

ABAQULUSI MUNICIPALITY



CASH AND INVESTMENT POLICY

2008

CASH AND INVESTMENT POLICY

1. INTRODUCTION

- 1.1 As trustees of public funds, Councillors and officials have an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible.
- 1.2 The Council of the Municipality has a responsibility to invest public funds carefully and has to report to the community in this regard.
- 1.3 In terms of The Municipal Finance Management Act , 2003 (Act No 56 of 2003), Chapter 3, Section 13 –
 - (1) The Minister may prescribe a framework within which Municipalities must –
 - (a) conduct their Cash Management and Investments; and
 - (b) invest money not immediately required
 - (2) A Municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed in terms of subsection (1).

2. DEFINITIONS

Chief financial officer means an officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.

Councillor means a member of a municipal council.

Current liabilities are –

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

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

Municipal manager means a person appointed in terms of section 82 of the Municipal Structures Act, 1998 (Act 117 of 1998) as the head of the municipality's administration;

3. OBJECTIVE

The objectives of a cash and investment policy are:

- To manage the net current asset requirements 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,
- 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
- To gain the highest possible return, without unnecessary risk, during periods when excess funds are not being used. To establish this, it is essential to have an effective cash flow management program.

4. SCOPE OF THE POLICY

The policy deals with:

- Responsibility/accountability.
- Cash Management
- Management of net current assets.
 - Debtor Collections
 - Payment of Creditors
 - Receipt of payments
 - Bank and cash
 - Management of Inventory(Stock)
 - Management of Debt
- Investments
- Investment ethics.
- Investment principles.
- Investment of Funds by the Municipality
- Call and fixed deposits
- Other external deposits.
- Control over investments.
- General investment practices.
- Investment Managers.
- Oversight of Council.

5. RESPONSIBILITY/ACCOUNTABILITY

- 5.1 In terms of the Municipal Finance Management Act, 2003, chapter 8, section 60, the Municipal Manager is the Accounting Officer of the Municipality. However, he may delegate in terms of Section 79(1) certain duties/tasks to designated Officials, referred to in section 77(1), who would be accountable to him. The Municipal Manager is therefore accountable for all transactions entered into by his designates. One of the main functions of the Municipal Manager is that of adequate and effective cash management. The duty to manage the municipality's cash and investments is delegated to the Chief Financial Officer.
- 5.2 The Chief Financial Officer is responsible, as delegated, for establishing systems, procedures, processes and training and awareness programmes to ensure efficient and effective banking and cash management. Sound cash management includes the following:
- Collecting revenue when it is due and banking it promptly;
 - 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 programme delivery and the government's normal terms for account payments;
 - Avoiding pre-payments for goods or services unless required by the contractual arrangements with the supplier;
 - Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the relevant treasury;
 - Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the Municipality are collected and banked promptly;
 - Accurately forecasting the institution's cash flow requirements;
 - Timing the inflow and outflow of cash;
 - Recognising the time value of money, i.e. economically, efficiently, and effectively managing cash; and
 - 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 under utilised assets.
- 5.3 The overall responsibility of investments lies with the Municipal Manager. However the day to day handling of investments is the Chief Financial Officer's responsibility.
- 5.4 In terms of Section 79(1) of the Municipal Finance Management Act, 2003 the powers and duties to make investments are delegated to the Chief Financial Officer. In terms of Section 82 (1) of the MFMA, the Chief Financial Officer may sub-delegate the duties and authority to make investments to any official in the budget and treasury office or to the holder of a

specific post in that office. The Chief Financial Officer is accountable to the Municipal Manager for the investments made by the Chief Financial Officer or his delegated officials

5.5 In the instance that the Chief Financial Officer has to do an investment, quotations are required from various financial institutions. In the case of telephonic quotations, the following information is required:

- The name of the person who gave the quotation;
- The relevant terms and rates; and
- Other facts such as if interest is payable on a monthly basis or on maturation date

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

- The Chief Financial Officer's clerk must complete a cheque requisition form and submit it to the Chief Financial Officer or his delegated official together with the supporting quotations;
- The Chief Financial Officer or his delegated official must authorise the requisition.

5.7 All investment documents will require two signatories, namely the Chief Financial Officer or his delegated official and one other official in the treasury office. Specimen signatures must be held by all financial institutions with whom the Municipality deals.

6. CASH MANAGEMENT

Adequate and effective cash management is one of the main functions of the Chief Financial Officer or his/her Delegate.

