

# UMJINDI LOCAL MUNICIPALITY

## CASH MANAGEMENT AND INVESTMENT POLICY

<b>Core Business Area</b>	Financial Services Directorate
<b>Operational Area</b>	Cash Management & Investment Management

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## UMJINDI MUNICIPALITY

Cash management and investment policies

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## Introduction

As trustees of public funds, Councillors and officials have an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible. The Council of the Municipality has the responsibility to invest public funds carefully and has to report to the community in this regard. A comprehensive set of cash management and investment policies is needed to accomplish this commitment. Proper policies and procedures will also improve internal operations that may reduce the Municipality's cash management risks.

## Objectives

The objectives of these policies are:

- To ensure the effective, efficient and economical use of cash resources;
- To emphasise a culture of accountability over the Municipality's cash;
- To speed up inflow and slow down outflow of cash and to keep cash secure at all times; and
- To gain the highest possible return, without unnecessary risk, during periods when excess funds are not being used.
- To safeguard the Municipalities cost resources against theft or any fraudulent activities

## Scope

These policies are established to guide officials on cash flow management. It should be applied in the treatment of all cash and cash equivalents that belong to the Umjindi Municipality. It is not a procedure or internal control manual.

## Mandate

The Municipality must establish appropriate and effective cash management and investment policies in accordance with the Municipal Finance Management Act.

Please note that these policies are subject to legislation and Council resolutions. These policies shall be reviewed on an annual basis.

# Delegation

In terms of section 60 of the Municipal Finance Management Act, 2003, the Municipal Manager is the accounting officer of the Municipality. The Municipal Manager is therefore accountable for all transactions entered into by designates. However, the Municipal Manager may delegate certain duties and tasks to designated officials, who would be accountable to the Municipal Manager.

The Chief Financial Officer is responsible for establishing systems, internal controls, procedures, training and awareness programmes to ensure sound cash management.

The overall responsibility of investments lies with the Municipal Manager. However, in terms of section 81 of the Municipal Finance Management Act, the day-to-day handling of investments is the responsibility of the Chief Financial Officer or delegates.



# Part I - Cash management

Adequate and effective cash management is one of the main functions of the Chief Financial Officer and delegates.

## Budgeting

Adequate and effective cash management requires proper budgeting practice:

- The Municipality shall keep a formal budgeting policy, approved by the Council;
- Budgets shall be maintained in a manner prescribed by Chapter 4 of the Municipal Finance Management Act; and
- Cash flow forecasts shall be credible and consistent with the Integrated Development Plan and the annual budget.

## Receivables

Sound cash management requires that certain policies and procedures be in place so as to minimise the cost of receivables. The costs include the cost of carrying the receivables and the risk of failure to collect outstanding balances.

The Municipality shall keep an effective system to achieve the following:

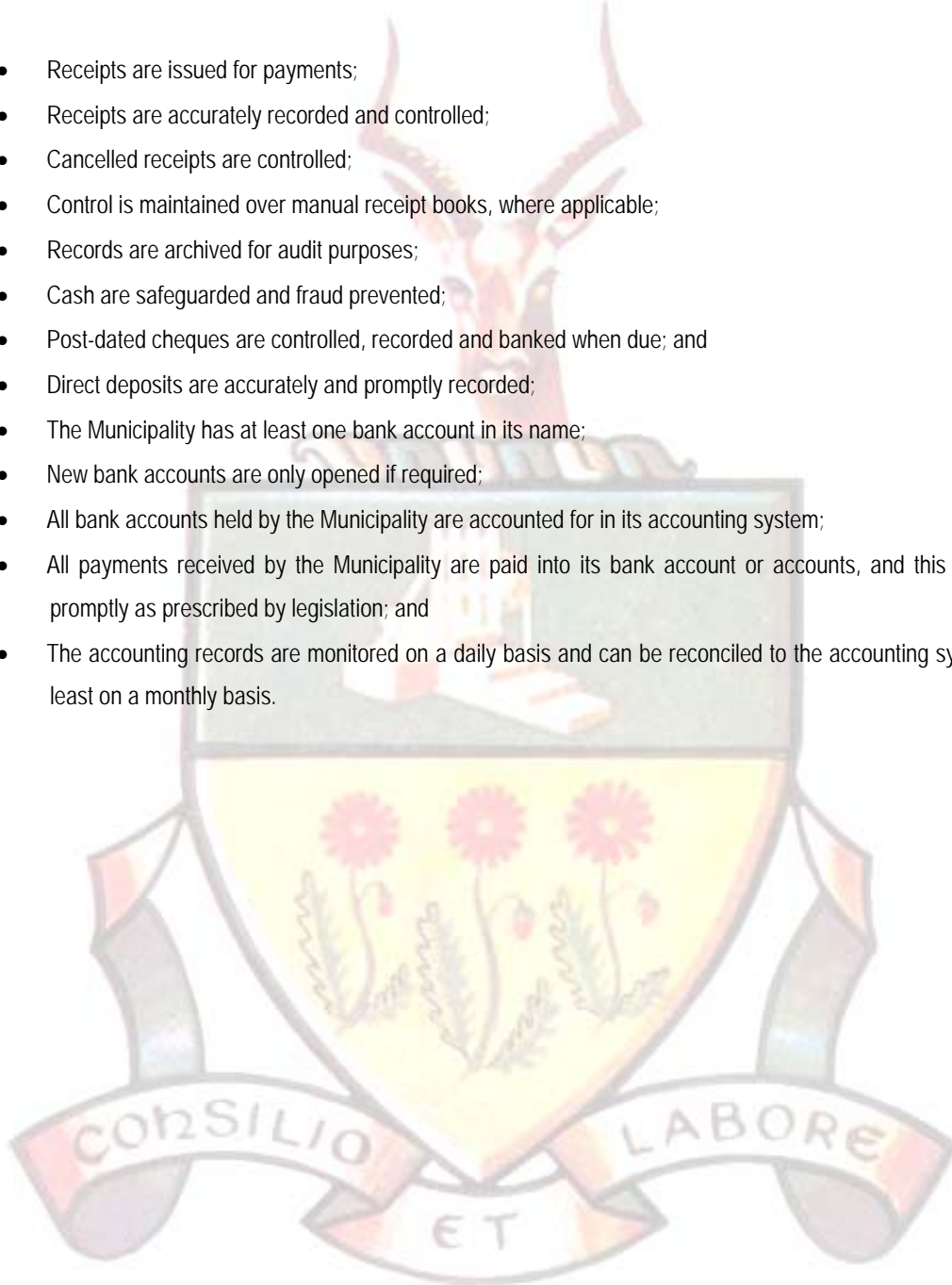
- Keep an accurate updated record of receivables that can be monitored daily;
- Controlling revenue; and
- Collecting receivables timeously.

