BANKING, CASH MANAGEMENT AND INVESTMENT

POLICY
2022/2023

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ANNEXURE I: PARAPHRASE OF REQUIREMENTS OF MUNICIPAL FINANCE MANAGEMENT ACT NO. 56 OF 2003 22

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1. DEFINITIONS

"Chief financial officer" means the officer of the Abaqulusi Municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.

"Councillor" means a member of the Abaqulusi Municipal Council.

"Current assets" are-

- Debtors;
- Cash;
- Stock; and
- The short-term portion of long-term debtors.

"**Current liabilities"** are –

- Creditors;
- Bank overdrafts and
- Short-term portion of long-term liabilities

"Debtors Turnover Rate" the ratio which comprises current plus arrear debtors divided by billed annual income multiplied by 365-days.

$$\frac{\text{Outstanding debtors}}{\text{Billed Annual Income}} \times 365$$

"Investments" are funds not immediately required for the defraying of expenses and invested at approved financial institutions.

"Municipal Manager" means the person appointed in terms of section 82 of the Municipal Structures Act, 1998 (Act 117 of 1998) as the head of the Abaqulusi Municipality's administration;

"Municipal stock" means the stock certificate issued by the Abaqulusi Municipality as proof of a long-term fixed period loan of which the capital is repayable at the end of the period while interest is payable at predetermined intervals at a fixed rate.

"Negotiable certificate" means a loan certificate that is tradable on the capital market.

"Net current assets" is the difference between current assets and current liabilities.

"Public funds" means all monies received by the Abaqulusi Municipality to perform the functions allocated to them.

"Short-term portion of long-term debtors" refers to the capital

instalments 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.

"Stock Turn-over Rate" is the total issues divided by average stock holding.

$$\frac{\text{Total Issues}}{\text{Average Stock Holding}}$$

"Trade Creditors Turn-over Rate" is equal to outstanding creditors divided by general expenses plus repairs and maintenance plus capital expenses minus internal recharges minus municipal service charges minus Councillors allowances minus other personnel expenses multiplied by 365-days.

$$\frac{\text{Outstanding Creditors}}{\begin{array}{l}\text{General Expenses +}\\ \text{Repair \& Maintenance +}\\ \text{Capital Expenses -}\\ \text{Internal Recharges -}\\ \text{Municipal Service Charges -}\\ \text{Councillors Allowances -}\\ \text{Other Personnel Expenses} \quad \text{x 365}\end{array}}$$

" Registry Clerk" refers to the person responsible for all of Abaqulusi Municipality's incoming mail.

2. OBJECTIVES

The objectives of a Banking, Cash Management and Investment Policy are to:

2.1 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 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 gain the highest possible return on investments, within the framework prescribed on permitted investments, during periods when excess funds are not being used.

3. SCOPE OF THE POLICY

The policy deals with:

3.1 Delegations

3.2 Responsibility/ accountability

3.3 Management of net current assets

3.4 Investment instruments

3.5 Cash flow estimates

3.6 Investment ethics and principles

3.7 Investment procedures and reporting

3.8 Other external deposits

3.9 Control over investments documentation

3.10 Review of policy.

4. RESPONSIBILITY/ACCOUNTABILITY

4.1 The Municipal Manager as the Accounting Officer of the Abaqulusi 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 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.

4.3.1 Collecting revenue when it is due;

4.3.2 Banking and depositing monies when received;

4.3.3 Making payments, including transfers to 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 account payments;

4.3.4 Avoiding pre-payment for goods or services (i.e. payments in advance of the receipt of goods or services), unless required by the contractual arrangements with the supplier;

4.3.5 Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the department of the Chief Financial Officer;

4.3.6 Pursuing debtors with appropriate sensitivity and vigour to ensure that amounts receivable by the municipality are collected and banked promptly;

4.3.7 Accurately forecasting the institution's cash flow requirements;

4.3.8 Timing of in- and outflow of cash;

4.3.9 Recognising the time value of money;

4.3.10 Taking any other action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or underutilised assets;

4.3.11 Avoiding bank overdrafts.

5. DELEGATIONS

5.1 It is noted that with regard to sections of the Municipal Finance Management Act relating to investment, administration has been delegated by the Municipal Manager to the Chief Financial Officer.