The cash holding of the municipality must be kept at the minimum level required to finance the day to day operations of the municipality. For this purpose a daily, weekly, monthly and annual cash flow forecasts are required.

Sufficient provision must be made to the payment of:

- o Salaries;
- o Bulk purchases of water and electricity;
- o General expenditure;
- o Capital cost (Interest and redemption);
- o Maintenance; and
- o Payment to creditors involved in capital projects.

6.1 Debtor Collections:

6.1.1 All funds due to the Municipality must be collected timeously and banked on a daily basis. Cash left in the safe poses a security risk, and could result in higher insurance premiums to

cover the additional risk and does not earn interest. Large sums of money received must be deposited into the bank account on the same day the payment is received.

6.1.2 It is important that all monies owing to the Municipality are correctly reflected in the debtors system. The following control measures are necessary:

- A well managed debtors and banking control system will ensure that funds owed to the Municipality are received and banked; and
- It is also important to review debt collection performance by comparing the debtors outstanding in relation to total turnover and then comparing this to previous financial years, in order to determine whether the debt collection process is deteriorating or improving.

6.1.3 All monies collected by the municipality must be banked in the bank account of the municipality.

6.1.4 Moneys collected by some other agency on behalf of the Municipality shall be paid over to the Municipality or deposited in the bank account of the Municipality in a manner prescribed by the Chief Financial Officer.

6.1.5 The receipt of all monies collected by the municipality shall be acknowledged forthwith by the issue of a numbered official receipt.

6.2 Payment of Creditors

6.2.1 Due to the high bank charges with regard to cheque payments, it is essential to limit the payment of creditors to one payment per creditor per month. Exceptions, authorised by the Chief Financial Officer, with regard to emerging contractors can however be made, should the cash position allow for it. Should the facility be available, payments should be done by electronic transfer – subject to strict control measures.

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

- In cases where a cash discount is given for early settlement, the discount, if the relevant time scale is taken into account, will in most cases be more than any investment benefit that could be received from temporarily investing the funds.
- If discounts are offered for early settlement they must be properly considered and utilised.

6.2.3 Besides this, the normal conditions of credit terms of payment offered by suppliers, must also be considered and utilised to the full by paying on the due date and not earlier.

6.2.4 Management of bank overdraft

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 levy.

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

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 approved grant or long-term loan.

6.3 Receipt of Payments

6.3.1 Receipt of money over the counter:

- Every payment received by a cashier or other officer responsible for the receipt of money shall be acknowledged at once by the issue of a numbered official receipt or cash ticket; and
- Every receipt form, which is cancelled, will be reattached, in the correct place, in the receipt book. Where computer generated receipts are used, the original receipt must be filed for audit purposes.

6.3.2 Receipt of Money by Post:

- When money (including postal orders and cheques) is received with the Council's mail, the Registry Clerk shall record all payment remittances as and when received in the cheque register in the presence of a witness. Post-dated cheques received in the Council's mail must also be recorded in the cheque register. The cheque register shall be regarded as the register of remittances received by post;
- The cheque register together with all remittances received must be sent to a designated official in the finance section, before close of the cashier's office on the same day;
- The designated official on receipt of the cheque register together with the remittances will code all remittances and submit to the cashier for receipting;
- The cashier will receipt all remittances and issue official receipts to the designated official;
- The designated official will record all receipts in the cheque register and return same to registry. The Registry Clerk must ensure that all receipts are recorded in the cheque register;
- All documents relating to remittances received in the mail must be filed for audit purposes;
- A separate register for post dated cheques will be maintained by the Registry Clerk and all post-dated cheques must be stored safely in the Registry Strongroom; and
- 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.

6.4 Bank and Cash:

- 6.4.1 All names of bank accounts or investment accounts must be in the name of Abaqulusi Municipality.
- 6.4.2 New bank accounts may be opened if required but require authorisation by EXCO and approval by the CFO.
- 6.4.3 All bank accounts must be accounted for in the accounting system.
- 6.4.4 All bank and cash should be made in terms of the Cash Management Policy.

6.5 Management of Inventory

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

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

A stock register, reflecting the under mentioned detail must be kept and updated daily;

- Item description;
- Stores code number;
- Transaction date;

Goods received

- Goods delivery note number;
- Number of items received; and
- Value of items received.

Goods issued

- Requisition number; and
- Number of items issued.

