

uMFOLOZI LOCAL MUNICIPALITY



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CASH MANAGEMENT AND INVESTMENTS POLICY

February 2018

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1. PREAMBLE

Whereas section 13 of the Local Government Municipal Finance Management Act, 2003 (No. 56 of 2003) determines that a municipality must introduce an appropriate and effective cash management and investment arrangement;

And whereas a bank, in accordance with the provisions of section 13 of the Act, has to disclose details regarding a municipality's investments;

And whereas councillors and officials, as trustees of public funds have an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible;

Now therefore uMfolozi Local Municipality adopts the cash and investment management policy set out in this document.

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2. DEFINITIONS

For the purposes of this policy the wording or any expression will have the same meaning as contained in the Act, except where it is explicitly indicated otherwise and means:

Accounting Officer refers to the Municipal Manager of the municipality;

Budget and Treasury Committee refers to the committee of Council dealing with the financial affairs of the municipality;

Budget and Treasury Directorate refers to the municipal department dealing with the financial affairs of the municipality;

Chief Financial Officer refers to the head of the Budget and Treasury Directorate;

Investment Panel refers to the committee responsible for managing municipal investments;

Investment Register refers to an electronic spreadsheet which contains details of all municipal investments;

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;

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 advise on investments or manage investments on its behalf;

Liquidity refers to the financial ability of the municipality or any other company to service its debts when falling due;

MFMA refers to the Municipal Finance Management Act (Act 56 of 2003);

Minister refers to a Cabinet member responsible for finance;

Optimal Yield refers to the maximum interest earned on an investment;

Policy refers to the Cash Management and Investment Policy of the uMfolozi Local Municipality

Act is the Local Government: Municipal Systems Act No. 32 of 2000, as amended from time to time;

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

Short-term portion of long-term debtors - the capital repayment of long-term debtors due and in arrears in the current financial year;

Short-term portion of long-term liabilities - the capital repayment of long-term loans due in the current financial year;

Municipal stock - the stock certificates issued by the municipality as proof of a long-term fixed loan of which the capital is payable at the end of the period while interest is payable at predetermined intervals at a fixed rate;

Net current assets - the difference between current assets and current liabilities;

Public funds - all monies received by the municipality to perform the functions allocated to it;

Negotiable certificate - a loan certificate, tradable on the capital market.

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3. OBJECTIVES

The objectives of this Policy are to:

- Manage cash flows in an efficient and prudent manner
- Maintain a level of liquidity sufficient to meet both planned and unforeseen cash requirements
- Invest only in approved financial institutions
- Minimize the risk of investments
- Maximize returns on investments without incurring undue risks
- Ensure that all relevant information is disclosed to Council
- Ensure that all investment decisions are made by the appropriate delegated authority
- Prohibit investment of funds for speculative purposes
- Ensure transparency and compliance in all investment processes

4. APPLICATION

This Policy shall apply to:

- The Mayor.
- The Speaker.
- Executive Committee Members.
- Councillors.
- Municipal Manager.
- Directors.
- Any other official and or representative

specifically authorised to represent the Municipality and on official business of the Municipality.

5. SCOPE OF POLICY

This Policy applies to all cash investments made by or on behalf of uMfolozi Local Municipality. The Municipality shall at all times manage its cash and investments in compliance with this Policy and this Policy must not be inconsistent with the Municipal Finance Management Act and the Municipal Investment Regulations.

6. LEGAL MANDATE

The Council 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. This policy must be read with the MFMA and the regulations promulgated under the Act. A summary of the provisions of this Act and the regulations are attached as Annexure I to this policy.

7. IMPLEMENTATION

This Policy shall be implemented once approved by Council. Existing investments that do not comply with this Policy should be properly discontinued and all future investments must be made according to this Policy.

8. ROLES AND RESPONSIBILITIES

- 8.1 The Municipal Manager as the Accounting Officer of the Municipality is accountable for cash management and investments.
- 8.2 The Municipal Manager may delegate the management of cash and investments to the Chief Financial Officer.
- 8.3 The municipal Council must approve a policy directing the procedures, processes and systems required to ensure efficient management of cash and investments.
- 8.4 Efficient and effective financial management include:
 - (a) Collecting revenue when it is due.
 - (b) Banking and depositing monies when received.
 - (c) Making payments, including transfers to the other levels of government and non-government entities, no earlier than necessary, with due regard for efficient, effective and economical service delivery and the creditor's normal terms for accounts payments.
 - (d) Avoiding pre-payment for goods and services (e.g., payments in advance of receipt of goods or services), unless required by the contractual arrangements with the supplier.
 - (e) Accepting discounts to effect early payment only when payment has been included in the monthly cash flow estimates provided to the department of the Chief Financial Officer.
 - (f) Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the Municipality are collected and banked promptly.
 - (g) Accurately forecasting the institution's cashflow requirements.
 - (h) Timing of the inflow and outflow of cash.
 - (i) Recognising the time value of money.
 - (j) Taking any other action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or underutilised assets.
 - (k) Avoiding bank overdrafts.

