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GREATER TZANEEN MUNICIPALITY

FINANCE DEPARTMENT

INVESTMENT AND CASH MANAGEMENT POLICY

INTRODUCTION

As trustees of public funds, councillors and officials have an obligation to ensure that cash resources are managed as effectively, and economically as possible.

The Council of the Municipality has a responsibility to invest public funds carefully and has to report to the community in this regard.

1. DEFINITIONS

Financial Manager means as officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.

Councillor means a member of the Municipal Council

Current liabilities are:-

- Creditors
- Bank overdrafts, and
- Short-term portion of long-term liabilities

Investments are funds not immediately required for the defraying of expenses and invested at approved financial institutions.

Municipal Manager means a person appointed in terms of / Section 82 of the Municipal Structures Act, 1998 (Act 6 117 of 1998) as the head of the Municipality as a proof of a long-term fixed period loan of which the capital is repayable at the end of the period. Interest is payable at predetermined intervals at a fixed rate.

Negotiable certificate means a loan certificate that is tradable on the capital market.

Net current assets are the difference between current assets and current liabilities where current assets are:-

- Debtors;
- Creditors
- Stock and
- The short-term portion of long-term debtors

Public Funds means all monies received by the Municipality to perform the functions allocated to them.

Security means a lien, pledge, mortgage, cession or other form of collateral intended to secure the interest of a creditor.

Current debtors refers to the capital instalments of long-term debtors due and in arrears in the current financial year.

Current Liabilities refers to the capital repayment of long-term loans due in the current financial year.

2. **OBJECTIVES**

The objectives of a cash and investment policy are:-

- 2.1 To manage the net current asset requirements of the municipality in such a manner that it will not tie up the municipality's scarce resource required to improve the quality of life of the citizens; and
- 2.2 To manage the financial affairs of the Municipality in such a manner that sufficient cash resources are available to finance the capital and operating budgets of the Municipality.
- 2.3 To gain the highest possible return on investments without unnecessary risk, during periods when excess funds are not being used.
- 2.4 To earn the optimum interest income from funds commensurate with the objectives of safety and availability of the principal invested. At no time shall funds be invested in any security that could result in Zero interest accrual if held to maturity.

- 2.5 To have funds available to meet all anticipated obligations and a prudent reserve be kept available to meet unanticipated cash requirements.

3. SCOPE OF THE POLICY

The policy deals with:

- 3.1 Responsibility / accountability
- 3.2 Management of net current assets
- 3.3 Investment ethics
- 3.4 Investment principals
- 3.5 General investment practices
- 3.6 Call and fixed deposits
- 3.7 Other external deposits
- 3.8 Control
- 3.9 Investment income

4. RESPONSIBILITY / ACCOUNTABILITY

- 4.1 The Municipal Manager is the Accounting Officer of the Municipality. He/she may delegate certain duties / tasks to the Chief Financial Officer, who would be accountable to him / her. The Municipal Manager is therefore accountable for all transactions entered into by his designates.
- 4.2 her delegate authority, for establishing systems, procedures, processes and training and awareness programmes to ensure efficient and effective management of net current assets banking and cash management. Sound management includes the following:
- 4.2.1 Collecting revenue when it is due and banking it promptly;
 - 4.2.2 Making 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;
 - 4.2.3 Avoiding 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;

- 4.2.4 Accepting discounts to effect early payment when the payment has been included in the monthly cash flow estimates provided to the relevant treasury;
- 4.2.5 Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the Municipality are collected and banked promptly;
- 4.2.6 Accurately forecasting the institution's cash flow requirements;
- 4.2.7 Timing the inflow and outflow of cash;
- 4.2.8 Recognizing the time value of money, i.e. economically, efficiently, and effectively managing cash;
- 4.2.9 Taking any other action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and affective programme delivery, and selling assets; and
- 4.2.10 Avoiding bank overdrafts.

4.3 The overall responsibility of investments lies on the Financial Manager. However, the day to day handling of investments may be delegated to the Financial Manager.

