



CASH MANAGEMENT AND INVESTMENT POLICY

2016/2017

ADOPTED BY COUNCIL

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2. DEFINITION OF KEY WORDS

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

"Act" means the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003),

"Accounting Officer" refers to the Municipal Manager of the municipality,

"Budget and Treasury Steering Committee" refers to the committee of Council dealing with the financial affairs of the municipality,

"Budget and Treasury Department" 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 Business Unit,

"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.

"Liquidity" refers to a 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 maximum interest earned on investment,

"Policy" refers to the Cash Management and Investment Policy of the Ngqushwa Municipality.

3. ENABLING LEGISLATION

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

4. OBJECTIVES OF THE POLICY

The objectives of the Cash Management and Investment Policy of the Ngqushwa 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,
- Ensuring that adequate liquidity is maintained at all times, for management of cashflows,
- Ensuring that the municipality receives optimal yield / 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.

5. SCOPE OF THE POLICY

This policy applies to the Ngqushwa Municipality for the effectiveness of Cash and Management Policy

6. CONTENT

PREAMBLE

In an attempt to ensure that the cash resources of the municipality are handled effectively and efficiently, as required by section 13 (2) of the Municipal Finance Management Act No: 56 of 2003, the Ngqushwa Municipality hereby approves the Cash Management and Investment Policy.

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 acting with the concurrence of the Cabinet member responsible 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.

EFFECTIVE CASH MANAGEMENT

All efforts must be made to ensure that: -

- 1) Collection of Cash / Revenue,
- 2) Payment of Creditors,
- 3) Management of Proper Cash Flows,
- 4) Administration of Banking Accounts, and
- 5) Petty Cash Procedures are properly maintained to ensure that excess cash is invested effectively and efficiently, to the benefit of the Ngqushwa Municipality.

(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), the Credit Control Policy of Ngqushwa Municipality, and all other legislative requirements, should at all times be adhered to. All joint efforts must at all times be made to ensure that all the stakeholders (e.g. Councillors, Ward Committee Members, Employees of Council, the Business Community all ratepayers, etc.) of the municipality are encouraged on paying for municipal services through various means (e.g. community radio stations, newspapers, Imbizo, etc.), and be informed about the implications of non-payment for services. The Credit Control Policy of the municipality and all other related pieces of legislation are quite pivotal documents in this regard.

The Municipality shall insure that all cash received via the cash offices is collected and banked as early as possible in a controlled and secure manner. The cash handling procedures contained in the Revenue procedure manual shall be adhered to in this regard. Adequate cash receipting points shall be made available to the public in all areas to facilitate prompt payment of accounts.

(ii) Payment of Creditors

The payment cycle of all **trade creditors** must be strictly maintained as required by the Supply Chain Management Policy and the expenditure management policy or as per the payment terms stipulated on individual contracts. If there are incentives (e.g. trade discount) favourable to Council when payments are made before due dates, such incentives, where appropriate, must be applied, with the sole agreement of the Chief Financial Officer. Wherever possible, payments must be effected by means of electronic transfers rather than by cheques, in an attempt of savings in bank charges.

Payments to creditors will be made twice a month. The payments will be effected on the following days 15th and on the last day of the month. Supporting documents should be submitted three days before the day of payment.

Electronic Payment

Strict segregation of duties shall be maintained between the creator of a payment file and the payment authoriser/releaser. EFT payments shall be checked/ authorised/released by two senior personnel, authorised signatories.

(iii) Management of Cash flow

Effective cash flow forecasting is essential for determining the timing and size of cash surpluses and deficits affecting investment decisions. The Chief Financial Officer shall maintain a **cashflow system**, and ensure that funds not immediately required are invested on a daily basis. All Departments or Directorates shall in this regard furnish the Chief Financial Officer with their respective cashflow needs on a monthly basis, clearly indicating possible future dates of payments, as well as any possible inflow of cash from other sources of finance arranged by Departments themselves. Forecasts of cash receipts and payments shall be prepared on a regular basis to facilitate investment decisions.