5.2 The Chief Financial Officer may sub-delegate the relevant sections to the Finance Managers.

6. MANAGEMENT OF NET CURRENT ASSETS

Cash management includes the management of net current assets which entails:

- debtors;
- cash;
- stock;
- short-term portion of debtors;
- creditors;
- bank overdraft;
- provisions;
- short-term portion of liabilities;

and will subscribe to procedures recognised in terms of generally accepted accounting practice (GRAP).

6.1 <u>Debtors:</u>

6.1.1 The municipal council must set a target for debt collection based on the performance of the Municipal Manager during the last financial year.

6.1.2 The target must be expressed as a percentage of potential income and/or the turnover rate of debtors.

6.1.3 All monies owing to the council must be correctly reflected in the debtors' system.

6.1.4 All money received by a municipality must be paid into its bank account or accounts, and this must be done promptly in a manner prescribed by the Municipal Manager.

6.1.6 All reasonable steps must be taken to ensure that all large sums of money received are deposited into the bank account on the same day that payments are received.

6.1.7 Extension for payment of rates and service charges must only be given in terms of the municipality's credit control and debt collection by-laws.

6.1.8 Moneys collected by other agencies on behalf of the council shall be paid over to the council or deposited in the bank account of the council in a manner prescribed by the Municipal Manager.

6.2 Management of cash

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

6.2.2 Monthly and annual cash flow forecasts must be reviewed and amended daily.

6.3 Management of Stock

6.3.1 Adequate stock control using a stock register must be exercised over all goods kept in stock.

6.3.2 Minimum and maximum stock levels, reordering procedures, turnover rate of stock items must be reviewed upon re-order to ensure that funds are not unnecessary tied up in stock.

6.3.3 The 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.

6.3.4 Stock counts must be affected monthly and an annual report reflecting stock shortage, surpluses and redundancies as at 30 June of each financial year must be submitted to Council.

6.4 Short-term portion of debtors

Debtors outstanding relating to long-term debtor loans must be treated as any other outstanding account for rates and service charges.

6.5 Payment of Creditors

6.5.1 Payment to creditors must be aligned to creditor payment terms.

6.5.2 Discounts for early settlement must be considered and utilized.

6.5.3 Credit statements must be reconciled monthly.

6.5.4 Trade creditor payments must only occur on receipt of official orders, certified goods received notes and company invoices.

6.5.5 All other payments must be duly authorised by the Chief Financial Officer, departmental heads and/ or duly authorised officials.

6.5.6 Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques.

6.5.7 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.

6.6 Management of short-term loan/ bank overdraft

6.6.1 A short-term loan 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.

6.6.2 The short-term loan must be repaid by the end of the financial year.

6.6.3 The council can only approve a short-term loan on the submission of a cash flow statement indicating the anticipated income stream or a certificate stating the approved grant or long-term loan.

6.6.4 A Council approved overnight overdraft facility for a period of no longer than a fortnight and to a value determined by Council may only be exercised by the Municipal Manager.

6.7 Provisions

6.7.1 Provisions for known short-term liabilities must be made.

6.7.2 Sufficient cash must be available when payments for provisions are due.

6.8 Short-term portion of long-term liabilities

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

6.8.2 Sufficient cash must be available when payments are due.

7. INVESTMENT INSTRUMENTS

Only the following investments, as appropriate to the anticipated future need for funds, may be undertaken:

7.1 Securities issued by the National Government;

7.2 Listed corporate bonds with an investment grade rating from an internationally recognised credit rating agency;

7.3 Deposits with banks registered in terms of the Banks Act, l 990 (Act 94 of 1990)

7.4 Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act 45 of 1984)

7.5 Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984)

7.6 Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);

7.7 Guaranteed endowment policies with the intention of establishing a sinking fund;

7.8 Repurchase agreements with banks registered in terms of the Banks Act, l990 (Act 94 of 1990)

7.9 Municipal bonds issued by a municipality; and

7.10 Any other investment type as the Minister may identify by regulation in consultation with the Financial Services Board.

8. CASH FLOW ESTIMATES

8.1 Before money can be invested, the Chief Financial Officer or his/her delegate must determine whether there will be surplus funds available during the term of the investment.

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

8.3 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.

8.4 The Chief Financial Officer shall report to the Council 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.

8.5 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.

8.6 Provision must be made in the cash flow estimates for the operating and capital requirements of the municipality.

9. INVESTMENT ETHICS

9.1 Investments made on behalf of Council must be made with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would reasonably exercise in the management of his or her own affairs, not for speculation, but for investment, and with his or her primary regard being to the probable safety of his or her capital, in the second instance to his or her liquidity needs and lastly to the probable income derived.