The Chief Financial Officer or delegate shall review the debt collection performance on a regular basis and ensure that the Municipality adheres to its Performance Management System.

## Cash collection

The Municipality shall maintain an effective system to ensure the following practices:

- Receipts are issued for payments;
- Receipts are accurately recorded and controlled;
- Cancelled receipts are controlled;
- Control is maintained over manual receipt books, where applicable;
- Records are archived for audit purposes;
- Cash are safeguarded and fraud prevented;
- Post-dated cheques are controlled, recorded and banked when due; and
- Direct deposits are accurately and promptly recorded;
- The Municipality has at least one bank account in its name;
- New bank accounts are only opened if required;
- All bank accounts held by the Municipality are accounted for in its accounting system;
- All payments received by the Municipality are paid into its bank account or accounts, and this is done promptly as prescribed by legislation; and
- The accounting records are monitored on a daily basis and can be reconciled to the accounting system at least on a monthly basis.



## Payments

Sound cash management requires that certain policies and procedures will manage the trade credit to ensure that the Municipality can maximise its cash balances at relatively no cost.

The Municipality shall maintain an effective payment system to ensure the following practices:

- All payments shall adhere to the Municipality's supply chain management policy;
- Preventative maintenance shall be conducted to avoid increased future costs;
- Wasteful and unnecessary expenditure shall be avoided;
- Creditors shall be paid in line with budgets, cash flow forecasts and limits in terms of the delegation of authority;
- Payments shall only be made for services and goods once delivery has taken place;
- Supplier credit terms, including settlement discounts, shall be considered and utilised to the full by paying on the due date and not earlier;
- Credit terms shall not just be accepted, but negotiated with suppliers on an ongoing basis, provided it is in terms of Section 65(2)(e) and Section 99(2)(b) of the Municipal Finance Management Act, 2003; and
- The Chief Financial Officer or delegate shall first approve a new supplier's terms or changes to current suppliers' credit terms.

## Inventory management

Sound cash management requires that the Municipality should avoid over-capitalising, while still ensuring efficient service delivery.

The following practices shall apply with regard to inventory management:

- The Municipality shall adhere to their supply chain management policy;
- Inventory shall be kept to the minimum level necessary for efficient programme delivery; and
- The Municipality shall have an efficient inventory management system in place to ensure sound inventory management.

## Asset management

Assets shall only be acquired in conformity with proper budgeting practice, as mentioned under “budgeting” in this document.

The Chief Financial Officer or delegate shall identify under-utilised assets and consider disposing them, subject to Section 14 of the Municipal Finance Management Act, 2003.

## Debt

The Municipality may only incur debt in terms of the Municipal Finance Management Act, 2003, chapter 6 and with the approval of the Council.

### Short-term debt

The Municipality shall incur short-term debt only when necessary to bridge:

- Unavoidable 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; and
- Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments, provided that, the short-term debt is clearly indicated in the cash flow estimates.

The Municipality shall pay off short-term debt within a financial year and shall not refinance its short-term debt.

### Long-term debt

The Municipality shall incur long-term debt only for the purpose of capital investment in property, plant or equipment, as approved in the Integrated Development Plan and annual budget and shall be used for the purpose of achieving the objects of the Municipality.

## Part II - Investments

### Legal requirements

The way in which surplus funds and other municipal funds can be invested, is controlled in terms of the following legislation:

- Generally Accepted Municipal Accounting Practice (GAMAP 106);
- The Municipal Finance Management Act; and
- Any other legislation that may be applicable from time to time.

Legislation requires that only the following investments may be undertaken:

- Securities issued by the National Government;
- Listed corporate bonds with a grade rating from an internationally recognised credit rating agency;
- Deposits with banks registered in terms of the Banks Act;
- Investments with the Public Investment Commissioners as contemplated by the Public Deposits Act;
- Deposits with the Public Investment Commissioners in terms of the Public Investment Commissioners Act;
- Deposits with the Corporation for Public Deposits in terms of the Corporation for Public Deposits Act;
- Bankers, acceptance or negotiable certificates of deposits of banks registered in terms of the Banks Act;
- Guaranteed endowment policies with the intention of establishing a sinking fund;
- Repurchase agreements with banks registered in terms of the Banks Act;
- The Municipality's own stock or similar type of debt;
- Internal funds of the Municipality which have been established in terms of a law to pool money available to the Municipality and to employ such money for the granting of loans or advances to departments within a Municipality, to finance capital expenditure;
- Long-term securities offered by insurance companies in order to meet the redemption fund requirements of municipalities; and
- Any other instruments or investments in which a Municipality was under a law permitted to invest before the commencement of the Local Government Transition Act, 1996, provided that such instruments shall not extend beyond the date of maturity or redemption thereof.

The Minister may with the concurrence of the Minister of Finance by notice in the Gazette determine instruments or investments other than those referred to above in which the Municipality may invest.

