as token of goodwill by the donor must be declared in terms of the code of conduct. A certificate in respect of the gift should be furnished to the Council. The gift should not be in lieu of a commission

5.2 Risk Management

The preservation of principal is the foremost objective of the investment program. To attain this objective, diversification is required to ensure that the Municipal Manager

or his/her nominee prudently manages risk exposure. Risk profiles should be minimized by only placing investments with institutions and instruments approved by the Public Investment Commission or the Republic of South Africa: National Minister of Finance.

5.3. Prudence

Investment shall be made with care, skill, prudence and diligence. The approach must be that which a prudent person acting in a like capacity and familiar with investment matters would use in the investment of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Municipality. Investment officials are required to:

- a. Adhere to written procedures and policy guidelines.
- b. Exercise due diligence.
- c. Prepare all reports timeously.
- d. Exercise strict compliance with all legislation.

5.3 Ownership

All investments must be made in the name of the UMuziwabantu Municipality.

6. DELEGATION OF AUTHORITY

6.1 The delegation to authorise investments must distinguish between short term & long-term investments. The authority to make long-term investments as provision of security, is vested with the Municipal Council in terms of Section 48 of the MFMA and with reference to section 11(1) (h) of the MFMA dealing with cash management, the responsibility to make short investments lies with the Municipal Manager or Chief Financial Officer or any other senior financial officer authorised by either the Municipal Manager or the Chief Financial Officer/ relevant assignee.

6.2 The Local Government Municipal Systems Act of 2000, Section 3, (60) (2) states that the Municipal Council may only delegate to an Accounting Officer, Executive

Committee, Mayor or Chief Financial Officer decisions to make investments on behalf of the municipality within a policy framework determined by the Minister of Finance.

- 6.3 The Chief Financial Officer is responsible for the investment of municipality's funds that are made under section 13 of the Municipal Finance Management Act.

7. INVESTMENT ISSUE PERTAINING TO MUNICIPAL COUNCIL APPROVAL

- 7.1 In the event that an investment that needs to be made, quotations are required from the various financial institutions. In the case of telephonic quotations, the following information is required:

- a) The name of the person, who gave the quotation,
- b) The relevant terms and rates and
- c) Other facts such as if interest is payable on a monthly basis or on a compound basis upon maturation.

- 7.2 Where payments to financial institutions in respect of investments are to be effected by cheque, the following procedures must apply:

- a) The Manager: Equity & Accounts must complete a cheque requisition form and submit it to the Municipal Manager and the Chief Financial Officer together with the supporting quotations,
- b) The Municipal Manager and the Chief Financial Officer must either authorize the requisition or submit it to the Municipal Council for authorization depending on the value of the investment,
- c) When the Municipal Council or the Municipal Manager have authorised the requisition, the Municipal Manager and the Chief Financial Officer or their delegated signatories are required to sign the cheque and submit it to the financial institution concerned.

- 7.3 All investment documents must be signed by two authorized cheque signatories.

7.4 The Chief Financial Officer must ensure that a bank, insurance company or other financial institution, which at the end of a financial year holds, or at any time during a financial year held, an investment for the municipality must:

- a) Within 30 days after the end of that financial year, notify the Auditor-General, in writing, of that investment, including the opening and closing balances of that investment in that financial year and
- b) Promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General.
- c) Promptly disclose information of any possible or actual change in the investment portfolio that could or will have a material adverse effect.

8. MUNICIPAL ENTITIES

8.1 The board of Directors of all municipal entities must adopt this cash management and investment policy. Further, the same municipal entities must submit reports, as detailed in the reporting and monitoring procedures, in the same manner as UMuziwabantu Municipality, to the Mayor.

9. POLICY REVIEW

9.1 This policy must be reviewed annually and be tabled to the Municipal Council for approval.

10. COMPETITIVE SELECTION PROCESS

10.1 The selection of an investee for any investment shall be a competitive process.

10.2 Quotations shall be invited telephonically or email from at least three eligible investees for the terms for which the investment is to be placed.

10.3 In the event of one of the investees offering a more beneficial rate for an alternative term, the other investees initially invited to quote should be approached for their rates on the alternative term

10.4 Written confirmation of the terms of the investment shall be prepared and confirmed with the investee in all cases

11. INTERNAL CONTROL PROCEDURES

- 11.1 An investment register should be kept of all investments made. The following facts must be indicated:
- a) Name of institution;
 - b) Capital invested;
 - c) Date invested;
 - d) Interest rate; and
 - e) Maturity date and
 - f) Interests earned on investments.
- 11.2 The investment register and accounting records must be reconciled on a monthly basis.
- 11.3 The investment register must be examined on a fortnightly basis by the senior official under the direction of the Chief Financial Officer/ assignee as instructed, to identify investments falling due within the next two weeks. An investment plan must then be established for the next calendar month bearing in mind the cash flow requirements.
- 11.4 Interest, correctly calculated, must be received timeously, together with any distributable capital. The Chief Financial Officer or his/her assignee must check that the interest is calculated correctly, in terms of sound universally accepted financial management practices.
- 11.5 Investment documents and certificates must be safeguarded in a fire resistant safe, with dual custody. The following documents must be safeguarded:
- a) Fixed deposit letter or investment certificate;
 - b) Receipt for capital invested;
 - c) Copy of electronic transfer or cheque requisition;
 - d) Schedule of comparative investment figures;
 - e) Commission certificate indicating no commission was paid on the investment;
- and