9.2 Investments of money not immediately required must be governed by the following investment objectives, in order of priority:

9.2.1 Preservation and safety of principal,

9.2.2 liquidity and

9.2.3 yield.

9.3 Investments may not be undertaken with a view to speculation.

9.4 Investment by the Municipality in foreign currencies is prohibited.

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

9.6 Interest rates offered must not be divulged to another institution.

9.7 The Council may not borrow money for reinvestment, as this would mean interest rates would have to be estimated in advance, which can be seen as speculation with public funds.

9.8 The Chief Financial Officer shall be responsible for investing the surplus revenues of the Municipality and shall manage such investments in consultation with the Municipal Manager and in compliance with any policy directives formulated by the Council and prescriptions made by the Minister of Finance.

9.9 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 Council shall not accede to any influence by or interference from Councillors, investment agents or institutions or any other outside parties.

9.10 Neither the Chief Financial Officer nor the Municipal Manager 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.

9.11 Any gift regarded as token of goodwill by the donor must be declared in terms of the code of conduct and in terms of the Supply Chain Management Policy. A certificate of the gift should be furnished to the Council. The gift should not be in lieu of a commission.

10. INVESTMENT PRINCIPLES

10.1 Limiting Exposure

10.1.1 Where large sums of money are available for investment the Chief Financial Officer shall ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the Municipality. The Chief Financial Officer shall further ensure that, as far as it is practically and

legally possible, the Municipality's investments are so distributed that more than one investment category is covered (that is, call, money market and fixed deposits).

10.2 Risk and Return

10.2.1 Although the objective of the Chief Financial Officer in making investments on behalf of the Municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution and the investment instrument concerned. No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions. Deposits shall be made only with registered deposit-taking institutions (see 6.4 below).

10.3 Payment of Commission

10.3.1 Every financial institution with which the Municipality makes an investment must issue a certificate to the Chief Financial Officer in regard to such investment, stating that such financial institution has not paid and will not pay any commission and has not and will not grant any other benefit to any party for obtaining such investment.

10.4 Call Deposits and Fixed Deposits

10.4.1 Before making any call or fixed deposits, the Chief Financial Officer, shall obtain quotations from at least three financial institutions.

10.4.2 Given the volatility of the money market, the Chief Financial Officer, shall, whenever necessary, request quotations telephonically, and shall record in an appropriate register the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be relevant (for example, whether the interest is payable monthly or only on maturity, and so forth).

10.4.3 Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, e-mail or any other expedient means).

10.4.4 Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of part 7 below) shall be paid over only to such institution itself and not to any agent or third party. Once the

investment has been made, the Chief Financial Officer shall ensure that the Municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the Municipality.

10.5 Restriction on Tenure of Investments

10.5.1 No investment with a tenure exceeding twelve months shall be made without the prior approval of the Council.

11 GENERAL INVESTMENT PRACTICES

11.1 Confirmation Letter

The Auditor General requires the financial institution, where the Investment is made, to issue a confirmation letter for each Investment made. This letter must state the type of Investment, account number, term of Investment, rate payable, amount and date invested and maturity date.

11.2 Reports

The Municipal Manager or delegated person must within 10 working days of the end of each month as part of section 71 report required by the act, submit to the Executive Committee of the Municipality a report describing in accordance with GRAP the investment portfolio of the Municipality as at the end of the month.

11.3 Creditworthiness

When investments are placed with smaller registered institutions, the Senior Finance Officer has to see to it that the Municipality is not exposed to too much risk. He/she has to ensure that the creditworthiness and performance of the institution are to his/her satisfaction, before investing money in the institution. The Senior Finance Officer is entitled to information from which the creditworthiness of financial institutions can be determined. This must be obtained and analysed annually.

12 INVESTMENT PROCEDURES AND REPORTING

After determining whether there is cash available for investment and fixing the maximum term of investment, the Chief Financial Officer with the approval of the Municipal Manager must consider the way in which the investment is to be made.

12.1 Short-term investments

12.1.1 The term of investment shall not be more than 3 months.

12.1.2 Quotations must be obtained from a minimum of three financial institutions, for various terms for which funds could be invested.

12.1.3 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 approached, should also be asked to quote a rate for the other term.