## Investment ethics

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

- The Municipal Manager and Chief Financial Officer will be responsible for the investment of funds, and they have to steer clear of outside interference, regardless of whether such interference comes from individual Councilors, agents or any other institution;
- Under no circumstances shall they be forced or bribed into making an investment;
- No member of staff shall accept any gift unless that gift can be deemed so small that it would not have an influence on the staff member's work or was not intended to do so, and can merely be seen as goodwill;
- A certificate in respect of the gift shall be furnished to the Council;
- The gift shall not be in lieu of a commission;
- The Chief Financial Officer or delegates shall act according to their discretion and shall report any serious cases of payment in kind or gifts, to the Council;
- Excessive gifts and hospitality shall however be avoided;
- Interest rates offered shall never be divulged to another institution; and
- Speculation with public funds shall not be allowed.

## Investment principles

### Exposure to a single institution

- Large sums of money shall be invested with more than one institution, in order to limit risk exposure.
- The Municipality shall plan the distribution of its investments to cover different types of investments.

### Risk and return

- The Chief Financial Officer or delegates are responsible for ensuring that the risk of the proposed investment is rated realistically.
- Investments shall not be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions.

## Borrowing money for reinvestment

- The Municipality shall only borrow money for reinvestment in exceptional cases.
- Borrowing money for reinvestment shall require the Municipality to estimate interest rates well in advance, which can be seen as speculation with public funds.

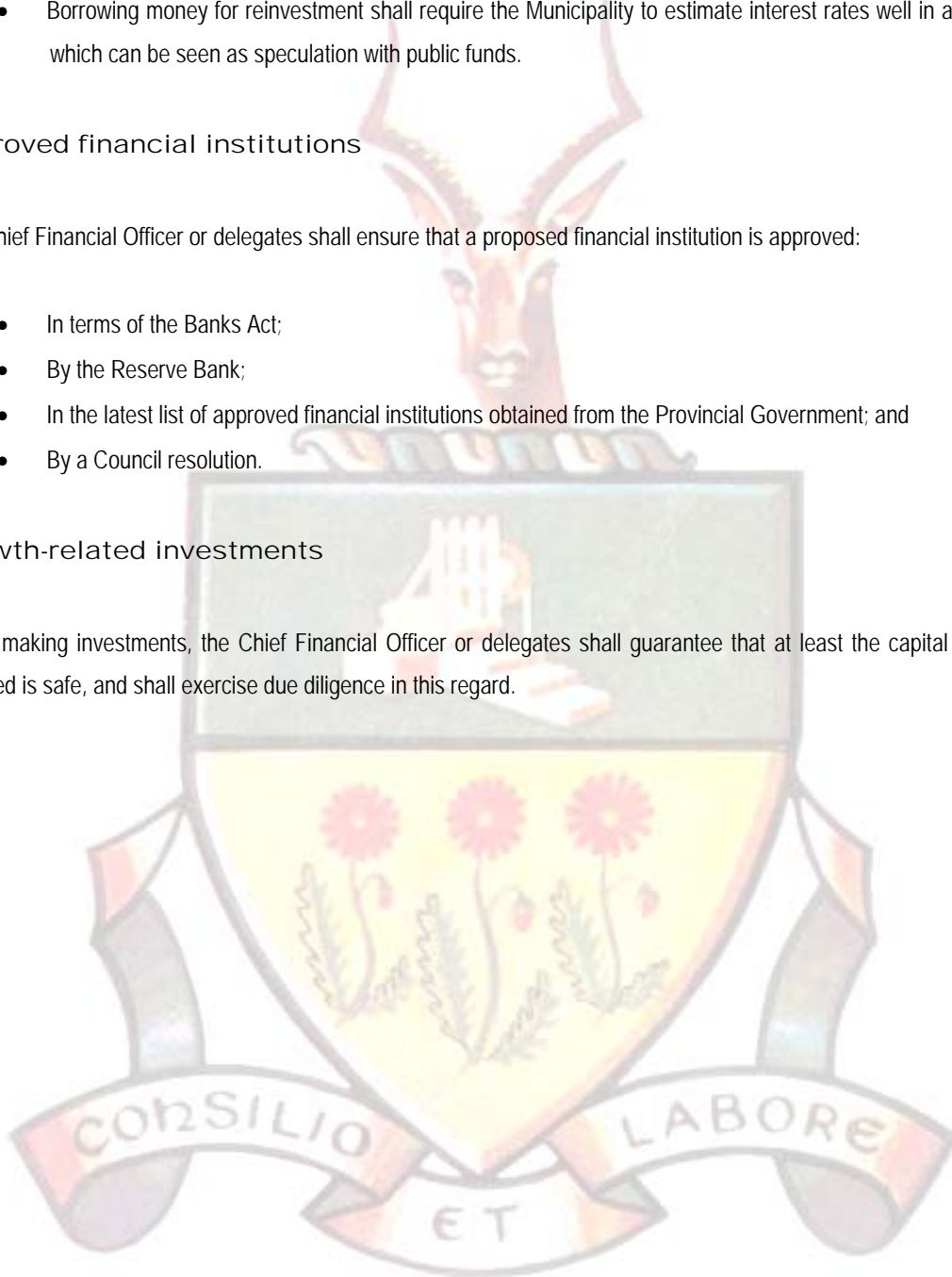
## Approved financial institutions

The Chief Financial Officer or delegates shall ensure that a proposed financial institution is approved:

- In terms of the Banks Act;
- By the Reserve Bank;
- In the latest list of approved financial institutions obtained from the Provincial Government; and
- By a Council resolution.

## Growth-related investments

When making investments, the Chief Financial Officer or delegates shall guarantee that at least the capital amount invested is safe, and shall exercise due diligence in this regard.



## Sound investment practice

### Cash flow estimates

Before money can be invested, the Chief Financial Officer or delegates shall determine the term of the investment, taking into consideration the availability of surplus funds.

