

# Amahlathi Municipality



## CASH MANAGEMENT AND INVESTMENT POLICY

Name of policy	
Policy Number	
Policy Name	Cash Management and Investment Policy
Policy Status	Active
Version	
Date of Approval	
Date of First Implementation	
Date Last Amended	
Date of Next Review	
Purpose	Ensuring that cash resources are managed efficiently and effectively
Aims and Objectives	
Policy Custodian	Budget & Treasury Office
Related Policies and Legislation	Local government Municipal Finance Management Act, 2003
Approving Authority	Council
Applicability	
Policy Benchmark and References	
Stakeholders Consulted	

## Preamble

- Whereas the Amahlathi Local Municipal Council serves as a trustee of public funds it has an obligation to ensure that cash resources are managed as effectively as possible.
- Whereas the Amahlathi Local Municipal Council has a responsibility to invest public funds with great care and are accountable to the community in this regard.
- Whereas the Amahlathi Local Municipal Council must have in place an effective Cash Management System and Investment Policy that should be aimed at gaining the highest possible return without undue risk during those periods when surplus cash is not needed.
- Whereas the Amahlathi Local Municipal Council must ensure that its Cash Management and Investment Policy complies with Legislation 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 conflict.
- Therefore the Amahlathi Local Municipal Council approves this Cash Management and Investment Policy.

## Key words and abbreviations

<b>Act</b>	Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003)
<b>Accounting Officer</b>	Municipal Manager of the municipality
<b>Finance standing Committee</b>	committee of council dealing with the financial affairs of the municipality
<b>Budget and treasury office</b>	municipal department dealing with the financial affairs of the municipality
<b>Chief Financial Officer (CFO)</b>	head of the Budget and Treasury office
<b>Investment Panel</b>	committee responsible for managing municipal investments
<b>Investment Register</b>	electronic spreadsheet which contains details of all municipal investments
<b>Investment Regulations</b>	regulations as prescribed under the MFMA (Act No. 56 Of 2003) through Government Gazette No. 27431 dated 1 April 2005
<b>Investment Manager</b>	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: - <ul style="list-style-type: none"><li>• advise on investments or</li><li>• manage investments on its behalf</li></ul>
<b>Liquidity</b>	financial ability of the municipality to service its debts when falling due
<b>MFMA</b>	Municipal Finance Management Act, (Act 56 of 2003)
<b>Minister</b>	a Cabinet member responsible for finance
<b>Optimal Yield</b>	maximum interest earned on investment
<b>Policy</b>	Cash Management and Investment Policy of the Amahlathi Local Municipality

## Table of contents

<u>1.</u>	<u>Legal framework</u>	4
<u>2.</u>	<u>Policy scope</u>	4
<u>3.</u>	<u>Policy objectives</u>	4
<u>4.</u>	<u>Cash Management Policy</u>	4
	4.1 General Policy	4
	4.2 Effective cash management	5
	4.2.1 Collection of cash/revenue	5
	4.2.2 Payment of creditors	5
	4.2.3 Management of cash flow	5
	4.2.4 Bank Accounts	6
	4.2.5 Administration of Banking Accounts	6
	4.2.6 Petty Cash Procedures	6
	4.2.7 Bank Overdraft	6
<u>5.</u>	<u>Investment Policy</u>	6
	5.1 General Policy	6
	5.2 Ethics, Principles and Procedures	7
	5.3 Permitted Investment	8
	5.4 Investment Manager	8
	5.4.1 External Investment Manager	8
	5.4.2 Internal Investment Manager	8
	5.5 Application	8
<u>6.</u>	<u>Internal controls over investments</u>	9
	6.1 Delegations	9
	6.2 Concluding deals	9
	6.3 Accounting for Trust funds	9
	6.4 Accounting treatment for interest earned on investments	9
	6.5 Establishment of an Investment Panel	10
	6.6 Raising of debt	10
<u>7.</u>	<u>Reporting</u>	10
	7.1 Reports	10
	7.2 Monthly reports	10
<u>8.</u>	<u>Policy review</u>	11
<u>9.</u>	<u>Implementation of the policy</u>	11

- **Legal framework**

- Legislation – Local government: Municipal Finance Management Act of 2003 (As amended)

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.

