

MERAFONG CITY LOCAL MUNICIPALITY



BP5 CASH MANAGEMENT POLICY

CASH MANAGEMENT AND INVESTMENT POLICY

Policy: Cash Management and Investment	Effective Date: 01 July 2021
Approved:	Review Date: 31 March 2021

Notwithstanding the review date herein, this policy shall remain effective until such time approved otherwise by Council and may be reviewed on an earlier date if necessary.

PREAMBLE

In an attempt to ensure that the municipal budget processes are effectively and efficiently followed by all Department within the Merafong City Local Municipal area of jurisdiction, and in order to ensure that basic services are delivered to the communities timeously as required by the ***Constitution of the Republic of South, Municipal Systems Act No. 32 of 2000, Municipal Finance Management Act No. 56 of 2003***, and other government regulations, the Merafong City Local Municipality hereby approves the Cash Management, **Investment and Borrowing Policy**.

Merafong City is under pressure to generate revenue as a result of political landscape, the COVID-19 pandemic, weak tariff setting and increases in key cost drivers to provide basic municipal services. Customers' ability to pay for services is declining, which means that less revenue will be collected.

In order to achieve financial sustainability, the Council must demonstrate the political will to implement the changes required to improve the municipality financial and non-financial performance. Failure of the Council to deliver on its mandate may lead to provincial and/ or national government to intervene.

DEFINITIONS

In this policy the following words shall have the meanings assigned as follows: -
“Act” means the ***Local Government: Municipal Finance Management Act, 2003*** (Act 56 of 2003),

“Accounting Officer” refers to the Municipal Manager of the municipality,

“Asset Finance Fund / AFF” A fund established by the municipal council for the purpose of financing capital projects for the municipality,

“Finance and Service Delivery Committee” refers to the committee of council dealing with the financial affairs of the municipality,

“Finance Department” refers to the municipal department dealing with the financial affairs of the municipality,

“Chief Financial Officer” refers to the head of the Budget and Treasury Business Unit of the municipality,

“Investment Panel” refers to the committee responsible for managing municipal investments, (Do we have th

“Investment Register” refers to an electronic spreadsheet which contains details of all municipal investments,

“Investment Regulations” refers to the regulations as prescribed under the MFMA (Act No. 56 Of 2003) through Government Gazette No. 27431 dated 1 April 2005.

“Investment Manager” means a natural person or legal entity that is a portfolio manager registered in terms of the *Financial Markets Control Act, 1989* (Act No. 55 of 1989), and *Stock Exchanges Control Act, 1985* (Act No. 1 of 1985), contracted by the municipality to: -

- (a) advise on investments or
- (b) manage investments on **behalf of Council**.

“Liquidity” refers to a financial ability of the municipality or any other company to service its debts when falling due,

“Long-term investments” refers to any cash or liquid securities owned by Merafong City Local Municipality which have a maturity date, and/or callable date reasonably expected to be exercised, that is greater than one year.

“MFMA” refers to the *Municipal Finance Management Act*, (Act 56 of 2003),

“Minister” refers to a Cabinet member responsible for finance,

“Optimal Yield” refers to maximum interest earned on investment,

“**Policy**” refers to the Cash Management, Investment and Borrowing Policy of the Merafong City Local Municipality.

“**Short-term investments**” refers to any cash or liquid securities owned by Merafong City Local Municipality which have a maturity date, and/or callable date reasonably expected to be exercised, that is equal to or less than one year.

1. LEGAL COMPLIANCE

In terms of Section 13 (2) and Chapter 6 of the Municipal Finance Management Act (Act no. 56 of 2003), the municipality is required to establish an appropriate and effective **Cash Management, Investment and Borrowing Policy**, consistent with the Municipal Cash Management and Investment Regulations under Government Gazette No: 27431

All investment and cash management decisions must be in accordance with this policy.

2. SCOPE OF THE POLICY

This policy applies to matters of **cash management, investment and borrowing** at the Merafong City Local Municipality or anybody established under the municipality’s area of jurisdiction.

