ENDUMENI

CASH MANAGEMENT & INVESTMENT POLICY

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1. INTRODUCTION

As trustees of public funds, the Council has an obligation to ensure that cash resources are managed as effectively as possible.

Council has a responsibility to invest public funds with great care and is accountable to the community in this regard.

The investment policy should be aimed at gaining the highest possible return without undue risk during those periods when surplus cash is not needed. In this regard, it is essential to have an effective cash management system.

Legislation must be adhered to at all times. Where this policy is contrary to legislation, legislation will override this policy. It is an explicit responsibility of the Municipal Manager to bring such conflicts to the attention of the Council immediately he or she is aware of such conflicts and to propose changes to this Policy to eliminate such conflicts.

2. DELEGATION OF POWERS

According to the Municipal Finance Management Act (Act No 56 of 2003) Chapter 8, section 60, the Municipal Manager is the Accounting Officer of the Municipality. However he may delegate certain duties to designated officials who would be accountable to him.

This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. All delegations in Terms of this policy document should be recorded in writing.

The Financial Manager is responsible 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 accounts payments;
- Avoiding pre-payments 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;
- Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates;
- Pursuing debtors with appropriate sensitivity and rigor 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.

3. PURPOSE OF POLICY

The purpose of this policy is to ensure that:

the investment of surplus funds forms part of the financial system of the Municipality
prudent investment procedures are consistently applied
an effective cash management plan is established and adhered to at all times.

4. EFFECTIVE CASH MANAGEMENT

Adequate and effective cash management is one of the main functions of the Municipal Manager.

Debtor Collections

All monies due to the Municipality must be collected as soon as possible and banked on a daily basis. Cash left in the safe can pose a security risk, could necessitate additional insurance coverage and does not earn any interest. Special deposits should be arranged for larger amounts to make sure that these are banked on the same day they are received.
All monies due to the Municipality must be correctly reflected in the debtor 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
- A review of debt collection performance by comparing the debtors outstanding in relation to total turnover and comparing this to previous financial years.

All monies collected by the Municipality must be banked in the bank account of the Municipality.
Monies 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 Municipal Manager.

Payment to Creditors

To reduce bank costs with regard to cheque payments it is essential to limit the payment of creditors to one payment per creditor per month if possible and to make use of electronic transfer facilities, subject to strict control measures.

When considering the timing of payments to creditors, proper consideration must be given to the conditions of credit / terms of payment offered. In cases where a cash discount is offered for early settlement, the discount, if the relevant time scale is taken into account, will in most cases be more than any investment return from temporarily investing the funds. If discounts are therefore offered for early settlement, they should be assessed and utilised if beneficial.

In addition, the normal conditions of credit / terms of payment offered by suppliers should be considered and utilised by timing payments so that they are received by the creditor on the due date.

Receipt of Payments

Receipt of money over the counter:

- Every amount of payment received by a cashier or other officer responsible for the receipt of money shall be acknowledged at once by the issue of 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.

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;
- The designated official on receipt of the cheque register together with the remittances will code all remittances and submit it 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 Strongroom; and
- The Registry Clerk will ensure that all postdated cheques, which become due, are sent promptly to the designated official for receipting and recording of receipts in the postdated cheque register.

DEBT

The Municipality may only incur debt in terms of Chapter 6, sections 45 and 46, of Municipal Finance Management Act (Act 56 of 2003). The Municipality may incur two types of debt, namely short term and long-term debt.

Short Term debt

The Municipality may incur short-term debt 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.

Long Term debt

The Municipality may incur long-term debt only for the purpose of –
(a) 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.
(b) Refinancing existing long-term debt subject to subsection (5) of section 46 of the Act.

5. INVESTMENTS

Cash Flow Estimates

Before any money can be invested, the Municipal Manager/delegated official has to determine whether there will be surplus funds available. The term of investment should also be investigated to ensure that surplus cash would be invested for the period it is not required. Prior to making investments other than for short-term investments, it is essential that cash-flow estimates be compiled monthly for at least the forthcoming twelve months.
When compiling cash-flow estimates on a monthly basis, it is essential that the Municipal Manager/delegated official is aware of all expected cash-flow and when it is to take place. The timing with regard to cash outflows should be determined as far as possible by reference to both the operational and the capital budgets.