Balance of items in stock.

Stock counts must be affected bi-annually and an annual report reflecting stock shortage and surpluses must be submitted to council on the 30 June of each financial year. All surpluses and shortages must be explained by the accountable head of departments.

6.6 Management of Debt

The municipality may only incur debt in terms of the Municipal Finance Management Act, 2003, chapter 6. The Municipality may incur two types of debt, namely short term and long term debt.

6.6.1 Short term debt.

6.6.1.1 The Municipality:--

- may incur short-term debt only in accordance with and subject to the Provisions of the MFMA, Section 45(1), and only when necessary to bridge –
 - (a) shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year; or
 - (b) capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.
- may incur short-term debt only if –
 - (a) a resolution of the municipal council, signed by the mayor, has approved the debt agreement; and
 - (b) the accounting officer has signed the agreement or other document which creates or acknowledges the debt.
- Must pay off short term debt within a financial year; and
- May not renew or refinance its short term debt.

6.6.1.2 No lender may extend credit to the Municipality for the purpose of renewing or refinancing debt that must be paid off in terms of the above, unless such extension was agreed and approved by the council. If a lender wilfully extends credit to the Municipality for the purpose of renewing or refinancing debt, the Municipality is not bound by the contract in terms of which the credit was extended to the Municipality.

6.6.2 Long term debt.

6.6.2.1 The municipality may incur long term debt in terms of section 46(1) of the MFMA only for the purpose of capital investment in 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, and only if –

- (a) a resolution of the municipal council, signed by the mayor, has approved the debt agreement; and
- (b) the accounting officer has signed the agreement or other document which creates or acknowledges the debt.
- (c) the accounting officer of the municipality has complied with section 21A of the Municipal Systems Act, by making public an information statement setting out the particulars of the proposed debt, the purpose for which the debt is to be incurred and the particulars of any security to be provided, at least 21 days prior to the meeting of the council at which approval for the debt is to be considered.

6.6.2.2 Section 152 of the Constitution reads as follows: “The objects of local government are:

- To provide democratic and accountable government for local communities;
- To ensure the provision of services to communities in a sustainable manner;
- To promote social and economic development;
- To promote a safe and healthy environment; and
- To encourage the involvement of communities and community organisations in the matters of local government.”

7. INVESTMENTS

7.1 Legal Requirements

7.1.1 The way in which surplus funds and other municipal funds may be invested, is controlled in terms of legislation:

- GAMAP 9;
- Local Government Municipal Finance Management Act 2003, Act No 56 of 2003, section 13(1)

7.1.2 The Minister, acting with the concurrence of the Cabinet member responsible for local government, may prescribe a framework within which municipalities must –

- (a) Conduct their cash management and investments; and
- (b) Invest money not immediately required. Invest only with --
 - Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
 - Securities issued by the National Government;
 - Deposits with the Public Investment Commissioners as contemplated by the Public Deposits Act, 1984 (Act No. 45 of 1984);
 - Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984)
 - Listed corporate bonds with an investment grade rating from an internationally recognized credit rating agency.
 - Bankers, acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
 - Guaranteed endowment policies with the intention of establishing a sinking fund;
 - Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)
 - Any other instruments or investments in which a Municipality was under a law permitted to invest before the commencement of the Local Government

Transition Act, 1996: Provided that such instruments shall not extend beyond the date of maturity or redemption thereof.; and

- Any other investments determined by the Minister of Finance and published in the Government Gazette.

7.2 Cash Flow Estimates

7.2.1 Before money may be invested, the Chief Financial Officer must determine whether there will be surplus funds available during the term of the investment. He/she must fix the term of the investment.

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

7.2.3 When drawing up cash flow estimates, it is essential that the Chief Financial Officer take note of the following:

- Be aware of the expected cash flow and when it is likely to take place, as well as the timing with regard to cash outflow, as far as both the operating and the capital budgets are concerned;
- By utilising the available information and expertise, the Chief Financial Officer or his/her Delegate must assess the timing with regard to when, for how long and the amount to be invested; and
- Daily cash flow estimates must provide for daily call investments and investment withdrawals, whereas long-term investments must be based on projections further into the future.

7.3 From time to time the Council will have surplus funds available which are not needed immediately and which could be invested. Depending on circumstances some funds could be invested for a long term whilst others would only be short-term investments. Surplus funds in the current account may also be invested for short periods (days).

