UMZUMBE MUNICIPALITY

Investment, Banking & Cash Management Policy

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Definitions:

In this Policy, unless the context indicates otherwise, a word or expression, to which a meaning has been assigned in the Municipal Finance Management Act (MFMA) No. 56 of 2003, has the same meaning.

‘‘Accounting Officer’’ means the Municipal Manager of Umzumbe Local Municipality;

‘‘Chief Financial Officer’’ means the Chief Financial Officer of Umzumbe Local Municipality;

‘‘creditor’’ in relation to a municipality, means a person to whom money is owing by the municipality;

‘‘financial year’’ means a year ending on 30 June;

‘‘investment’’ in relation to funds of a municipality, means-

a) the placing on deposit of funds of a municipality with a financial institution;
b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

“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;

‘‘month’’ means one of the 12 months of a calendar year;

‘‘Municipality’’ refers to Umzumbe Local Municipality;

“Policy” refers to the Investment, Banking & Cash Management for Umzumbe Local Municipality;

‘‘primary bank account’’ means the main bank account referred to in section 8(1) of the MFMA;

1. Objective and Scope of the Policy

1.1. The Council and staff of the Municipality, as trustees of public revenues, have an obligation to the community to ensure that the Municipality’s cash resources are managed effectively and efficiently.

1.2. The Council therefore has a responsibility to invest these public revenues knowledgeably and judiciously, and must be able to account fully to the community in regard to such investments.

1.3. This Policy is intended to provide a framework for ensuring the proper management and investment of its cash resources so as to ensure:

1.3.1. That the net current asset requirements of the Municipality are effectively managed;

1.3.2. that sufficient cash resources are available to finance the capital and operating budgets of the Municipality;

1.3.3. that the highest possible return on investments is gained without unnecessary risk, during periods when excess funds are not immediately required;

1.3.4. that in so doing, the primary aim of preserving and ensuring the safety of deposits is promoted;

1.3.5. that there is effective control over the management of bank accounts

1.3.6. that investments are diversified;

1.4. This Policy shall apply to the management of all of the cash resources and of the Municipality and to all investments made by it.

2. Legal Provisions

The Municipality shall at all times manage its banking arrangements and investments and conduct its cash management policy in compliance with the provisions of:

2.1. the Local Government: Municipal Finance Management Act No. 56 of 2003 ("the MFMA") and

2.2. any Regulations made thereunder, including, in particular, the Municipal Investment Regulations published under GN R308 in Government Gazette 27431 of 1 April 2005 ("the Investment Regulations").

3. Principles of Sound Cash Management

In order to promote sound cash management, the Municipality shall adhere to the following principles:

3.1. It shall collect revenue when it is due and bank it promptly. Where banking of revenue is impractical. It shall be the responsibility of the Chief Financial Officer or delegated person to ensure effective and efficient control measures to safeguard cash while kept at the premises of the Municipality e.g. keeping cash in a fireproof safe.

3.2. It shall make payments, including transfers to other levels of government and non-government entities, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the creditor's normal terms for account payments;

3.3. It shall avoid pre-payment for goods or services (i.e. payments in advance of the receipt of goods or services), unless required by the contractual arrangements with the supplier;

3.4. It shall accept discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the relevant treasury;

3.5. It shall apply its debt collection policy to ensure that amounts receivable by the Municipality are collected and banked promptly;

3.6. It shall accurately forecast its cash flow requirements;

3.7. It shall monitor the inflow and outflow of cash;

3.8. It shall recognise the time value of money by economically, efficiently and effectively managing cash;

3.9. It shall take any other action as may promote the efficient utilisation of cash resources, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or under utilised assets; and

3.10. It shall avoid bank overdrafts.

4. <u>Cash Collection</u>

4.1. All monies due to the Municipality must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis to the credit of the Municipality's primary bank account. For amounts less than one thousand rand (R1000), as soon as possible, but not later than the last working day of the week.

4.2. The daily banking of cash has proven to be uneconomical due to the average amount of revenue collected daily and the distance travelled to bank the revenue collected.

4.3. The Municipality shall endeavour to apply its Credit Control and Debt collection Policy rigorously in order to promote the collection of moneys due to it. This includes charging interest and recovering other costs when appropriate and setting target dates when these are payable.

5. <u>Receipt of Payments</u>

5.1. The receipt of all monies collected by the Council shall be acknowledged forthwith by the issue of a numbered official receipt, as provided in this section.