In order to be able to make investments for any fixed term, it is essential that cash flow estimates be drawn up.

When drawing up cash flow estimates, it is essential that the Chief Financial Officer or delegates take note of the following:

- The expected cash flow and when it is likely to take place, as well as the timing with regard to cash outflow, as far as both the operating and the capital budgets are concerned;
- The available information and expertise; and
- The timing with regard to when, for how long and the amount to be invested.

### Surplus funds

From time to time the Municipality will have surplus funds available which are not needed immediately and which could be invested. Depending on circumstances some funds could be invested for a long term whilst others would only be short-term investments. Surplus funds in the current account shall also be invested for short periods.

### Investment terms

Investments shall be done every 3 months, when prior investments mature and funds are available for re-investment. Depending on the surplus amount available, investments shall be made for periods longer than 3 months.



## Investment certificates

The Auditor General requires the financial institution, where the investment is made, to issue a certificate for each investment made. This certificate shall state that no commission has, nor will, be paid to any agent or third party, or to any person nominated by the agent or third party.

The Chief Financial Officer or delegate shall ensure that any financial institution that held an investment for the Municipality at any time during a financial year, shall:

- 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.

## Reports

The investments shall be revised on an ongoing basis. The Chief Financial Officer or designate shall furnish the Council with a monthly report on all investments.

The Municipality shall 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.

## Cash in the bank

Where money is kept in current accounts, the Municipality shall, where possible, bargain for more beneficial rates with regards to deposits, for instance call deposits. Fixed term deposits can increase these rates.

## Creditworthiness

When investments are placed with smaller registered institutions, the Chief Financial Officer or delegates shall see to it that:

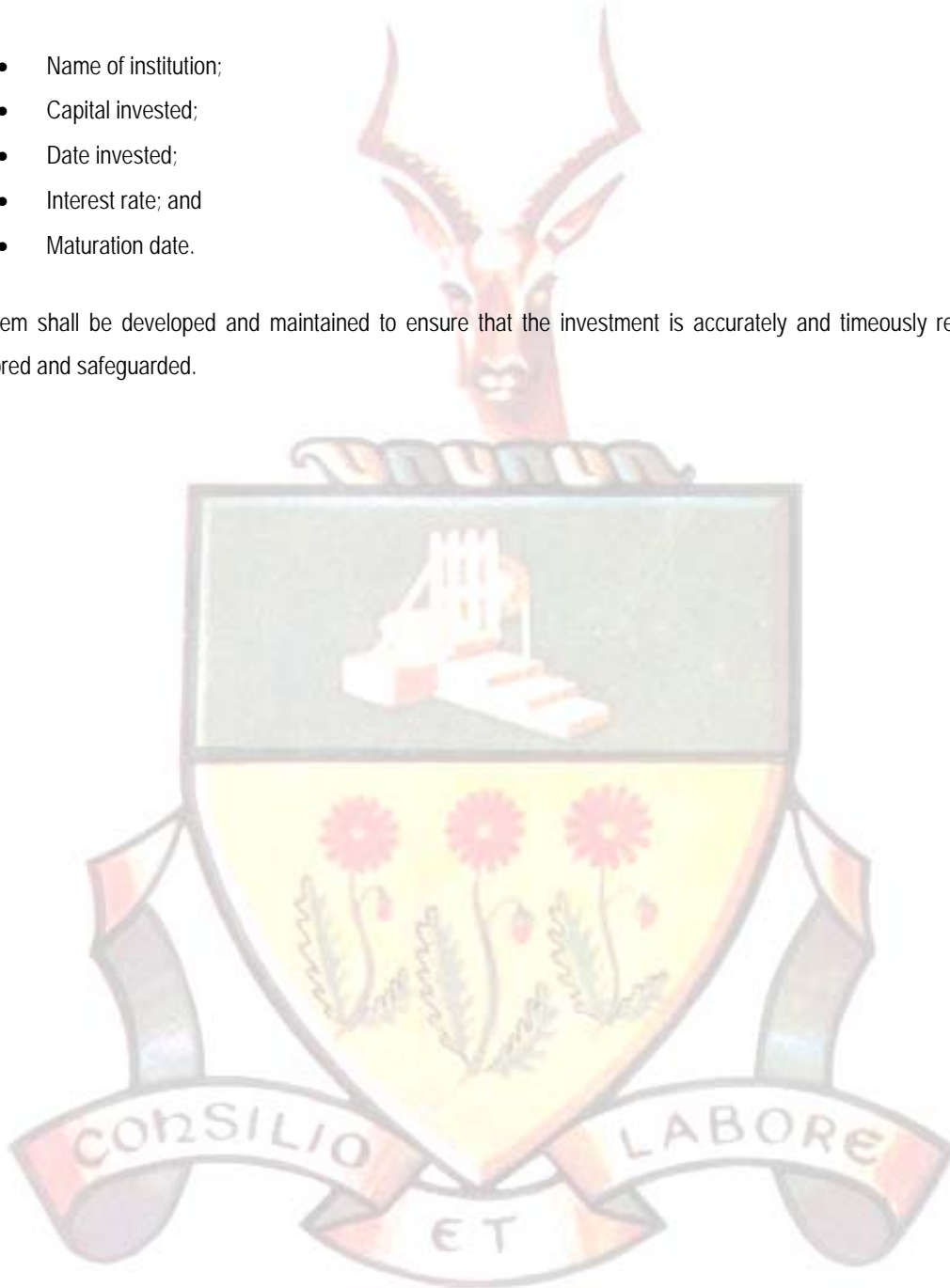
- The Municipality is not exposed to unnecessary risk; and
- The creditworthiness and performance of the institution are to their satisfaction, before investing money in the institution.