4.4 The decision to make investments on behalf of Council and in terms of the guidelines set out in this policy is delegated to the Chief Financial Officer in terms of Section 60 (2) of the Local Government Municipal Systems Act, 2000. Sub delegation by way of deconcentrating as a form of delegation, is permitted in terms of Section 59 of the Municipal Systems Act, Act 32 of 2000. Sub delegation by way of deconcentrating as a form of delegation, is permitted in terms of section 59 of the Municipal systems Act, Act 32 of 2000.

5. MANAGEMENT OF NET CURRENT ASSETS

5.1 Debtor Collections

5.1.1 The Municipal Council must set a target for debt collection base on the performance of the Municipal Manager during the last financial year. The target must be expressed as a percentage of potential income and / or the turnover rate of debtors.

- 5.1.2 All funds due to the Council must be collected timeously and banked on a daily basis. Large sums of money received must be deposited into the bank account on the same day that payment is received.
- 5.1.3 All monies owing to the Council must be correctly reflected in the debtors system.
- 5.1.4 Extension for payment of rate and service charges must only be given in exceptional circumstances.
- 5.1.5 Monies collected by some other agency on behalf of the Council shall be paid over to the Council or deposited in the bank account of the Council in a manner prescribed by the Municipal Manager (Daily deposits are preferable).
- 5.1.6 The receipt of all monies collected by the Council shall be acknowledged forthwith by the issue of a numbered official receipt.

5.2 **Receipt of Payments**

5.2.1 Receipt of money over the counter:

- 5.2.1.1 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 to a numbered official receipt of cash ticket;
- 5.2.1.2 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.

5.2.2 Receipt of money by Post:

- 5.2.2.1 When money (including postal orders and cheques) is received with the Council's mail, the Registry Clerk shall record all payment remittances as and when received in the cheque register in the presence of a witness. Post-dated cheques received in the Council's mail must also be recorded in the cheque register. The Cheque register shall be regarded as the register of remittances received by post.

5.2.2.2 The cheque register together with all remittances received must be sent to a designated official in the finance section;

5.2.2.3 The designated official on receipt of the cheque register together with the remittances will code all remittances and submit it to the cashier for receipting;

5.2.2.4 The cashier will receipt all remittances and issue official receipts to the designated official.

5.2.2.5 The designated official will record all receipts in the cheque register and return same to registry. The registry Clerk must ensure that all receipts are recorded in the cheques register.

5.2.2.6 All documents relating to remittances received in the mail must be filed for audit purposes.

5.3 **Management of Stock**

5.3.1 Cash management must be improved by seeing that adequate stock control is exerted over all goods kept in stock.

5.3.2 Minimum and maximum stock levels, reordering procedures, turnover rate of stock items must be reviewed quarterly to ensure that funds are not unnecessary tied up in stock.

5.4 **Management of Cash**

5.4.1 For this purpose a monthly and annual cash flow forecast is required.

5.4.2 Sufficient provision must be made for the payment of:

5.4.2.1 Salaries

5.4.2.2 Bulk purchases of water and electricity

5.4.2.3 General expenditure

5.4.2.4 Capital cost (interest and redemption)

5.4.2.5 Maintenance; and

5.4.2.6 Payment to creditors involved in capital projects

5.4.3 A stock register, reflecting the under mentioned detail must be kept and updated daily.

5.4.3.1 Goods delivery note number

5.4.3.2 Number of items received

5.4.3.3 Value of items received

5.4.4 Stock counts must be affected monthly and an annual report reflecting stock shortage and surpluses must be submitted to Council on or before 30 June of each financial year. All surpluses and shortages must be explained by the accountable head of departments.

5.5 **Payment of Creditors**

5.5.1 Due to the high bank charges with regard to cheque payments, it is essential to limit the payment of creditors to one payment per creditor per month. Should the facility be available, payment should be done by electronic transfer – subject to strict control measures.

