

# THABO MOFUTSANYANE DISTRICT MUNICIPALITY



## CASH MANAGEMENT AND INVESTMENT POLICY

<b>TABLE OF CONTENTS</b>		<b>Page No</b>
PART 1.	LEGAL COMPLIANCE	3
PART 2.	OBJECTIVE OF INVESTMENT POLICY	3
PART 3	EFFECTIVE CASH MANAGEMENT	4
	3.1. Cash Collection	
	3.2. Payments to Creditors	
	3.3. Management of Inventory	
	3.4. Cash Management Programme	
	3.5. Measures for Reducing Cash Outflow	
PART 4.	INVESTMENT ETHICS	7
PART 5.	INVESTMENT PRINCIPLES	8
	5.1 Limiting Risk Exposure	
	5.2 Risk and Return	
	5.3 Payment of Commission	
	5.4 Call Deposits and Fixed Deposits	
	5.5 Restriction on tenure of investment	
	5.6 Specific Purpose Funds	
PART 6.	CONTROL OVER INVESTMENT	10
PART 7.	OTHER EXTERNAL INVESTMENTS	11
PART 8.	BANKING ARRANGEMENTS	11
PART 9.	INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES	13

PART 10.	RAISING OF DEBTS	14
PART 11.	INTEREST ON INVESTMENTS	14
PART 12	REPORTING	15
PART 13.	SHORT TITLE	16
PART 14.	IMPLEMENTATION	16

## **PART 1. LEGAL COMPLIANCE**

Thabo Mofutsanyane District Municipality shall at all times pursue its cash management and investment policy and manage its banking arrangements in compliance with any prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act (Act No. 56) of 2003.

## **PART 2. OBJECTIVE OF INVESTMENT POLICY**

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 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.

The investment policy of the municipality is therefore aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes.

The effectiveness of the investment policy is dependent on the accuracy of the municipality's cash management programme, which must identify the amounts surplus to the municipality's needs, as well as the time when and period for which such revenues are surplus.

## **PART 3. EFFECTIVE CASH MANAGEMENT**

### **3.1 Cash Collection**

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.

The unflinching support of and commitment to the municipality's credit control policy, both by the Council and the municipality's officials, is an integral part of proper cash collections, and by approving the present policy the council pledges itself to such support and commitment.

### **3.2 Payments to Creditors**

The Chief Financial Officer shall ensure that all tenders and quotations invited by and contracts entered into by the municipality must comply with the terms of the municipality's supply chain management policy and 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 should 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 Chief Financial Officer before any payment is made.

In the case of small, micro and medium enterprises, where such a policy may cause financial hardship to the contractor, payment may be effected at the conclusion of the month during which the service is rendered or within fourteen days of the date of such service being rendered, whichever is the later.

Notwithstanding the foregoing policy directives, the municipality must make full use of any extended terms of payment offered by suppliers and not settle any accounts earlier than such extended due date, except if there are financial incentives for the municipality to do so.

The Chief Financial Officer shall not ordinarily process cheque payments for accounts received more than once in each calendar month, such processing to take place on or about the end of the month concerned. Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques.

Special payments to creditors shall only be made with the express approval of the chief financial officer, who shall satisfy himself or herself that there are compelling reasons for making such payments prior to the normal month end processing.

### **3.3 Management of Inventory**

Each head of department shall ensure that such department's inventory levels do not exceed **normal operational requirements** in the case of items which are not readily available from suppliers, and **emergency requirements** in the case of items which are readily available from suppliers.

Each head of department shall periodically review the levels of inventory held, and shall ensure that any surplus items be made available to the chief financial officer for sale at a public auction or by other means of disposal.

### **3.4 Cash Management Programme**

The chief financial officer shall prepare an annual estimate of the municipality's cash flows, and shall update this estimate on a weekly basis. The estimate shall

indicate the timing and for what periods any amount of surplus revenue may be invested, and the timing and amounts of investment will have to be liquidated.

The chief financial officer shall report to the executive committee on a monthly basis and to every ordinary Council meeting the estimate or revised estimate of cash flows for such month or reporting period respectively, together with the actual cash flows for the month or period concerned, and cumulatively to date, as well as the estimates or revised estimates of the cash flows for the remaining months of the financial year, aggregated into quarters where appropriate.

