

Letsemeng Local Municipality



Cash and Investment Policy

Approved by Council:

**LETSEMENG LOCAL MUNICIPALITY
CASH AND INVESTMENT POLICY**

1. LEGAL COMPLIANCE

- 1.1 The municipality shall at all times manage its banking arrangements and investments and conduct its cash management policy in compliance with the provisions of and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003.

2. OBJECTIVE OF INVESTMENT POLICY

- 2.1 The council of the municipality is the trustee of the public revenues, which it collects, and it therefore has an obligation to the community to ensure that the municipality's cash resources are managed effectively and efficiently.
- 2.2 The council therefore has a responsibility to invest these public revenues knowledgeably and judiciously, and must be able to account fully to the community in regard to such investments.
- 2.3 The investment policy of the municipality is therefore aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes. The effectiveness of the investment policy is dependent on the accuracy of the municipality's cash management programme, which must identify the amounts surplus to the municipality's needs, as well as the time when and period for which such revenues are surplus.

3. CASH COLLECTION

- 3.1 All monies due to the municipality must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis.
- 3.2 The respective responsibilities of the Chief Financial Officer and other heads of departments in this regard is defined in a code of financial practice approved by the municipal manager and the Chief Financial Officer, and this code of practice is attached as Annexure II to this policy.
- 3.3 The unremitting support of and commitment to the municipality's credit control policy, both by the council and the municipality's officials, is an integral part of proper cash collections, and by approving the present policy the council pledges itself to such support and commitment.

4. PAYMENTS TO CREDITORS AND EXPENDITURE MANAGEMENT

- 4.1 The Chief Financial Officer shall ensure that all tenders and quotations invited by and contracts entered into by the municipality stipulate payment terms favourable to the municipality, that is, payment to fall due not sooner than the conclusion of the month following the month in which a particular service is rendered to or goods are received by the municipality.

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- 4.2 This rule shall be departed from only where there are financial incentives for the municipality to effect earlier payment, and any such departure shall be approved by the Chief Financial Officer before any payment is made.
- 4.3 In the case of small, micro and medium enterprises, where such a policy may cause financial hardship to the contractor, payment may be effected at the conclusion of the month during which the service is rendered or within fourteen days of the date of such service being rendered, whichever is the later. Any such early payment shall be approved by the Chief Financial Officer before any payment is made.
- 4.5 Notwithstanding the foregoing policy directives, the Chief Financial Officer shall make full use of any extended terms of payment offered by suppliers and not settle any accounts earlier than such extended due date, except if the Chief Financial Officer determines that there are financial incentives for the municipality to do so.
- 4.6 The Chief Financial Officer shall not ordinarily process payments, for accounts received, more than once in each calendar month, such processing to take place on or about the end of the month concerned. Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques.
- 4.7 Special payments to creditors 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 prior to the normal month end processing.
- 4.8 The Municipal Manager must ensure that payment to creditors as effected within the prescripts of section 65 of the Municipal Finance Management Act.

5. CASH MANAGEMENT PROGRAMME

- 5.1 The Chief Financial Officer shall prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a monthly basis.
- 5.2 The estimate shall indicate when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments will have to be liquidated, and when – if applicable – either long-term or short-term debt must be incurred. Heads of departments shall in this regard furnish the Chief Financial Officer with all such information as is required, timeously and in the format indicated.
- 5.3 The Chief Financial Officer shall report to the Municipal Manager on a monthly or as and when required to every ordinary council meeting the cash flow estimate or revised estimate for such month or reporting period respectively, together with the actual cash flows for the month or period concerned, and cumulatively to date, as well as the estimates or revised estimates of the cash flows for the remaining months of the financial year, aggregated into quarters where appropriate.

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- 5.4 The cash flow estimates shall be divided into calendar months, and in reporting the Chief Financial Officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report. Such report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned.

6. INVESTMENT ETHICS

- 6.1 The Chief Financial Officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in consultation with the Municipal Manager, as the case may be, and in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance.
- 6.2 In making such investments the Chief Financial Officer, shall at all times have only the best considerations of the municipality in mind, and, except for the outcome of the consultation process with the Municipal Manager, as the case may be, shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties.
- 6.3 Neither the Chief Financial Officer nor the Municipal Manager, as the case may be, may accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than a token of goodwill by the donor, from any investment agent or institution or any party with which the municipality has made or may potentially make an investment.

7. LIMITING EXPOSURE

- 7.1 Where large sums of money are available for investment the Chief Financial Officer shall ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the municipality.
- 7.2 The Chief Financial Officer shall further ensure that, as far as it is practically and legally possible, the municipality's investments are so distributed that more than one investment category is covered (that is, call, money market and fixed deposits).

8. RISK AND RETURN

- 8.1 Although the objective of the Chief Financial Officer in making investments on behalf of the municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution and the investment instrument concerned.

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8.2 No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions.

9. PAYMENT OF COMMISSION

9.1 Every financial institution with which the municipality makes an investment must issue a certificate to the Chief Financial Officer in regard to such investment, stating that such financial institution has not paid and will not pay any commission and has not and will not grant any other benefit to any party for obtaining such investment.

10. CALL DEPOSITS AND FIXED DEPOSITS

10.1 Before making any call or fixed deposits, the Chief Financial Officer, shall obtain quotations from at least three financial institutions.

10.2 Given the volatility of the money market, the Chief Financial Officer, shall, whenever necessary, request quotations telephonically, and shall record in an appropriate register the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be relevant (for example, whether the interest is payable monthly or only on maturity, and so forth).

10.3 Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, e-mail or any other expedient means).