9. CASH MANAGEMENT POLICY

9.1 General Policy

It is recognised that from time to time, Council has cash flow surpluses and borrowing requirements due to daily receipts and payments. Council maintains a daily cash position summary and a yearly cash flow projection is prepared during the annual planning process and is updated monthly. This determines Council's borrowing requirements and surpluses for investment.

All efforts must be made to ensure that: -

- Collection of Cash / Revenue,
- Payment of Creditors,
- Management of Proper Cash Flows,
- Administration of Bank Accounts, and
- Petty Cash Procedures

are properly maintained to ensure that excess cash is invested effectively and efficiently, to the benefit of uMfolozi Local Municipality

9.2 Cash Management Process

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

- Debtors;
- Cash;
- The short-term portion of long-term debtors;
- Creditors;
- Bank overdraft;
- Provisions; and
- The short-term portion of long-term liabilities.

9.2.1 Debtors

- (a) The municipal Council must set a target for debt collection based on the performance of the Municipal Manager during the last financial year.
- (b) The target must be expressed as a percentage of potential income and/or the turnover rate of debtors.
- (c) All monies owing to the Municipality must be correctly reflected in the debtors system.
- (d) All funds due to the Municipality must be collected timeously and banked on a daily basis.
- (e) Large sums of money received must be deposited into the bank account on the same day that payments are received.

- (f) Extensions for payment of rates and services charges must only be granted in terms of the Municipality's credit control and debts collection by-law and in exceptional circumstances.
- (g) Money collected by an agency on behalf of the Municipality shall be paid over to the Municipality and deposited into the bank account in a manner prescribed by the Municipal Manager (Daily deposits are preferable).

9.2.2 Cash

9.2.2.1 Money received over the counter

- (a) Every payment received by a cashier or other officer responsible for the receipt of money shall be acknowledged at once by issuing a numbered official receipt.
- (b) Every receipt form for a cancelled receipt will be re-attached, in the correct place, in the receipt book.
- (c) In the case of computer generated receipts, the original receipt form, for a cancelled receipt, must be filed for record purposes.

9.2.2.2 Money received by post

- (a) When money (including postal orders and cheques) is received with the Municipality's mail, the Registry Clerk shall record all payment remittances as and when received in the cheque register in the presence of a witness.
- (b) Post-dated cheques received by the Municipality must also be recorded in the cheque register.
- (c) The cheque register together with all remittances received must be sent to a designated official in the finance section.
- (d) On receipt of the cheque register together with the remittances, the designated official will code all remittances and submit them to the cashier for receipting.
- (e) The cashier will receipt all remittances and issue official receipts to the designated official.
- (f) The designated official will record all receipts in the cheque register and return same to the Registry Clerk.
- (g) The Registry Clerk must ensure that all receipts are recorded in the cheque register.
- (h) All documents relating to remittances received in the mail must be filed for audit purposes.

- (i) A separate register for post-dated cheques must be maintained by the Registry Clerk and all post-dated cheques must be stored in the registry strong room.
- (j) 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.

9.2.2.3 Management of Cash

- (a) The cash holding of the Municipality must be kept at the minimum level required to finance the day-to-day operations of the Municipality.
- (b) Daily, weekly, monthly and annual cash flow forecasts must be maintained.

9.2.3 Short-term portion of long-term debtors

- (a) Debts outstanding relating to long-term debtors must be treated the same as any other outstanding account for rates and services charges.

9.2.4 Creditors

- (a) Payments to creditors must be limited to one payment per creditor per month, and such payments shall be made within 30 (thirty) days after receipt of an original correct (tax) invoice made out to the Umfolozi Local Municipality
- (b) Discounts for early settlements must be considered and utilised to the benefit of the Municipality.
- (c) Creditors statements must be reconciled monthly.
- (d) Payments must only occur on presentation of official orders; certified goods received notes and company original correct invoices.

9.2.5 Bank overdraft

- (a) 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 loan.
- (b) The bank overdraft must be repaid by the end of the financial year.
- (c) 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 approval of a grant or long-term loan.

9.2.6 Provisions

- (a) Provisions for known short-term liabilities must be made for each order issued.
- (b) Sufficient cash must be available when payments are due.