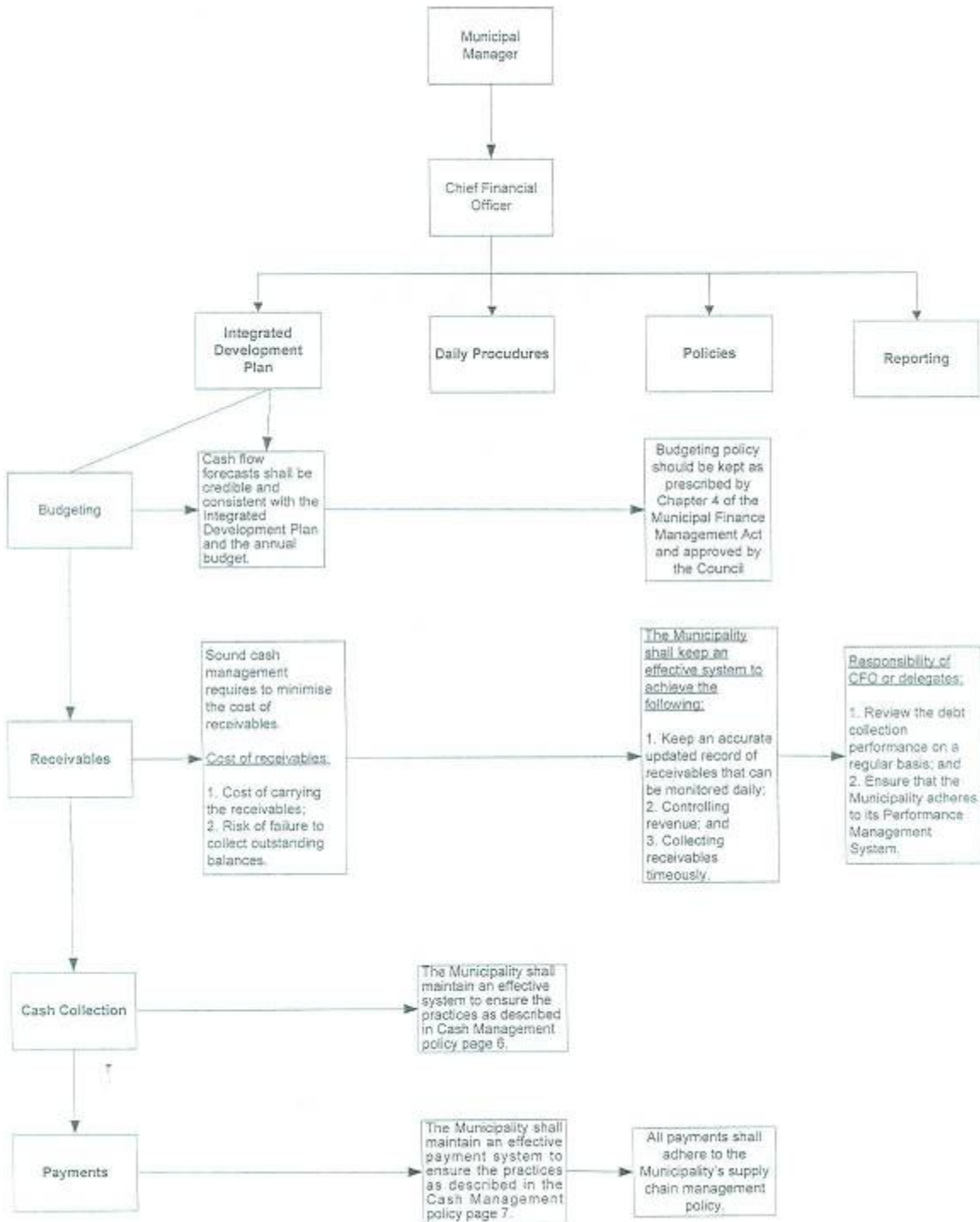
## Control over investments

An investment register shall be kept of all investments made. The following facts shall be indicated:

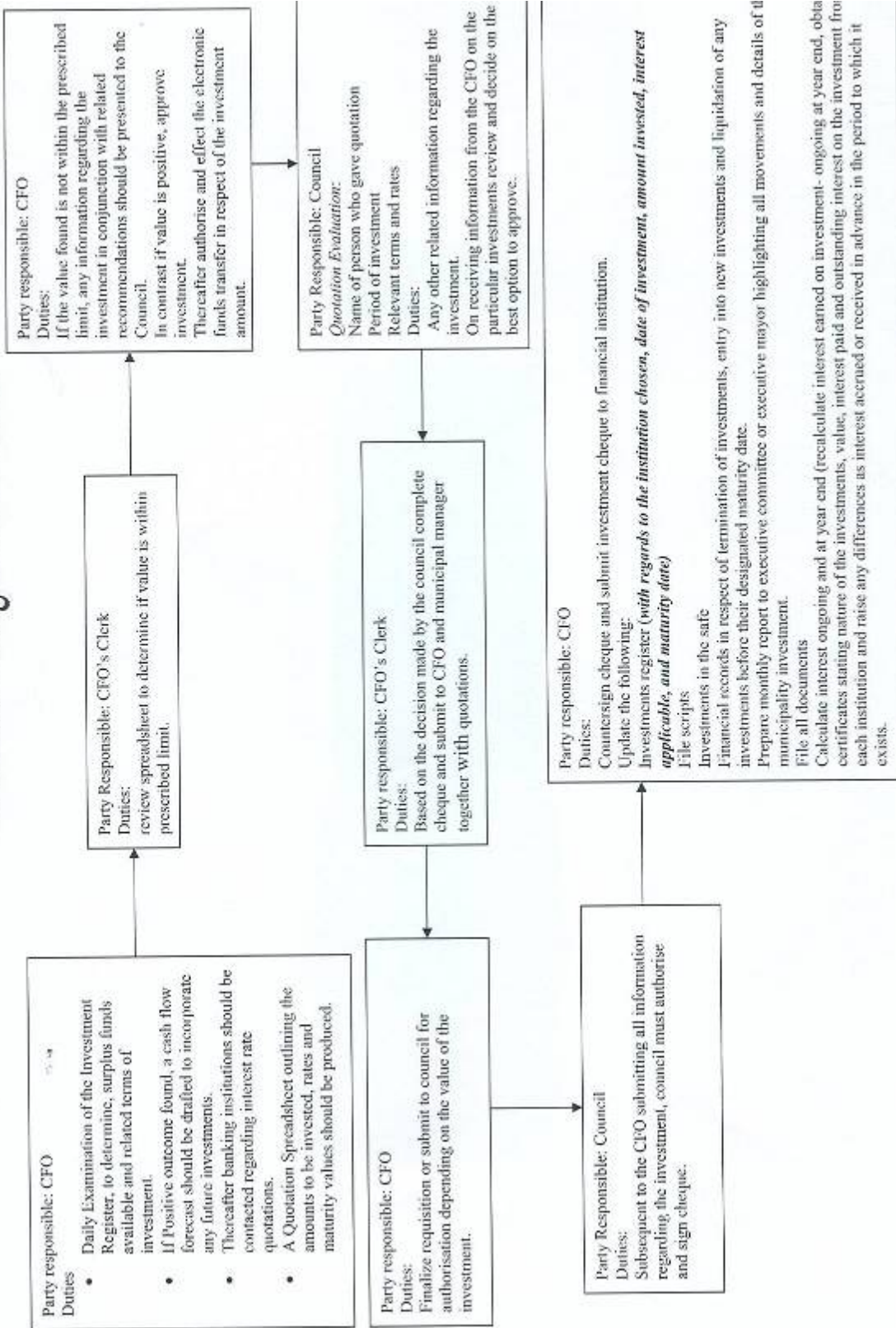
- Name of institution;
- Capital invested;
- Date invested;
- Interest rate; and
- Maturation date.

