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# INVESTMENT AND CASH MANAGEMENT POLICY 2021/2022



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## DEFINITION OF KEY WORDS

In this policy the following words shall have the meanings assigned as follows:-

**“Act”** means the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003),

**“Accounting Officer”** refers to the Municipal Manager of the municipality,

**“Chief Financial Officer”** refers to the Head of the Finance Department,

**“Councillor”** refers to a member of the municipal council,

**“Current assets”** refers to Debtors, Cash, Stock and the short-term portion of long-term debtors,

**“Current liabilities”** refers to Creditors, Bank overdrafts and the short-term portion of long-term liabilities,

**“Investments”** refers to funds not immediately required for the defraying of expenses and invested at approved financial institutions,

**“Investment Register”** refers to an electronic spreadsheet which contains details of all municipal investments,

**“Investment Regulations”** refers to the regulations as prescribed under the MFMA (Act No. 56 of 2003) through Government Gazette No. 27431 dated 1 April 2005,

**“Liquidity”** refers to a financial ability of the municipality or any other company to service its debts when falling due,

**“MFMA”** refers to the Municipal Finance Management Act, (Act 56 of 2003),

**“Minister”** refers to a Cabinet member responsible for a particular national government department,

**“Negotiable certificate”** refers to a loan certificate, tradable on the capital market,

**“Net current assets”** refers to the difference between current assets and current liabilities,

**“Optimal Yield”** refers to maximum interest earned on investment,

**“Policy”** refers to the Cash Management and Investment Policy of the Bitou Municipality,

**“Public funds”** all monies received by the municipality to perform the functions allocated to them,

**“Short-term portion of long-term debtors”** refers to the capital repayment of long-term debtors due and in arrears in the current financial year,

**“Short-term portion of long-term liabilities”** refers to the capital repayment of long-term loans due in the current financial year,

## **1. LEGAL COMPLIANCE**

In terms of Section 13 (2) of the Municipal Finance Management Act (Act no. 56 of 2003), municipalities are required to establish an appropriate and effective **Cash Management and Investment Policy**, in accordance with any framework that may be prescribed by the Minister acting with the concurrence of the Cabinet member responsible for local government and consistent with the Municipal Cash Management and Investment Regulations.

National Treasury, through Government Gazette No: 27431, published Municipal Investment Regulations, which municipalities are required to apply as guidelines when preparing a Cash Management and Investment Policy with effect from 1 April 2005.

## **2. SCOPE OF THE POLICY**

This policy applies to the Bitou Municipality and any municipal entity established, in terms of the Act.

## **3. OBJECTIVES OF THE POLICY**

The objectives of the Cash Management and Investment Policy of the Bitou Municipality are as follows:-

- Ensuring that cash resources are managed efficiently and effectively,
- Ensuring that investments are placed with reputable institutions, for the purpose of safety of capital investment, and diversification of the Investment Portfolio,
- Ensuring that adequate liquidity is maintained at all times, for management of cash-flows,
- Ensuring that the municipality receives optimal yield/interest on its investments with financial institutions, at minimal risk,
- Striving for reasonable growth on capital investments in addition to interest earned on investments,
- Ensuring that monies due to Council are collected and banked appropriately as soon as they are received, and
- Ensuring that payments to creditors are made by the due dates.

## **4. EFFECTIVE CASH MANAGEMENT**

All efforts must be made to ensure that: -

- (i) Collection of Cash / Revenue,**
- (ii) Payment of Creditors,**
- (iii) Management of Proper Cash Flows,**
- (iv) Administration of Banking Accounts, and**

**(v) Petty Cash Procedures** are properly maintained to ensure that excess cash is invested.

**a. Collection of Cash/Revenue**

The cash collection process as determined by Chapter 9 of the Local Government: Municipal Systems Act (Act 32 of 2000) and the Customer Care should at all times be adhered to. All cash due to Council will be collected immediately when it becomes due. The municipality will bank and deposit all monies on receipt.

