

DRAFT ANNUAL BUDGET

DRAFT INVESTMENT AND CASH MANAGEMENT POLICY



PREAMBLE

Whereas Section 32 of the Local Government: Municipal Financial Management Act, 2003 (Act no. 56 of 2003) stipulates that a municipality must implement applicable and efficient cash management and investment procedures;

And whereas the investment particulars of the municipality must be made public by the bank;

And whereas councillors and officials are obligated to ensure that cash assets are managed as effectively, efficiently and economically as possible;

Now therefore the Bitou Municipality accepts the following Investment and Cash Management Policy.

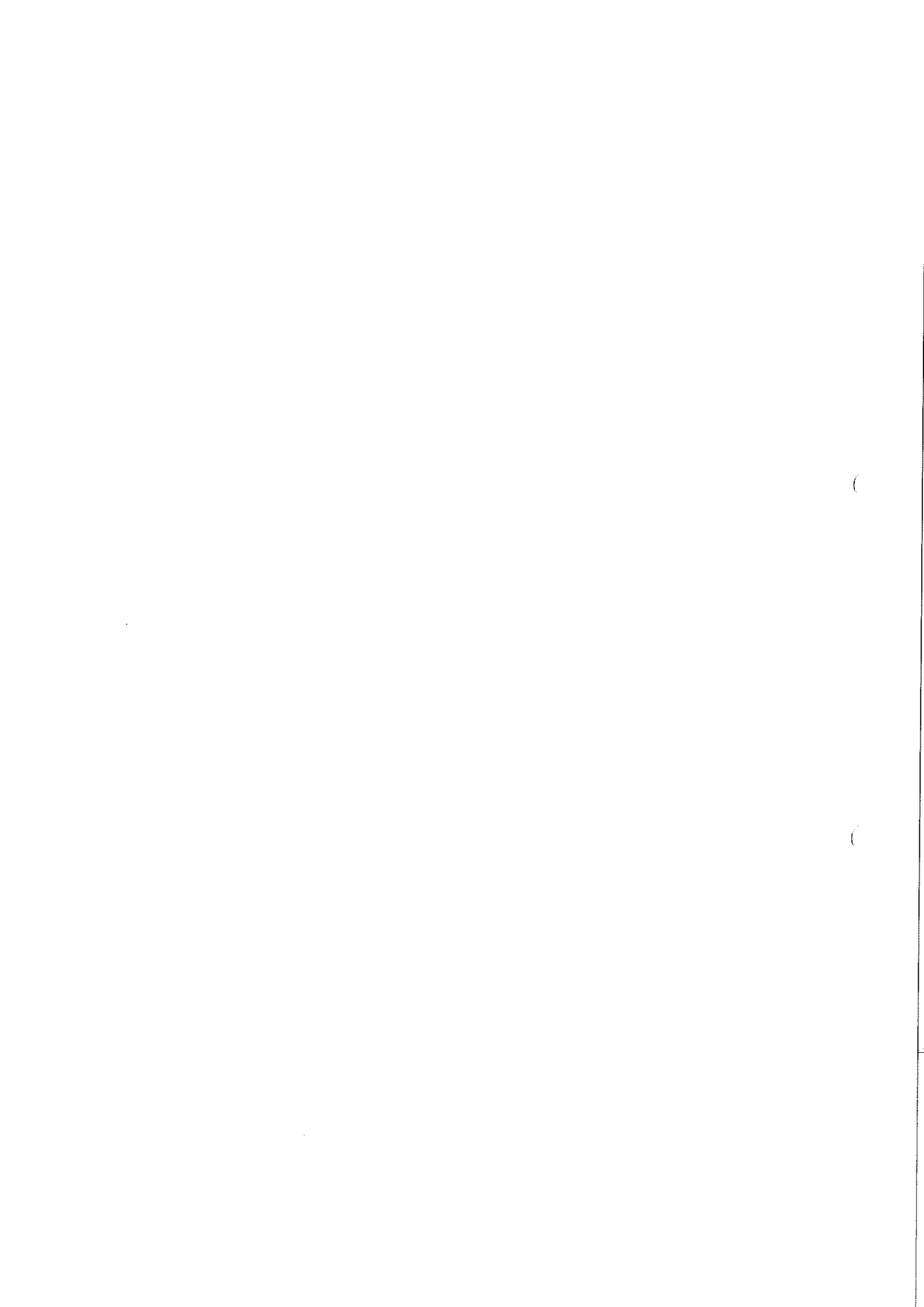


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BITOU MUNICIPALITY

INVESTMENT AND CASH MANAGEMENT POLICY

1. DEFINITIONS

In this investments and cash management policy, unless in consistence with the context, a word or expressions to which a meaning in the Act has been attached, means:-