- **Policy scope**

This policy applies to the Amahlathi Local Municipality and any municipal entity established by the Amahlathi Local Municipality under its area of jurisdiction, in terms of the Act.

- **Policy 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 objectives of the Cash Management and Investment Policy of the Amahlathi Local 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 liquidity is maintained at all times, for management of cash flows,
  - 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.

- **Cash Management Policy**

#### **4.1 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.

#### **4.2 Effective cash management**

All efforts must be made to ensure that: -

- Collection of Cash / Revenue,
- Payment of Creditors,
- Management of Proper Cash Flows,
- Administration of Banking Accounts and Petty Cash Procedures are properly maintained to ensure that excess cash is invested effectively and efficiently, to the benefit of the Amahlathi Local Municipality.

##### **4.2.1 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 and Debt collection Policy of Amahlathi Local 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, the Church Fraternity, all ratepayers, etc.) of the municipality are encouraged to pay for municipal services and taxes 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 and Debt collection Policy of the municipality and all other related pieces of legislation are quite pivotal documents in this regard.

##### **4.2.2 Payment of creditors**

The payment cycle of all **trade creditors** must be strictly maintained as required by the MFMA, 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. Urgent payments to creditors outside standard process 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.

##### **4.2.3 Management of cash flow**

The Chief Financial Officer shall maintain a **cash flow 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 cash flow 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.

Surplus money kept in a current banking account shall be kept at a minimum, taking into account the cash management plan and monthly cash-flow estimates

#### **4.2.4 Bank Accounts**

Council operates one primary bank account for its day to day operational activity requirements. All monies due to Council and due by Council emanating from Council activities must pass through this primary account as required by the MFMA.

#### **4.2.5 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 may be delegated in writing to the Chief Financial Officer.

#### **4.2.6 Petty Cash Procedures**

All petty cash procedures relating to:-

- Petty Cash Limits,
- Petty Cash Custodians per Department or Directorate,
- Balancing / Reconciliation of Cash Floats,
- Petty Cash Requisitions and Authorisations,
- Petty Cash Registers,
- Supporting Documents, etc.

must be handled in terms of the Petty Cash Policy as determined by the Chief Financial Officer.

#### **4.2.7 Bank Overdraft**

The municipality may incur short-term debt only in accordance with and subject to the provisions of the MFMA (section 45) and only when necessary for possible unanticipated short-term cash flow shortfall, 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)

The terms of the agreement for the bank overdraft facility, including the credit limit, may be changed only by a resolution of council. Any overdrawn bank account at any date must be reported without avail to Council supported by reasons therefore. Any short term facility that requires review must first be approved by the Accounting Officer.

- **Investment Policy**

### **5.1 General Policy**

Generally Council will invest surplus funds with deposit taking institutions registered in terms of the Bank's Act, 1990 (Act 94 of 1990) for terms not exceeding one year in anticipation of cash flow expectations. From time to time, with prior Executive Committee approval, investments can exceed 1 [one] year and be made at other institutions/instruments as approved in the National Treasury regulations from time to time.

### **5.2 Ethics, Principles and Procedures**

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 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 or investment manager, may not be made for speculation.

A high standard of care which includes Preservation and Safety of Capital Invested, Liquidity and Yield, must at all times be maintained when making investments.

The following ethics, principles and procedures shall apply: -

- The Chief Financial Officer shall be responsible for managing municipal investments,
- The Chief Financial Officer is permitted to appoint a qualified investment manager, with final approval from Council,
- 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 two) will be obtained at the time of contemplating an investment,
- Financial institutions will be required to submit confirmation 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 confirmation and other related documents, for audit purposes and proper record keeping,
- Investments made must be in the name of the Amahlathi Local 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 accordingly.
- The Chief Financial Officer is permitted to levy a penalty for default on municipal debtors (based on Prime Rate Plus 1 applicable at that time)



- Any risk arising from any investment transaction rests with the municipality (*S12 of the Municipal Investment Regulations*).
- Council will only make investments with approved institutions with a recognised rating
- Investments must be held with at least two institutions and should as far as possible be spread evenly between these institutions.
- Council must regularly monitor its investment portfolio and when appropriate liquidate any investment that no longer has the minimum acceptable credit rating of AA.