**Debtors:**

- a) The Municipal council must set a target for debt collection based on the performance of the Municipal Manager during the last financial year.
- b) The target must be expressed as a percentage of potential income and/or the turnover rate of debtors.
- c) All monies owing to the municipality must be correctly reflected in the debtors system.
- d) All funds due the Municipality must be collected timeously and banked on a on a daily basis.
- e) Large sums of money received must be deposited into the bank account on the same day that payments are received.
- f) Extensions for payment of rates and services charges must only be granted in terms of the municipality's credit control and debts collection by-law and in exceptional circumstances.
- g) Money collected by an agency on behalf of the municipality shall be paid over to the municipality and deposited into the bank account in a manner prescribed by the Municipal Manager (Daily deposit are preferable).

**Cash:**

*Money received over the counter*

- a) Every amount of payment received by a cashier or other officer responsible for the receipt of money shall be acknowledged at once by the issue of numbered official receipt.
- b) Every receipt form for a cancelled receipt will be re-attached, in the correct place, in the receipt book.
- c) In the case of computer generated receipts, the original receipt form, for a cancelled receipt, must be filed for record purposes.

*Money received by post*

- a) When money (including postal orders and cheques) is received with the municipality's mail, the Registry Clerk shall record all payment remittances as and when received in the cheque register in the presence of a witness.
- b) Post-dated cheques received by the municipality must also be recorded in the cheque register.
- c) The cheque register together with all remittances received must be sent to a designated official in the finance section.
- d) The designated official, on the receipt of the cheque register together with the remittances, will code all remittances and submit it to the cashier for receipting.
- e) The cashier will receipt all remittances and issue official receipts to the designated official.
- f) The designated official will record all receipts in the cheque register and return same to the Registry Clerk.
- g) The Registry Clerk must ensure that all receipts are recorded in the cheque register.
- h) All documents relating to remittances received in the mail must be filed for audit purposes.
- i) A separate register for post-dated cheques must be maintained by the Registry Clerk and all post-dated cheques must be stored in the registry strong room.
- j) The Registry Clerk will ensure that all post-dated cheques, which become due, are sent promptly to the designated official for receipting and recording of receipts in the post-dated cheque register.

### **Management of Cash:**

- a) The cash holding of the municipality must be kept at a minimum level required to finance the day to day operations of the municipality.
- b) Daily, weekly, monthly and annual cash flow forecast must be maintained.
- c) The maximum cash in the primary bank account must kept at the amount of R30 000 000 (Thirty Million Rands)

### **b. Payment of Creditors**

The payment cycle of all trade creditors must be strictly maintained as required by the Creditors, Councillors and Personnel Payment Policy, or as per payment terms stipulated on individual contracts. If there are incentives (e.g. trade discount) favourable to Council when payments are made before due dates, such incentives, where appropriate, must be applied. Wherever possible, payments must be effected by means of electronic transfers rather than by cheques. Urgent payments to creditors outside standard process 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. The municipality will avoid the pre-payment of goods and services, unless when required by the contractual arrangements with the supplier. The

municipality will accept settlement discounts to effect early payment release only when payment(s) are included in the monthly cash-flow estimates.

### **c. Management of Cash-flow**

The Chief Financial Officer shall maintain a **cash-flow system**, and ensure that funds not immediately required are invested on a daily basis. All Executive Directors and Office Managers, shall in this regard, furnish the Chief Financial Officer with their respective cash-flow needs of all payments in excess of **R100 000**, clearly indicating possible future dates of payments, as well as any possible inflow of cash from other sources of finance arranged by Directorates themselves.

### **d. Administration of Banking Accounts**

The opening / closing of municipal bank accounts, deposits / withdrawals into or from the municipal bank accounts, signing of cheques / appointment of cheque signatories, and signing of other payment documents, are the responsibilities of the Accounting Officer but may be delegated in writing to the Chief Financial Officer.

#### **Bank overdraft:**

- a) A bank overdraft may only be obtained in anticipation of a positive income stream or to finance capital projects in anticipation of an approved capital grant or long-term loan.
- b) The bank overdraft must be repaid by the end of the financial year.
- c) The council can only approve a bank overdraft on the submission of a cash flow statement indicating the anticipated income stream or a certificate stating the approval grant or long-term loan.