Such report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned. The cash flow estimates shall be divided into calendar months, and in reporting the chief financial officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report.

### **3.5 Measures for Reducing Cash Outflow**

The municipality must adopt the following measures to reduce cash outflow:

#### **3.5.1 Postponing certain capital expenditure items-**

The municipality must postpone certain items of capital expenditure which are not 'urgent'. It might be imprudent to postpone expenditure on fixed assets which are needed for development.

On the other hand, certain items of capital expenditure which are routine might be postponed without serious consequences.

The routine replacement of motor vehicles is an example: If it is the policy of the municipality to replace its motor vehicles every three years, but it is facing a cash shortage, it might decide to, temporarily at least, alter the replacement cycle to every four years.

### **3.5.2 Accelerating cash inflows which would otherwise be expected in later period-**

The most obvious way of bringing forward cash inflows would be to press debtors for earlier payment.

It might be possible to encourage debtors to pay more quickly, by offering discounts for earlier payment.

### **3.5.3 Reversing past investment decisions-**

If the cash flow problems are severe, the option of selling off investments might have to be considered.

### **3.5.4 Negotiations-**

The municipality must negotiate longer credit periods with suppliers, negotiate rescheduling of loan repayments with lenders/banks and negotiate postponement of payment of tax with South African Revenue Service.

## **PART 4. INVESTMENT ETHICS**

The municipal manager shall be responsible for investing the surplus revenues of the municipality, but may delegate this function to the chief financial officer only. The chief financial officer shall then manage such investments in consultation with the municipal manager, and in compliance with any policy directives

formulated by the municipality and prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act (Act No. 56) of 2003.

In making such investments the municipal manager or the chief financial officer, as the case may be, 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.

Neither the chief financial officer nor the municipal manager 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.

## **PART 5. INVESTMENT PRINCIPLES**

### **5.1 Limiting Risk Exposure**

Investments must be diversified where large sums of money are available for investment by investing with more than one institution, wherever practicable, in order to limit the risk exposure of the municipality. The municipal manager or the chief financial officer, as the case may be, must ensure that, as far as it is legally possible, the municipality's investments are so distributed that more than one investment category is covered (that is, call, money market and fixed deposits).

**Funds must not be invested for speculative purposes.**

### **5.2 Risk and Return**

Although the objective of the municipal manager or the chief financial officer, as the case may be, in making investments on behalf of the municipality must

always be to obtain the maximum interest rate on offer, this consideration must be tempered by the degree of risk involved. No investment must 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 (see 5.4 below).

### **5.3 Payment of Commission**

Every financial institution with which the municipality makes an investment must issue a certificate to the municipal manager in regard to such investment stating that such financial institution has not paid and will not pay any commission and has not and will not grant any other benefit to any party for obtaining such investment.

### **5.4 Call Deposits and Fixed Deposits**

Before making any call or fixed deposits, the municipal manager or the chief financial officer, as the case may be, shall obtain quotations from at least three financial institutions, and it shall be accepted that in seeking such quotations the municipality may bargain between the institutions concerned.

Given the volatility of the money market, the municipal manager or the chief financial officer, as the case may be, 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).

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

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 municipal manager or the chief financial officer, as the case may be, shall ensure that the municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned.

#### **5.5 Restriction on Tenure of Investments**

No investment with a tenure exceeding twelve months shall be made without the prior approval of the executive mayor or the executive committee, as the case may be.

#### **5.6 Specific Purpose Funds**

Specific purpose funds utilisation of which is ongoing must be kept in short-term investments for maximization of interest as may be dictated by the need for liquidity from time to time.

### **PART 6 CONTROLS OVER INVESTMENT**

The Chief Financial Officer shall ensure that proper records are 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.

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

The Chief Financial Officer shall ensure that all investment documents and certificates are properly secured in a fireproof safe with segregated control over the access to such safe, or are otherwise lodged for safekeeping with the municipality's bankers or attorneys.

#### **PART 7. OTHER EXTERNAL INVESTMENTS**

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 municipal manager or the chief financial officer, as the case may be, 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.

#### **PART 8. BANKING ARRANGEMENTS**

The Municipal Manager is responsible for the management of the municipality's bank accounts, but may delegate this function to the Chief Financial Officer. The Municipal Manager and Chief Financial Officer are authorised at all times to sign cheques and any other documentation associated with the management of such accounts.