9.2.7 Short-term portion of long-term liabilities

- (a) Loan instalments due in the current financial year must be provided for in the financial statements.
- (b) Sufficient cash must be available when payments are due.

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9.3 Cashflow estimates

- 9.3.1 Before money can be invested, the Chief Financial Officer or his/her delegate must determine whether there will be surplus funds available for the term of the investment.
- 9.3.2 In order to be able to make investments for a fixed term, it is essential that cash flow estimates be drawn up.
- 9.3.3 Provision must be made in the cash flow estimates for the Municipality's operating and capital requirements:
- (a) The operating requirements must include provisions for:
 - (i) Payment of monthly salaries;
 - (ii) Payment of bulk purchases of electricity and water;
 - (iii) Repayment of long-term loans;
 - (iv) Maintenance of assets;
 - (v) General expenditure;
 - (vi) Expected daily and monthly income.
 - (b) Capital requirements must provide for:
 - (i) The anticipated cash flow requirements for each capital project.

10. INVESTMENT POLICIES

10.1 INVESTMENT ETHICS

- 10.1.1 The Chief Financial Officer, or delegated official, shall be responsible for investing the surplus revenues of the Municipality, and shall manage such investments in compliance with this Policy and any other policy directives formulated by Council and any regulations promulgated.
- 10.1.2 In making such investments the Chief Financial Officer shall at all times have only the best interests of the Municipality in mind and shall not accede to any influence or interference from other Council officials, Councillors, investment agents or institutions or any other outside parties.
- 10.1.3 Neither the Chief Financial Officer or any other municipal official, Executive Member or Councillor, 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. This paragraph should be read in conjunction with the Code of Conduct for Councillors and Staff as contained in the Systems Act, Act No. 32 of 2000.
- 10.1.4 Interest rates should never be divulged to another institution. No attempts may be made to make institutions compete with each other as far as their rates and terms are concerned.

10.2 INVESTMENT PRINCIPLES

10.2.1 Permitted investments

A municipality may only invest in any of the following investment types:

- (a) Securities issued by the national government;
- (b) Listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- (c) Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- (d) Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984);
- (e) Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);

- (f) Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 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;
- (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.

10.2.3 Standard of Care

- (a) Investments made by uMfolozi Local Municipality must be made with such judgement and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs.
- (b) All investments must be genuine investments, which are not made for speculation.
- (c) Investments must in the first instance be made with the primary regard being the probable safety of the investments, in the second instance, the liquidity needs of the Municipality and lastly, the probable income derived from the investment.

10.2.4 Limiting Exposure

- (a) The Municipality must take all reasonable and prudent steps, consistent with its Investment Policy and according to the standard of care in section 5.2 above, to diversify its investment portfolio across institutions, in order to limit the risk exposure of the Municipality.
- (b) The Municipality shall further ensure that investments are spread across more than one investment category or type, that is, call, money market and fixed deposits and that the investment maturities are not all the same.

10.3 INVESTMENT PROCEDURE

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.

The Chief Financial Officer must take all reasonable and prudent steps consistent with the Investment Policy and according to the standard of care set out in this Policy to ensure that investments are placed with creditworthy institutions only, measured as follows:

10.3.1 Long Term Investments (greater than one year)

- (a) Investments are to be made with institutions with a minimum long term rating of an A+, as disclosed by Fitch Ratings Report. Or if the rating is done by another agency such rating to be equivalent to an A+
- (b) Written quotations must be obtained for all investments made for a period longer than twelve months.
- (c) The municipal Council must approve all investments made for periods longer than twelve months after considering the cash management requirements for the next three years.

10.3.2 Short Term Investments (one year or less)

Investments are to be made with institutions with a minimum short term rating of F1, as disclosed by Fitch Ratings Report Term Investments (one year or less). A consideration of the ratings to be done by other recognised rating agencies as well for compliance with Section 217 of the Constitution)

- (a) Written quotations should be obtained from three financial institutions for the term for which the funds will be invested.
- (b) Should one of the institutions offer a better rate for a term, other than what the Municipality had in mind, the other institutions which were approached should also be asked to quote a rate for the other term.
- (c) Quotations should be obtained in writing, as rates generally change on a regular basis and time is a determining factor when investments are made.
- (d) The person responsible for requesting quotations from financial institutions must record the following particulars:
 - (i.) Name of the institution;
 - (ii.) Name of person quoting the rates;
 - (iii.) Period of the investment;
 - (iv.) Relevant conditions; and
 - (v.) Other facts, such as interest payable monthly or on maturation.
- (e) Once the required number of quotes has been obtained, a decision must be taken regarding the best term offered and the institution with which funds are going to be invested.
- (f) The best offer must under normal circumstances be accepted, with thorough consideration of investment principles.