12.1.4 Quotations can be obtained telephonically, as rates generally change on a regular basis and time is a determining factor when investments are made

12.1.5 No attempts must be made to make institutions compete with each other.

12.1.6 The person responsible for requesting quotations from institutions must record the following: -

12.1.6.1 Name of institution;

12.1.6.2 Name of person quoting rates;

12.1.6.3 Period of the investment;

12.1.6.4 Relevant terms; and

12.1.6.5 Other facts i.e. are interest payable monthly or on date of maturity.

12.1.7 Once the required number of quotes has been obtained, a decision must be taken regarding the best terms offered and the institution with which funds are going to be invested.

12.1.8 The best offer must under normal circumstances be accepted, with thorough consideration of investment principles.

12.1.9 No attempt must be made to make institutions compete with each other as far as their rates and terms are concerned.

12.1.10 Once a quote has been accepted, written confirmation of the details must be obtained from the financial institution.

12.1.11 The investment capital must only be paid over to the institution with which it is to be invested and not to an agent.

12.1.12 The financial institution where the investment is made must issue a faxed or written confirmation stating the details of the investments.

12.1.13 The Chief Financial Officer must make sure that the investment document received is authentic.

12.1.14 The financial institution, where the investment is made, must issue a confirmation for each investment made stating 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.

12.1.15 The Council must be given a quarterly report on all investments.

12.1.16 The Municipal Manager must within 10 working days of the end of each month submit to Council a report describing in detail the investment position of the municipality as at the end of the month.

12.1.17 The report referred to in 10.1.14 above must contain at least a statement, prepared in compliance with generally accepted municipal accounting principles, that gives the –

12.1.17.1 beginning market value for the reporting period;

12.1.17.2 additions and changes to the market value during the period;

12.1.17.3 ending market value for the period;

12.1.17.4 Fully accrued interest/yield for the reporting period.

12.1.18 Where money is kept in current accounts, the municipality must bargain for more beneficial rates with regard to deposits.

12.2 Long-term investments

12.2.1 Written quotations must be obtained for all investments made for periods longer than twelve months.

12.2.2 The Municipal Manager must approve all investments made for periods longer than twelve months after considering the cash requirements for the next three years.

12.3 Investment maturity

12.3.1 Upon maturity of the investment the Municipality shall do one of the following:

a) Shall withdraw the whole amount invested.

b) Shall re-invest 100% interest plus the original amount that had been invested, in terms of the investment procedure (paragraph 8 above), unless if Council wishes to utilize the original money or the interest.

12.4 Early withdrawal of invested funds

a) When investing the funds with the banking institutions the Chief Financial Officer shall ensure that such funds are not withdrawn earlier than the maturity date agreed upon, by so doing the Municipality will not incur fruitless and wasteful expenditures in form of penalties resulting from early withdrawal of investments.

b) The Chief Financial Officer shall only withdraw funds if:

i) the banking institution concerned has agreed to exempt any penalties due to early withdrawal of investment or;

ii) the Municipal Manager may grant approval to withdraw the invested funds after he/she has satisfied himself/herself that the urgency was unforeseeable at the time when funds were invested and that the need for funds far outweighs the penalties being paid for such early withdrawal.

13. OTHER EXTERNAL DEPOSITS

The principles and procedures 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.

14. CONTROL OVER INVESTMENT DOCUMENTATION

14.1 An investment register must be kept of all investments made. The following facts must be recorded:

14.1.1 Name of institution
14.1.2 Capital invested
14.1.2 Date invested
14.1.3 Interest rate
14.1.4 Date of maturity
14.1.5 Interest received
14.1.6 Capital repaid and
14.1.7 Balance invested.

14.2 The investment register and accounting records must be reconciled on a monthly basis.

14.3 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 cash flow requirement.

14.4 Interest, correctly calculated, must be received timeously, together with any distributable capital.

14.5 The Chief Financial Officer must check that the interest is calculated correctly.

14.6 Investments documents and certificates must be safeguarded as follows:

14.6.1 Investment certificates with monetary value must be safeguarded in a fire resistant safe with dual custody;

14.6.2 All supporting documents in respect of investments made, must be filed and safeguarded as per the National Archives and Record Service of South Africa Act No 43 of 1996 and requirements of the Auditor General.

15 OTHER EXTERNAL INVESTMENTS

15.1 From time to time it may be in the best interests of the Municipality to make longer-term investments in secure stock issued by the national government, Eskom or any other reputable parastatal or institution, or by another reputable Municipality. In such cases the Chief Financial Officer, must be guided by the best rates of interest pertaining to the specific type of investment, which the Municipality requires, and to the best and most secure instrument available at the time.

