



MBIZANA LOCAL MUNICIPALITY

CASH MANAGEMENT AND INVESTMENT POLICY

July 2014

Mbizana Local Municipality – Cash Management and Investment Policy

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Mbizana Local Municipality – Cash Management and Investment Policy

1. Purpose

In terms of the Local Government: Municipal Finance Management Act (MFMA), Act 56 of 2003, s13(2): "Each Municipal Council and Governing body shall adopt by resolution a cash management and investment policy regarding the investment of its money not immediately required." Such policy should be 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.

An Accounting Officer has an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible. Effective cash management and competitive investment ensures both short-term and long-term viability and sustainability of the municipality. Hence, it is critical for the Mbizana Local Municipality to have its own Cash Management and Investment Policy located within the local government legislative framework.

The primary and ultimate goal of the investment of funds is to secure the safety, integrity and wholeness of the invested capital, managing liquidity requirements and ensuring the earning of the highest possible return on invested capital at minimum risk (i.e. whilst not risking the partial or total loss of invested capital), within the parameters of authorised instruments as per the MFMA.

2. Definitions

In this Cash Management and Investment Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the MFMA and other related legislations/ regulations, has the same meaning as in the Act.

Accounting Officer	The person appointed as Accounting Officer in terms of s82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and include any person acting in that position or to whom authority was delegated
Act	Means the Local Government: Municipal Finance Management Act No. 56 of 2003
Agents	Means professional bodies appointed to execute a specific task on behalf of the Mbizana Local Municipality
Accounts	Means statements of monies received
Assignee/delegate/delegated authority/nominee	Means an official/person delegated to perform tasks on behalf of another person or

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	any person/persons/committee delegated with the authority to act for or on behalf of Mbizana Municipality
Bank	Means an institution recognised by the Registrar of Banks
Bank Accounts	Are the recognised statements of financial holdings on behalf of the municipality
Chief Financial Officer	Means a responsible official for the financial affairs of the municipality
Constitution of the Republic of South Africa, Act no. 108 of 1996	Means the Supreme Law of the Republic of South Africa
Cash Management	Means efficient and effective management of cash resources
Diversification of investments	Means investing in more than one type of financial instrument
Investment ethics	Means an ethical framework within which investments must take place
Liquidity	Means the ease with which financial instruments can be converted into cash or cash equivalents
Municipality	Means the Mbizana Local Municipality
Optimal interest/return/yield	Means maximum interest earned on investment
Ownership	Means all investments must be made in the name of the Mbizana Local Municipality
Short-term investment	Means a financial instrument with a lifespan or maturity of less than a year
Long-term investment	Means a financial instrument with a lifespan or maturity greater than a year

3. Scope of the Policy

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

4. Objectives of the Policy

The objectives of the Cash Management and Investment Policy of the Mbizana 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 invested, and diversification of the investment portfolio;

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- Ensuring that adequate liquidity is maintained at all times to ensure the effective management of cashflows;
- Ensuring that the municipality receives optimal yield/interest on its investments with financial institutions, at minimal risk and without risking the partial or total loss of invested capital;
- 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. Cash Flow

Before money can be invested, the Accounting Officer or his/her delegate must determine whether there will be surplus funds after meeting the necessary obligations. To be able to make investments for any fixed terms, it is essential that cash flow estimates be drawn up.

6. Investment Ethics

- The Accounting Officer and his/her delegate are responsible for the investment of funds and must ensure that there is no interference in these processes.
- The Auditor-General requires the financial institution, where the investment is made, to issue a certificate for each investment made. This certificate must state that no commission has, nor will, be paid to any agent or third party, or any person nominated by the agent or third party.
- Under no circumstances may the Accounting Officer and his/her delegate or any official or Councillor solicit and/or accept bribes into making an investment.
- No Councillor or official may accept any gift unless that gift can be deemed so insignificant that it would not have an influence on his or her relationship with the said institution. The value of such gift shall not exceed the amount stipulated on the municipality's Supply Chain Management Policy in respect of insignificant gifts.
- The gift must be declared to the municipality.

The Accounting Officer and his/her delegate must act according to their discretion and must report any serious cases of payment in kind or gifts, to the Municipality's Council. Excessive gifts and hospitality should be avoided at all costs.

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6.1 Risk Management

The preservation of invested capital/principal is the foremost objective of the investment program. To attain this objective, diversification is required to ensure that the Accounting Officer or his/her nominee prudently manages risk exposure. Risk profiles should be minimised by only placing investments with institutions and instruments approved by the Public Investment Commission or the National Minister of Finance of the Republic.

6.2 Prudence

Investment shall be made with care, skill, prudence and diligence. The approach must be that which a prudent person acting in a like capacity and familiar with investment matters would use in the investment of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the municipality. Investment officers are required to:

- adhere to written procedures and policy guidelines
- exercise due diligence
- prepare all reports timeously
- exercise strict compliance with all legislation

6.3 Ownership

All investments must be made in the name of the Mbizana Municipality.

