

**LEJWELEPUTSWA
DISTRICT MUNICIPALITY**



CASH MANAGEMENT AND INVESTMENT POLICY

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1. APPLICATION

- 1.1 This policy applies to the Municipality and all investment managers acting on behalf of, or assisting, the Municipality.
- 1.2 This policy prescribes the manner in which the Municipality must conduct its cash management and investments as well as invest all monies not immediately required.
- 1.3 An investment manager shall have the same meaning as defined under GNR.308 of 01 April 2005: Municipal Investment Regulations.

2. LEGAL COMPLIANCE

In terms of Section 13 (2) of the Municipal Finance Management Act (Act no. 56 of 2003), municipalities are required to establish an appropriate and effective Cash Management and Investment Policy, 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.

3. CORE ELEMENTS

This policy must –

- be in writing;
- give effect to the regulations; and

3.1 SCOPE OF POLICY

The scope of this policy shall be as follows:

- 3.1.1 As trustees of public funds, the Municipality has an obligation to see to it that cash resources are managed as effectively as possible.
- 3.1.2 The Municipality has a responsibility to invest public funds with great care and is accountable to the community in this regard.
- 3.1.3 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.
- 3.1.4 All legislation must be adhered to.

4. OBJECTIVES OF THE POLICY

The objectives of the Cash Management and Investment Policy of the Lejweleputswa District 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 investment, and diversification of the Investment Portfolio,
- Ensuring that adequate liquidity is maintained at all times, for management of cashflows,
- Ensuring that the municipality receives optimal yield / interest on its investments with financial institutions, at minimal risk,
- 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.

4.1. PERMITTED INVESTMENTS

In terms of Section 6 of the Municipal Investment Regulations, municipalities are permitted to invest in the following instruments and investments:-

- (a) Securities issued by the National Government,
- (b) Deposits with Banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- (c) Listed corporate bonds with an investment grade rating from a national and internationally recognized credit rating agency,
- (d) Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioner's Act, 1984 (Act 45 of 1984),
- (e) Deposits with the Corporations for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984),
- (f) Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- (g) Guaranteed endowment policies with the intention of establishing a sinking fund,
- (h) Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990),
- (i) Municipal bonds issued by a municipality, and
- (j) 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.

4.2. CREDIT REQUIREMENTS

In terms of Section 10 of the Municipal Investment Regulations reasonable and prudent steps shall be taken by the Chief Financial Officer, to ensure that investments are placed with credit- worthy institutions. The investment policy of a municipality must determine acceptable investment ratings of financial institutions, and must liquidate any investment that no longer has a minimum acceptable rating.

The following will determine the suitability of a financial institution and will set investment limits within which municipal investments can be placed: -

Must be an approved instrument in terms of Paragraph 7 (Permitted Investments) of this policy,

- The institution must be highly rated by credible Rating Agencies,
- The shareholder equity of the institution must be in excess of at least R10bn
- The investment limit per approved financial institution must be limited at 10% of the bank's distributable reserves, as per their latest financial statements.

4.3. REGULAR REVIEW

The Municipality shall review its investments regularly and liquidate any investment that no longer has the minimum acceptable rating as specified.

4.4. PORTFOLIO DIVERSIFICATION

The Municipality must take all reasonable and prudent steps, consistent with this policy and standard of care prescribed in regulation 5, to diversify its investment portfolio across institutions, types of investment and investment maturities.

4.5. INVITATION AND SELECTION OF COMPETITIVE BIDS OR OFFERS FOR LONG-TERM INVESTMENTS

The Chief Financial Officer shall invite bids or offers from a list of approved institutions for the long-term investment of funds and make recommendations to the Mayor for approval in terms of section 60(2) of the Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000).

4.6. REPORTING REQUIREMENTS

In compliance with Section 9 of the Municipal Investment Regulations the Accounting Officer shall report within 10 working days of the beginning of each month, to the Executive Mayor, the investment position / portfolio of the municipality as at the end of the previous month. A similar report shall also be submitted to the Budget and Treasury Committee.

Such report must at a minimum provide: -

- The market value of each investment as at the beginning of the reporting period,
- Any 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 and yield for the reporting period.

In complying with Section 70(2) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) the Chief Financial Officer must report to the National Treasury / Provincial Treasury and Council whenever the consolidated bank balances shows a net overdrawn balance for a period exceeding 14 days (two weeks).

5. EFFECTIVE CASH MANAGEMENT

All efforts must be made to ensure that: -

- (i) Collection of Cash / Revenue,
- (ii) Payment of Creditors,
- (iii) Management of Proper Cash Flows,
- (iv) Administration of Banking Accounts, and
- (v) Petty Cash Procedures are properly maintained to ensure that excess cash is invested.

(i) Collection of Cash / Revenue

The cash collection process as determined by Chapter 9 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) and the Customer Care and Revenue Management By-Law, should at all times be adhered to.

(ii) Payment of Creditors

The payment cycle of all trade creditors must be strictly maintained as required by the Supply Chain Management Policy, or as per payment terms stipulated on individual contracts. If there are incentives (e.g. trade discount) favourable to Council when payments are made before due dates, such incentives, where appropriate, must be applied. Wherever possible, payments must be effected by means of electronic transfers rather than by cheques.

Urgent payments to creditors outside standard process shall only be made with the express approval of the Chief Financial Officer, who shall be satisfied that there are compelling reasons for making such payments.

