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INVESTMENT AND CASH MANAGEMENT POLICY

APPROVED



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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

- 1.1. 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.
- 1.2. The cash collection process as determined by Chapter 9 of the Local Government: Municipal Systems Act (Act 32 of 2000)
- 1.3. National Treasury, through Government Gazette No: 27431, published Municipal Investment Regulations (R 308), 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

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

3. OBJECTIVES OF THE POLICY

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

4. EFFECTIVE CASH MANAGEMENT

4.1. All efforts must be made to ensure that: -

- **Collection of Cash / Revenue,**
- **Payment of Creditors,**
- **Management of Proper Cash Flows,**
- **Administration of Banking Accounts, and**
- **Petty Cash Procedures** are properly maintained to ensure that excess cash is invested.

4.2. Collection of Cash/Revenue

4.2.1. 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 shall be collected immediately when it becomes due. The municipality shall bank and deposit all monies on receipt.

4.2.2. Debtors:

- 4.2.2.1. The Municipal council must set a target for debt collection based on the performance of the Municipal Manager during the last financial year.
- 4.2.2.2. The target must be expressed as a percentage of potential income and/or the turnover rate of debtors.
- 4.2.2.3. All monies due to the municipality must be correctly reflected in the debtors system.
- 4.2.2.4. All funds due the Municipality must be collected timeously and banked on a daily basis.
- 4.2.2.5. Extensions for payment of rates and services charges must only be granted in terms of the municipality's credit control and debt collection by-law and in exceptional circumstances.
- 4.2.2.6. 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).

4.2.3. Cash:

4.2.3.1. *Money received over the counter*

- 4.2.3.1.1. 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 (computer-generated or handwritten in official pre-printed receipt book).

4.2.3.2. Cancellation of receipts

4.2.3.2.1. Every cancelled original handwritten receipt shall be re-attached, in the correct place, in the receipt book.

4.2.3.2.2. In the case of computer-generated receipts, the original receipt to be cancelled, must be attached to the daily cash-up sheet and filed for record purposes.

4.2.4. Management of Cash:

4.2.4.1. The cash holding of the municipality must be kept at a minimum level required to finance the day-to-day operations of the municipality.

4.2.4.2. Daily, weekly, monthly, and annual cash flow forecast must be maintained.

4.2.4.3. The maximum cash in all current bank accounts combined, must be kept below 5% of the annual Operational and Capital Expenditure budgets as approved by council.

4.3. Payment of Creditors

4.3.1. 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.

4.3.2. 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.

4.3.3. The municipality shall avoid the pre-payment of goods and services, unless when required by the contractual arrangements with the supplier.

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

4.3.5. Creditors with arrear debtor's accounts with Bitou Municipality, shall only receive payments after adherence to council's credit control and debt collection policy.

4.4. Management of Cash-flow

4.4.1. The Chief Financial Officer will maintain a cash-flow system and ensure that funds not immediately required are invested daily.

4.4.2. 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 **R 100 000**, clearly indicating possible future dates of payments, as well as any possible inflow of cash from other sources of finance arranged by Directorates themselves.

4.5. Administration of Banking Accounts

4.5.1. The opening / closing of municipal bank accounts, deposits / withdrawals into or from the municipal bank accounts, appointment of 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.

4.5.2. Bank overdraft:

4.5.2.1. 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.

4.5.2.2. The bank overdraft must be repaid by the end of the financial year.

4.5.2.3. 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 of the grant or long-term loan.