7. Delegation of Authority

The delegation to authorise investments must distinguish between short-term and long-term investments. The authority to make long-term investments as provision of security is vested with the Municipal Council in terms of s48 of the MFMA and with reference to s11(1)(h) of the MFMA dealing with cash management. The responsibility to make short-term investments lies with the Accounting Officer or Chief Financial Officer or any other senior financial officer authorised by either the Accounting Officer or the Chief Financial Officer or relevant assignee. The Local Government: Municipal Systems Act 32 of 2000 (Systems Act), s60(2) states that the Municipal Council may only delegate to an Accounting Officer, Executive Committee, Executive Mayor or Chief Financial Officer decisions to make investments on behalf of the municipality within a policy framework determined by the Minister of Finance. The Chief Financial Officer may however, delegate the function of obtaining quotes to other staff.

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The Chief Financial Officer is responsible for the investment of the municipality's funds that are made under s13 of the MFMA.

8. Investment Issue Pertaining to Municipal Council Approval

8.1 In the event that an investment needs to be made, quotations are required from the various financial institutions. In the case of telephonic quotations, the following information is required:

- the name of the person who gave the quotation;
- the relevant terms and rates; and
- the information scheduled in respect of the telephone quotation is to be signed by the Accounting Officer and the Chief Financial Officer.
- All quotes are to comply with the Supply Chain Management policy.

8.2 Where payments to financial institutions in respect of investments are to be effected by cheque, the following procedures must apply:

- The Chief Financial Officer or delegated official must complete a cheque or EFT requisition form and submit it to the Accounting Officer and the Chief Financial Officer together with the supporting quotations.
- The Accounting Officer and the Chief Financial Officer must either authorise the requisition or submit it to the Municipal Council for authorisation depending on the value of the investment.
- When the Municipal Council or the Accounting Officer have authorised the requisition, the Accounting Officer and the Chief Financial Officer or their delegated signatories are required to sign the cheque and submit it to the financial institution concerned.

8.3 All investment documents must be signed by two authorised cheque signatories.

8.4 The Chief Financial Officer must ensure that a bank, insurance company or other financial institution, which at the end of a financial year holds, or at any time during a 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.

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- Promptly disclose information regarding the investment when so requested by the National Treasury, the Auditor-General or any other relevant government department.
- Promptly disclose information of any possible or actual change in the investment portfolio, which could or will have a material adverse effect.

9. Municipal Entities

The Board of Directors of all municipal entities must adopt this cash management and investment policy. Further, the same municipal entities must submit reports, as detailed in the reporting and monitoring procedure, in the same manner as Mbizana Municipality, to the Mayor and Accounting Officer.

10. Policy Review

This cash management and investment policy must be reviewed atleast annually and be tabled to Council for approval and adoption.

11. Internal Control Procedures

11.1 An investment register should be kept of all investments made. The following facts must be indicated:

- Name of the institution
- Capital invested
- Date invested
- Interest rate
- Maturity date
- Interest earned on investment
- The reason for investment (purpose)

The investment register and accounting records must be reconciled on a monthly basis.

11.2 The investment register must be examined on a fortnightly basis by the designated senior official under the direction of the Chief Financial Officer or his assignee as instructed, to identify investments falling due within the next two weeks. An

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investment plan must then be established for the next calendar month bearing in mind the cash flow requirements.

11.3 Interest, correctly calculated, must be received timeously, together with any distributable capital. The Chief Financial Officer or his/her assignee must check that the interest is calculated correctly, in terms of sound universally accepted financial management practices.

Investment documents and certificates must be safeguarded in a fire resistant safe, with dual custody. The following documents must be safeguarded:

- Fixed deposit letter or investment certificate
- Receipt for capital invested
- Copy of electronic transfer or cheque requisition
- Schedule of comparative investment figures
- Commission certificate indicating no commission was paid on the investment
- Interest rate quoted
- Memorandum of agreement/proof of grant

11.4 All investments must be denominated in South African Rand (ZAR)

11.5 The Chief Financial Officer or his/her assignee is responsible for ensuring that the invested funds have been invested with financial institutions approved by the National Minister of Finance, Public Investors Commission or with a bank rating of AA and endeavour to minimise risk exposure.

11.6 Daily deposits should only be done when it is financially feasible to the municipality i.e. the cost of depositing the money at a financial institution should not exceed the actual deposit.

12. Reporting and Monitoring Procedures

In terms of s71 of the Act, the Accounting Officer must within 10 days of the end of each month submit to the Mayor or Finance Standing Committee a report describing in detail the investment and cash flow position of the municipality as at the end of the month.

The report must contain a statement, prepared in compliance with generally recognised accounting practice/generally accepted municipal accounting practice, that states the:

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- beginning market value for the period;
- additions and changes to the market value during the period;
- ending market value for the period;
- fully accrued interest/yield for the reporting period;
- the credit risk rating for the institutions whose investments/securities are held by the municipality as at the beginning and end of the reporting period;
- investments disposed of due to adverse changes in credit ratings;
- diversification of investments;
- any investments locked into a time period with an institution that has a rating that is not acceptable according to Fitch or CA -ratings;
- any impairment loss of the investment.