- f) Interest rate quoted.
- 11.6 All investment must be denominated in South African Rand (ZAR)
- 11.7 The Chief Financial Officer or his/her assignee is responsible for ensuring that the invested funds have been invested with financial institutions approved by the Republic of South Africa: National Minister of Finance, Public Investors Commission or with a bank rating of AA and endeavor to minimize risk exposure.

12. REPORTING AND MONITORING PROCEDURES

- 12.1 The Municipal Manager must within 10 days of the end of each month submit to the Mayor or Finance, Budget Control & Monitoring Committee a report describing in detail the investment and cash flow position of the municipality as at the end of the month.
- 12.2 The report must contain a statement, prepared in compliance with generally recognized accounting principles/generally accepted municipal accounting principles, that states the:
- a) beginning market value for the period
 - b) additions and changes to the market value during the period
 - c) ending market value for the period
 - d) fully accrued interest/yield for the reporting period
 - e) the credit risk rating for the institutions whose securities are held by the municipality as at beginning and end of the reporting period
 - f) investments disposed of due to adverse changes in credit ratings
 - g) diversification of investments
 - h) any investments locked into a time period with an institution that has a rating that is not acceptable according to Fitch, Naspers or CA-ratings.

13. PERMITTED INVESTMENTS

- 13.1 The Republic of South Africa: National Minister of Finance may identify by regulation in terms of Section 168 of the Municipal Finance Management Act instruments or investments other than those referred to below in which Municipality may invest:

- a) Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- b) Securities issued by the National Government;
- c) Investments with the Public Investment Commissioners as contemplated by the Public Investment Commissions Act, 1984 (Act No. 5 of 1984);
- d) Listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- e) Deposits with the corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984);
- f) Banker's acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
- g) Municipal Bonds issued by a Municipality
- h) Guaranteed endowment policies with the intention of establishing a sinking fund; and
- i) Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)

14. EXISTING INVESTMENTS

- 14.1 Current investments that were not permitted investments at the time of purchase do not have to be liquidated.

15. INVESTMENT DIVERSIFICATION

- 15.1 The Chief Financial Officer must ensure that available money is not invested with one institution. Investment will be restricted to institutions with a minimum credit rating of [AA].
- 15.1 The maximum term for any investment, may be 2 years, other than ceded investments.

16. PERFORMANCE EVALUATION

- 16.1 The performance of the investment portfolio must be evaluated quarterly. The time weighted yield attributable to the investment portfolio must be calculated each quarter and compared with the prevailing returns available on securities issued by the National Government.
- 16.2 A report discussing the performance of the investment portfolio must be submitted to the Chief Financial Officer within 10 days of the end of each quarter.

17. USE OF INDEPENDENT INVESTMENT MANAGERS

- 17.1 Should the need arise to use an investment manager at any time; one will be appointed using Supply Chain Management principles and practices.

18. CASH MANAGEMENT**18.1 Cash Collection**

- 18.1.1 All monies due to the municipality must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis.
- 18.1.2 The respective responsibilities of the chief financial officer and other heads of departments in this regard is defined in a code of financial practice approved by the municipal manager and the chief financial officer, and this code of practice is attached as Annexure II to this policy.
- 18.2.3 The unremitting support of and commitment to the municipality's credit control policy, both by the council and the municipality's officials, is an integral part of proper cash collections, and by approving the present policy the council pledges itself to such support and commitment.

18.2 Payments to Creditors

- 18.2.1 The chief financial officer shall ensure that all tenders and quotations invited by and contracts entered into by the municipality stipulate payment terms favorable to the municipality, that is, payment to fall due not sooner than the conclusion of the month following the month in which a particular service is rendered to or goods are received by the municipality. This rule shall be departed from only where there are financial incentives for the municipality to effect earlier payment, and any such departure shall be approved by the chief financial officer before any payment is made.
- 18.2.2 In the case of small, micro and medium enterprises, where such a policy may cause financial hardship to the contractor, payment may be effected at the conclusion of the month during which the service is rendered or within fifteen days of the date of such service being rendered, whichever is the later. Any such early payment shall be approved by the chief financial officer before any payment is made.
- 18.2.3 Notwithstanding the foregoing policy directives, the chief financial officer shall make full use of any extended terms of payment offered by suppliers and not settle any accounts earlier than such extended due date, except if the chief financial officer determines that there are financial incentives for the municipality to do so.
- 18.2.4 The chief financial officer shall not ordinarily process payments, for accounts received, more than once in each calendar month, such processing to take place on or about the end of the month concerned. Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques.
- 18.2.5 Special payments to creditors shall only be made with the express approval of the chief financial officer, who shall be satisfied that there are compelling reasons for making such payments prior to the normal month end processing.
- 18.2.6 Due to the high bank charges with regard to cheque payments, it is essential to limit the payment of creditors to one payment per creditor per month. Should the facility be available, payments should be done by electronic transfer (subject to strict controls).