Legal Requirements

The way in which surplus funds and other monies of the Municipality can be invested is controlled in terms of the Municipal Finance Management Act (56/2003): Municipal Investment Regulations.

6. PERMITTED INVESTMENTS

6.1 The Municipality may invest funds only in any of the following investment types:-

6.1.1 securities issued by the national government;

6.1.2 listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;

6.1.3 deposits with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);

6.1.4 deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act no. 45 of 1984);

6.1.5 deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);

6.1.6 banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the banks Act, 1990;

6.1.7 guaranteed endowment policies with the intention of establishing a sinking fund;

6.1.8 repurchase agreements with banks registered in terms of the Banks Act, 1990;

6.1.9 municipal bonds issued by a municipality; and

6.1.10 any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.

7. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES PROHIBITED

7.1 The municipality may make an investment only if the investment is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

8. GENERAL INVESTMENT PRACTICE IN RESPECT OF INVESTMENTS REFERRED TO IN PARAGRAPHS 6.1.3 AND 6.1.6

8.1 Obtaining of quotations

8.1.1 Quotations for call deposits greater than 7 days, fixed deposits or any other investment with a financial institution referred to in paragraphs 6.1.3 and 6.1.6 above should be requested telephonically for a period within the limitations of the anticipated term of the investment.

8.1.2 Quotations must be solicited from a minimum of three financial institutions referred to in paragraphs 6.1.3 and 6.1.6 above, bearing in mind the limits of the term for which it is intended to invest the funds.

8.1.3 All telephonic quotations must be recorded on a schedule and the accepted quotation confirmed in writing before the actual investment is made. This same procedure must be followed before any re-investment is made with the same financial institution.

8.1.4 The person responsible for requesting quotations from institutions should record the name of institution, the name of the person who gave the telephonic quotation and the relevant terms and rates and other facts such as whether the interest is payable on a monthly basis or on a maturity date. Written confirmation of the telephonic quotation accepted is essential.

8.1.5 Where an investment is made at an institution at a rate lower than that of other quotations, reasons must be recorded by the Municipal Manager/delegated official and reported to Council as part of the quarterly report by the Municipal Manager/delegated official.

8.2 Payment of Commission Certificates

8.2.1 The financial institution where a fixed deposit is made must issue a certificate with regard to each investment made, in which it states that the financial institution has not or will not pay any commission and has not or will not grant any other benefit for obtaining such investment to any employee or councilor of the Municipality, their immediate family or an agent or go-between, or to any person nominated by such agent or go-between.

8.3 Credit Worthiness

8.3.1 Council must obtain independent credit ratings to evaluate the credit worthiness of financial institutions referred to in paragraphs 6.1.3 and 6.1.6 at least annually. Investments may only be placed with institutions that have the following rating criteria:

A1 (short-term) :	R20 000 000 per financial institution
A2 (short-term) :	R 1 000 000 per financial institution

8.4 Limited Exposure to a Single Institution

8.4.1 Council may not invest more than 50% of its investments at any time with one banking institution in order to limit the risk exposure of the Municipality. Monies retained in a current banking account or placed on call for less than 33 days with the financial institution where the current banking account is held, shall not be regarded as an investment for the purpose of this paragraph.

9. REPORTING REQUIREMENTS

9.1 The accounting officer of a municipality must within 10 working days of the end of each month, as part of the section 71 report required by the Act, submit to the mayor of the municipality a report describing in accordance with generally recognized accounting practice the investment portfolio of the municipality as at the end of the month.

9.2 The report referred to in sub-regulation (1) must set out at least-

(a) the market value of each investment as at the beginning of the reporting period;
(b) any changes to the investment portfolio during the reporting period;
(c) the market value of each investment as at the end of the reporting period; and
(d) fully accrued interest and yield for the reporting period.

10. GENERAL INVESTMENT PRACTICE IN RESPECT OF LONG-TERM INVESTMENTS REFERRED TO IN PARAGRAPHS 6.1.1, 6.1.4, 6.1.5 AND 6.1.7

10.1 Long-Term Investments

10.1.1 Long-term investments are investments that mature more than one year after the initial date the investment is made. Only the Council can approve such investments. The institution with which the investment is made must guarantee at least the capital portion of long-term investments.