- (g) No attempt must be made to make institutions compete with each other as far as their rates and terms are concerned.
- (h) Once a quote has been accepted, written confirmation of the details must be obtained from the financial institution.
- (i) The investment capital must only be paid over to the institution with which it is to be invested and not to an agent or third party.
- (j) The financial institution where the investment is made must issue a certificate stating the details of the investment.
- (k) The Municipal Manager or his/her delegate must make sure that the investment document received is a genuine document and issued by the approved institution.
- (l) The financial institution where the investment is made must issue a certificate which states that no commission has or will be paid to any agent or third party, or to any person nominated by an agent or third party.
- (m) Council must be given a quarterly report on all investments.
- (n) The Municipality must within 30 days after an investment with a currency of two months or longer has been made, publish full details of any investments so made in a local newspaper in circulation within its area of jurisdiction.
- (o) Where money is kept in current accounts, the Municipality must bargain for more beneficial rates with regard to deposits.
- (p) The Municipal Manager or his/her delegate must ensure that the financial institution where the investment is to be made is creditworthy and the performance of the institution is to his/her satisfaction, before investing money in the institution.
- (q) The Municipal Manager or his/her delegate must obtain information from which the creditworthiness of financial institutions can be determined. This must be obtained and analysed annually.

10.3.3 Payment of Commission

- (a) No fee, commission or other reward may be paid to a Councillor or official of uMfolozi Local Municipality, or to a spouse or close family member of such Councillor or official in respect of any investment made or referred by uMfolozi Local Municipality.
- (b) The financial institution where a fixed deposit is made must issue a certificate with regard to each investment when the investment is 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 Councillor of the Municipality or their family or an agent or go-between, or to any person nominated by such agent or go-between, except where the Municipality has decided, in terms of duly authorizing legislation, to appoint a go-between/agent/consultant and the fee/commission has been decided

and approved by the Accounting Officer before any investment is made.

- (c) If an investee pays any fee, commission or other reward to an investment manager, in respect of any investment made by uMfolozi Local Municipality, both the investee and the investment manager must declare such payment to the Council by way of a certificate disclosing full details of the payment.

The financial institution where an investment has been made by the municipality shall no later than seven days after the financial year end of the municipality, issue a certificate indicating the amount of the investment and the interest earned.

10.3.4 Prohibition on Investments in Foreign Currency

- (a) uMfolozi Local Municipality may only make an investment 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.

10.3.5 Prohibition on Divulging of Information

- (a) Interest rates should never be divulged to another institution. No attempts may be made to make institutions compete with each other as far as their rates and terms are concerned.

11. OTHER EXTERNAL DEPOSITS

The principles and procedure set out above must apply to other investment possibilities subject to the applicable legislation that are available to the Council, including debentures and other securities of the state as well as other municipalities or statutory bodies in the Republic, instituted under and in terms of any law.

12. CONTROL OVER INVESTMENTS

12.1 An investment register should be kept of all investments made. The following information must be recorded:

- (a) Name of the institution;
- (b) Capital invested;
- (c) Date invested;
- (d) Interest rate;

- (e) Maturation date;
 - (f) Interest received;
 - (g) Capital repaid; and
 - (h) Balance invested.
- 12.2 Interest, correctly calculated, should be received timeously, together with any distributable capital.
- 12.3 Investment documents and certificates should be kept in a fire-resistant safe.
- 12.4 The Chief Financial Officer is responsible for ensuring that the invested funds are secure and should there be a measure of risk, such risk must be rated realistically.
- 12.5 All investments made by the Municipality must be in the name of the Municipality and a municipality may not borrow money for the purpose of investment.

13. INVESTMENT INSTRUMENTS

- 13.1 The Minister of Provincial and Local Government may with the concurrence of the Minister of Finance by notice in the Government Gazette determine investment structures other than those referred to below in which a municipality may invest:
- (a) Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
 - (b) Securities issued by the national government;
 - (c) Investments with the Public Investment Commissioners Act as contemplated by the Public Act, 1984 (Act no. 46 of 1984);
 - (d) A municipality's own stock or similar type of debt, internal funds of a municipality which have been established to pool money available to the municipality and to employ such money for the granting of loans or advances to departments within a municipality, to finance capital expenditure;
 - (e) Bankers' acceptance certificates; negotiable certificates, or deposits with banks;
 - (f) Long-term securities offered by insurance companies in order to meet the redemption fund requirements of municipalities; and

- (g) Any other instrument or investments in which a municipality was under 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.

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