18.2.7 When considering the time to pay a creditor, proper consideration must be given to the conditions of credit terms of payment offered.

18.2.8 In cases where a cash discount is given for early settlement, the discount, if the relevant time scale is taken into account, must in most cases be more than any investment benefit that could be received from temporarily investing the funds.

18.2.9 If discounts are offered for early settlement they must be properly considered and utilized.

18.2.10 Besides this, the normal conditions of credit terms of payment offered by suppliers, must also be considered and utilized to the full by paying on the due date and not earlier, provided that no worthwhile discount is available or offered.

18.3 Management of Inventory

18.3.1 Cash management must be improved by seeing that adequate stock control is exerted over all goods kept in stock.

18.3.2 Each head of department shall periodically review the levels of inventory held, and shall ensure that any surplus items be made available to the chief financial officer for sale at a public auction or by other means of disposal, as provided for in the municipality's supply chain management policy.

18.4 Cash Management Programme

18.4.1 The chief financial officer shall prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a weekly basis. The estimate shall indicate when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments will have to be liquidated, and when – if applicable – either long-term or short-term debt must be incurred. Heads of departments shall in this regard furnish the chief financial officer with all such information as is required, timeously and in the format indicated.

18.4.2 The chief financial officer shall report to the executive committee, as the case may be, on a monthly basis and to every ordinary council meeting the cash flow estimate or revised estimate for such month or reporting period respectively, together with the actual cash flows for the month or period concerned, and cumulatively to date, as well as the estimates or revised estimates of the cash flows for the remaining months of the financial year, aggregated into quarters where appropriate.

18.4.3 The cash flow estimates shall be divided into calendar months, and in reporting the chief financial officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report. Such report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned.

19. BANK AND CASH IN TERMS OF THE LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT Act NO.56 of 2003, Chapter 3, Part 1.

- a) All names of bank accounts must be changed to the name of the newly created municipality,
- b) New bank accounts must be opened if required,
- c) All cheques received from the disestablished municipalities must be banked,
- d) All bank accounts currently held and transferred to the municipality must be accounted for in the accounting system,
- e) The official responsible must ensure that the name change on the accounts has been effected,
- f) All bank and cash must be made in terms of the Cash Management Policy,
- g) Every municipality must open and maintain at least one bank account in the name of the municipality and
- h) All money received by a municipality must be paid into its bank account in the name of the municipality as per the abovementioned legislative framework.

20. SHORT- AND LONG-TERM DEBT

A municipality may only incur debt in terms of the Municipal Finance Management Act No. 56 of 2003. The municipality may incur two types of debt, namely short-term and long-term debt.

20.1 Short-Term Debt

20.1.1 A municipality may incur short-term debt only when necessary to bridge:

- a) Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year or
- b) Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

20.1.2 A municipality:

- a) Must pay off short-term debt within a financial year and
- b) May not renew or refinance its short-term debt.

20.2 Long-Term Debt

20.2.1 A municipality may incur long-term debt for purposes of financing its long-term strategic objectives, as outlined in the Constitution of the Republic of South Africa, Act No. 108 of 1996, and Chapter 7 on Local Government.

- a) *To provide democratic and accountable government for local communities,*
- b) *To ensure the provision of services to communities in a sustainable manner,*
- c) *To promote social and economic development,*
- d) *To promote a safe and healthy environment and*
- e) *To encourage the involvement of communities and community organizations in the matters of local government.*

21. CONCLUSION

The Municipal Manager in particular and the Chief Financial Officer must ensure that the operationalization of this policy is done. Any deviations due to unforeseen circumstances must be brought to the attention of the Municipal Council in a written form and recommended remedial solutions thereof.

22. COMPLIANCE AND ENFORCEMENT

- a) Violation of or non-compliance with this policy will give a just cause of disciplinary steps to be taken.
- b) It will be the responsibility of chief financial officer to enforce compliance with this policy.

23. EFFECTIVE DATE

The policy shall come to effect upon approval by Council.

24. POLICY ADOPTION

This policy has been considered and approved by the **COUNCIL OF THE UMUZIWABANTU LOCAL MUNICIPALITY** as follows:

Resolution No:.....

Approval Date:.....