15.2 No investment with a tenure exceeding twelve months shall be made without the prior approval of the Council and without guidance having been sought from the Municipality's bankers or other credible investment advisers on the security and financial implications of the investment concerned.

16. BANKING ARRANGEMENTS

16.1 The Municipal Manager is responsible for the management of the Municipality's bank accounts but may delegate this function to the Chief Financial Officer. The Municipal Manager and Chief Financial Officer are authorised at all times to sign cheques and any other documentation associated with the management of such accounts. The Municipal Manager, in consultation with the Chief Financial Officer, is authorised to appoint two or more additional signatories in respect of such accounts, and to amend such appointments from time to time. The list of current signatories shall be reported to the Council on a monthly basis, as part of

the report dealing with the Municipality's investments.

16.2 In compliance with the requirements of good governance, the Municipal Manager shall open a bank account for ordinary operating purposes and shall further maintain a separate account for each of the following: the administration of the external finance fund and of the asset financing reserve (if these accounts are legally permissible). One or more separate accounts shall also be maintained for the following: capital receipts in the form of grants, donations or contributions from whatever source; trust funds; and the Municipality's self-insurance reserve (if legally permissible). In determining the number of additional accounts to be maintained, the Municipal Manager, in consultation with the Chief Financial Officer, shall have regard to the likely number of transactions affecting each of the accounts referred to. Unless there are compelling reasons to do otherwise, and the Council expressly so directs, all the Municipality's bank accounts shall be maintained with the same banking institution to ensure pooling of balances for purposes of determining the interest payable to the Municipality.

16.3 The Municipal Manager shall invite tenders for the placing of the Municipality's bank accounts within six months after the election of each new Council, such new banking arrangements to take effect from the first day of the ensuing financial year. However, such tenders may be invited at any earlier stage, if the Municipal Manager, in consultation with the Chief Financial Officer, is of the opinion that the services offered by the Municipality's current bankers are materially defective, or not cost-effective, and the Mayor agrees to the invitation of such tenders.

17. INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES

17.1 In managing the Municipality's investments, the Chief Financial Officer shall ensure that, whenever a long-term (non-annuity) loan is raised by the Municipality, an amount is invested at least annually equal to the principal sum divided by the period of the loan. Such investment shall be made against the bank account maintained for the external finance fund and shall be accumulated and used only for the redemption of such loan on due date. The making of such investment shall be approved by the Council at the time that the loan itself is approved.

17.2 If the loan raised is not a fixed term loan, but an annuity loan, the Chief Financial Officer shall ensure that sufficient resources are available in the account maintained for the external finance fund to repay the principal amounts due in respect of such loan on the respective due dates.

18. INTEREST ON INVESTMENTS

18.1 The interest accrued on all the Municipality's 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 shall thereafter be appropriated, at the end of each month, to the fund or account in respect of which such investment was made.

18.2 In the case of the external finance fund, the Chief Financial Officer may reduce the amount which must be annually invested to redeem any particular loan by the amount of interest so accrued.

18.3 If the accrual of interest to the external finance fund, unutilised capital receipts and trust funds results in a surplus standing to the account of any such funds, that is, an amount surplus to the resources required in respect of such funds or accounts, such surplus amount shall be credited by the Chief Financial Officer to the appropriation account and re-appropriated to the asset financing reserve.

19. 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 the Chief Financial Officer to enforce compliance with this policy.

20. EFFECTIVE DATE

The policy shall come to effect upon approval by Council.

21. POLICY ADOPTION

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

Resolution No……..

Approval Date: .....

ANNEXURE I

PARAPHRASE OF REQUIREMENTS OF MUNICIPAL FINANCE MANAGEMENT ACT NO 56 OF 2003

Note: In terms of Section 60(2) of the Municipal Systems Act No. 32 of 2000 the council may delegate the authority to take decisions on making investments on behalf of the municipality only to the executive mayor, executive committee or chief financial officer. The foregoing policy is based on the assumption that such authority has been delegated to the chief financial officer.

SECTION 7: OPENING OF BANK ACCOUNTS

Every municipality must open and maintain at least one bank account. This bank account must be in the name of the municipality, and all monies received by the municipality must be paid into this bank account or accounts, promptly and in accordance with any requirements that may be prescribed.