(iii) Management of Cash flow

The Chief Financial Officer shall maintain a cash flow system, and ensure that funds not immediately required are invested on a daily basis. All Executive Directors and Office Managers, shall in this regard furnish the Chief Financial Officer with their respective cashflow needs of all payments in excess of R100 000, clearly indicating possible future dates of payments, as well as any possible inflow of cash from other sources of finance arranged by Directorates themselves.

(iv) Administration of Banking Accounts

The opening / closing of municipal bank accounts, deposits / withdrawals into or from the municipal bank accounts, signing of cheques / appointment of cheque signatories, and signing of other payment documents, are the responsibilities of the Accounting Officer but may be delegated in writing to the Chief Financial Officer.

(v) Petty Cash Procedures

All petty cash procedures relating to viz :-

- (i) Petty Cash Limits,
- (ii) Petty Cash Custodians per Directorate,
- (iii) Balancing / Reconciliation of Cash Floats,
- (iv) Petty Cash Requisitions and Authorisations,
- (v) Petty Cash Registers,
- (vi) Supporting Documents, etc. is governed by the Council's Financial Standing Orders.

6. INVESTMENT ETHICS, PRINCIPLES AND PROCEDURES

The following ethics, principles and procedures shall apply: -

- The Chief Financial Officer shall be responsible for managing municipal investments,
- The Chief Financial Officer is permitted to appoint a qualified investment manager,
- No improper outside influence or internal interference will be permitted at any time in regard to management of cash and placing of investments
- Quotations for call and/or fixed deposits from the approved financial institutions (a minimum of three) will be obtained at the time of contemplating an investment,
- Financial institutions will be required to submit confirmation certificates upon the placement of investments, which will include a declaration that no commission was paid relating to the investment,
- The Chief Financial Officer shall maintain a detailed investment register,
- The Chief Financial Officer shall hold in safe custody all investment certificates and other related documents, for audit purposes and proper record keeping, Investments made must be in the name of the Lejweleputswa District Municipality (S12 of the Municipal Regulations),
- No funds will be borrowed for the purpose of investments (S12 of the Municipal Investment Regulations),

- The Chief Financial Officer shall ensure that interest and capital is received and receipted when due,
- Any risk arising from any investment transaction vest in the municipality (S12 of the Municipal Investment Regulations).

7. PAYMENT OF COMMISSION

7.1 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 Municipality has decided, in terms of duly authorizing legislation, to appoint a go-between/agent/consultant and the fee/commission has been decided and approved by the Mayor before any investment is made with such a firm.

7.2 In the case of long-term securities at Insurance Companies any payment of commission to any go-between/agent/consultant must be clearly stated on the application form and approved by the Mayor in terms of duly authorizing legislation, before any investment is made.

7.3 If any fee, commission or other reward is paid to an investment manager in respect of an investment made by the municipality both the investee and the investment manager must declare such payment to the Council by way of a certificate disclosing full details of the payment.

7.4 CALL DEPOSITS AND FIXED DEPOSITS SHORTER THAN 12 MONTHS

7.4.1 Quotations ought to 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. 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.

- 7.4.2 It is acceptable to ask for quotations telephonically, as rates can generally change on a regular daily basis and time is a determining factor when investments are made.
- 7.4.3 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 before the investment is made.
- 7.4.4 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. 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. They should also be informed that, once the quotation has been given, no further bargaining or discussions would be entered into in that regard.
- 7.4.5 The above mentioned procedure should be followed regardless of whether the money is to be invested in a fixed deposit or on a call basis.
- 7.4.6 It is essential to make sure that the investment document received is a genuine document, issued by an approved institution. The investment capital should be paid over only to the institution with which it is to be invested, and not to any agent.
- 7.4.7 The Chief Financial Officer should seek professional advice whenever there is an uncertainty regarding investment opportunities that he/she evaluates.

8. INTERNAL INVESTEMENTS

Depending on the determining legislation, the Municipality may utilize amongst others, the following possibilities of internal investment; the taking up of all or

any part of the securities issued by itself, debentures and other securities, provided that applicable contributions are made to the Loan Redemption Fund with regard to the redemption, on the due date of each loan. This also includes any investment in any Loan Fund or any Consolidated Investment Fund established by itself. The principles and practices as set out above will once again apply.

9 STANDARD OF CARE

Section 5 of the Municipal Investment Regulations emphasises that investments made by a municipality, through municipal officials, or by an investment manager on behalf of the municipality must be made with such judgement and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence, who is entrusted with management of public funds, would exercise.

Investments made by the municipality or investment manager, may not be made for speculation. A high standard of care which includes

- (i) Preservation and Safety of Capital Invested,
- (ii) Liquidity, and
- (iii) Yield, must at all times maintained when making investments.

10. CONTROL OVER INVESTMENTS

- 10.1 Proper records should be kept of all investments made. At the very least the following facts should be indicated; the institution the funds, the interest rate and the maturity date.
- 10.2 Interest, correctly calculated, should be received timeously, together with any distributable capital.
- 10.3 Investment documents and certificates should be kept in a fire-resistant safe.
- 10.4 The Chief Financial Officer is responsible for ensuring that the invested funds are quite secure and should there be a measure of risk, such risk must be rated realistically.

10.5 All investments made must be in the name of the municipality.

10.6 The responsibility and risk arising from any investment vests in the municipality

11. INVESTMENT DENOMINATED IN FOREIGN CURRENCY PROHIBITED

In terms of Section 7 of the Municipal Investment Regulations, municipalities are not permitted to place investments denominated in foreign currencies

MISCELLANEOUS

1. REVIEWAL OF POLICY

This policy will be reviewed annually and be amended, if necessary.

2. NAME OF POLICY

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