10.4 Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of the paragraph below) shall be paid over only to such institution itself and not to any agent or third party.

10.5 Once the investment has been made, the Chief Financial Officer shall ensure that the municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the municipality.

11. OTHER EXTERNAL INVESTMENTS

11.1 From time to time it may be in the best interests of the municipality to make longer-term investments in secure stock issued by the national government, Eskom or any other reputable parastatal or institution, or by another reputable municipality. In such cases the Chief Financial Officer, must be guided by the best rates of interest pertaining to the specific type of investment, which the municipality requires, and to the best and most secure instrument available at the time.

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12. RESTRICTION ON TENURE OF INVESTMENTS

- 12.1 No investment with a tenure exceeding twelve months shall be made without the prior approval of the Municipal Manager.

13. CONTROL OVER INVESTMENTS

- 13.1 The Chief Financial Officer shall ensure that proper records and investment register are kept of all investments made by the municipality.
- 13.2 Such records shall indicate the date on which the investment is made, the institution with which the monies are invested, the amount of the investment, the interest rate applicable, and the maturity date. If the investment is liquidated at a date other than the maturity date, such date shall be indicated.
- 13.3 The Chief Financial Officer shall ensure that all interest and capital properly due to the municipality are timeously received, and shall take appropriate steps or cause such appropriate steps to be taken if interest or capital is not fully or timeously received.
- 13.4 The Chief Financial Officer shall ensure that all investment documents and certificates are properly secured in a fireproof safe with segregated control over the access to such safe, or are otherwise lodged for safekeeping with the municipality's bankers or attorneys.

14. AVAILABLE FOR SALE INVESTMENTS

- 14.1 Available for sale financial assets are measured at fair value subsequent to initial recognition. This excludes equity investments for which a fair value is not determinable, which are measured at cost less accumulated impairment losses.
- 14.2 Dividends received on the available for sale investments are recognised in the statement of financial performance. Movement in the fair value is recognised directly in equity to a fair value reserve.
- 14.3 No investment with a tenure exceeding twelve months shall be made without the prior approval of the Municipal Manager, and without guidance having been sought from the municipality's bankers or other credible investment advisers on the security and financial implications of the investment concerned.

15. BANKING ARRANGEMENTS

- 15.1 The municipal manager is responsible for the management of the municipality's bank accounts, but may delegate this function to the Chief Financial Officer. The municipal manager and Chief Financial Officer are authorised at all times to sign cheques and any other documentation associated with the management of such accounts.

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- 15.2 One or more separate accounts shall also be maintained for the following: capital receipts in the form of grants, donations or contributions from whatever source; trust funds; and the municipality's self-insurance reserve (if legally permissible).
- 15.3 In determining the number of additional accounts to be maintained, the municipal manager, in consultation with the Chief Financial Officer, shall have regard to the likely number of transactions affecting each of the accounts referred to.
- 15.4 Unless there are compelling reasons to do otherwise, and the council expressly so directs, all the municipality's bank accounts shall be maintained with the same banking institution to ensure pooling of balances for purposes of determining the interest payable to the municipality.

16. RAISING OF DEBT

- 16.1 The municipal manager is responsible for the raising of debt, but may delegate this function to the Chief Financial Officer, who shall then manage this responsibility in consultation with the municipal manager. All debt shall be raised in strict compliance with the requirements of the Municipal Finance Management Act 2003, and only with the prior approval of the council.
- 16.2 Long-term debt shall be raised only to the extent that such debt is provided for as a source of necessary finance in the capital component of the approved annual budget or adjustments budget.
- 16.3 Short-term debt shall be raised only when it is unavoidable to do so in terms of cash requirements, whether for the capital or operating budgets or to settle any other obligations, and provided the need for such short-term debt, both as to extent and duration, is clearly indicated in the cash flow estimates prepared by the Chief Financial Officer.
- 16.4 Short-term debt shall be raised only to anticipate a certain long-term debt agreement or a certain inflow of operating revenues.

17. INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES

- 17.1 In managing the municipality's investments, the Chief Financial Officer shall ensure that, whenever a long-term (non-annuity) loan is raised by the municipality, an amount is invested at least annually equal to the principal sum divided by the period of the loan. Such investment shall be made against the bank account maintained for the external finance fund, and shall be accumulated and used only for the redemption of such loan on due date. The making of such investment shall be approved by the council at the time that the loan itself is approved.
- 17.2 If the loan raised is not a fixed term loan, but an annuity loan, the Chief Financial Officer shall ensure that sufficient resources are available in the

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account maintained for the external finance fund to repay the principal amounts due in respect of such loan on the respective due dates.

18. INTEREST ON INVESTMENTS

- 18.1 The interest accrued on all the municipality's investments shall, in compliance with the requirements of generally accepted municipal accounting practice, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and shall thereafter be appropriated, at the end of each month, to the fund or account in respect of which such investment was made.
- 18.2 In the case of the external finance fund, the Chief Financial Officer may reduce the amount which must be annually invested to redeem any particular loan by the amount of interest so accrued.
- 18.3 If the accrual of interest to the external finance fund, unutilised capital receipts and trust funds results in a surplus standing to the account of any such funds, that is, an amount surplus to the resources required in respect of such funds or accounts, such surplus amount shall be credited by the Chief Financial Officer to the appropriation account and re-appropriated to the asset financing reserve.

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19. Adoption of Policy

Municipal Manager
LETSEMENG LOCAL MUNICIPALITY

Date

Mayor
LETSEMENG LOCAL MUNICIPALITY

Date

COUNCIL RESOLUTION NUMBER.....