A system shall be developed and maintained to ensure that the investment is accurately and timeously recorded, monitored and safeguarded.

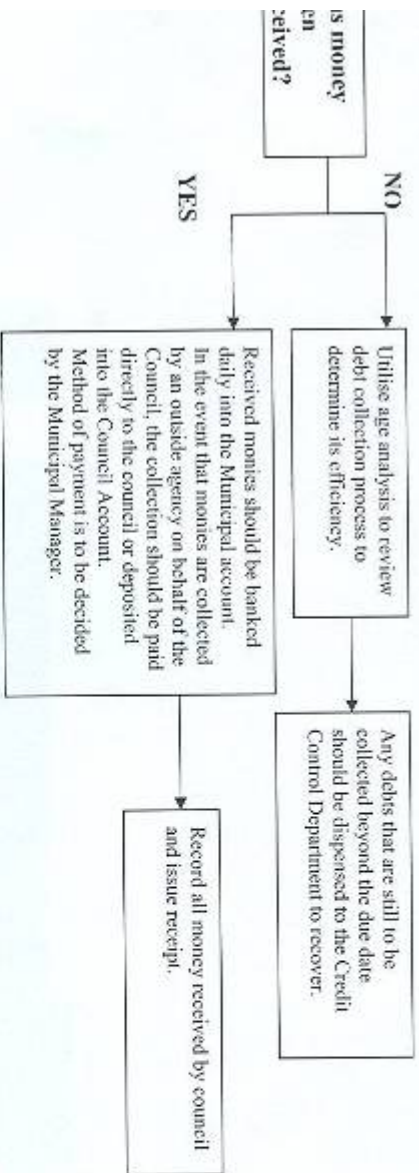




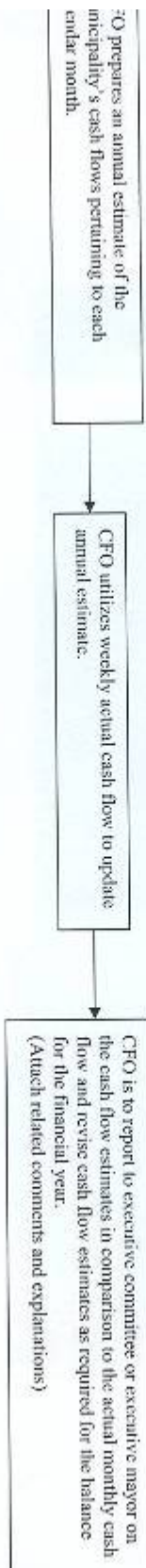
