

# CASH MANAGEMENT AND INVESTMENT POLICY FOR //KHARA HAIS MUNICIPALITY

**POLICY SUBJECT** : Cash Management and Investment Policy

**RESOLUTION NUMBER** : \_\_\_\_\_

DATE: \_\_\_\_\_

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**POLICY OBJECTIVES** : To assist management and employees of the Council to implement and maintain consistent, effective and efficient investment principles. To secure **and manage** all surplus funds of Council.

**POLICY PHILOSOPHY** : Council is committed towards securing **and managing** its surplus cash to maximize **resources and** effective service delivery.

## 1. LEGAL COMPLIANCE

In terms of Section 13 (2) of the Municipal Finance Management Act (Act no. 56 of 2003), municipalities are required to establish an appropriate and effective **Cash Management and Investment Policy**, in accordance with any framework that may be prescribed by the Minister for local government and consistent with the Municipal Cash Management and Investment Regulations. National Treasury, through Government Gazette No: 27431, published Municipal Investment Regulations, which municipalities are required to apply as guidelines when preparing a Cash Management and Investment Policy with effect from 1 April 2005.

## 2. SCOPE OF THE POLICY

This policy applies to the //Khara Hais Municipality.

## 3. OBJECTIVES OF THE POLICY

The objectives of the Cash Management and Investment Policy of the //Khara Hais Municipality are as follows: -

- Ensuring that cash resources are managed efficiently and effectively,
- Ensuring that investments are placed with reputable institutions, for the purpose of safety of capital investment, and diversification of the Investment Portfolio,
- Ensuring that adequate operating cashflow is maintained at all times

- Ensuring that the municipality receives optimal interest on its investments with financial institutions, at minimal risk,
- Striving for reasonable growth on capital investments in addition to interest earned on investments,
- Ensuring that monies due to Council are collected and banked appropriately as soon as they are received, and
- Ensuring that payments to creditors are made by the due dates.

#### **4. EFFECTIVE CASH MANAGEMENT**

All efforts must be made to ensure that:

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

are properly maintained to ensure that all excess cash is invested.

##### **4. (i) Collection of Cash / Revenue**

The cash collection process as determined by Chapter 9 of the Local Government: Municipal Systems Act (Act 32 of 2000) and the Customer Care, Credit Control, Debt Collection and Indigent Support Policy, should at all times be adhered to.

##### **4. (ii) Payment of Creditors**

The payment cycle of all **trade creditors** must be strictly maintained as required by the Supply Chain Management Policy, or as per payment terms stipulated on individual contracts. If there are incentives (e.g. trade discount) favorable to Council when payments are made before due dates, such incentives, where appropriate, must be applied. Urgent payments to creditors outside standard process shall only be made with the express approval of the Chief Financial Officer or Accounting Officer, who shall be satisfied that there are compelling reasons for making such payments.

- **Electronic Fund Transfers (EFT) Payments**

In order to minimize bank charges, EFT payments will be done as far as possible to avoid bank charges relating to the issuing and processing of cheques.

- **Cheque Management**

Cheques are printed in batch format. To prevent the removing of cheques, cheques are delivered in sealed boxes where strict control is exercised over the numerical sequence of cheques on the expenditure system by means of a cheque register.

The following controls should be exercised for processing and safeguarding of cheques:

- All official cheques shall bear the name and emblem of the municipality and the name and emblem of the bank where the municipality holds an account and shall be pre-numbered. The numerical sequence of the cheques shall be in the

same order as those in the ledger on the municipality's Financial Management System.

- All cheques shall be kept in a safe and shall be under the custody of one assigned official at the Expenditure division and shall be monitored by means of a cheque register. Cheques shall be kept in a safe at all times; no cheques should be kept on a cheque printer
- All cheques shall be printed on an official electronic cheque printer located in a secure location. No hand-written cheques will be issued.
- No cheque shall be processed and signed for payment without duly authorised supporting documentation.
- The municipality shall, under no circumstances, issue out a blank cheque and all cheques shall bear the name of the bearer
- All cheques returned from the bank shall be attached to the initial supporting expenditure

- **Delegation/Rights**

Council's policy regarding signatory authorization of municipal cheques and bank transactions determines the posts that are authorized to approve electronic EFT payments and/or sign cheques on behalf of Council. Refer to relevant policy.

#### **4. (iii) Administration of Banking Accounts**

Council should operate with one primary bank account in accordance with section 8 of the MFMA. All monies collected by council should be recorded and paid into the Primary Bank account.

The municipality's bank account details should be submitted to the Provincial Treasury and Auditor General by the Accounting Officer within 90 days after the municipality has opened such an account in accordance with section 9(a) of the MFMA. The banking details should also be submitted annually before the beginning of the financial year. Such information shall include the name of each bank where the municipality holds a bank account, the account type and number of each account.

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

- **Bank Overdraft**

- Even when Council has an approved overdraft facility with its primary banker for possible unanticipated short-term cash flow shortfalls, its general policy is to avoid going into overdraft.
- Short-term debt is incurred based on expected income and must be repaid within the same financial year. (Section 45 of the MFMA)
- Council will set the credit limit for the bank overdraft facility. The terms of the agreement for the bank overdraft facility, including the credit limit, may only be changed by a resolution of council.
- Any short term facility that requires review must first be approved by the Accounting Officer.