13. Permitted Investments

The National Minister of Finance of the Republic of South Africa may identify by regulation in terms of s168 of the Act, instruments or investments other than those referred to below in which the municipality may invest:

- deposits with banks registered in terms of the Banks Act, 1990 (Act no. 94 of 1990), subject to the Mbizana Municipality electing to restrict its dealings to only the big-four banks of South Africa, i.e. The Standard Bank of South Africa Limited, First National Bank, ABSA Bank Limited and Nedbank Limited;
- securities issued by the National Government;
- investments with the Public Investment Commissioners as contemplated by the Public Investment Commissions Act, 1984 (Act no. 5 of 1984);
- listed corporate bonds with an investment grade rating from a nationality or internationally recognised credit rating agency;
- deposits with the corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act no. 46 of 1984);
- banker's acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, 1990 (Act no. 94 of 1990), subject to the

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Mbizana Municipality electing to restrict its dealings to only the big-four banks of South Africa, i.e. The Standard Bank of South Africa Limited, First National Bank, ABSA Bank Limited and Nedbank Limited;

- municipal bonds issued by a municipality;
- guaranteed endowment policies with the intention of establishing a sinking fund; and
- repurchase agreements with banks registered in terms of the Banks Act 1990 (Act no. 94 of 1990), subject to the Mbizana Municipality electing to restrict its dealings to only the big-four banks of South Africa, i.e. The Standard Bank of South Africa Limited, First National Bank, ABSA Bank Limited and Nedbank Limited.

14. Existing Investments

Current investments that were not permitted investments at the time of purchase do not have to be liquidated.

15. Investment Diversification

The Chief Financial Officer must endeavour to invest the available money with more than one institution. Investment will be restricted to institutions with a minimum credit rating of AA and in terms of section 13 above. The maximum term for any investment, may be two (2) years, other than ceded investments and subject to Council resolution.

16. Performance Evaluation

The performance of the investment portfolio must be evaluated quarterly. The time weighed yield attributable to the investment portfolio must be calculated each quarter and compared with the prevailing returns available on securities issued by the National Government.

A report detailing the performance of the investment portfolio must be submitted by the Chief Financial Officer quarterly.

17. Use of Independent Investment Managers

Should the need arise to use an independent investment manager at any time; one will be appointed using the municipality's Supply Chain Management Policy.

18. Cash Management

18.1 The Chief Financial Officer, inter alia, has to ensure financial viability and sustainability of the municipality. In order to achieve this in a sustainable manner, the Chief Financial Officer must ensure that internal financial systems and controls are in place that will enable the municipality to detect the mismanagement of funds.

18.2 The petty cash transactions are to be calculated and managed in accordance with the Supply Chain Management Policy, with each unit being entitled to a maximum of R500 petty cash daily and R3, 000 monthly. A cheque requisition form is to be requested for transaction amounts exceeding R200.

19. Payment of Creditors

Due to the high bank charges with regard to cheque payments, it is essential to endeavour to limit the payment of creditors to one payment per creditor per month. Should the facility be available, payments should be done by electronic transfer (subject to strict controls).

When considering the time to pay a creditor, proper consideration must be given to the conditions of credit terms of payment offered.

- Payment of creditors should occur within 30 days in terms of the Act.
- In cases where a cash discount is given for early settlement, the discount, if the relevant time frame is taken into account, must in most cases be more than any investment benefit that could be received from temporarily investing the funds.
- All payments must be made timeously.

Besides this, the normal conditions of credit terms of payment offered by suppliers, must also be considered and utilised to the full by paying on the due date and not earlier, provided that no worthwhile discount is available or offered.

20. Management of Stock

Cash management must be improved by seeing that adequate stock control is exerted over all goods kept in stock.

21. Short and Long-Term Debt

A municipality may only incur debt in terms of the Act. The municipality may incur two types of debt, namely short-term and long-term debt.

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21.1 Short-term debt

A municipality may incur short-term debt only when necessary to bridge:

- Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year, or
- capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

A municipality:

- must pay off short-term debt within a financial year; and
- may not renew or refinance its short-term debt.

21.2 Long-term debt

A municipality may incur long-term debt for purpose of financing its long-term strategic objectives, as outlined in the Constitution of the Republic of South Africa, Act no. 108 of 1996, and Chapter 7 on Local Government. According to the Act, long term debt is payable after 12 months.

Long term debt may be incurred for, amongst others, the following purposes:

- to provide democratic and accountable government for local communities;
- to ensure the provision of services to communities in a sustainable manner;
- to promote social and economic development;
- to promote a safe and healthy environment;
- to encourage the involvement of communities and community organisations in the matters of local government.

22. Conclusion

The Accounting Officer in particular and the Chief Financial Officer must ensure that the adoption of this cash management and investment policy is done according to prescripts. Any deviations from this policy due to unforeseen circumstances must be brought to the attention of the Council in a written form and recommended remedial solutions thereof.

Signature

Date

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Municipal Manager
Adopted by Council

Effective Date