A municipality may not open a bank account:

- otherwise, then in the name of the municipality;
- abroad; or
- with an institution not registered as a bank in terms of the Banks Act 1990.

Money may be withdrawn from the municipality's bank account only in accordance with the requirements of Section 11 of the present Act.

SECTION 8: PRIMARY BANK ACCOUNT

Every municipality must have a primary bank account, and if the municipality has only one bank account that account is its primary bank account. If the municipality has more than one bank account, it must designate one of those bank accounts as its primary bank account.

The following must be paid into the municipality's primary account:

- all allocations to the municipality;
- all income received by the municipality on its investments;
- all income received by the municipality in connection with its interest in any municipal entity;
- all money collected by a municipal entity or other external mechanism on behalf of the municipality, and;

- any other monies as may be prescribed.

The Accounting Officer of the municipality must submit to the national treasury, the provincial treasury and the Auditor-General, in writing, the name of the bank where the primary bank account of the municipality is held, and the type and number of the account. If the municipality wants to change its primary bank account, it may do so only after the accounting officer has informed the national treasury and the Auditor-General, in writing, at least 30 days before making such change.

SECTION 9: BANK ACCOUNT DETAILS TO BE SUBMITTED TO PROVINCIAL TREASURIES AND AUDITOR-GENERAL

The Accounting Officer of the municipality must submit to the provincial treasury and to the Auditor-General, in writing, within 90 days after the municipality has opened a new bank account, the name of the bank where the account has been opened, and the type and number of the account; and annually, before the start of each financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account.

SECTION 10: CONTROL OF MUNICIPAL BANK ACCOUNTS

The accounting officer of the municipality must administer all the municipality's bank accounts, is accountable to the municipal council for the municipality's bank accounts, and must enforce compliance with Sections 7, 8 and 11 of the present Act.

The Accounting Officer may delegate the duties referred to above only to the municipality's Chief Financial Officer.

SECTION 11: WITHDRAWALS FROM MUNICIPAL BANK ACCOUNTS

Only the Accounting Officer or the Chief Financial Officer of the municipality (presumably where this power has been appropriately delegated), or any other senior Financial Official of the municipality acting on the written authority of the accounting officer, may withdraw money or authorize the withdrawal of money from any of the municipality's bank accounts. Such withdrawals may be made only to:

- defray expenditure appropriated in terms of an approved budget;
- defray expenditure authorized in terms of Section 26(4) (this Section deals with situations in which the budget was not timorously approved, and the province has been compelled to intervene);
- defray unforeseeable and unavoidable expenditure authorized in terms of Section 29(1);

- in the case of a bank account opened in terms of Section 12, make payments from the account in accordance with Section 12(4);
- pay over to a person or organ of state money received by the municipality on behalf of such person or organ of state, including money collected by the municipality on behalf of such person or organ of state by agreement, or any insurance or other payments received by the municipality for such person or organ of state;
- refund money incorrectly paid into a bank account;
- refund guarantees, sureties and security deposits;
- make investments for cash management purposes in accordance with Section 13;
- defray increased expenditure in terms of Section 31; or
- for such other purposes as may be prescribed.

(Note that Section 11(1) does not expressly provide for the withdrawal of monies to pay creditors, where the relevant obligations arose in terms of the previous budget; to repay loans; or to repay consumer deposits).

Any authorization to a senior financial official to withdraw money or to authorize the withdrawal of money from a bank account must be in accordance with the framework as may be prescribed. The Accounting Officer may not authorize any official other than the Chief Financial Officer to withdraw money or to authorize the withdrawal of money from the municipality's primary bank account if the municipality has a primary bank account which is separate from its other bank accounts.

The accounting officer must, within 30 days after the end of each quarter, table in the council a consolidated report of all withdrawals made other than withdrawals to defray expenditure appropriated in terms of the approved budget and submit a copy of the report to the relevant provincial treasury and the Auditor-General.

SECTION 12: RELIEF, CHARITABLE, TRUST OR OTHER FUNDS

No political structure or office bearer of the municipality may set up a relief, charitable, trust or other fund of whatever description, except in the name of the municipality. Only the Municipal Manager may be the accounting officer of any such fund.

A municipality may open a separate bank account in the name of the municipality for the purpose of such relief, charitable, trust or other fund. Money received by the municipality for the purpose of such fund must be paid into the bank account of the municipality, or if

a separate bank account has been opened for such fund, into that account.