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

The following ethics, principles and procedures shall apply: -

- The Chief Financial Officer shall be responsible for managing municipal investments,
- No improper outside influence or internal interference will be permitted at any time in regard to management of cash and placing of investments
- Quotations for call and/or fixed deposits from the approved financial institutions (a minimum of three) will be obtained at the time of contemplating an investment,
- Financial institutions will be required to submit confirmation certificates upon the placement of investments, which will include a declaration that no commission was paid relating to the investment,
- The Chief Financial Officer shall maintain a detailed investment register,
- The Chief Financial Officer shall hold in safe custody all investment certificates and other related documents, for audit purposes and proper record keeping,
- Investments made must be in the name of the //Khara Hais Municipality (S12 of the Municipal Regulations),
- No funds will be borrowed for the purpose of investments (S12 of the Municipal Investment Regulations),
- The Chief Financial Officer shall ensure that interest and capital is received and receipted when due,
- Any risk arising from any investment transaction rest with the municipality (S12 of the Municipal Investment Regulations).

## **6. STANDARD OF CARE**

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

Investments made by the municipality or investment manager, may not be made for speculation. A high standard of care for

- (i) Preservation and Safety of Capital Invested,
- (ii) Operating Cash flow and
- (iii) Interest

must at all times be maintained when making investments.

## **7. PERMITTED INVESTMENTS**

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

- a) Securities issued by the National Government,
- b) Deposits with Banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- c) Listed corporate bonds with an investment grade rating from an internationally recognized credit rating agency,

- d) Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioner's Act, 1984 (Act 46 of 1984),
- e) Deposits with the Corporations for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984),
- f) Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- g) Guaranteed endowment policies with the intention of establishing a sinking fund,
- h) Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- i) Municipal bonds issued by a municipality, and
- j) Any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.

## 8. PROHIBITION OF INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

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

## 9. PAYMENT OF COMMISSION

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

- 1) No fee, commission or other reward may be paid to a councilor or official of a municipality or to a spouse or close family member of such councilor, or official in respect of any investment made or referred by a municipality.
- 2) Any commission, fee or other reward paid to an **investment manager** in respect of any investment made on behalf of the municipality must be declared to the council of the municipality by way of a certificate disclosing full details of the payment.

## 10. REPORTING REQUIREMENTS

In compliance with Section 9 of the Municipal Investment Regulations the Accounting Officer shall report within 10 working days of the beginning of each month, to the Executive Mayor & relevant Committee, the investment position of the municipality as at the end of the previous month.

Such report must at a minimum provide: -

- The market value of each investment as at the beginning of the reporting period,
- Any changes to the investment portfolio during the reporting period,
- The market value of each investment as at the end of the reporting period, and

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

Such report must at a minimum provide: -

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

## **11. CREDIT REQUIREMENTS**

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

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

- Must be an approved instrument in terms of Paragraph 7 (Permitted Investments) of this policy,
- The institution must be highly rated by credible Rating Agencies,

## **12. INVESTMENT DIVERSIFICATION**

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

The Chief Financial Officer must ensure that municipal investments are placed equitable amongst the approved financial institutions.

## **13. ACCOUNTING FOR TRUST FUNDS**

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

## **14. ESTABLISHMENT OF AN INVESTMENT PANEL**

The Chief Financial Officer is responsible for establishing an “Investment Panel” which will be responsible for all investment related matters of the municipality, including decisions for placing investments, Revision of Cash Management and Investment Policy, etc.

The following Finance Directorate officials will serve as members of the investment panel:

- Chief Financial Officer or his delegate
- At least one Senior Manager, who shall not be the CFO’s delegate at that point in time,
- Manager Financial Reporting

Investment cheques/ payments and correspondence will be signed as per the approved signatories of cheques/ electronic payments of Council.

## **15. RAISING OF DEBT**

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

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

The interest accrued on all municipal investments shall, in compliance with the requirements of **Generally Recognised Accounting Practice (GRAP)**, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and may thereafter be appropriated to the fund or account in respect of which such investment was made depending on the conditions which apply to the fund or account.

## **17. REVIEW OF THE POLICY**

This Cash Management and Investment Policy is the sole policy governing cash management and investments in the //Khara Hais Municipality and this policy will be reviewed annually.

## **18. References**

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

## DEFINITION OF KEY WORDS

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

1. **“Act”** means the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003),
2. **“Accounting Officer”** refers to the Municipal Manager of the municipality,
3. **“Chief Financial Officer”** refers to the Director of the Finance Directorate,
4. **“Investment Panel”** refers to the committee responsible for managing municipal investments,
5. **“Investment Register”** refers to an electronic spreadsheet which contains details of all municipal investments,
6. **“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.
7. **“Investment Manager”** means a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, 1989 (Act No. 55 of 1989), and Stock Exchanges Control Act, 1985 (Act No. 1 of 1985), contracted by the municipality to:
  - (i) advise on investments or
  - (ii) manage investments on its behalf.
8. **“MFMA”** refers to the Municipal Finance Management Act, (Act 56 of 2003),
9. **“Minister”** refers to a Cabinet member responsible for finance,
10. **“Policy”** refers to the Cash Management and Investment Policy of //Khara Hais Municipality.