3. OBJECTIVES OF THE POLICY

The objectives of the **Cash Management, Investment and Borrowing** Policy of the Merafong City Local Municipality are as follows: -

- (a) Ensuring that cash resources are managed efficiently and effectively,
- (b) Ensuring that investments are placed with reputable institutions, for the purpose of safety of capital investment, and diversification of the Investment Portfolio,
- (c) Ensuring that adequate liquidity is maintained at all times, for management of cash-flows,
- (d) Ensuring that the municipality receives optimal yield / interest on its investments with financial institutions, at minimal risk,

- (e) Striving for reasonable growth on capital investments in addition to interest earned on investments,
- (f) Ensuring that monies due to Council are collected and banked appropriately as soon as they are received, and
- (g) Ensuring that payments to creditors are made by the due dates.
- (h) Managing interest rate and credit risk exposure.
- (i) Maintaining debt within specified limits and ensuring adequate provision for the repayment of debt.

4. EFFECTIVE CASH MANAGEMENT

All efforts must be made to ensure that: -

- Collection of Cash / Revenue,
- Payment of Creditors, **with priority to Eskom and Randwater**
- Management of Proper Cash Flows **on weekly basis**
- Administration of Banking Accounts, and
- Petty Cash Procedures are properly maintained to ensure that excess cash is invested effectively and efficiently, to the benefit of the Merafong City Local Municipality.

4.1 Collection of Cash / Revenue

The cash collection process as determined by Chapter 9 of the Local Government: Municipal Systems Act (Act 32 of 2000), the Credit Control Policy of Merafong City Local Municipality, and all other legislative requirements, should at all times be adhered to. All joint efforts must at all times be made to ensure that all the stakeholders (e.g. councillors, ward committee members, employees of the municipality, the business community, the church fraternity, all ratepayers, etc.) of the municipality are encouraged on paying for municipal services through various means (e.g. community radio stations, newspapers, Imbizo, etc.), and be informed about the implications of non-payment for services.

At the end of the day all cashiers working for Merafong City Local Municipality should balance their cashier statements. Should there be any shortages it must be settled by the cashier before the end of that business day. When the bank notifies Merafong City Local Municipality regarding a Shortage Banked the amount that is short will be collected from the relevant cashier's supervisor.

4.2 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 the 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, with the sole agreement of the Chief Financial Officer.

Payments of creditors must be done within thirty days or early where possible within the financial capacity of the municipality, after the service is rendered or goods are supplied to the municipality.

Wherever possible, payments must be effected by means of electronic transfers rather than by cheques, in an attempt of savings in bank charges.

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.

4.3 Management of Cash-flow

The Manager Expenditure shall maintain a **cash-flow system**, and ensure that funds not immediately required are invested on a daily basis. All Departments or Directorates shall in this regard furnish the Chief Financial Officer or his/her delegate with their respective cash-flow needs on a monthly basis, clearly indicating possible future dates of payments, as well as any possible inflow of cash from other sources of finance arranged by Departments themselves.

4.4 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 must be delegated in writing to the Chief Financial Officer. The Municipality must inform the National Treasury and Auditor General in terms of section 86 (MFMA) of the banking details of the Municipality.

The Council must maintain financial health, with specific reference to:-

- Its cash and investments, and its funding of commitments (Tables A7 & A8, Table B7 & B8; and Schedule C of Annual Budget in line with Municipal Budget & Reporting Regulations.
- Cash coverage of normal operation as per Council Table SA 10 Budget Schedule.

- Creditors outstanding for more than 30 days. Along with reasons for delayed settlements
- Current collection levels and debtors outstanding for more than 30 days and
- The extent of existing loans and associated finance and redemption payments

4.5 Petty Cash Procedures

All petty cash procedures relating to the following:-

- Petty Cash Limits,
- Petty Cash Custodians per Department or Directorate,
- Balancing / Reconciliation of Cash Floats,
- Petty Cash Requisitions and Authorisations,
- Petty Cash Registers,
- Supporting Documents, etc.

must be handled in terms of the Petty Cash Procedure as determined by the Chief Financial Officer.