Money in a separate account opened for such fund may be withdrawn from the account without appropriation in terms of the approved budget, but only by or on the written authority of the accounting officer, acting in accordance with decisions of the council, and for the purposes for which, and subject to any conditions on which, the fund was established or the money in the fund was donated.

SECTION 13: CASH MANAGEMENT AND INVESTMENTS

The Minister, acting with the concurrence of the cabinet member responsible for local government, may prescribe a framework within which municipalities must conduct their cash management and investments, and invest money not immediately required.

A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be so prescribed.

A bank where the municipality at the end of the financial year holds a bank account or held a bank account at any time during such financial year, must, within 30 days after the end of such financial year, notify the Auditor-General, in writing, of such bank account, indicating the type and number of the account, and the opening and closing balances of that account in that financial year. The bank must also promptly disclose any information regarding the account when so requested by the national treasury or the Auditor-General.

A bank, insurance company or other financial institution which the end of the financial year holds, or at any time during the financial year held, an investment for the municipality, must, 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. Such institution must also promptly disclose any information regarding the investment when so requested by the national treasury or the Auditor-General.

SECTION 17: CONTENTS OF ANNUAL BUDGETS AND SUPPORTING DOCUMENTS

The following documents must accompany each tabled draft annual budget (inter alia):

- a projection of cash flows for the budget year by revenue source, divided into calendar months
- particulars of the municipality's investments.

SECTION 22: PUBLICATION OF ANNUAL BUDGETS

The Accounting Officer must make public, immediately after a draft annual budget is tabled, the budget itself and all the prescribed supporting documents, and invite comments from the local community in connection with such budget (and documents).

SECTION 36: NATIONAL AND PROVINCIAL ALLOCATIONS TO MUNICIPALITIES

In order to provide predictability and certainty about the sources and levels of intergovernmental funding for municipalities, the Accounting Officer of a national or provincial department and the accounting authority of a national or provincial public entity responsible for the transfer of any proposed allocations to a municipality, must by no later than 20 January of each year notify the national treasury or the relevant provincial treasury as may be appropriate, of all proposed allocations and the projected amounts of those allocations to be transferred to each municipality during each of the next 3 financial years.

The Minister or the MEC responsible for finance in the province must, when tabling the national annual budget in the national assembly or the provincial annual budget in the provincial legislature, make public particulars of any allocations due to each municipality in terms of that budget, including the amount to be transferred to the municipality during each of the next 3 financial years.

SECTION 37: PROMOTION OF CO-OPERATIVE GOVERNMENT BY MUNICIPALITIES

In order to enable municipalities to include allocations from other municipalities in their budgets and to plan effectively for the spending of such allocations, the accounting officer of every municipality responsible for the transfer of any allocation to another municipality, must, by no later than 120 days before the start of its budget year, notify the receiving municipality of the projected amount of any allocation proposed to be transferred to that municipality during each of the next 3 financial years.

SECTION 45: SHORT-TERM DEBT

The municipality may incur short-term debt only in accordance with and subject to the provisions of the present Act, and only when necessary to bridge shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic income to be received within that financial year; or to bridge capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

The Council may approve a short-term debt transaction individually, or may approve an

agreement with a lender for a short-term credit facility to be accessed as and when required, including a line of credit or bank overdraft facility, provided that the credit limit must be specified in the resolution of the council; the terms of the agreement, including the credit limit, may be changed only by a resolution of the council; and if the council approves a credit facility limited to emergency use, the accounting officer must notify the council in writing as soon as practicable of the amount, duration and cost of any debt incurred in terms of such a credit facility, as well as the options available for repaying such debt.

The municipality must pay off short-term debt within the financial year in which it was incurred, and may not renew or refinance short-term debt, whether its own debt or that of any municipal entity, where such renewal or refinancing will have the effect of extending the short-term debt into a new financial year.

SECTION 46: LONG-TERM DEBT

A municipality may incur long-term debt only in accordance with and subject to any applicable provisions of the present Act, and only for the purpose of capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government as set out in Section 152 of the Constitution; or refinancing existing long-term debt subject to the requirements of Section 46(5).

SECTION 47: CONDITIONS APPLYING TO BOTH SHORT-TERM AND LONG-TERM DEBT

The municipality may incur debt only if the debt is denominated in rand and is not indexed to, or affected by, fluctuations in the value of the rand against any foreign currency.