### **5.3 Permitted Investment**

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

- Securities issued by the National Government,
- Deposits with Banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- Listed corporate bonds with an investment grade rating from a Nationally or internationally recognized credit rating agency,
- Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioner's Act, 1984 (Act 46 of 1984),
- Deposits with the Corporations for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984),
- Bankers acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- Guaranteed endowment policies with the intention of establishing a sinking fund,
- Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- Municipal bonds issued by a municipality, and
- 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.

### **5.4 Investment Manager**

#### **5.4.1 External Investment Manager**

The municipality may as and when the need arise approach an external accredited and reputable investment manager to administer the investment portfolio on its behalf. The external investment manager will be appointed in terms of SCM policy and the service level agreement will govern the functions and responsibility of the service provider. All investments made by the external investment manager on behalf of the Council of Amahlathi Local Municipality must be made within the ambit of this policy and with National Treasury's investment Regulations.

#### **5.4.2 Internal Investment Manager**

All investments made by the internal investment manager shall be in accordance with section 5.2 of this policy.

## **5.5 Application**

This policy applies to all investments made by the Amahlathi Local Municipality or its duly appointed investment manager. In addition, all investments must be in accordance with the Municipal Investment Regulations. Where there is a conflict between this policy and the Municipal Investment Regulation, the Municipal Investment Regulations will supersede this policy.

This policy does not apply to -

- A pension or provident fund registered in terms of the Pension Funds Act 24 of 1956, or any subsequent legislation; or
- In respect of trust money administered by a municipality where a trust deed prescribes how the trust money is to be invested.

Council may make an investment only if the investment is dominated in Rand and is not Indexed to, or affected by, fluctuations in value of the Rand against foreign currency.

### **• Internal controls over investments**

#### **6.1 Delegations**

In terms of section 79 of the Act, the Accounting Officer may delegate to the CFO, in writing, his duty under section 65(2) to manage the council's available working capital effectively and economically in terms of the prescribed cash management and investment framework. The CFO may sub delegate this duty to the Assistant Finance Manager and Expenditure Accountant.

#### **6.2 Concluding deals**

Written mandates, signed by the two authorised signatories shall be issued to all investees with whom the Council of Amahlathi Local Municipality invests funds setting out the following:

- Authorised dealers: name and particulars of the Councils officials who are authorised to transact investments deals with the investees;
- Authorised signatories: name and particulars of the Councils officials who are authorised to sign written confirmations or any other correspondence in respect of investments transactions.
- A dealing sheet, signed by an authorised dealer, shall be prepared in all instances for each individual investment, detailing the quotations received and the recommended investee. The Manager Financial Administration, together with any one of the authorised signatories referred to above, shall be authorised to approve the transaction.
- A written confirmation of the terms of each investment transaction shall be prepared, and signed off by the two authorised signatories.

#### **6.3 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 Amahlathi Local Municipality's 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.

#### **6.4 Accounting treatment for 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.

#### **6.5 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 and any two of the following officials can make any "investment decision": -

- Chief Financial Officer,
- Senior Manager Finance, and
- Expenditure Accountant.

#### **6.6 Raising of debt**

Municipal debt (short or long term) shall be raised in strict compliance with the requirements of Section 46 of the Municipal Finance Management Act (Act 56 of 2003), and the Chief Financial Officer is responsible for the raising of debt with full approval of Municipal Council.

### **• Reporting**

#### **7.1 Reports**

<b>Report name</b>	<b>Frequency</b>	<b>Prepared by</b>	<b>Recipient</b>
Bank balance	Daily	Accountant	Senior Manager Finance
Investments	Monthly	Accountant	Senior Manager Finance, CFO, Council

## 7.2 Monthly reports

Monthly reports must set out at least –

- 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
- fully accrued interest and yield for 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: -

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

- **Policy review**

This Cash Management and Investment Policy is the sole policy governing cash management and investments of the Amahlathi Local Municipality and this policy will be reviewed annually, through the Finance Standing Committee and the final approval by the Amahlathi Local Municipal Council or whenever the Chief Financial Officer and Municipal Manager deem it necessary for this policy to be reviewed.

- **Implementation of the policy**

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.