5.5.2 Proper consideration must be given to the conditions of credit terms of payment offered.

5.5.3 Credit statements must be reconciled monthly.

5.5.4 Payments must only occur on receipt of an official order, certified goods received note and official company invoice.

5.6 **Management of Bank Overdraft**

5.6.1 A bank overdraft may only be obtained in anticipation of a positive income stream or to finance capital projects in anticipation of an approved capital grant or long term levy.

5.6.2 The bank overdraft must be repaid at the end of the financial year.

5.6.3 The Council can only approve a bank overdraft on the submission of a cash flow statement indicating the anticipated income stream or a certificate stating the approved grant or long-term loan.

6. INVESTMENT INSTRUMENTS

6.1 The Minister of Provincial and Local Government may be with the concurrence of the Minister of Finance by notice in the Gazette determine instruments or investments other than those referred to below in which Municipality may invest:

6.1.1 Deposits with banks registered in terms of the Banks Act, 1990 (Act no. 94 of 1990)

6.1.2 Securities issued by the National Government

6.1.3 Investments with the Public Investment Commissioners as contemplated by the Public Deposits Act, 1984 (Act No. 46 of 1984). A Municipality's own stock or similar type of debt. Internal funds of a 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.

6.1.4 Bankers, acceptance certificates or negotiable certificates of deposits of banks:

Long term securities offered by insurance companies in order to meet the;

6.1.4.1 Redemption fund requirements of Municipalities; and

6.1.4.2 Any other instruments or investments in which a municipality was under 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.

6.2 Cash Flow Estimates

6.2.1 Before money can be invested, the Chief Financial Officer or his / her delegate must determine whether there will be surplus funds available during the term of the investment. He / she must fix the term of the investment.

6.2.2 In order to be able to make investments for any fixed term.

6.2.3 Provision must be made in the cash flow estimates for the operating and capital requirements of the municipalities.

6.2.4 The operating requirements must include provisions for:

6.2.4.1 Monthly salary payments

6.2.4.2 Bulk Purchases of electricity and water

6.2.4.3 Interest on long term loans

6.2.4.4 General expenditure (Payments to current creditors)

6.2.4.5 Expected daily and monthly incomes

6.2.5 From time to time the Council 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 may also be invested for short periods (days).

6.2.5.1 Long term investments should be made with an institution of minimum BBB rating (where BBB refers to lower risk institutions)

6.2.5.2 Short term investments should be made with as institution of minimum B rating (Where B refers to higher risk institutions)

6.2.5.3 No single institution shall have, in cumulative total, as short term deposits and investments (other than safe kept investments) more than 50% of the Greater Tzaneen Municipalities invest able funds.

6.2.5.4 No funds may be invested in instruments that is prohibited by the Municipal Finance Management Act or any other Act or Regulation.

7. INVESTMENT ETHICS

The following ethics must apply when dealing with financial institutions and other interested parties.

- 7.1 The Chief Financial Officer or his / her delegate will be responsible for the investment of funds and he / she has to steer clear of outside interference, regardless of whether such interference comes from individual Councilors, agents or any other institution.
- 7.2 Under no circumstances may he / she be forced or bribed into making an investment. A register should be kept. The gift should not be in lieu of a commission.
- 7.3 Interest rates offered should never be divulged to another institution.

8. INVESTMENT PRINCIPALS

8.1 Exposure to a Single Institution

Money, especially large sums of money, must be invested with more than one institution, in order to limit risk exposure of the Council.

8.2 Risk and Return

It can be accepted as a general rule that the larger the return, the greater the risk.

8.3 Borrowing Money for Investment

The Council 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.

8.4 Registered Financial Institutions

If the Chief Financial Officer or his / her delegate invests with financial institutions, he / 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.

8.5 Growth-related Investments

When making investments, the Chief Financial Officer or his / her delegate must guarantee that at least the capital amount invested is safe, and must exercise due diligence in this regard.

9. GENERAL INVESTMENT PRACTICE

9.1 General

After determining whether there is cash available for investment and fixing the maximum term of investment, the Chief Financial Officer or his / her delegate must consider the way in which the investment is to be made. As rates can vary according to money market perceptions with regard to the terms of investment, quotations must be requested telephonically, within term limitations, and these must be set out on a schedule.

