

Chief Albert Luthuli Municipality



2019/2020

Cash Management and Investment Policy

1. Introduction

- 1.1. 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 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.

2. Objectives

- 2.1. The objectives of these policies are.
 - 2.1.1. To ensure the effective, efficient and economical use of cash resources;
 - 2.1.2. To emphasize a culture of accountability over the Municipality's cash;
 - 2.1.3. To speed up inflow and slow down outflow of cash and keep cash secure at all times;
 - 2.1.4. To gain the highest possible return, without unnecessary risk, during periods when excess funds are not being used; and

2.1.5. To safeguard the Municipalities cost resources against theft or any fraudulent activities

3. Scope of Application

- 3.1. 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 Chief Albert Luthuli Municipality.

4. Accountability

- 4.1. As Trustees of public funds, Councillors and officials have an obligation to ensure that cash resources are managed in the most efficient and cost effective manner possible.
- 4.2. Officials serving on the Investment Committee have a responsibility and are accountable to the community to exercise due care when investing public funds

5. Legislative Framework

- 5.1. In terms of Section 13 of the Municipal Finance Management Act (Act 56 of 2003) a Municipality may, subject to such framework as the Minister may determine by notice in the Gazette, from time to time, invest in the follow instruments or investments.
- 5.1.1. Deposits in Registered banks.
 - 5.1.2. Security issued by national government.
 - 5.1.3. Public investment commissioners.
 - 5.1.4. Corporations for public deposits.
 - 5.1.5. A municipality's own stock or similar type of debt.
 - 5.1.6. 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.
 - 5.1.7. Banker's acceptance certificates or negotiable certificates of deposit banks.
 - 5.1.8. Long-term securities offered by insurance companies to meet redemption fund requirements.
 - 5.1.9. Other investments as the Minister may determine by notice in the Gazette.
 - 5.1.10. Any other instruments of investments in which a municipality was under a law permitted to invest before the commencement of the Local Government Transition Act Second Amendment Act, 1996, provided that such instruments shall not extend beyond the date of maturity or redemption thereof

- 5.2. A municipality must, within 30 days after an investment with a period of 12 months or longer has been made, publish in a local newspaper in circulation its area of jurisdiction full details of any investment so made.

6. Core Focus of Cash Management Programme

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

The core focus of the Council's Cash Management Program shall be as follows:

6.1. Budgeting

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

6.2. Receivables

- 6.2.1. Sound cash management requires that certain policies and procedures be in place so as to minimize the cost of receivables. The cost includes the cost of carrying the receivables and the risk of failure to collect outstanding balances.
- 6.2.2. The Municipality shall keep an effective system to achieve the following:
 - 6.2.1.1. Keep an accurate updated record of receivables that can be monitored daily;

- 6.2.1.2. Controlling revenue; and
- 6.2.1.3. Collecting receivable timeously.

6.2.3. 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.

6.3. **Cash Collection**

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

- 6.3.1.1. All monies due to Council must be collected as early as possible and banked daily where possible.
- 6.3.1.2. Special deposits should be made for large receipts to ensure that they are banked on the date of receipt thereof.
- 6.3.1.3. It is essential for:
 - all amounts owned to Council to be raised by way of a debit in the appropriate debtor system; and
 - effective banking control systems to be introduced to ensure that moneys received by the Council are deposited timeously.
- 6.3.1.4. In addition to any other statutory analysis requirements, monthly reviews of debt collections must be performed by comparing current debt due to the Council in relation of total income , as compared to the position in previous month in order to ascertain whether the debt collection process is improving or deteriorating;
- 6.3.1.5. Any deterioration in the debt collection ratio must be dealt with in accordance with the Credit Control Policy of the Council and the required remedial action to rectify the position must be taken by the Council.
- 6.3.1.6. Cash are safeguarded and fraud prevented;
- 6.3.1.7. The Municipality has at least one bank account in its name;
- 6.3.1.8. New bank account are only open if required;
- 6.3.1.9. All bank accounts held by the Municipality are accounted for in its accounting system;
- 6.3.1.10. All payments received by the Municipality are paid into its bank account or accounts, and this is done promptly as prescribed by legislation; and
- 6.3.1.11. The accounting records are monitored on a daily basis and can be reconciled to the accounting system at least on a monthly basis.

