

# **EMADLANGENI MUNICIPALITY**



## **CASH AND INVESTMENT MANAGEMENT POLICY**

### **3.4 CASH AND INVESTMENT MANAGEMENT POLICY**

#### **3.4.1 Preamble**

The municipality shall at all times manage its banking arrangements and investments and conduct its cash management policy in compliance with the provisions of and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No 56 of 2003.

A paraphrase of the provisions of this Act is attached as Annexure I to this policy.

#### **3.4.2 Objectives**

The Council of the municipality is the trustee of the public revenues, which it collects, and it therefore has an obligation to the community to ensure that the municipality's cash resources are managed effectively and efficiently.

The Council therefore has a responsibility to invest these public revenues, knowledgeably and judiciously, and must be able to account fully to the community in regard to such investments.

The investments policy of the municipality is therefore aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes. The effectiveness of the investment policy is dependent on the accuracy of the municipality's cash management programme, which must identify the amounts surplus to the municipality's needs, as well as the time when the period for which such revenues are surplus.

#### **3.4.3 Definitions**

- In this policy a word or phrase to which a meaning has been assigned in **Section 1.0 on definitions** has that meaning, unless the context otherwise indicates.

#### **3.4.4 Effective Cash Management**

##### **a) Cash Collections**

All monies due to the municipality must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis.

The respective responsibilities of the Chief Financial Officer and other Heads of Departments in this regard are defined in a Code of Municipal Practice approved by the Municipal Manager and the Chief Financial Officer, and this Code of Practice is attached as Annexure II to this Policy.

The unremitting support of and commitment to the Municipality's Credit Control Policy, both by the Council and the Municipality's Officials, is an integral part of proper cash collections, and by approving the present policy the Council pledges itself to such support and commitment.

##### **b) Payments to Creditors**

The Chief Financial Officer shall ensure that all tenders and quotations invited by and contracts entered into by the Municipality stipulate payment terms favourable to the Municipality, that is, payment to fall due not sooner than the conclusion of the month following the month in which a particular service is rendered to or goods are received by the Municipality. This rule shall be departed from only where there

are financial incentives for the Municipality to effect either payment, and the Chief Financial Officer shall approve any such departure before any payment is made.

In the case of Small, Micro and Medium enterprises, where such a policy may cause financial hardship to the contractor, payment may be effected at the conclusion of the month during which the service is rendered or within fourteen days of the date of such service being rendered, whichever is the later. The Chief Financial Officer shall approve any such early payment before any payment is made.

Notwithstanding the foregoing policy directives, the Chief Financial officer shall make full use of any extended terms of payment offered by suppliers and not settle any accounts earlier than such extended due date, except if the Chief Financial officer determines that there are financial incentives for the municipality to do so.

The Chief Financial Officer shall not process payments, for accounts received, more than four times in each calendar month. Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques.

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 payment periods.

c) **Cash Management Programme**

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.

The Chief Financial Officer shall report to the Finance Committee, 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. 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.

**3.4.5 Investment Ethics**

The Chief Financial Officer shall be responsible for investing the surplus revenues of the Municipality, and shall manage such investments in consultation with the Finance Committee or Council as the case may be, and in compliance with any policy directives formulated by the Council and prescriptions made by the Minister of Finance.

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 Finance Committee, as the case may be, shall not accede to any influence by or interference from Councillors, investment agents or institutions or any other outside parties.

Neither the Chief Financial Officer nor the Chairperson of the Finance Committee, 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.

### **3.4.6 Investment Principles**

a) Limiting Exposure

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).

b) Risk and Return

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 5.4 below).

d) Call Deposits and Fixed Deposits

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

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). However, special consideration shall be given to the cost benefit and convenience of linking the Primary bank account and the call accounts, for investments cash banking conditional grants. From time to time funds should be available immediately. In those instances three quotations are not applicable.

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).