- 1.1 "investments" funds not immediately required for the defraying of expenses and invested at approved financial institutions;
- 1.2 "current assets"
 - . Debtors;
 - . Cash
 - . Stock; and
 - . The short-term portion of long-term debtors;
- 1.3 "current liabilities"
 - . Creditors;
 - . Bank overdrafts; and
 - . The short-term portion of long-terms liabilities;
- 1.4 "The Chief Financial Officer" an officer of a municipality appointed by the municipal council to be administratively in charge of the budgetary and treasury functions;
- 1.5 "short-term portion of long-term debtors" the capital repayment of long-term debtors due and in arrears in the current financial year;
- 1.6 "short-term portion of long-term liabilities" the capital repayment of long-term loans due in the current financial year;
- 1.7 "Municipal Manager" a person appointed in terms Section 82 of the Municipal Structures Act, 1998 (Act 117 of 1998) as the head of the municipality's administration;
- 1.8 "municipal stock" the stock certificates issued by the municipality proof of a long-term fixed loan of which the capital is payable at the end of the period while interest is payable at predetermined intervals at a fixed rate;
- 1.9 "net current assets" the difference between current assets and current liabilities;

- 1.10 "public funds" all monies received by the municipality to perform the functions allocated to them;
- 1.11 "councillor" a member of the municipal council; and
- 1.12 "negotiable certificate" a loan certificate, tradable on the capital market.

2. OBJECTIVE OF POLICY

The objectives of the cash and investment policy are:-

- 2.1 to manage the net current asset requirement of the municipality in such a manner that it will not tie up the municipality's scarce resources required to improve the quality of life of the citizens;
- 2.2 to manage the financial affairs of the municipality in such a manner that sufficient cash resources are available to finance the capital and operating budgets of the municipality; and
- 2.3 to gain the highest possible return on investments during periods when excess funds are not being used, without unnecessary risk.

3. SCOPE OF THE POLICY

The policy deals with:

- . Responsibility/accountability;
- . Management of the net current assets;
- . Investments instructions;
- . Cash flow Estimates;
- . Investment ethics and principle;
- . Other external deposits;
- . Control over investments

4. RESPONSIBILITY/ACCOUNTABILITY

- 4.1 The Municipal Manager as the Accounting Officer of the municipality is accountable for cash management and investments.
- 4.2 The Municipal Manager may delegate the management of cash and investment to the Chief Financial Officer.

4.3 The municipal council must approve a policy directing procedures, processes and systems required to ensure efficient management of cash and investments.

4.4 Efficient and effective financial management include:-

- a) Collecting revenue when it is due.
- b) Banking and depositing monies when received.
- c) Making payments, including transfers to the other levels of government and non-government entities, no earlier than necessary, with due regard for efficient, effective and economical service delivery and the creditor's normal terms for accounts payments.
- d) Avoiding pre-payment for goods for services (e.g. payments in advance of receipt of goods or services), unless required by the contractual arrangements with the supplier.
- e) Accepting discounts to effect early payment only when payment has been included in the monthly cash flow estimates provided to the department of the Chief Financial Officer.
- f) Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the municipality are collected and banked promptly.
- g) Accurately forecasting the institution's cashflow requirements.
- h) Timing of the inflow and outflow of cash.
- i) Recognising the time value of money.
- j) Taking any other action that avoids locking up money unnecessary and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or underutilised assets.
- k) Avoiding bank overdrafts.

5. MANAGEMENT OF NET CURRENT ASSETS

Cash management includes the management of net current assets which entail:-

- . Debtors;
- . Cash;
- . Stock;
- . Short-term portion of long-term debtors;
- . Creditors;
- . Bank overdraft;
- . Provisions; and
- . Short-term portion of long-term liabilities.

5.1 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).

5.2 Cash

5.2.1 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.

5.2.2 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.

5.2.3 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.

5.3 Stock

- a) Adequate stock control must be exerted over all goods kept in stock.
- b) Minimum stock levels, reordering procedures, turnover rate of stock items must be reviewed quarterly to ensure that funds are not unnecessarily tied up in stock.
- c) A stock register, reflecting the under-mentioned detail must be kept and updated daily:-
 - (i.) Item description;
 - (ii.) Stored code numbers;
 - (iii.) Transaction date;
 - (iv.) Goods received:-
 - . Goods delivery note number;
 - . Number of items received; and
 - . Value of items received.
 - (v.) Balance of items in stock.
- d) Stock counts must be executed quarterly and an annual report reflecting stock shortages or surpluses must be submitted to council after each quarter and upon the finalisation of the annual financial statements of each financial year.
- e) All surpluses and shortages must be explained by the head accountable for the department.