The Municipal Manager, in consultation with the Chief Financial Officer, is authorised to appoint two or more additional signatories in respect of such

accounts, and to amend such appointments from time to time. The list of current signatories shall be reported to the Executive Committee or the Executive Mayor, as the case may be, on a monthly basis, as part of the report dealing with the municipality's investments.

In compliance with the requirements of good governance, the Municipal Manager shall open a bank account for ordinary operating purposes, and shall further maintain a separate account for each of the following:

- the administration of the external finance fund
- the asset financing reserve (if these accounts are legally permissible).

One or more separate accounts shall also be maintained for the following:

- capital receipts in the form of grants, donations or contributions from whatever source
- trust funds
- the municipality's self-insurance reserve (if legally permissible).

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

Unless there are compelling reasons to do otherwise, and the council expressly so directs, all 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.

The Municipal Manager shall invite tenders for the placing of the municipality's bank accounts within six months after the election of each new council, such new

banking arrangements to take effect from the first day of the ensuing financial year.

However, such tenders may be invited at any earlier stage, if the Municipal Manager, in consultation with the chief financial officer, is of the opinion that the services offered by the municipality's current bankers are materially defective, or not cost-effective, and the Executive Mayor or the Executive Committee, as the case may be, agrees to the invitation of such tenders.

## **PART 9.     RAISING OF DEBTS**

The Municipal Manager is responsible for the raising of debt, but may delegate this function to the Chief Financial Officer, who shall then manage this responsibility in consultation with the Municipal Manager. All debt shall be raised in strict compliance with the requirements of the Municipal Finance Management Act 2003, and only with the prior approval of the council.

Long-term debt shall be raised only to the extent that such debt is provided for as a source of necessary finance in the capital component of the approved annual budget or adjustments budget.

Short-term debt shall be raised only when it is unavoidable to do so in terms of cash requirements, whether for the capital or operating budgets or to settle any other obligations, and provided the need for such short-term debt, both as to extent and duration, is clearly indicated in the cash flow estimates prepared by the chief financial officer.

Short-term debt shall be raised only to anticipate a certain long-term debt agreement or a certain inflow of operating revenues.

## **PART 10. INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES**

In managing the municipality's investments, the municipal manager or the chief financial officer, as the case may be, shall ensure that, whenever a long-term (non-annuity) loan is raised by the municipality, an amount is invested at least annually equal to the principal sum divided by the period of the loan. Such investment shall be made against the bank account maintained for the external finance fund, and shall be accumulated and used only for the redemption of such loan on due date.

If the loan raised is not a fixed term loan, but an annuity loan, the municipal manager or the chief financial officer, as the case may be, shall similarly ensure that sufficient resources are available in the account maintained for the external finance fund to repay the principal amounts due in respect of such loan on the respective due dates.

## **PART 11. INTEREST ON INVESTMENTS**

The interest expected on an investment must be reconciled to the actual interest earned or accrued on a monthly basis.

The interest accrued or earned on all the municipality's investments shall, in compliance with the requirements of Generally Accepted Municipal Accounting Practice (GAMAP), be recorded in the first instance in the municipality's operating account as ordinary operating revenue, and shall thereafter be appropriated, at the end of each month, to the fund or account in respect of which such investment was made.

In the case of the external finance fund, the municipal manager or the chief financial officer, as the case may be, may reduce the amount which must be annually invested to redeem any particular loan by the amount of interest so accrued.

## **PART 12. REPORTING**

The chief financial officer shall report to the executive committee on a monthly basis and to every ordinary Council meeting the following aspects of the municipality's investments:

- movements in the investments together with appropriate details as reflected in the investment register
- comments or explanations of any significant variances
- review of credit risk indicators for financial institutions with investment grade rating
- assessment of diversification of investments
- the municipality's liquidity vis-à-vis its investments
- interest rates from approved or recognized financial institutions
- list of signatories to the investments
- recommendations for new investments, renewal or liquidation of existing investments.

**PART 13     SHORT TITLE**

This Policy is the Cash Management and Investment Policy of the Thabo Mofutsanyane District Municipality.

**PART 14     IMPLEMENTATION**

This Policy has been approved by Thabo Mofutsanyane District Municipality in terms of resolution.....dated.....and comes into effect from..... and this policy shall be reviewed on .....