6.4. Payment of Creditors

- 6.4.1. Sound cash management requires that certain policies and procedures will manage the trade credit to ensure that the Municipality can maximize its cash balances at relatively no cost.
- 6.4.2. As creditors have an impact on working capital, the following matters must be borne in mind with regard to the adequate control over and the timing of payment of creditor accounts:
 - 6.4.6.1. Cost factors are to be investigated in so far as it concerns the medium of payment, be it electronically or by cheque;
 - 6.4.6.2. Adequate steps must be taken to avoid excessive bank charges and payments are to be limited to one payment per month per creditor as far as possible.
 - 6.4.6.3. In the case of electronic transfers strict control measurements must be implemented to safeguard Council from any losses that may be incurred as a result of the use of this medium of payment;
 - 6.4.6.4. When considering when to pay a creditor, consideration must be given to the terms of credit offered. When cash discount are offered on early settlement, the discount given and the time scale involved, would in most cases outweigh any investment benefit that could be obtained by the temporary placement of funds in an investment.
 - 6.4.6.5. In order to reduce bank charges, salaries and allowances should be paid whenever possible on a single date in a month and preferably electronically.
 - 6.4.6.6. Creditors shall be paid in line with budget, cash flow forecasts and limits in terms of the delegation of authority.
 - 6.4.6.7. Payment shall only be made for services and goods once delivery has taken place.
 - 6.4.6.8. When Creditors are paid, the payment voucher must be clearly endorsed to this effect in order to avoid a duplicate payment.
 - 6.4.6.9. 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 Financial Management Act, 2003; and
 - 6.4.6.10. The Chief Financial Officer or delegate shall first approve a new supplier's terms or changes to current suppliers' credit terms

6.5. Inventory Management

- 6.5.1. Sound cash management requires that the Municipality should avoid over-capitalizing, while still ensuring efficient service delivery.
- 6.5.2. Cash Flow can be enhanced through an adequate system of inventory management.
- 6.5.3. The following practices shall apply with regard to inventory management:

- 6.5.3.1. Stock levels held in a stores system must be constantly reviewed;
- 6.5.3.2. Only essential levels of stock are to be maintained where supplies are readily available against annual supplies contracts from local suppliers;
- 6.5.3.3. Cognizance must be taken of the fact that stock held for any length of time is dead capital which has an appropriate cost associated with it;
- 6.5.3.4. Cognizance must be taken of the fact that stocks held in excess of requirements for long periods of time may become obsolete.
- 6.5.3.5. Obsolete stock must be disposed of annually to derive additional revenue;
- 6.5.3.6. Where possible, the Council ownership of stock must be clearly marked on such stock; and
- 6.5.3.7. Adequate control and documentation must be maintained over stock issues

6.5.4. The Chief Financial Officer must on a yearly basis report to the Council on:

- 6.5.4.1. The turnover of the 20 highest value stock items accompanied by recommendations on how to improve the turnover rate of such stock items;
- 6.5.4.2. All surpluses and shortfalls in stock levels as well as reasons for such surpluses and shortfalls.

6.6. Cash Flow

- 6.6.1. Council, prior to effecting an investment, must ascertain whether surplus funds exist and the period for which funds may be invested.
- 6.6.2. A cash flow forecast is essential to determine the availability of potential investment funds.
- 6.6.3. In developing cash flow forecasts, Council must be aware of the expected cash inflows and when they are likely to occur, as well as the timing of the outflows in terms of the operating and capital estimates.
- 6.6.4. The Chief Financial Officer shall at least once in every six months report to the Council on the anticipated cash flow of the Council for the ensuing six months and any plans to finance any shortfall.

6.7. Assets Management

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

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

6.8. 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 commitment, 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.