5.2. When money is received over the counter:

5.2.1. Every amount of payment received by a cashier or other officer responsible for the receipt of money shall be acknowledged at once by the issue of a numbered official receipt or cash ticket; and

5.2.2. Every receipt form which is cancelled will be reattached in the correct place, in the receipt book. Where computer generated receipts are used, the original receipt must be filed for audit purposes.

5.3. When money is received by electronic transfer, such transfers must be immediately recorded and receipts may be issued where necessary.

6. <u>Payments to Creditors</u>

6.1. The Accounting Officer shall ensure that all tenders and quotations invited by and contracts entered into by the Municipality stipulate payment terms favourable to the Municipality, that is, payment to fall due not sooner than the conclusion of the month following the month in which a particular service is rendered to or goods are received by the Municipality. This rule shall be departed from only where there are financial incentives for the Municipality to effect earlier payment, and any such departure shall be approved by the Accounting Officer before any payment is made.

6.2. The Municipality shall make full use of any extended terms of payment offered by suppliers.

6.3. Creditors' statements must be reconciled monthly.

6.4. Payments must be made only on receipt of an official order, certified goods received note, official company invoice, quotations and quotation summary and other supporting documents.

6.5. All payments, other than petty cash disbursements, shall be made through the Municipality's bank account(s).

6.6. Issuing of cash cheques must be limited as far as possible. In the instance of requiring a cash cheque, detailed reasons must be presented substantiating the need for a cash cheque. The value of cash cheques may not exceed R10 000 unless in certain circumstances where motivating reasons are presented and approved.

6.7. The Chief Financial Officer shall, in consultation with the Accounting Officer and with due regard to the Council's policy on banking and investments, and subject to 6.10, determine the rules and procedures relating to the signing of cheques/approving electronic transfers, and from time to time jointly with the Accounting Officer decide on appropriate signatories.

6.8. Only the Accounting Officer or the Chief Financial Officer, or any other senior official of the Municipality acting on the written authority of the Accounting Officer, may withdraw money or authorize the withdrawal of money from any of the Municipality's bank accounts, and shall do so only for the purposes prescribed in Section 11 of the MFMA.

6.9. All requests for payments of whatever nature shall be submitted on payment vouchers, the format of which shall be determined by the Chief Financial Officer or delegated person. Such vouchers shall be authorised in terms of such rules and procedures as are determined from time to time by the Chief Financial Officer or delegated person.

6.10. The maximum amount and nature of petty cash disbursements, shall be generally determined from time to time by the Chief Financial Officer, subject, however, to the provisions of the Municipality's Supply Chain Management Policy.

6.11. The Accounting Officer or delegated person shall be responsible for the payment of all salaries and remuneration benefits to employees and councilors, and for the determination of the payment system to be used.

6.12. Payments to creditors shall in any event be made in accordance with the provisions of the MFMA, and in particular, with Section 65 thereof.

7. <u>Contract Management</u>

Subject to the provisions of the Municipality's Supply Chain Management Policy:

7.1. all buying contracts shall be administered by the Accounting Officer and all payments relating to such contracts shall be authorised by the head of department concerned; and

7.2. all other contracts, including building, engineering and other civil contracts shall be administered by the head of department concerned, and all payments relating to such contracts shall be authorised by such head of department. The head of department concerned shall ensure that all payment certificates in regard to contracts are properly examined and are correct in all respects - before being submitted to the Chief Financial Officer or delegated person for payment.

8. <u>Investment Ethics</u>

8.1. The Accounting Officer or delegated person shall be responsible for investing the surplus revenues of the Municipality, and shall manage such investments in compliance with any policy directives formulated by the Council and prescriptions made by the Minister of Finance, including, in particular, the Investment Regulations.

8.2. In making such investments the Accounting Officer or delegated person shall at all times have only the best interests of the Municipality in mind, and shall not accede to any influence by or interference from councilors, investment agents or institutions or any other outside parties.

8.3. No official or councilor of the Municipality 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.

9. Investment Principles

9.1. When money is available for investment, it shall be invested in accordance with the provisions contained in this policy.

9.2. After determining whether there is cash available for investment and fixing the maximum term of investment, the Accounting Officer or delegated person must determine the best manner in which to invest it. As rates vary according to money market perceptions, quotations must be requested telephonically, within term limitations, and these must be set out on a schedule.

