

BA-PHALABORWA LOCAL MUNICIPALITY



DRAFT Cash Management Policy

2021/22

[Principles and Policy on Investment of Funds]

1. INTRODUCTION

- 1.1 As custodians of public funds, the Council has an obligation to see to it that cash resources are managed as effectively as possible. Council has a responsibility to invest public funds with great care and are liable to the community in that regard.
- 1.2 The investment policy should be aimed at gaining the highest possible return without undue risk during those periods when funds are not needed. To bring this about, it is essential to have an effective cash flow management program.
- 1.3 This policy has been compiled in accordance with the Local Government: Municipal Finance Management Act (MFMA), Act no 56 of 2003 and the Investment and PPP Regulations for the MFMA published in Government Gazette 27431 dated 1 April 2005. Where this policy is contrary to other legislation, such legislation will override this policy. It is an explicit responsibility of the Municipal Manager to bring such conflicts immediately to the attention of the Council once he/ she becomes aware of such conflicts and to propose changes to this Policy to eliminate such conflicts.

2. DELEGATION OF POWERS

- 2.1 This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Municipal Manager and other responsible officials as well as between the Council and the Mayor and the Council and the Municipal Manager. All delegations in terms of this policy must be recorded in writing.
 - 2.2 According to the Municipal Finance Management Act, the Municipal Manager is the accounting officer of the Municipality and therefore all designated officials are accountable to him/ her. The Municipal Manager is therefore accountable for all transactions entered into by his/ her designates.
 - 2.3 The overall responsibility of investments lies with the Municipal Manager. However, the day to day handling of investments should be the responsibility of the Chief Financial Officer or his/her delegate.
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2.4 All investment documents will require two signatories, namely the Municipal Manager and the Chief Financial Officer or their delegated signatories. In this regard, specimen signatures must be signed with all financial institutions with which the Municipality deals.

3. PURPOSE OF THE POLICY

3.1 The purpose of this policy is to ensure that investment of surplus funds forms part of the financial management procedures of the Municipality and to ensure that prudent investment procedures are applied consistently.

4. EFFECTIVE CASH MANAGEMENT

4.1 Cash Management Plan

4.1.1 Adequate and efficient cash management is one of the main functions of the Chief Financial Officer. It is therefore imperative that a cash management plan be established and adhered to at all time. Sound cash management includes the following: -

- ❑ Collecting revenue when it is due and banking it promptly;
- ❑ Making payments, including transfers to other levels of government and nongovernment entities, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the government's normal terms for account payments as well as within legislative requirements;
- ❑ Avoiding pre-payments for goods or services (i.e. payments in advance of the receipt of goods or services), unless required in terms of contractual arrangements with the supplier;
- ❑ Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates prepared by the Municipality;
- ❑ Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the Municipality are collected and banked promptly;
- ❑ Accurately forecasting the Municipality's cash flow requirements;
- ❑ Timing the inflow and outflow of cash to ensure that significant cash outflows only occur when there is sufficient cash in the Municipality's bank account; and

- Taking any action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery and selling surplus or underutilized assets.

4.2 Efficient Cash Collection Procedures

4.2.1 All monies due to the Municipality must be collected as soon as possible and banked on a daily basis. Cash left in the safe can pose a security risk, could necessitate additional insurance coverage and does not earn any interest. Special deposits should be arranged for the larger amounts received, to make sure that these are banked on the same day they are received.

4.2.2 It is essential that all amounts owed to the Municipality be levied by way of a debit in the applicable debtor's system. A well-managed debtor and banking control system is the proper measure for ensuring that monies owed to the Municipality are timeously received and banked. It is also important to review the debt collection performance by regularly comparing monies presently owed to the Municipality in relation to the total income as well as to the situation in previous financial years, in order to determine whether the debt collection is deteriorating or improving.

4.3 Payment to Creditors

4.3.1 Another aspect of effective cash management is adequate control over the timing and payment of creditors accounts. To reduce bank costs with regard to cheque payments it is essential to limit the payment of creditors to one payment per creditor per month, if possible, and to consider making use of electronic transfer facilities if these are available, subject to strict control measures.