# Investment Management Flowchart



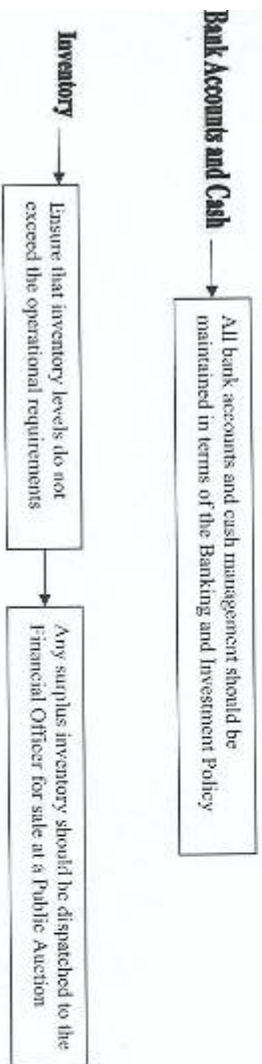
### Cash Management Benchmark



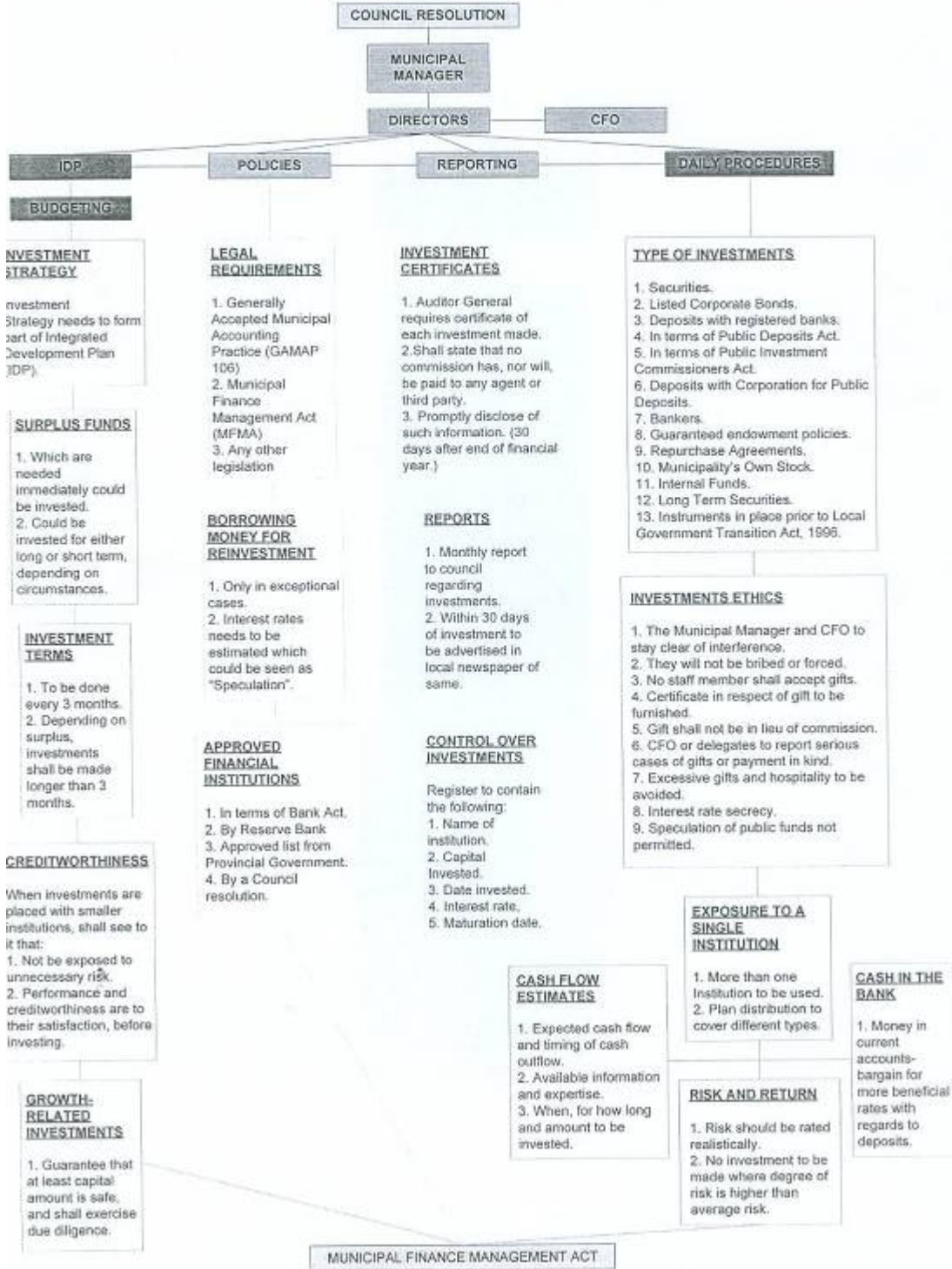
### Cash Flow



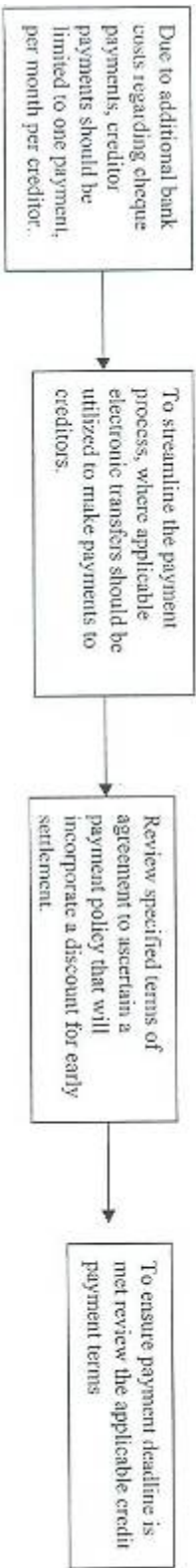
### Bank Accounts and Cash/Inventory



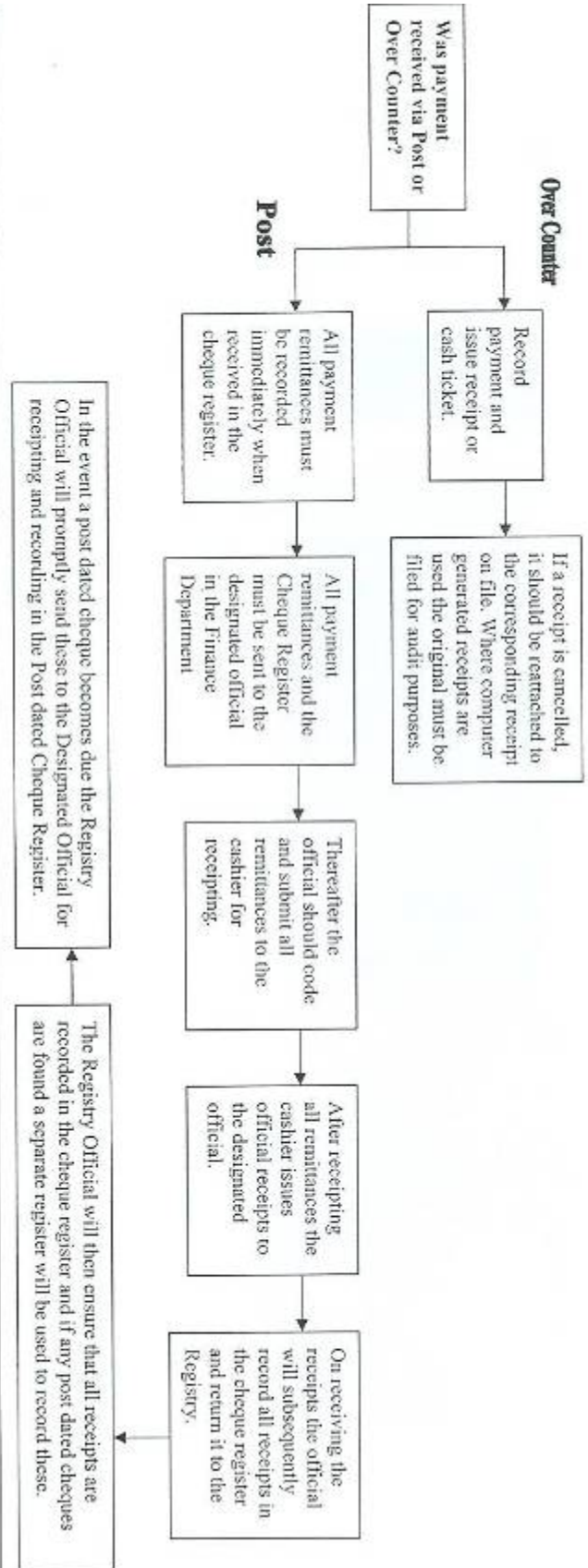