9.2 Commission Certificate

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

9.3 Reports

The Council must be given a quarterly report on all investments.

9.4 Cash in the Bank

Where money is kept in current accounts, it would be possible to bargain for more beneficial rates with regards to deposits, for instance call deposits. Fixed term deposits can increase these rates. The most important factor is that the cash in the current account must be kept to an absolute minimum.

9.5 Creditworthiness

HEN investments are placed with smaller registered institutions, the Chief Financial Officer his / her delegate has to see to it that the municipality is not exposed to too much risk. He / she has to ensure that the creditworthiness and performance of the institution are to his / her satisfaction, before investing money in the institution. The Financial manager or his / her delegate is entitled to information from which the creditworthiness of financial institutions can be determined. This must be obtained and analyzed annually.

10. CALL AND FIXED DEPOSITS

10.1 Quotations should be obtained from a minimum of three financial institutions, bearing in mind the limits of the term of 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 which were approached should also be asked to fix a rate for that long a term.

10.2 It is acceptable to ask for quotations telephonically, as rates generally change on a regular basis and time is a determining factor when investments are made. The person responsible for requesting quotations from institutions must record the following:

10.2.1 Name of institution

10.2.2 Name of person quoting rates

10.2.3 Period of the investment

10.2.4 Relevant terms; and

10.2.5 Other facts i.e. are interest payable monthly of a maturation date.

Once a quote has been accepted written confirmation of the details must be obtained from the financial institution.

10.3 Once the required number of quotes has been obtained, a decision must be taken regarding the best terms offered and the institution with which funds are going to be invested, The best offer must under normal circumstances be accepted, with thorough consideration of investment principals. No attempt must 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 must be requested to give the best rate in their quotation. They must also be informed that, once the quotation has been given, no further bargaining or discussions will be entered into in that regard.

10.4 The above procedure must be followed for all investments.

- 10.5 The Chief Financial Officer or his / her delegate must make sure that the investment capital is paid over to the institution with which it is to be invested and not to an agent.

11. OTHER EXTERNAL DEPOSITS

Other investment possibilities, which are subject to the applicable legislation and are available to the Council, include debentures and other securities of the state as well as other Municipalities or statutory bodies in the Republic, Instituted under and in terms of any Law. With regard to such investment, the principals and practices set out above must apply.

12. CONTROL OVER INVESTMENTS

- 12.1 An investment register should be kept of all investments made. The following facts must be indicated:

- 12.1.1 Name of institution
- 12.1.2 Capital invested
- 12.1.3 Date invested
- 12.1.4 Interest rate
- 12.1.5 Maturation date
- 12.1.6 Interest received
- 12.1.7 Capital repaid, and
- 12.1.8 Balance invested

- 12.2 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.

- 12.3 Interest, correctly calculated, must be received timeously, together with any distributable capital. The Finance Minister or his / her delegate must check that the interest is calculated correctly.

- 12.4 The following investment documents must be safeguarded.

- 12.4.1 Fixed deposit letter or investment certificate
- 12.4.2 Receipt for capital invested
- 12.4.3 Copy of electronic transfer or cheque requisition
- 12.4.4 Excel schedule of comparative investment figures

12.4.5 Commission certificate indicating no commission was paid on the investment; and

12.4.6 Interest rate quoted.

12.5 The Chief Financial Officer or his / her delegate is responsible for ensuring that the invested funds are secure and, should there be a measure of risk, that such risk be rated realistically.

13. INDEMNIFICATION OF INVESTMENT OFFICIALS

13.1 Any investment officer exercising his or her authority with due diligence and prudence, and in accordance with the requirements of the ACT, will not be held personally liable for any individual investment losses or for total portfolio losses.

Council will however have the right to collect any losses from an official in terms of Section 32 of the Municipal Finance Management Act, if an investment is made contrary to the stipulation of this policy.