4.3.2 When considering the time to pay a creditor, proper consideration must be given to the conditions of credit/ terms of payment offered. In cases where a cash discount is offered for early settlement the discount, if the relevant time scale is taken into account, will in most cases be more than any investment return from temporarily investing the funds and if offered, they should be properly considered and utilized.

4.3.3 The normal conditions of credit/ terms of payment offered by suppliers should also be considered and utilized to the full by paying on due date and not earlier.

4.3.4 Payment checklist should be attached on all payments to creditors; procurement office should ensure that CIPRO printouts and valid BEE verification certificates with traceable references are attached to all payments vouchers.

4.3.5 CSD compliance report should be attached to all payments vouchers submitted for payments.

4.3.6 Deviations Report for all goods and services that were procured outside normal supply chain management processes and procedures should be submitted with payments vouchers, such deviations should be approved by the Municipal Manager prior to acquiring such goods and services.

4.3.7 Payments to contractors and suppliers should only be made twice a week preferably on Tuesday and Thursdays. Payments for litigations and any other emergency payments can be processed as when they are submitted for payment.

4.3.7 Payment to Key Accounts should take preference

4.4 Management of Investment in Inventories

4.4.1 Cash management can be improved by ensuring that adequate stock control is exercised over all goods in store. The inventory levels in any stores system have to be reviewed continually in the light of annual contracts from local suppliers. Only essential inventory levels are to be maintained in the case of inventory items that are readily available.

4.4.2 Inventory items held in stock for a long period of time is an unproductive asset to which an opportunity cost can be attached. In addition, inventory items held in stock for long periods of time could become redundant or obsolete. It is advisable, therefore, to dispose of outdated inventory items on a regular basis, thus recovering at least a part of their costs.

4.5 Investment of Surplus Cash

4.5.1 Before any money can be invested, the Chief Financial Officer, or his/her delegate, has to determine whether there will be surplus funds available. The term of investment should also be investigated in relation to projected cash outflows. Prior to making

investments for any fixed term, it is essential that cash flow estimates be compiled for at least the next twelve months.

4.5.2 When compiling monthly cash flow estimates it is essential that the Chief Financial Officer is aware of all expected cash flow and when it is to take place, as well as the timing with regard to cash outflows as far as both the operational and the capital budgets are concerned.

4.5.3 By utilizing the available information and expertise, the Chief Financial Officer can assess the timing with regard to the applicable investment policy accordingly. Daily cash flow estimates will provide for daily call investments and investment withdrawals, whereas long-term investments need to be based on projections further into the future.

BUSINESS ONLINE BANKING (ELECTRONIC FUNDS TRANSFER)

Criticality and integrity of the EFT process;

A. The municipality shall use the bank business online system for EFT processes.

- The banking business online shall be for any bank appointed by Municipality in terms of MFMA and supply chain management policy.
- The Business Online shall have three designated signatories appointed by the Council.
- The Business online designated signatories include the Accounting officer, Chief Finance Officer and any other senior member of staff appointed by the Accounting officer.
- The designated signatories are for adding, authorising, deleting the users of EFT Banking Business online.
- The Designated signatories and any appointed user of the banking business online shall fill the banking business-online form designed by the appointed bank.
- The copies of the filled forms are filed by the accounting officers and kept in records and other will be submitted to the Bank appointed.
- The approved Banking Institutions upon receiving the completed forms, check it and approve it and add the users to business online banking.

B. Procedures for segregation of duties;

- Accounting officer appoints the Chief finance officer to be designated signatories.

- The accountant cashbook will capture the payment voucher for any invoice approved for payments.
- The accountant cashbook will import the encrypted payment file from the financial management system (Sebata) to banking business online for electronic payments.
- The Senior Accountant expenditure and financial control will verify the payment voucher and invoice presented for payment for correctness of the account number.
- The chief accountant or Manager will approve the payment and do the first part release.
- The Chief Finance Officer upon satisfying him/herself of payment voucher will the release the payment as the final releaser of the payment.