4.5.3. Short-term portion of long-term debtors:

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

4.5.4. Provisions:

4.5.4.1. Provisions for known short-term liabilities must be made for each order issued.

4.5.4.2. Sufficient cash must be available when payments are due.

4.5.5. Short-term portion of long-term liabilities:

4.5.5.1. Loan instalments due in the current financial year must be provided for in the financial statements.

4.5.5.2. Sufficient cash must be available when payments are due.

4.6. Petty Cash Procedures

4.6.1. All petty cash procedures relating to viz:-

4.6.1.1. Petty Cash Limits,

4.6.1.2. Balancing / Reconciliation of petty cash register,

4.6.1.3. Petty Cash Requisitions and Authorisations,

4.6.1.4. Supporting Documents, etc. is governed by the Council's Petty cash policy.

5. CASH-FLOW ESTIMATES

- 5.1. Before money can be invested, the Chief Financial Officer or his/her delegate must determine whether there shall be surplus funds available for the term of the investment.
- 5.2. In order to be able to make investments for a fixed term, it is essential that cash flow estimates be drawn up.
- 5.3. Provisions must be made in the cash flow estimates for operating and capital requirements of the municipality:
 - 5.3.1. The operating requirements must include provisions for: -
 - 5.3.1.1. Payment of monthly salaries,
 - 5.3.1.2. Payment of bulk purchases of electricity and water,
 - 5.3.1.3. Repayment of long-term loans,
 - 5.3.1.4. Maintenance of assets,
 - 5.3.1.5. General expenditure,
 - 5.3.1.6. Expected daily and monthly income.
 - 5.3.2. Capital requirement must provide for: -
 - 5.3.2.1. The anticipated cash flow requirements for each capital project

6. INVESTMENT ETHICS, PRINCIPLES AND PROCEDURES

- 6.1. The following ethics, principles and procedures shall apply: -
 - 6.1.1. 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.
 - 6.1.2. 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.
 - 6.1.3. The Chief Financial Officer will be responsible for the management and approval of municipal investments,
 - 6.1.4. The Chief Financial Officer is permitted to utilize senior finance officials to assist in the execution of the investment responsibilities,
 - 6.1.5. Where money is kept in current accounts, the municipality must bargain for more beneficial rates with regard to deposits.
 - 6.1.6. No improper outside influence or internal interference shall be permitted at any time in regard to management of cash and placing of investments,

- 6.1.7. Quotations for call and/or fixed deposits from the approved financial institutions (a minimum of three) shall be obtained at the time of contemplating an investment,
- 6.1.8. Quotations should be obtained in writing, as rates generally change on a regular basis and time is a determining factor when investments are made.
- 6.1.8.1. 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.
- 6.1.8.2. The person responsible for requesting quotations from financial institutions must record the following particulars: -
- 6.1.8.2.1. Name of the institution,
- 6.1.8.2.2. Name of person quoting rates,
- 6.1.8.2.3. Period of the investment,
- 6.1.8.2.4. Relevant conditions, and
- 6.1.8.2.5. Other facts, such as interest payable monthly or on maturation.
- 6.1.8.3. Once the required number of quotes have been obtained, a thorough consideration of investment principles must be applied before a decision is taken regarding the best term offered and the institution with which funds are going to be invested.
- 6.1.9. 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.
- 6.1.10. 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.
- 6.1.11. No attempt must be made to make institutions compete with each other as far as their rates and terms are concerned.
- 6.1.12. 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.
- 6.1.13. Financial institutions shall be required to submit confirmation certificates, stating the details of the investments, upon the placement of investments, which shall include a declaration that no commission shall be paid relating to the investment,
- 6.1.14. 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.
- 6.1.15. The Chief Financial Officer will maintain a detailed investment register,
- 6.1.16. The Chief Financial Officer will hold in safe custody all investment related documents, for audit purposes and proper record keeping,

- 6.1.17. The Chief Financial Officer will ensure that interest and capital is received and receipted when due,
- 6.1.18. Investments made must be in the name of the Bitou Municipality (S12 (2) of the Municipal Regulations),
- 6.1.19. No funds may be borrowed for the purpose of investments (S12 (3) of the Municipal Investment Regulations),
- 6.1.20. Any risk arising from any investment transaction rest with the municipality (S12 (1) of the Municipal Investment Regulations).
- 6.1.21. Under no circumstances may delegated official(s) be forced or bribed into making an investment.
- 6.1.22. 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.
- 6.1.23. Short-term Investments: -
- 6.1.23.1. Short-term investments should be made with financial institutions with at least a minimum B rating (where B refers to higher risk institutions).
- 6.1.24. Long-term Investment: -
- 6.1.24.1. 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.
- 6.1.24.2. 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

- 7.1. An investment register should be kept and reconciled monthly. The following information must be recorded in the register:
- 7.1.1. Name of the institution,
- 7.1.2. Capital invested,
- 7.1.3. Date invested,
- 7.1.4. Interest rate,
- 7.1.5. Maturation date,
- 7.1.6. Interest received,
- 7.1.7. Capital repaid, and
- 7.1.8. Balance invested.