5. INVESTMENT ETHICS AND MISCELLANEOUS PROVISIONS

The following ethics, principles and procedures shall apply: -

- The Chief Financial Officer shall be responsible for managing municipal investments,
- The Municipal Manager may through a council resolution appoint a qualified investment manager to assist the Chief Financial Officer in discharging his obligations of managing municipal investments,
- 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 to any municipal Official or Councillor relating to the investment,

- With reference to section (11) of the MFMA dealing with Cash Management, the responsibility for short term investments lies with the Municipal Manager and is delegated to the Chief Financial Officer and the long term investments authority is vested with the Council.
- The Chief Financial Officer must ensure that all investments are not invested at one institution to limit the risk of cash loss of the municipality. Any investment must be authorized by the Council.
- No Officials or Councillor may accept any gift or commission, that is cash or otherwise from the Investors or Financial Service Providers who has made or may potentially make an investment.
 - The municipality may not borrow money for the purpose of investments,
 - The Chief Financial Officer shall ensure that interest on investments and capital invested is received and receipted when due, and the Chief Financial Officer is permitted to levy a penalty for default (based on the Rate applicable at that time) in the payment of interest due or capital invested by a financial institution,
 - Any risk arising from any investment transaction rest with the municipality.

6. STANDARD OF CARE

All investments made by a municipality, through municipal officials, or by an investment manager on behalf of the municipality must be made with such judgment 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 be maintained when making investments.

7. PERMITTED INVESTMENTS

The municipality may only 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 an internationally recognized credit rating agency,
- (d) Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioner's Act, 1984 (Act 46 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.

8. PROHIBITION OF INVESTMENTS DENOMINATED IN FOREIGN CURRENCY

The municipality may not place investments denominated in foreign currencies.

9. PAYMENT OF COMMISSION

In compliance with Section 8 of the Municipal Investment Regulations:-

- No fee, commission or other reward may be paid to a councillor or official of a municipality or to a spouse or close family member of such councillor, or official in respect of any investment made or referred by a municipality.
- Any commission, fee or other reward paid to an **investment manager** in respect of any investment made on behalf of the municipality must be declared

to the council of the municipality by way of a certificate disclosing full details of the payment.

10. REPORTING REQUIREMENTS

10.1 The Municipal Manager must, within 10 working days after the end of each month, submit to the Executive Mayor a report describing, in accordance with generally recognized accounting practice, the investment portfolio as at the end of the month. The report must set out the following:

10.2 The report in terms of the paragraph 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,

10.3 The Municipal Manager must report to the National Treasury and Council whenever the consolidated bank balances shows a net overdrawn balance for a period exceeding “14 working days” (two weeks).

10.4 The report in terms of 10.3 must at a minimum provide: -

- The amount by which the accounts are overdrawn,
- Reasons for the overdrawn accounts, and
- Steps taken or to be taken to correct the situation.

11. INVESTMENT DIVERSIFICATION

The Chief Financial Officer must take all reasonable and prudent steps, standard of care, to diversify the municipality’s investment portfolio across institutions, types of investments and investment maturities.

The Chief Financial Officer must ensure that municipal investments are placed equitably amongst the approved financial institutions. No more than 75% of municipal investments must be placed with one institution, and in instances where valid reasons for deviation exist, such deviation be done with the approval of the Council. The Municipal Manager must review the investment limits with approved financial institutions at least once a financial year, or whenever the need exist for a review.

12. ACCOUNTING FOR TRUST FUNDS

Unless required otherwise by trust deeds, trust funds will be invested within the terms of this policy but be recorded separately in the Merafong City Local Municipality's accounting system. If pooled with Municipality investments, trust funds will earn the average interest rate applicable to the municipality. The requirements as stipulated by Trust Deed will take priority.

13. ESTABLISHMENT OF AN INVESTMENT COMMITTEE

The Accounting Officer is responsible for establishing an "Investment Committee" which will be responsible for all investment related matters of the municipality, including decisions for placing investments, setting investment limits.

The following are officials responsible for investment related matters, or form part of the Investment Committee: -

- (a) Municipal Manager;
- (b) Chief Financial Officer; and
- (c) Manager Expenditure

14. ACCOUNTING TREATMENT OF INTEREST EARNED ON INVESTMENTS

The interest accrued on all municipal investments shall, in compliance with the requirements of Generally Recognised Accounting Practice (GRAP), be budgeted for and recorded in the first instance in the municipality's operating account (income statement) as ordinary operating revenues, and may thereafter be appropriated to the fund or account in respect of which such investment was made depending on the conditions which apply to the fund or account.

Interest earned on municipal investments can also be appropriated through a Council Resolution to any funding priorities of the municipality.

15. AUTHORITY

Formulation Policy	:	Acting Chief Financial Officer
Authorisation Policy	:	Council
Ownership & Maintenance Manager	:	Manager: Expenditure