C. Password security settings, unique user ID's, registration and revocation of users accounts;

The banking business online banker upon receiving the banking business online approved forms for user of business online from accounting officer shall:-

- Add the user to banking business online.
- Provide the user with unique user ID'S.
- The system will prompt the new user to set the password.
- The password will automatically lapse after 90 days and prompt user to change the password.
- The banking online will force the user to set alphanumeric password.
- Provide the banking token that assist with OTP (One-time password)
- Upon resignation, dismissal or any change of staff for rotation purpose the user will be suspended, revoked and be removed from the user profile of banking business online.
- The revoking of users from participating in business online is done through the cancellation forms by the Chief Finance Officer.
- Should the user forget the password he/she will call the business online banker for password reset.
- The business online banker will assist and also do security check and verify the reset with designated signatories.
- Periodic reviews to establish whether employees' current access and privileges on the system is still commensurate with their job responsibilities for users;
- The CFO will review the Job description of the user and ensure that they are relevant for business online.

- The user of business online monitored for any movement in positions relevant for the use of EFT facilities and such movement is discovered he /she will be removed from the list of users.
- The CFO will determine the daily limit for the institutions in order to reduce the number of the users of EFT facilities.
- The user of EFT facilities may be given certain functions such as viewing and verifying for control purposes.
- The user of EFT facilities may not affect any changes or initiate any transactions unless are given authority to.
- The user may use EFT facilities to check the closing balance and opening balance and also to perform the bank reconciliations as per respective Job descriptions.
- The Business online banking facilities shall be used in such a way that is in line with the delegation of power document approved by council.
- The business online banking has a system general and special controls to monitor the access logs to EFT facilities.
- The abuse of the access logs will be reported to the CFO and the Accounting Officers by the banker responsible for business online banking.
- The System administrator of the municipality does not participate into Business online banking facilities.
- All the challenges and troubleshooting of the system are referred to the banker who is offside the Municipality buildings,
- The system administrator activities are monitored by IT Manager who report to ICT steering committee chairperson as an independent person.

5. LEGAL REQUIREMENTS

5.1 The way in which surplus funds and other monies of local authorities can be invested, is regulated in terms of the Municipal Finance Management Act, and the National Framework to be determined by the Minister of Finance with the concurrence of the Cabinet member responsible for Local Government (see paragraph 1.3).

5.2 The Municipal Finance Management Act requires the Municipality to establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed by the Minister, with the concurrence of the Cabinet member responsible for Local Government.

5.3 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; and
- ❑ Promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General.

5.4 A bank where the Municipality at the end of the financial year holds a bank account, or held a bank account at any time during a financial year, must:-

- ❑ Within 30 days after the end of that financial year, notify the Auditor-General, in writing, of such bank account, including-
 - the type and number of the account; and
 - the opening and closing balances of that bank account in that financial year.
- ❑ Promptly disclose information regarding the account when so requested by the National Treasury or the Auditor-General.

6. INVESTMENT ETHICS

The following ethics apply when dealing with financial institutions and interested parties:-

6.1 The Municipal Manager and the Chief Financial Officer is responsible for the investment of funds, and have to steer clear from outside interference, regardless of whether such interference comes from individual councilors, agents or any institution.

6.2 Under no circumstances may he/ she be held susceptible to coercive measures of any description. No member of staff may accept any gift other than something that is so small that it cannot possibly be seen as anything but a sign of goodwill, regardless of whether such gift influences him or her in his or her work or is intended to do so.

6.3 The Chief Financial Officer or his/her delegate must act according to their own discretion and should report any serious cases, i.e. offers of a personal commission or payment in

kind, etc, to the Council. Discretion should be the order of the day, and excessive gifts and hospitality must be refused and avoided.

6.4 Interest rates offered should never be divulged to another institution.

7. INVESTMENT PRINCIPLES

7.1 Limited Exposure to a Single Institution

7.1.1 Money, especially large sums of money, must be invested with more than one institution in order to limit the risk exposure of the Municipality. Subject to paragraph 8.6 below, not more than 50% of the available funds should be placed with a single institution. In this case, it should be noted that a group of financial institutions would be treated as individual institutions. This arrangement excludes money deposited on call accounts, provided that it is invested with a financial institution with an A1 rating.

7.1.2 Where legislation allows, the Municipality must try to plan the distribution of its investments to cover more than one investment category.