SECTION 64: REVENUE MANAGEMENT (EXCERPTS)

The Accounting Officer of the municipality is responsible for the management of the revenue of the municipality.

The Accounting Officer, must, among other things, take all reasonable steps to ensure that all money received is promptly deposited in accordance with the requirements of the present Act into the municipality's primary and other bank accounts.

The Accounting Officer must also ensure that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled on at least a weekly basis.

The Accounting Officer must take all reasonable steps to ensure that any funds collected by the municipality on behalf of another organ of state are transferred to that organ of

state at least on a weekly basis, and that such funds are not used for purposes of the municipality

SECTION 65: EXPENDITURE MANAGEMENT (EXCERPTS)

The Accounting Officer of the municipality is responsible for the management of the expenditure of the municipality.

The Accounting Officer must take all reasonable steps to ensure, among other things, that payments made by the municipality are made direct to the person to whom they are due, unless agreed otherwise for reasons as may be prescribed, and either electronically or by way of non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reasons only, and only up to a prescribed limit.

The Accounting Officer must also ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

The Accounting Officer must further ensure that the municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework.

ANNEXURE II

CODE OF PRACTICE IN REGARD TO PAYMENTS, REVENUE COLLECTION AND STORES

1. STORES ADMINISTRATION

The Chief Financial Officer shall be responsible for the proper administration of all stores. If sub-stores are established under the control of any head of department, such head of department shall be similarly responsible for the proper administration of such sub-store, and in doing so shall comply with the stock level policies as determined from time to time by the Chief Financial Officer, acting in consultation with the head of department concerned. No sub-store may be established without the prior written consent of the Chief Financial Officer.

2. CONTRACTS: MANAGEMENT OF

Within such general buying and related procedures as the Chief Financial Officer shall from time to time determine, and further within the confines of any relevant legislation and of such rules and procedures as may be determined by the Executive Mayor or Executive Committee, as the case may be:

(a) all buying contracts shall be administered by the Chief Financial Officer, and all payments relating to such contracts shall be authorized by the Chief Financial Officer or the head of department concerned; and

(b) all other contracts, including building, engineering and other civil contracts shall be administered by the head of department concerned, and all payments relating to such contracts shall be authorized by such head of department in accordance with the provisions of Section 3 below. The head of department concerned shall ensure that all payment certificates in regard to contracts are properly examined and are correct in all respects - before being submitted to the Chief Financial Officer for payment.

3. PAYMENTS

All payments, other than petty cash disbursements, shall be made through the municipality's bank account(s).

The Chief Financial Officer shall draw all cheques on this account, and shall, in consultation with the Municipal Manager and with due regard to the Council's policy on banking and investments, determine the rules and procedures relating to the signing of cheques, and from time to time jointly with the municipal manager decide on appropriate signatories.

All requests for payments of whatever nature shall be submitted on payment vouchers, the format of which shall be determined by the Chief Financial Officer. Such vouchers shall be authorized in terms of such rules and procedures as are determined from time to time by the Chief Financial Officer.

The maximum amount and nature of petty disbursements, where not covered by the general buying procedures referred to in Section 2, shall be generally determined from time to time by the Chief Financial Officer. No cash float shall be operated without the authority of the Chief Financial Officer, who may prescribe such procedures relevant to the management of such float as are considered necessary.

The Chief Financial Officer shall be responsible for the payment of all salaries and remuneration benefits to employees and Councillors, and for the determination of the payment system to be used.

4. REVENUE AND CASH COLLECTION

Every head of department shall be responsible for the collection of all moneys falling within the ambit and area of his or her designated functions.

The Chief Financial Officer shall ensure that all revenues are properly accounted for.

The collection of all arrear revenues and the control of arrear accounts shall be co-coordinated by the Chief Financial Officer in terms of any policies determined by the council. If it is clear that any revenues are not recovered or likely to be recovered after the necessary steps have been taken, the Chief Financial Officer shall report the matter adequately and timeously to the finance and executive committees.

The Chief Financial Officer shall ensure that adequate provision is maintained to cover the writing off of irrecoverable revenues, having due regard to the council's policy on rates and tariffs.

5. BANKING OF RECEIPTS

Guidelines and procedures for the banking of cheques and other receipts shall, if necessary, be determined from time to time by the Chief Financial Officer.

Where applicable, every head of department shall ensure that all revenues are banked daily with the municipality's banker(s), or less frequently if so approved by the chief financial officer.