10.1.2 Investments referred to in paragraphs 6.1.1, 6.1.4, 6.1.5 and 6.1.7 shall be considered long-term investments for the purposes of this policy document and the provisions of paragraph 10.1.1 shall apply to such investments, regardless of the investment period.

11. GENERAL INVESTMENT PRACTICE IN RESPECT OF INVESTMENTS REFERRED TO IN PARAGRAPHS 6.1.9 AND 6.1.10

11.1 The Municipality may utilise surplus cash by taking up of all or any part of the securities issued by itself provided that applicable contributions are made to the Loan Redemption Fund to ensure that there is sufficient monies in this Fund to repay the face value of the security on its redemption date.

11.2 Surplus funds may also be used for any investment in any Loan Fund or any Consolidated Investment Fund established in terms of applicable legislation.

11.3 Surplus monies of such Funds must be invested as set out in this policy document.

12. INVESTMENT PRINCIPLES AND ETHICS

12.1 Borrowing Money for Reinvestment

12.1.1 The Municipality shall not borrow any money for investing purposes as this is tantamount to speculation with public funds. Furthermore, investments should not be made where Council is utilising an overdraft facility unless in accordance with applicable legislation.

12.2 Cash in the Bank

12.2.1 Where surplus money is kept in current banking accounts, the balance of such account shall be kept at a minimum, taking into account the cash management plan and monthly cash-flow estimates.

12.3 Employees and Councilors Benefiting from Investments

12.3.1 No employee or councilor of the Municipality or their immediate families may under any circumstances whatsoever, on his or her own behalf or on behalf of any other person whether directly or indirectly, stipulate, claim or receive any consideration of whatever nature in connection with any investment made by or on behalf of the Municipality.

12.4 Transparency

12.4.1 There shall at all times be transparency and accountability in respect of every investment made and of the Municipality's investment portfolio. In this regard detail of all investments made and withdrawn must form part of the monthly financial report by the Municipal Manager/delegated official.

12.5 Conditional Grants

12.5.1 All conditional grants received shall be invested in separate call accounts.

12.5.2 The call accounts shall be in the name of the Municipality but should also indicate the title of the grant.

12.5.3 All interest shall accrue to the call account investment.

12.5.4 When payment of expenditure in respect of the grant is made from the general account of the Municipality a similar amount shall be transferred from the call account to the general account.

12.6 Responsibilities of the Municipal Manager

12.6.1 The Municipal Manager is ultimately responsible for the investment of funds, and should ensure that investments are made in the best interests of the municipality. Investment decisions should be done independently of individual councilors, agents or any financial institutions.

12.6.2 Council may at its discretion employ the use of specialist advisors to provide advice on investments from time to time. Specialist advisors are not entitled to commission. Furthermore, specialist advisors may not directly invest funds on behalf of Council. All investments must be made by the Chief Financial Officer to whom responsibility to make, manage and control investments has been delegated.

12.6.3 Due regard must be made of interest rates and risks. Excessive risks must not be taken.

13. CONTROL OVER INVESTMENTS

13.1 Proper records should be kept of all investments made. At the very least the following information should be recorded in an investment register; the investee institution, the principle investment, the interest rate, the maturity date and details of growth of the investment, calculated at 30 June annually, including interest capitalised.

13.2 Interest, correctly calculated, should be received timeously, together with any distributable capital.

13.3 Investment withdrawals of R1 000 000 (one million rand) and above should be made in writing by Chief Financial Officer.

13.4 Investment documents and certificates should be kept in a fire-resistant safe to which access is controlled.

13.5 The Internal Auditor should at least audit the investments of Council every six months and report directly to Council whether the investments of Council are made, managed and controlled in line with this policy. Any deviations from or improvements that can be made to the policy must likewise be reported to Council. In the absence of an Internal Auditor, the Auditor General to be tasked to annually review and report to Council as set out above.

14. IMPLEMENTATION OF THIS POLICY

14.1 This policy shall be implemented once approved by Council. All future investments must be made according to this policy.

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