

CASH MANAGEMENT AND **INVESTMENT POLICY**



Dr JS MOROKA LOCAL MUNICIPALITY

FINANCIAL YEAR 2022/2023

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1. PREAMBLE

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 the Dr JS Moroka Local Municipality adopt the cash management

Policy set out in this document

2. LEGAL FRAMEWORK

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.

3. SCOPE OF THE POLICY

This policy applies to the Dr JS Moroka Local Municipality and any municipal entity established, in terms of the Act.

4. OBJECTIVES

The objectives of the Cash Management and Investment Policy of the DR JS Moroka 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.

4.1 EFFECTIVE CASH MANAGEMENT

All efforts must be made to ensure that: -

I. Collection of Cash / Revenue,

- II. **Payment of Creditors,**
- III. **Management of Proper Cash Flows,**
- IV. **Administration of Banking Accounts, and**

4.2. Collection of Cash / Revenue

The cash collection process as determined by Chapter 9 of the Local Government: Municipal Systems Act (Act 32 of 2000) and all Revenue Management By Law, should at all times be adhered to.

4.3. Payment of Creditors

- I. The payment cycle of all **trade creditors** must be strictly maintained as required by the Supply Chain Management Policy, or as per 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. Wherever possible, payments must be effected by means of electronic transfers rather than by cheques.
- II. 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

4.4. Overpayment to service provider

- i. Means any payment **in cash** to a service provider or vendor in excess of the amount the provider or vendor was entitled to receive as per the submitted invoice or claim.
- ii. The municipality must write formally to the service provider to inform him/her of the overpayment and request the payment of the excess amount on the date which will be specified in the letter. Failure by the service provider/contractor to pay the money on the agreed date will amount to the municipality instituting legal actions against the service provider/contractor

5. Cash Flow Estimates

- I. Before money can be invested the Chief Financial Officer has to determine whether there will be surplus funds available, he also has to fix the term in which such money should be invested.
- II. In order to be able to make investments for any fixed term, it is essential that cash flow estimates be drawn up.

6. INVESTMENT ETHICS

- I. The Chief Financial Officer is responsible in the final instance for the investment of funds, and he has to steer clear of outside interference, regardless of whether such interference comes from individual councillors, agents or any institution.

- II. Under no circumstances may he be susceptible to coercive measures of any description. No member of staff may accept any gift other than something which is so small that it cannot possibly be seen as anything but a sign of goodwill, regardless of whether such gift influences him in his work or is intended to do so.
- III. The Chief Financial Officer must act according to his own discretion and should report any serious cases, such as for instance offers of a personal commission or payment in kind, et cetera, to his council. Discretion should be the order of the day, and excessive gifts and hospitality should be refused and avoided.
- IV. Interest rates offered should never be divulged to another institution.
- V. In making such investments the Chief Financial Officer shall at all times have only the best considerations of the municipality in mind, and shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties.
- VI. The Chief Financial Officer or Municipal Manager may not accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than a sign of goodwill by the donor, from any investment agent or institution or any party with which the Council has made any investment.

5. INVESTMENT PRINCIPLES AND PRACTISES

5.1 Limiting exposure and diversification

5. INVESTMENT ETHICS, PRINCIPLES AND PROCEDURES

The following ethics, principles and procedures shall apply: -

- I. The Chief Financial Officer shall be responsible for managing municipal investments,
- II. The Chief Financial Officer is permitted to appoint a qualified investment manager,
- III. No improper outside influence or internal interference will be permitted at any time in regard to management of cash and placing of investments
- IV. 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,
- V. Financial institutions will be required to submit confirmation certificates upon the
- VI. placement of investments, which will include a declaration that no commission was paid relating to the investment,
- VII. The Chief Financial Officer shall maintain a detailed investment register,
- VIII. The Chief Financial Officer shall hold in safe custody all investment certificates and other related documents, for audit purposes and proper record keeping,
- IX. Investments made must be in the name of the Dr JS Moroka Local Municipality
- X. No funds will be borrowed for the purpose of investments (S12 of the Municipal Investment Regulations),
- XI. The Chief Financial Officer shall ensure that interest and capital is received and receipted when due,
- XII. Any risk arising from any investment transaction rest with the municipality (S12 of the Municipal Investment Regulations).

5.2 RISK AND RETURN

- I. It should be accepted as general principle that the larger the return, the greater the risk will be.
- II. Although the objective of the Chief Financial Officer in making investments on behalf of the municipality should always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved. No investment should 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
- III. The municipality will:
Regularly monitor its investment portfolio; and
When appropriate liquidate an investment that no longer has the minimum acceptable credit rating as specified in this investment policy.
- IV. Responsibilities and risk arising from any investment transaction vests in the municipality.

5.3. BORROWING MONEY FOR REINVESTMENT

The municipality will not borrow money for the purpose of investment as set out in Regulation 12(3).

5.4. REGISTERED FINANCIAL INSTITUTIONS

If Chief Financial Officer invests with Financial Institutions, he should make certain that such institutions are registered in terms of the Deposit-taking institutions Act 94/1990 and that they are approved financial institutions as approved by the Minister of Finance according to Act No. 56 of 2003 and Municipal Investment Regulations, 1 April 2005 (*Clause 6(a) to (j)*).