7. Investments

7.1. Investments Ethics

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

- 7.1.1. The MM and CFO 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 Councillors, agents or any other institution;
- 7.1.2. Under no circumstances may inducements to invest be accepted;
- 7.1.3. Speculation with public funds shall not be allowed;
- 7.1.4. Interest rates quoted by one institution must not be disclosed to another institution; and
- 7.1.5. The business ethics of any controlling body of which the relevant financial institution is a member must be observed by such institution or body at all times.

7.2. Investments Principles

The following guiding principles are to be adhered to in order to facilitate the Administration of Council's investment portfolio. A risk management plan will give guidance

7.2.1. Limit Exposure to a single Institution

- 7.2.1.1. Investment of funds, where this involves large amounts, should be distributed over more than one institution in order to limit Council's risk exposure.
- 7.2.1.2. The Municipality shall plan the distribution of its investments to cover different types of investments.

7.2.2. Risk and Return.

- 7.2.1.3. As a general principle, it must be accepted that the greater the return the greater the risk.
- 7.2.1.4. The CFO or delegates are responsible for ensuring that the risk is the proposed investment is rated realistically.

7.2.3. Borrowings for Re-Investment

- 6.4.1.1. The Municipality shall only borrow money for reinvestment in exceptional cases.
- 6.4.1.2. Council should refrain from borrowing for the purpose of re-investment as this is tantamount to speculation with public funds.

7.2.4. Nominee Accounts

All moneys shall be invested directly with the relevant institutions. On no account may moneys be placed in a nominee account.

7.2.5. Registered Financial Institutions

The CFO 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

7.2.6. Growth-Related Investment

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

8. General Investment Practice

8.1. General

Should it be ascertained that surplus funds are available for investment, and then written quotations including faxed quotations should be obtained from financial institutions for various forms of investment terms and rates of interest.

The investment shall be placed with an institution offering the most favourable rate provided such investment is in accordance with the terms and condition of this policy.

Institutions should be advised that, in submitting quotations, they must offer their best rates of interest and that no further negotiation or discussion will be entered into with them after they have submitted their quotation.

8.2. Payment of Commission

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 CFO 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.

8.3. Cash at Bank

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

8.4. Credit Worthiness

Prior to investing in smaller registered financial institutions, the Investment Committee must ensure that the Council is not over-exposed and should satisfy itself as to the credit-worthiness and previous track record of the institution before placing funds.

In order to reduce the risk in this regard, investments must only be made with financial Institutions registered in terms of relevant legislation with an office within the council's area of jurisdiction.

9. Establishment of Investment Committee

The Council will establish an Investment Committee which, *inter alia*, will be responsible to advise the Council quarterly on the status of existing investments and provide proposals on new investments which are to be made.

The Committee will comprise the following:

- The Municipal Manager or his/her delegated nominee.
- The Chief Financial Officer or his/her delegated nominee.
- Sectional Head: expenditure.

Any two members of the Committee shall form a quorum and the Committee will have authority to make decisions within the powers granted to the Committee by the Council.

10. Control Over Investments

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

10.1.1. Name of institution;

10.1.2. Capital investment;

10.1.3. Date invested;

10.1.4. Interest rate; and

10.1.5. Maturation date

10.2. The Sectional Head: Asset Management and Budget Control must retain all quotations received for record and audit purposes.

10.3. All investment certificates are to be kept in a securities file which shall be safeguarded in a fire proof safe.

10.4. In respect of grant funds, a separate file must be kept of the letter of grant and other pertinent information. Regular reports must be submitted to all grant agencies.

10.5. The Sectional Head: Asset Management and Budget Control must complete and will be responsible for the maintenance of an Investment Register complying with audit requirements.

11. Delegation of Authority

The Council may, in terms of Section of 59 of the Municipal Systems Act 2000, delegate any of its functions and responsibilities in respect of this policy to a

Committee of the Council, the Investment Committee, the Municipal Manager and the Chief Financial Officer of the Council provided that such delegation will not absolve the person to whom such a function or responsibility has been delegated from complying with any statutory reporting requirement of such reporting requirement as may be contained in this policy.

12. Effective Date

This policy has been approved by the Municipality in terms of Resolution ---- dated --- and comes to effect

From 1st of July 2019