(iv) Administration of Banking Accounts

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 must be delegated in writing to the Chief Financial Officer.

(v) Petty Cash Procedures

All petty cash procedures relating to viz :- (i) Petty Cash Limits, (ii) Petty Cash Custodians per Department or Directorate, (iii) Balancing / Reconciliation of Cash Floats, (iv) Petty Cash Requisitions and Authorisations, (v) Petty Cash Registers, (vi) Supporting Documents, etc. must be handled in terms of the Petty Cash Policy as determined by the Chief Financial Officer.

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,
- The selection of an investee for any investment shall be a competitive process
- Quotations shall be recorded in writing and the recommended investee identified for signed approval by the authorised officials. As a general rule, subject to paragraphs the best rate offered shall secure the investment. Written confirmation of the terms of the investment shall be prepared and exchanged with the Investee in all cases.

- 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 Ngqushwa 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 on investments and capital invested is received and receipted when due, and the Chief Financial Officer is permitted to levy a penalty for default (**based on Prime Rate Plus 1 applicable at that time**) in the payment of interest due or capital invested by a financial institution,
- Any risk arising from any investment transaction rest with the municipality (S12 of the Municipal Investment Regulations).

STANDARD OF CARE

Section 5 of the Municipal Investment Regulations emphasises that investments made by a municipality, through municipal officials, or by a Chief Finance Officer on behalf of the municipality must be made with such judgement 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, may not be made for speculation. A high standard of care which includes (i) Preservation and Safety of Capital Invested, (ii) Liquidity, and (iii) Yield, must at all times be maintained when making investments.

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.

PROHIBITED INVESTMENTS

The Municipality shall not be permitted to make the following investments:

- (a) Investments in listed or unlisted shares, or unit trusts;
- (b) Investments in stand-alone derivative instruments;
- (c) Investments denominated in, or linked to, foreign currencies;
- (d) Investments in market linked endowment policies.

PAYMENT OF COMMISSION

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

1. No fee, commission or other reward may be paid to a councillor or official of a municipality or to a spouse or close family member of such councillor, or official in respect of any investment made or referred by a municipality.
2. Any commission, fee or other reward paid to a **Chief Finance Officer** 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.

ELECTRONIC FUND TRANSFER (EFT)

Investments shall be made electronically by EFT. Strict segregation of duties shall be maintained between the creator of a payment file and the authoriser/releaser.

Investment EFT payments shall be authorised/released by the Senior Personnel: i.e. two of the authorised signatories.

REPORTING REQUIREMENTS

In compliance with Section 9 of the Municipal Investment Regulations the Chief Financial Officer shall report on a monthly basis, the investment position / portfolio of the municipality as at the end of the previous month to the Budget Steering Committee.

Such report must at a minimum provide: -

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

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 working days**" (**two weeks**).

Such report must at a minimum provide: -

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

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 credit-worthy 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, and
- The institution must be rated by credible Rating Agencies.

INVESTMENT DIVERSIFICATION

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. No more than **30%** of municipal investments must be placed with one institution, and in instances where valid reasons for deviation exist, that must be done with the approval of the Chief Financial Officer. The Chief Financial Officer must review the investment limits with approved financial institutions at least once a financial year, or whenever the need exist for a review.

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, setting investment limits, signing investment cheques, signing investment correspondence, revision of Cash Management and Investment Policy, etc.

The following are officials responsible for investment related matters, or form part of the Investment Panel, as determined by the Chief Financial Officer, can make any "investment decision": -

- Chief Financial Officer,
- Revenue Manager
- Chief Accountant
- Expenditure Manager

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 budgeted for and recorded in the first instance in the municipality's operating account (income statement) 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. Interest earned on municipal investments can also be appropriated through Council Resolution to any priorities of Council, such as funding the Asset Finance Fund, etc.

7. NON-COMPLIANCE

It should be noted that failure to comply with this policy will result to an employee being charged of financial misconduct.

8. EFFECTIVE DATE

The policy will be effective from 01 July 2016