# Part II Investments

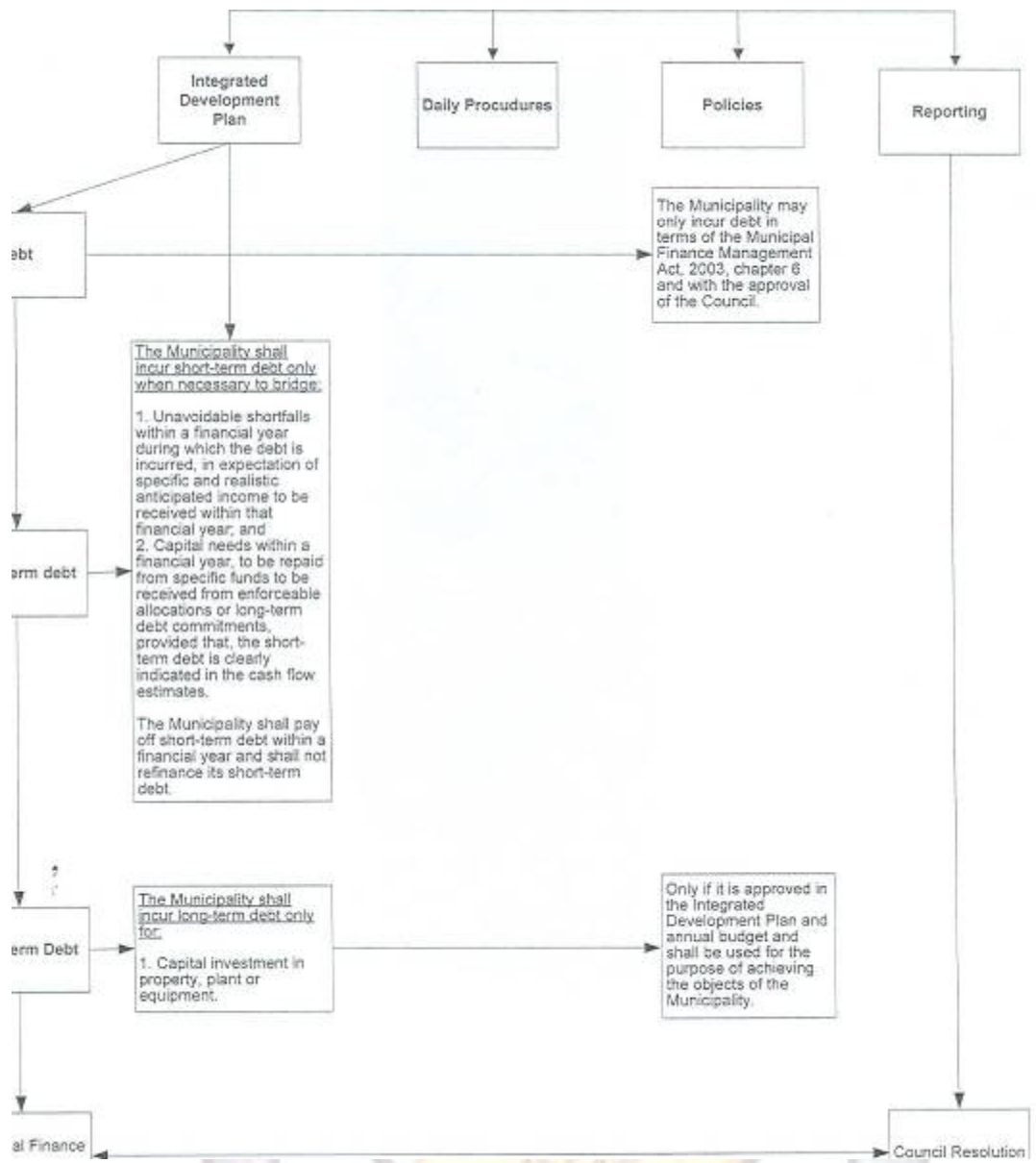


### Payment to Creditors



### Receipt of Money





**SHORT TITLE**

This policy will be known as the Cash Management and Investment Policy for the Umjindi municipality.