7.2 Risk and Return

7.2.1 It should be accepted as general principle that the larger the return, the greater the risk will be. Investments may not be undertaken with a view to speculation and must be governed by the following investment objectives, in order of priority:-

- ❑ Preservation and safety of principal;
- ❑ Liquidity; and
- ❑ Yield.

7.3 Borrowing Money for Reinvestment

7.3.1 The Municipality shall not borrow any money for investment purposes as this is considered as speculation with public funds. Furthermore, investments should not be made where Council is utilising an overdraft facility unless in accordance with applicable legislation.

7.4 Cash in the Bank

7.4.1 Where money is kept in current accounts, it is 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 but always taking into account the cash management plan and monthly cash flow estimates.

7.5 Employees and Councillors Benefiting from Investments

7.5.1 No employee or Councillor of the Municipality or their family may under any circumstances whatsoever on his or her own behalf or on behalf of any other person whether directly or indirectly, stipulate, claim or receive any consideration of whatever nature in connection with an investment made.

7.6 Reporting Requirements

7.6.1 There shall at all times be transparency and accountability in respect of every investment made and of the Municipality's investment portfolio. In this regard, the Municipal Manager must within 10 days of the end of each month, as part of the section 71 report required by the MFMA, submit to the Mayor a report describing in accordance with generally recognised accounting practise (GRAP) the investment portfolio of the municipality as at the end of the month. The report must set out at least:-

- The market value of each investment as at the beginning of the reporting period;
- Additions and 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 or yield for the reporting period.

8. GENERAL INVESTMENT PRACTICE

8.1 General Principles

8.1.1 After determining whether cash is available for investment and fixing the maximum term of investment, the Chief Financial Officer has to consider the way in which the investment is to be made. Because rates can vary according to money market perceptions with regard to the term of investment, quotations for fixed deposits should be requested telephonically for a period within the limitations of the maximum term.

8.1.2 All telephonic quotations must be recorded on a schedule and the accepted quotation must be confirmed in writing before the actual investment is made. The same

procedure must be followed before any re-investment is made with the same institution.

8.1.3 Where a fixed deposit is made at an institution at a lower rate than other quotations, reasons must be recorded by the Chief Financial Officer and reported to Council as part of the monthly financial report by the Chief Financial Officer.

8.2 Payment of Commission

8.2.1 The financial institution where a fixed deposit is made must issue a certificate with regard to each investment when the investment is made, in which it states that the financial institution has not or will not pay any commission and has not or will not grant any other benefit for obtaining such investment to any employee or Councillor of the Municipality or their family or an agent or go-between, or to any person nominated by such agent or go-between, except where the Council has decided to appoint a gobetween/ agent/ consultant and the fee/ commission has been decided and approved by the Council before any investment is made.

8.2.2 In the case of long-term securities at Insurance Companies any payment of fees/ commission to any go-between/ agent/ consultant must be clearly stated on the application form and approved by Council before any investment is made.

8.3 Registered Financial Institutions

The Municipality may only invest in the following instruments or investments:-

8.3.1 Securities issued by the National Government;

8.3.2 Listed corporate bonds with an investment grading rating from a nationally or internationally recognized credit rating agency;

8.3.3 Deposits with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);

8.3.4 Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No 45 of 1984);

8.3.5 Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No 46 of 1984);

8.3.6 Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);

8.3.7 Guaranteed endowment policies with the intention of establishing a sinking fund in order to meet the redemption fund requirements of the Municipality;

8.3.8 Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);

8.3.9 Municipal bonds issued by the Municipality;

8.3.10 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; and

8.3.11 Any other instruments or investments in which the Municipality was under a law permitted to invest before the commencement of this policy, provided that such investments shall not extend beyond the date of maturity or redemption thereof.

8.3.12 An investment may only be made if the investment is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

8.4 Advertisements

8.4.1 To ensure transparency the Municipality must within 30 days after an investment with currency of 12 months or longer has been made; publish in a local newspaper in circulation within its area of jurisdiction full details of any investments so made.

8.5 Growth Related Investments and Long-Term Investments

8.5.1 Only the Council can approve such investments or the disposal thereof. The institution with which the investment is made must guarantee at least the capital portion of longterm investments.

8.5.2 Any fees payable to a broker, agent, or consultant must be clearly stated on the application form and approved by Council before any investment is made.