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 property determined receipt of certificate for such investment, issued by the institution concerned in the name of the municipality.

e) **Restriction on Tenure of Investments**

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

**3.4.7 Control Over Investments**

The Chief Financial Officer shall ensure that proper records are kept of all investments made by the Municipality. Such records shall indicate the date on which the investment is made, the institution with which the monies are invested, the amount of the investment, the interest rate applicable, and the maturity date. If the investment is liquidated at a date other than the maturity date, such date shall be indicated.

The Chief Financial Officer shall ensure that all interest and capital property due to the Municipality are timeously received, and shall take appropriate steps and cause such appropriate steps to be taken if interest or capital is not fully or timeously received.

The Chief Financial Officer shall ensure that all investment documents and certificates are properly secured in a fireproof safe with segregated control over the access to such safe, or are otherwise lodged for safekeeping with the Municipality's bankers or attorneys.

**3.4.8 Other External Investments**

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 interests pertaining to the specific type of investment, which the Municipality requires, and to the best and most secure instrument available at the time.

No investment with a tenure exceeding twelve months shall be made without the prior approval of the Executive Mayor or Executive Committee, as the case may be, 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.

**3.4.9 Banking Arrangements**

The Accounting Officer is responsible for the management of the Municipality's bank accounts, but may delegate this function to the Chief Financial Officer. The Accounting Officer and Chief Financial Officer are authorized at all times to sign cheques and any other documentation associated with the management of such accounts. The Accounting Officer, 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 Executive Committee or the Executive Mayor, as the case may be, on a monthly basis, as part of the report dealing with the Municipality's investments.

The Accounting Officer 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 Council, agrees to the invitation of such tenders.

#### **3.4.10 Raising of Debt**

The Accounting Officer is responsible for the debt, but may delegate this function to the Chief Financial Officer, who shall then manage this responsibility in consultation with the Accounting Officer. All debt shall be raised in strict compliance with the requirements of the Municipal Finance Management Act 2003, and only with the prior approval of the Council. Long-term debt shall be raised only to the extent that such debt is provided for as a source of necessary finance in the capital component of the approved annual budget or adjustments budget.

Short-term debt shall be raised only when it is unavoidable to do in terms of cash requirements, whether for the capital or operating budgets or to settle any other obligations, and provided the need for such short-term debt, both as to extent and duration, is clearly indicated in the cash flow estimates prepared by the Chief Financial Officer. Short-term debt shall be raised only to anticipate a certain long-term debt agreement or a certain inflow of operating revenues.

#### **3.4.11 Investments for the Redemption of Long-Term Liabilities**

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 Council shall approve the making of such investment at the time that the loan itself is approved.

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 external finance fund to repay the principal amounts due in respect of such loan on the respective due dates.

#### **3.4.12 Interest on Investments**

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.

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.

If the accrual of interest to the external finance fund, unutilized capital receipts and trust funds results in a 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 expropriated to the asset financing reserve.

### **3.4.13 Annexure I: Paraphrase of Requirements of Municipal Finance Management Acts 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 making investments on behalf of the Municipality only to the Chief Financial Officer. The foregoing policy is based on the assumption that such authority has been delegated to the Chief Financial Officer.

#### **3.4.13.1 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 than 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.

#### **3.4.13.2 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 Municipality 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.

#### **3.4.13.3 Bank Account Details to be Submitted to Provincial Treasury 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.

#### **3.4.13.4 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.

#### **3.4.13.15 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 Finance 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 approval budget;
- defray expenditure authorized in terms of Section 26(4) (this Section deals with situations in which the budget was not timeously 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 Finance 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.

#### **3.4.13.6 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 purpose for which, and subject to any conditions on which, the fund was established or the money in the fund was donated.

Such relief, charitable, trust or other funds may not be funded from the equitable shares and should not be managed as a grant-in-aid fund managed in terms of Section 67 of the Municipal Finance Management Act.

#### **3.4.13.7 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 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 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 at 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.