7.4 Generally investments are done every month when prior investments mature and funds are available for re-investment. Investments may be made by the Chief Financial Officer as follows:

- Long term investments should be made with financial institutions of minimum BBB rating (where BBB refers to lower risk institutions);
- Short term investments should be made with an financial institutions of minimum B rating (where B refers to higher risk institutions);
- All available funds should not be placed with a single institution, the invested amount should, where possible, be spread equally to all relevant institution's; and
- The total amount invested at an institution may not exceed 10% of the relevant institution's shareholder's funds (Capital and Reserves).

8. INVESTMENT ETHICS

The following ethics must apply when dealing with financial institutions and other interested parties:

- 8.1 The Municipal Manager and Chief Financial Officer will be responsible for the investment of funds, and he/she must avoid outside interference, regardless of whether such interference comes from individual Councillors, agents or any other institution.
- 8.2 Under no circumstances may he/she be forced or bribed into making an investment. No official 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 do so, and can merely be seen as goodwill. A certificate in respect of the gift should be furnished to the Chief Financial Officer. The gift should not be in lieu of a commission.
- 8.3 The Chief Financial Officer must act according to his/her discretion and must report any serious cases of payment in kind or gifts, to the Municipal Manager. Excessive gifts and hospitality should however be avoided.
- 8.4 Interest rates offered should never be divulged to another institution.

9. INVESTMENT PRINCIPLES

- 9.1 Exposure to a single institution:

Money, especially large sums of money, must be invested with more than one institution, in order to limit risk exposure of the Municipality. All available funds should not be placed with a single institution, the invested amount should, where possible, be spread equally to all relevant institutions. If legislation permits, the Chief Financial Officer must try to plan the distribution of the investments to cover different types of investments.
- 9.2 Risks and return

It can be accepted as a general rule that the larger the return, the greater the risk.
- 9.3 Borrowing money for reinvestment

The municipality 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.
- 9.4 Registered Financial Institutions

If the Chief Financial Officer invests with financial institutions, he/she must ensure that such institutions are registered in terms of the Banks Act 94 of 1990 and that they are approved financial institutions – as approved by the Reserve Bank, from time to time. An updated list of the approved financial institutions should be obtained regularly.

9.5 Growth-related Investments

When making growth-related investments, the Chief Financial Officer must obtain a guarantee that at least the capital amount invested is safe, and must exercise due diligence in this regard.

10. INVESTMENT OF FUNDS BY THE MUNICIPALITY:

10.1 The investment register must be examined on a daily basis to identify investments falling due within the two weeks following and start the investment process such as looking at alternatives, cash flow requirements and timeous reporting to the Municipal Manager and Council.

10.2 Prior to the investment of monies, the Chief Financial Officer (CFO), must determine whether there will be surplus funds available, as well as to fix the term for which such money should be invested.

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

10.4 In the instance surplus funds are available for investment, the Chief Financial Officer should contact the various banking institutions for interest rate quotations and prepare a manual or computerised list of the quotations indicating the amounts to be invested, the rates quoted and the maturity values (maximum return).

10.5 Based on the results of 8.4 above, and the value of the prospective investment, the Chief Financial officer should, authorise the investment. All relevant information must be filed together with the investment documentation.

11. CALL DEPOSITS AND FIXED DEPOSITS

11.1 Quotations should be obtained from a minimum of three financial institutions, bearing in mind the limits of the term of which it is intended to invest the funds. 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 fix a rate for that long a term.

11.2 Quotations must be obtained electronically, otherwise per facsimile, as rates generally change on a regular basis and time is a determining factor when investments are made. It is however prudent to obtain written (e-mail acceptable) quotations. No verbal quote or quotes received after closing date and time may be considered. The person responsible for requesting quotations from institutions must record the following:

- Name of institution;
- Name of person quoting rates;
- Closing date and time;

- Period of the investment;
- Relevant terms; and
- Other facts i.e. are interest payable monthly or on maturation date.

11.3 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. The best offer must under normal circumstances be accepted, with thorough consideration of investment principles. The Chief Financial Officer must note any deviation if such best offer is not accepted. No attempt must be made to make institutions compete with each other as far as their rates and terms are concerned.

11.4 If institutions have been asked for a quotation with regard to a specific package, the institution must be requested to give the best rate in their quotation. They must also be informed that, once the quotation has been given, no further bargaining or discussions will be entered into in that regard.