#### **Short-term portion of long-term debtors:**

- a) Debtors outstanding relating to long-term debtors must be treated as any other outstanding account for rates and services charges.

#### **Provisions:**

- a) Provisions for known short-term liabilities must be made for each order issued.
- b) Sufficient cash must be available when payments are due.

#### **Short-term portion of long-term liabilities:**

- a) Loan instalments due in the current financial year must be provided for in the financial statements.
- b) Sufficient cash must be available when payments are due.

### **e. Petty Cash Procedures**

All petty cash procedures relating to viz:- (i) Petty Cash Limits, (ii) Petty Cash Custodians per Directorate, (iii) Balancing / Reconciliation of Cash Floats, (iv) Petty Cash Requisitions and Authorisations, (v) Petty Cash Registers, (vi) Supporting Documents, etc. is governed by the Council's Financial Standing Orders.

## **5. CASH-FLOW ESTIMATES**

- a) Before money can be invested, the Chief Financial Officer or his/her delegate must determine whether there will be surplus funds available for the term of the investment.
- b) In order to be able to make investments for a fixed term, it is essential that cash flow estimates be drawn up.
- c) Provisions must be made in the cash flow estimates for operating and capital requirements of the municipality:
  - The operating requirements must include provisions for:-
    - i. Payment of monthly salaries;
    - ii. Payment of bulk purchases of electricity and water;
    - iii. Repayment of long-term loans;
    - iv. Maintenance of assets;
    - v. General expenditure;
    - vi. Expected daily and monthly income.
  - Capital requirement must provide for:-
    - i. The anticipated cash flow requirements for each capital project.

## **6. INVESTMENT ETHICS, PRINCIPLES AND PROCEDURES**

The following ethics, principles and procedures shall apply:-

- The Chief Financial Officer shall be responsible for the management and approval of municipal investments,
- The Chief Financial Officer is permitted to utilize senior finance officials to assist in the execution of the investment responsibilities,
- No improper outside influence or internal interference will be permitted at any time in regard to management of cash and placing of investments,
- Quotations for call and/or fixed deposits from the approved financial institutions (a minimum of three) will be obtained at the time of contemplating an investment,



- Financial institutions will be required to submit confirmation certificates upon the placement of investments, which will include a declaration that no commission was paid relating to the investment,
- The Chief Financial Officer shall maintain a detailed investment register,
- The Chief Financial Officer shall hold in safe custody all investment certificates and other related documents, for audit purposes and proper record keeping,
- Investments made must be in the name of the Bitou Municipality (S12 of the Municipal Regulations),
- No funds will be borrowed for the purpose of investments (S12 of the Municipal Investment Regulations),
- The Chief Financial Officer shall ensure that interest and capital is received and receipted when due,
- Any risk arising from any investment transaction rest with the municipality (S12 of the Municipal Investment Regulations).
- Under no circumstances may he/she be forced or bribed into making an investment.
- No member of staff may accept any gift unless that gift can be deemed so small that it would not have an influence on his/her work or was not intended to so, and can merely be seen as goodwill.
- Short-term Investments:-
  - a) Written quotations should be obtained from at least three financial institutions for the term of which the funds will be invested.
  - b) Should one of the institutions offer a better rate for a term, other than what the municipality had in mind, the other institutions which were approach should also be asked to quote a rate for the other term.
  - c) Quotations should be obtained in writing, as rates generally change on a regular basis and time is a determining factor when investments are made.
  - d) The person responsible for requesting quotations from financial institutions must record the following particulars:-
    - (i.) Name of the institution;
    - (ii.) Name of person quoting rates;
    - (iii.) Period of the investment;
    - (iv.) Relevant conditions; and
    - (v.) Other facts, such as interest payable monthly or on maturation.
  - e) Once the required number of quotes have been obtained, a decision must be taken regarding the best term offered and the institution with which funds are going to be invested.
  - f) Short-term investments should be made with financial institutions with at least a minimum B rating (where B refers to higher risk institutions).
  - g) The best offer must under normal circumstances be accepted, with thorough consideration of investment principles.