5.4 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.

5.5 Creditors

- a) Payments to creditors must be limited to one payment per creditor per month.
- b) Discounts for early settlements must be considered and utilised to the benefit of the municipality.
- c) Credit statements must be reconciled monthly.
- d) Payments must only occur on presentation of official orders; certified goods received notes and company invoices.

5.6 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.

5.7 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.

5.8 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.

6. INVESTMENT INSTRUMENTS

6.1 The Minister of Provincial and Local Government may with the concurrence of the Minister of Finance by notice in the Gazette determine investment structures other than those referred to below in which a 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 Act, 1984 (Act no. 46 of 1984);
- d) A municipality's own stock or similar type of debt, internal funds of a municipality which have been established to pool money available to the municipality and to employ such money for the granting of loans or advances to departments within a municipality, to finance capital expenditure;
- e) Bankers' acceptance certificates or negotiable certificates or deposits or banks;

- f) Long-term securities offered by insurance companies in order to meet the redemption fund requirements of municipalities; and
- g) Any other instrument or investments in which a municipality was under a law permitted to invest before the commencement of a Local Government Transition Act, 1996: provided that such instruments shall not extend beyond the date of maturity or redemption thereof.

7. CASHFLOW ESTIMATES

7.1 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.

7.2 In order to be able to make investments for a fixed term, it is essential that cash flow estimates be drawn up.

7.3 Provisions must be made in the cash flow estimates for operating and capital requirements of the municipality:

a) 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.

b) Capital requirement must provide for:-

- (i) The anticipated cash flow requirements for each capital project.

8. INVESTMENT ETHICS AND PRINCIPLES

8.1 The Municipal Manager or his/or delegate will be responsible for the investment of funds, and he/she has to steer clear of outside interference, regardless of whether such interference from individual councillors, agents, or other institutions.

8.2 Under no circumstances may he/she be forced or bribed into making an investment.

8.3 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.

8.4 A certificate in respect of any gifts received should be furnished to the council.

8.5 Interest rates should never be divulged to another institution.

8.6 Long-term investments should be made with financial institutions with at least a minimum BBB rating (where BBB refers to lower risk institutions).

8.7 Short-term investments should be made with financial institutions with at least a minimum B rating (where B refers to higher risk institutions).

8.8 Where practical and to mitigate risk and limit exposure, not more than 50% of the municipality's available funds should be placed with a single financial institution.

8.9 The amount invested with a financial institution should not exceed 10% of the relevant institutions shareholder's funds (Capital and Reserves).

8.10 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

8.11 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.

8.12 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.

9. INVESTMENT PROCEDURES

After determining whether there is cash available for investment and fixing the term of investment, the Municipal Manager or his/her delegate must consider the way in which the investment is to be made.

9.1 Short-term Investments

- a) **Written quotations should be obtained from 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 has been obtained, a decision must be taken regarding the best term offered and the institution with which funds are going to be invested.
- f) The best offer must under normal circumstances be accepted, with thorough consideration of investment principles.
- g) No attempt must be made to make institutions compete with each other as far as their rates and terms are concerned.
- h) Once a quote has been accepted written confirmation of the details must be obtained from the financial institution.
- i) 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.
- j) The financial institution where the investment is made must issue a certificate stating the details of the investments.
- k) 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.
- l) 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.
- m) The council must be given a quarterly report on all investments.
- n) The Municipality must within 30 days after an investment with a currency of 2 months or longer has been made, publish full details of any investments so made in a local newspaper in circulation within its areas of jurisdiction.

- o) Where money is kept in current accounts, the municipality must bargain for more beneficial rates with regard to deposits.
- p) 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.
- q) 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 analysed annually.

9.2 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.

10. OTHER EXTERNAL DEPOSITS

The principles and procedure set out above must apply to other investment possibilities subject to the applicable legislation, which is available to the council, including debentures and other securities of the state as well as other municipalities or statutory bodies in the Republic, instituted under and in terms of any law.

11. CONTROL OVER INVESTMENTS

11.1 An investment register should be kept of all investments made. 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.

11.2 The investment register must be reconciled on a monthly basis.

- 11.3 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 cashflow requirements.
- 11.4 Interest must be received timeously, together with any distributable capital.
- 11.5 At the maturity date of the investment, the financial institution must transfer the capital plus interest received to the Municipality's main bank account.
- 11.6 The Municipal Manager or his/her delegate must check that the interest is calculated correctly.
- 11.7 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.

12 SHORT TITLE

The policy shall be called the Investment and Cash Management Policy of the Bitou Municipality.