11.5 The above procedure must be followed for all investments.

11.6 The Chief Financial Officer must make sure that the investment document received is a genuine document, issued by an approved institution, and the investment capital must be paid over only to the institution with which it is to be invested and not to an agent.

12. OTHER EXTERNAL DEPOSITS

Other investment possibilities, which are subject to the applicable legislation and are available to the Municipality, include 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. With regard to such investments, the principles and practices set out above must apply.

13. CONTROLS OVER INVESTMENTS

13.1 An investment register must be kept of all investments made. The following facts must be indicated:

- Name of institution;
- Type of investment;
- Capital invested
- Date invested;
- Term of investment
- Interest rate;
- Maturation date;
- Interest earned;
- Interest received;

- Interest capitalised.

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

13.2 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 as what to do with the funds bearing in mind the cash flow requirements.

13.3 Interest, correctly calculated, must be received timeously, together with any distributable capital. The Chief Financial Officer must check that the interest is calculated correctly.

13.4 Investment documents and certificates must be kept in a safe place. The following documents must be safeguarded:

- Fixed deposit letter or investment certificate;
- Receipt for capital invested;
- Copy of electronic transfer or cheque requisition;
- Excel schedule of comparative investment figures;
- Commission certificate indicating no commission was paid on the investment; and
- Interest rate quoted.

13.5 The Chief Financial Officer is responsible for ensuring that the invested funds are secure and, should there be a measure of risk, that such risk be rated realistically.

14. GENERAL INVESTMENT PRACTICE

14.1 General

After determining whether there is cash available for investment and fixing the maximum term of investment, the Chief Financial Officer must consider the way in which the investment is to be made. As rates can vary according to money market perceptions with regard to the terms of investment, quotations must be requested electronically, within term limitations, and these must be set out on a schedule.

14.2 Commission Certificate

The Auditor General requires the financial institution, where the investment is made, to issue a certificate for each investment made. This certificate must state that no commission has, nor will, be paid to any agent or third party, or to any person nominated by the agent or third party.

14.3 Reports:

14.3.1 The Council must be given a monthly report on all borrowings and investments. With specific reference to:

- (a) Borrowings: (For each individual loan)

- Name of institution;
- Date of initial borrowing/loan received (in respect of existing loans)
- Balance beginning of month;
- Loans received during month;
- Loans redeemed during month;
- Balance at end of the month;
- Interest rate;
- Interest paid during month;
- Maturity date;
- Type of loan;
- Total Amount.

(b) Investments: (For each individual Investment)

- Name of Institution invested with;
- Date of investment;
- Type of investment;
- Period of investment;
- Interest rate;
- Maturity date;
- Interest earned during month;
- Balance of investment at beginning of month;
- Investments made during month;
- Investments withdrawn during month;
- Balance of Investments at end of the month;
- Allocation of investments to reserves and other funds
- Source of investment;
- Appropriation of investments.

14.3.2 The Municipality must within 30 days after an investment with currency of 13 months or longer has been made, publish in a local newspaper in circulation within its area of jurisdiction, full details of any investments so made.

14.4 Cash in the Bank

14.4.1 Where money is kept in current accounts, it would be possible to bargain for more beneficial rates with regards to deposits, for instance call deposits. Fixed term deposits can increase these rates.

14.4.2 The most important factor is that the cash in the current account must be kept to an absolute minimum. (Not more than R 5 000 000 at end of each month in cashbook)

14.5 Creditworthiness

When investments are placed with smaller registered institutions, the Chief Financial 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 Chief Financial Officer is entitled to information from which the creditworthiness of financial institutions may be determined. This must be obtained and analysed annually.

14.6 GRAP

It is of utmost importance that the Chief Financial Officer applies GRAP in the compilation of the budgets and financial statements of the Municipality as well as the financial systems in use.

15. INVESTMENT MANAGERS

If the council will benefit from it, it is permitted to make use of Investment Managers as defined in the Municipal Investment regulations.

16. OVERSIGHT ROLE OF COUNCIL

16.1 The council reserves its right to maintain oversight over the implementation of this Policy.

16.2 For the purposes of such oversight the accounting officer must-

- (a) within 30 days of the end of each financial year; submit a report on the implementation of this Policy, to the council; and.
- (b) whenever there are serious and material problems in the implementation of this Policy, immediately submit a report to the council.

17. COMMENCEMENT

This policy takes effect on 1 July 2008.