- h) The municipality may not borrow money for reinvestment, as this would mean interest rates have to be estimated in advance, which can be seen as speculation with public funds.
- i) If the Municipal Manager or his/her delegate invests with financial institutions, he/she must ensure that such institutions are registered in terms of the Banks Act, (Act 94 of 1990) and that they are approved financial institutions, as approved by the Reserve Bank from time to time.
- j) When the Municipal Manager or his/her delegate makes an investment it must be guaranteed that at least the capital amount invested is safe, and due diligence must be exercised in this regard.
- k) No attempt must be made to make institutions compete with each other as far as their rates and terms are concerned.
- l) Once a quote has been accepted written confirmation of the details must be obtained from the financial institution.
- m) The investment capital must only be paid over to the institution with which it is to be invested and not to an agent or third party.
- n) The financial institution where the investment is made must issue a certificate stating the details of the investments.
- o) The Municipal Manager or his/her delegate must make sure that the investment document received is a genuine document and issued by the approved institution.
- p) The financial institution, where the investment is made, must issue a certificate which states that no commission has or will be paid to any agent or third party, or to any person nominated by an agent or third party.
- q) Where money is kept in current accounts, the municipality must bargain for more beneficial rates with regard to deposits.
- r) The Municipal Manager or his/her delegate must ensure that the financial institution where the investment is to be made is creditworthy and the performance of the institution is to his/her satisfaction, before investing money in the institution.
- s) The Municipal Manager or his/her delegate must obtain information from which the creditworthiness of financial institutions can be determined. This must be obtained and analyse annually.

- Long-term Investment:-

- a) Written quotations must be obtained for all investments made for a period longer than twelve months.

- b) The municipal council must approve all investments made for periods longer than twelve months after considering the cash management requirements for the next three years.
- c) Long-term investments should be made with financial institutions with at least a minimum BBB rating (where BBB refers to lower risk institutions).

## **7. CONTROL OVER INVESTMENTS**

- An investment register should be kept and reconciled on a monthly basis. The following information must be recorded:
  - a) Name of the institution;
  - b) Capital invested;
  - c) Date invested;
  - d) Interest rate;
  - e) Maturation date;
  - f) Interest received;
  - g) Capital repaid; and
  - h) Balance invested.
  
- The investment register must be examined on a fortnightly basis to identify investments falling due within the next two weeks. It must then be established what to do with the funds, bearing in mind the cash-flow requirements.
- Interest must be received timeously, together with any distributable capital.
- At the maturity date of the investment, the financial institution must transfer the capital plus interest received to the Municipality's main bank account.
- The Chief Financial Officer must check that the interest is calculated correctly.
- The 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 the 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;
  - f) Interest rate quoted.

## **8. STANDARD OF CARE**

Section 5 of the Municipal Investment Regulations emphasises that investments made by a municipality, through municipal officials must be made with such judgement and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence, who is entrusted with management of public funds, would exercise.

Investments made by the municipality may not be made for speculation. A high standard of care which includes (i) Preservation and Safety of Capital Invested, (ii) Liquidity, and (iii) Yield, must at all times be maintained when making investments.

## **9. PERMITTED INVESTMENTS**

In terms of Section 6 of the Municipal Investment Regulations, municipalities are permitted to invest in the following instruments and investments:-

- a) Securities issued by the National Government,
- b) Deposits with Banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- c) Listed corporate bonds with an investment grade rating from an internationally recognized credit rating agency,
- d) Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioner's Act, 1984 (Act 46 of 1984),
- e) Deposits with the Corporations 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 deposit of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- g) Guaranteed endowment policies with the intention of establishing a sinking fund,
- h) Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- i) Municipal bonds issued by a municipality, and
- j) Any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.

## **10. PROHIBITION OF INVESTMENTS DENOMINATED IN FOREIGN CURRENCY**

In terms of Section 7 of the Municipal Investment Regulations, municipalities are not permitted to place investments denominated in foreign currencies.

## **11. PAYMENT OF COMMISSION**

Section 8 of the Municipal Investment Regulations, states that:-

No fee, commission or other reward may be paid to a councillor or official of a municipality or to a spouse or close family member of such councillor, or official in respect of any investment made or referred by a municipality.