5.5 GROWTH RELATED INVESTMENTS

When making investments, the Chief Financial Officer should try to ensure that at least the capital amount invested, is safe.

5.6 PAYMENT OF COMMISSION

- I. No fee, commission or reward will be paid to a councillor or official of the municipality, or to a spouse or close family members of such councillor in respect of any investment made or referred by the municipality.
- II. If an investee pays any fee, commission or other reward to an investment manager in respect of any investment made by the municipality, both the investee and the investment manager must declare such payment to the council of the municipality by way of a certificate disclosing full details of the payment.

5.7 REPORTS

- i. The Accounting Officer must within 10 working days after 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 recognised accounting practice the investment portfolio of that municipality at the end of that month.

- ii. The report in (1) above will set out at least the following:
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.

5.8 CASH IN THE BANK

Where money is kept in current accounts, it would be possible, as well as being an expedient practice, to bargain for more beneficial rates with regard to deposits, for instance call deposits. These rates can be increased by fixed term investments. The overriding principle is to limit the cash in the current account to the absolute minimum.

5.9 CREDITWORTHINESS

- I. When investments are placed with smaller registered institutions, the Chief Financial Officer has to see to it that the local authority is not exposed to too much risk, he has to ensure that the creditworthiness and previous performance of the institution are to his satisfaction, before investing money with such an institution. The Chief Financial Officer is entitled to information from which the creditworthiness of financial institutions can be determined.
- II. No investments are placed with banks with a rating lower than B+.
- III. Investments will only be made according to the list of types of investments prescribed in the regulations published in Government Gazette 27431 of 1 April 2005 (*Article 6*).

5.10 RECORDS

(i) The Chief Financial Officer shall ensure that proper records be 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.

(ii) The Chief Financial Officer shall ensure that all interest properly due to the municipality is timeously received, and shall take appropriate steps or cause such appropriate steps to be taken if interest is not fully or timeously receive

(iii) The Chief Financial Officer shall ensure that all investment documents and certificates are properly secured.

5.11 CALL DEPOSITS AND FIXED DEPOSITS

(i) Before making any call or fixed deposits, the Chief Financial Officer shall obtain quotations from at least two to three financial institutions, and it shall be accepted

that the Chief Financial Officer in seeking such quotations may bargain between the institutions concerned.

(ii) 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*)

(iii) Any monies paid over to the investing institution in terms of the agreed investment 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 properly documented receipt or certificate for such investment, issued by the institution concerned.

5.12 OTHER EXTERNAL DEPOSITS

(i) Other investment possibilities, which, subject to the applicable legislation, are available to the local authority, include debentures and other securities of the State as well as other local authorities or statutory bodies in the Republic instituted under and in terms of any law. With regard to such investments, the principles and practices, as set out in the code, will apply.

(ii) From time to time it may be in the best interest of the municipality to make longer term investments in the stock issued by the national government, Eskom or any other parastatal or institution, or by another municipality. In such cases the Chief Financial Officer must be guided by the best rates of interest pertaining to the specific type of investment which the municipality requires, and to the best instrument available at the time.

5.13 CONTROL OVER INVESTMENT

(i) Proper records should be kept of all investments made. At the very least, the following facts should be indicated; the institution, the funds, the interest rate and the maturity date.

(ii) Interest, correctly calculated, should be received timeously, together with any distributable capital.

(iii) All investments should be confirmed quarterly by statements and a certificate at year end.

(iv) Investment documents and certificates should be kept in a fire-resistant safe.

(v) The Chief Financial Officer is responsible for ensuring that the invested funds are quite secure and, should there be a measure of risk, that such risk be rated realistically.

5.14 DELEGATED POWERS

The policy should be applied with due observance of the Council's policy with regard to delegated powers.

5.15 THE INTEREST ON INVESTMENTS

(i) The interest that accrued on all the municipality's investments shall, in compliance with the requirements of generally recognised accounting practice, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and shall thereafter be annually appropriated, at the end of each financial year, to the funds or accounts in respect of which such investment was made.

(ii) 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.

(iii) If the accrual of interest to the external finance fund, unutilised capital receipts and trust funds results in a surplus standing to the account of any of such funds, that is, an amount surplus to the resources required in respect of such funds or accounts, such surplus amount shall be credited to the appropriation account and re-appropriated to the asset financing fund.

5.16. PROHIBITION OF INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

In terms of Section 7 of the Municipal Investment Regulations, municipalities are not permitted to place investments denominated in foreign currencies.

6. MEASURES FOR IMPLEMENTATION OF POLICY

(i) An investment register will be implemented and all investments will be monthly reviewed and balanced.

(ii) Monthly reconciliations of all investments must be prepared and signed off by an independent official.

(iii) All interest received on investments must be reconciled monthly and signed off by an independent official.

(iv) All investments must be confirmed by the institution in writing.

7 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,

8. REVIEW OF THE POLICY

This Cash Management and Investment Policy is the sole policy governing cash management and investments in the Dr Js Moroka Local Municipality and this policy will be reviewed annually.