9.3. In order to limit exposure, where large sums of money are available for investment, the Accounting Officer or delegated person shall ensure that:

9.3.1. they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the Municipality; and

9.3.2. As far as it is practically and legally possible, the Municipality's investments are so distributed that more than one investment category is covered.

9.4. Although the objective of the Accounting 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. No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions. It can be accepted as a general rule that the larger the return, the greater the risk.

9.5. When investments are placed with smaller registered institutions, the Accounting Officer or delegated person shall ensure that the Municipality is not exposed to undue risk, and shall ensure that the creditworthiness and performance of the institution are satisfactory. Information from which the creditworthiness of financial institutions can be determined must be obtained and analysed at least annually

9.6. The Municipality may not borrow money for reinvestment, as this would mean interest rates would have to be estimated in advance, which can be seen as speculation with public funds.

9.7. If the Accounting Officer or delegated person invests with financial institutions, he or she must ensure that such institutions are registered in terms of the Banks Act 94 of 1990 and that they are approved financial institutions - as approved by the Reserve Bank, from time to time.

10. Credit Ratings

Investments may be made only with institutions having minimum credit ratings.

11. Permitted Investments

The Municipality may invest funds only in investment types permitted under Regulation 6 of the Investment Regulations.

12. Call Deposits and Fixed Deposits

12.1. Before making any call or fixed deposits, the Municipality, shall obtain quotations from at least three institutions.

12.2. Given the volatility/fluctuations of the money market and interest rates, the Municipality, shall, whenever necessary, open an account at the relevant institution, 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).

12.3. Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, e-mail or any other expedient means).

12.4. The Municipality must also take into consideration the principles of diversification as per 9.3.1 when making an investment decision.

12.5. 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 Accounting Officer or delegated person shall ensure that the Municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the Municipality.

13. <u>Restriction on Term of Investments</u>

No investment with a term exceeding twelve months shall be made without the prior approval of the Executive Committee as the case may be.

14. <u>Cession of Investments</u>

The cession of any investment of the Municipality as security shall be subject to the provisions of Section 48 of the MFMA.

15. <u>Supply Chain Management Policy</u>

The Municipality shall comply with its Supply Chain Management Policy to the extent that it is applicable to the implementation of any aspect of this Policy.

16. Control over Investments

16.1. The Chief Financial Officer or delegated person shall ensure that proper records are kept of all investments made by the Municipality and, where necessary, shall be signed off by the Accounting Officer.

16.2. Such records shall include an investment register.

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

16.4. Investment documents and certificates must be safeguarded in a fire resistant safe or similar secure alternative, with dual custody.

17. Reports

The Accounting Officer shall ensure that reports are submitted to the Council on a quarterly basis.

18. Banking Arrangements

18.1. The Accounting Officer is responsible for the management of the Municipality’s bank and investment accounts, but may delegate this function to the Chief Financial Officer.

18.2. The Accounting Officer and the Chief Financial Officer or additional approved signatories are authorised to sign cheques or approve electronic transfers and any other documentation associated with the management of such accounts.

18.3. The Accounting Officer is authorised to appoint, in consultation with the Chief Financial Officer, two or more additional signatories in respect of such accounts, and to amend such appointments from time to time. The list of current signatories may be reported to the Executive Committee.

18.4. All bank accounts and investments must be in the name of the Municipality.

18.5. In determining the number of additional accounts to be maintained, the Accounting Officer, in consultation with the Chief Financial Officer, shall have regard to the likely number of transactions affecting each of the accounts referred to.

18.6. Unless there are compelling reasons to do otherwise, and the Council expressly so directs, all of the Municipality's bank accounts shall be maintained with the same banking institution to ensure pooling of balances for purposes of determining the interest payable to the Municipality.

18.7. The selection of the Municipality's Bankers shall be carried out in accordance with the Municipality's Supply Chain Management Policy.

19. Review of Policy

This policy is to be reviewed annually.

20. Responsibility for Implementation

The Accounting Officer shall be responsible for the implementation of this policy, provided that the Accounting Officer shall delegate such powers to the Chief Financial Officer as may be required to enable the Chief Financial Officer to perform such duties as are imposed on him or her in terms of this policy.

21. Commencement

This policy shall come into operation upon adoption by Council.

22. Policy Adoption

This Policy has been considered and approved by the **COUNCIL OF UMZUMBE LOCAL MUNICIPALITY** as follows:

Resolution No:……………….………….

Approval Date:......................................