## **12. REPORTING REQUIREMENTS**

In compliance with Section 9 of the Municipal Investment Regulations the Accounting Officer shall report within 10 working days of the beginning of each month, to the Executive Mayor, the investment position / portfolio of the municipality as at the end of the previous month. A similar report shall also be submitted to the Budget and Treasury Committee.

Such report must at a minimum provide: -

- The market value of each investment as at the beginning of the reporting period,
- Any changes to the investment portfolio during the reporting period,
- The market value of each investment as at the end of the reporting period, and
- Fully accrued interest and yield for the reporting period.

In complying with Section 70(2) of the Act, the Chief Financial Officer must report to the National Treasury/Provincial Treasury and Council whenever the consolidated bank balances shows a net overdrawn balance for a period exceeding **14 days (two weeks)**.

Such report must at a minimum provide: -

- The amount by which the accounts are overdrawn,
- Reasons for the overdrawn accounts, and
- Steps taken or to be taken to correct the matter.

## **13. CREDIT REQUIREMENTS**

In terms of Section 10 of the Municipal Investment Regulations reasonable and prudent steps shall be taken by the Chief Financial Officer, to ensure that investments are placed with creditworthy institutions. The investment policy of a municipality must determine acceptable investment ratings of financial institutions, and must liquidate any investment that no longer has a minimum acceptable rating.

The following will determine the suitability of a financial institution and will set investment limits within which municipal investments can be placed: -

- Must be an approved instrument in terms of Paragraph 7(Permitted Investments) of this policy,
- The institution must be highly rated by credible Rating Agencies,
- The shareholder equity of the institution must be in excess of at least **R10bn**,

- The investment limit per approved financial institution must be limited at **10%** of the bank's distributable reserves, as per their latest financial statements.
- The credit rating of deposit taking institutions must be confirmed in writing at least on an annual basis to ensure a suitable credit rating and limit the risk to and exposure of the municipality.

#### **14. INVESTMENT DIVERSIFICATION**

In terms of Section 11 of the Municipal Investment Regulations requires municipalities to take all reasonable and prudent steps, consistent with its investment policy and standard of care, to diversify its investment portfolio across institutions, types of investments and investment maturities.

The Chief Financial Officer must ensure that municipal investments are placed equitable amongst the approved financial institutions. Investment limits must be determined as stipulated in Paragraph 9 of this policy, and no more than 50% of municipal investments can be placed with one institution. The Chief Financial Officer must review the investment limits with approved financial institutions at least once a year, or whenever the need exist for a review.

#### **15. ACCOUNTING FOR TRUST FUNDS**

Unless required otherwise by trust deeds, trust funds will be invested within the terms of this policy but be recorded separately in the municipal accounting system. If pooled with Municipality investments, trust funds will earn the average interest rate applicable to the municipality. The requirements as stipulated by Trust Deed will take priority.

#### **16. RAISING OF DEBT**

Municipal debt (short or long term) shall be raised in strict compliance with the requirements of Chapter 6 of the Municipal Finance Management Act (Act 56 of 2003).

#### **17. ACCOUNTING TREATMENT OF INTEREST EARNED ON INVESTMENTS**

The interest accrued on all municipal investments shall, in compliance with the requirements of generally accepted municipal accounting practice, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and may thereafter be appropriated to the fund or account in respect of which such investment was made depending on the conditions which apply to the fund or account.

#### **18. REVIEW OF THE POLICY**

This Cash Management and Investment Policy is the sole policy governing cash management and investments in the Bitou Municipality and this policy will be reviewed annually by the Bitou Council.

## **19. REFERENCES**

- Local Government: Municipal Finance Management Act, (Act 56 of 2003),
- Local Government: Municipal Systems Act, (Act 32 of 2000),
- Municipal Investment Regulations (Government Gazette no: 27431 dated 1 April 2005),
- Municipal Supply Chain Management Policy,
- Credit Control and Debt Collection Policy,
- SALGA and IMFO: Local Government Financial Best Practice Manual.