8.6 Credit Worthiness (Short-Term Investments)

8.6.1 Council must utilize the national (ZAF) short-term credit rating to evaluate the credit worthiness of financial institutions. Investments may be placed within the following criteria (excluding daily call deposits provided that it is invested with a financial institution with an A1 rating):-

- ❑ A1 (Short-term): R20 000 000 (Twenty Million Rand) per financial institution.

- A2 (Short-term): R 5 000 000 (Five Million Rand) per financial institution.

8.6.2 Council must liquidate any investment that is held at an institution, which no longer has a minimum acceptable rating as specified in this investment policy.

9 CALL DEPOSITS AND FIXED DEPOSITS SHORTER THAN 12 MONTHS

9.1 Quotations must be solicited from a minimum of three financial institutions, bearing in mind the limits of the term for which it is intended to invest the funds. It is acceptable to ask for quotations telephonically, as rates can generally change regularly on a daily basis and time is a determining factor when investments are made.

9.2 Should one of the institutions offer a better rate for a term, other than what the Municipality had in mind, the other institutions that were approached should also be asked to quote a rate for the same term.

9.3 The person responsible for requesting quotations from institutions should record the name of the institution, the name of the person who gave the telephonic quotation and the relevant terms and rates and other facts such as whether the interest is payable on a monthly basis or on a maturity date. Written confirmation of the telephonic quotation accepted is essential.

9.4 Once the required number of quotations has been obtained, a decision has to be taken regarding the best terms offered and the institution with which the funds are going to be invested. Subject to par 8.6 above, the best offer is normally accepted, with thorough consideration of investment principles. No attempts may be made to make institutions compete with each other as far as their rates and terms are concerned. If institutions have been asked for a quotation with regard to a specific package the institution has to be told to offer their best rate in their quotation and that, once the quotation has been given, no further bargaining or discussions would be entered into in that regard.

9.5 The abovementioned procedure should be followed regardless of whether the money is to be invested in a fixed deposit or on a call basis.

9.6 It is essential to make sure that the investment document received is an original document, issued by the approved institution. The investment capital should be paid over only to the institution with which it is to be invested, and not to an agent.

9.7 The above procedures are not applicable to daily call deposits held with the Municipality's banker. However, the Chief Financial Officer should always ensure that the Municipality

is receiving the best possible interest rates offered by the financial institution for this type of investment.

9.8 The Chief Financial Officer should seek professional advice whenever there is a degree of uncertainty regarding investment opportunities that he/ she evaluate.

10 CONTROL OVER INVESTMENTS

10.1 Proper records should be kept of all investments made. At the very least the following information should be indicated:-

- ❑ Institution.
- ❑ Principle investment.
- ❑ Interest rate.
- ❑ Maturity date.
- ❑ Details of growth of the investment, calculated annually at 30 June, including interest capitalized.

10.2 The investment register must be examined on a fortnightly basis to identify investments falling due within the next two weeks. It must then be established as what to do with the funds bearing in mind the cash flow requirements.

10.3 Interest, correctly calculated, should be received timeously, together with any distributable capital.

10.4 Investment documents and certificates should be kept in a fire-resistant safe to which access is controlled.

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

11 INVESTMENT COMMITTEE

11.1 An investment committee consisting of the Municipal Manager and the Chief Financial Officer is responsible for the investment of funds.

11.2 The investment committee must determine, with due regard for any legal requirements:-

- ❑ the amount to be invested;
- ❑ the date when it is to be invested;
- ❑ the period for how long it will be invested;
- ❑ the type of investment; and
- ❑ the institution where it should be invested.

11.3 The Chief Financial Officer must notify the Mayor in writing of:-

- ❑ Any investment to be made with a maturity date beyond 12 months, prior to it being made; and
- ❑ The withdrawal of any existing investment before date of maturity of R500 000 (Five Hundred Thousand Rand) and above.

12 IMPLEMENTATION AND REVIEW OF THIS POLICY

12.1 This policy shall be implemented once approved by Council. All future investments must be made in accordance with this policy.

12.2 In terms of section 17(3)(e) of the MFMA this policy must be reviewed on annual basis and any proposed amendments tabled to Council for approval as part of the budget process.