- 7.2. 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.
- 7.3. Interest must be received timeously, together with any distributable capital.
- 7.4. At the maturity date of the investment, the financial institution must transfer the capital plus interest received to the Municipality's primary bank account.
- 7.5. The Chief Financial Officer must check that the interest is calculated correctly.
- 7.6. The investment documentation must be properly filed and safeguarded. The following documents must be safeguarded: -
 - 7.6.1. Call / Fixed deposit confirmation letter,
 - 7.6.2. Copy of electronic transfer requisition or proof of payment,
 - 7.6.3. Schedule of comparative investment figures,
 - 7.6.4. Interest rate quoted.

8. STANDARD OF CARE

- 8.1. 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.
- 8.2. 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 always be maintained when making investments.

9. PERMITTED INVESTMENTS

- 9.1. In terms of Section 6 of the Municipal Investment Regulations, municipalities are permitted to invest in the following instruments and investments: -
 - 9.1.1. Securities issued by the National Government,
 - 9.1.2. Deposits with Banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
 - 9.1.3. Listed corporate bonds with an investment grade rating from an internationally recognized credit rating agency,
 - 9.1.4. Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioner's Act, 1984 (Act 46 of 1984),
 - 9.1.5. Deposits with the Corporations for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984),
 - 9.1.6. Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),

- 9.1.7. Guaranteed endowment policies with the intention of establishing a sinking fund,
- 9.1.8. Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- 9.1.9. Municipal bonds issued by a municipality, and
- 9.1.10. 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

- 10.1. 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

- 11.1. Section 8 of the Municipal Investment Regulations, states that: -
 - 11.1.1. 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.
 - 11.1.2. If an investee pays any fee, commission, or other reward to an investment manager in respect of any investment made by a municipality or municipal entity, both the investee and the investment manager must declare such payment to the council of the municipality or the board of directors of the municipal entity by way of a certificate disclosing full details of the payment.

12. REPORTING REQUIREMENTS

- 12.1. In compliance with Section 9 of the Municipal Investment Regulations the Accounting Officer will report within 10 working days of the end 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.
- 12.2. Such report must at a minimum provide: -
 - 12.2.1. The market value of each investment as at the beginning of the reporting period,
 - 12.2.2. Any changes to the investment portfolio during the reporting period,
 - 12.2.3. The market value of each investment as at the end of the reporting period, and
 - 12.2.4. Fully accrued interest and yield for the reporting period.
- 12.3. In complying with Section 70(2) of the MFMA, the Chief Financial Officer must report to the National Treasury/Provincial Treasury and Council whenever the consolidated bank balances show a net overdrawn balance for a period exceeding 14 days (two weeks).

12.4. Such report must at a minimum provide: -

12.4.1. The amount by which the accounts are overdrawn,

12.4.2. Reasons for the overdrawn accounts, and

12.4.3. Steps taken or to be taken to correct the matter.

13. CREDIT REQUIREMENTS

13.1. 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.

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

13.2.1. Must be an approved instrument in terms of section 9 (Permitted Investments) of this policy,

13.2.2. The institution must be highly rated by credible Rating Agencies,

13.2.3. The shareholder equity of the institution must be in excess of at least R10bn,

13.2.4. The investment limit per approved financial institution must be limited at 10% of the bank's distributable reserves, as per their latest financial statements.

13.2.5. 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

14.1. 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.

14.2. 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 section 13 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 exists for a review.

15. ACCOUNTING FOR TRUST FUNDS

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

16. RAISING OF DEBT

- 16.1. 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

- 17.1. The interest accrued on all municipal investments shall be recorded, in compliance with the requirements of Generally Recognized Accounting Practice.

18. REVIEW OF THE POLICY

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

19. REFERENCES

- 19.1. Local Government: Municipal Finance Management Act, (Act 56 of 2003),
19.2. Local Government: Municipal Systems Act, (Act 32 of 2000),
19.3. Municipal Investment Regulations (Government Gazette no: 27431 dated 1 April 2005),
19.4. Municipal Supply Chain Management Policy,
19.5. Credit Control and Debt Collection Policy,
19.6. GRAP