

# MALUTI-A-PHOFUNG LOCAL MUNICIPALITY

## CASH MANAGEMENT AND INVESTMENT POLICY

### DEFINITIONS

<b>CFO</b>	An officer of a municipality designated by Municipal Manager to be administratively in charge of the budgetary and treasury functions..
<b>Councillor</b>	a member of the Maluti A Phofung Municipal council
<b>Current Liabilities</b>	Current and existing obligations which are due and payable within the subsequent twelve months including but not limited to <ul style="list-style-type: none"><li><input type="checkbox"/> Creditors</li><li><input type="checkbox"/> Bank Overdrafts and</li><li><input type="checkbox"/> Short term portion of the long term liabilities</li></ul>
<b>Investments</b>	<input type="checkbox"/> funds not immediately required for the defraying of expenses and invested at approved financial institutions
<b>Municipal Manager</b>	a person appointed in terms of section 83 of the Municipality Structures Act, 1998 (Act 117 of 1998) as the head of municipality administration;.
<b>Municipal Stock</b>	Stock certificate issued by 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.
<b>Negotiable Certificate</b>	A loan certificate that is tradable on the capital market.
<b>Current asset (inventory-perishable goods, Debtors and Cash)</b>	An asset that would, in the normal course of operations, be consumed or converted to cash within 12 months after the last reporting date.
<b>Public Funds</b>	all monies received by the municipality to perform the function allocated to them.

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<b>Security</b>	a lien, pledge, mortgage, cession or other form of collateral intended to secure the interests of the creditor
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### 1. OBJECTIVES

To ensure:

- 1.1. Prudent investment of surplus cash
- 1.2. Risk averse cash handling procedures
- 1.3. Completeness of cash collections
- 1.4. Timeliness of cash collections and banking
- 1.5. Maintaining favourable liquidity status, wherein the municipality holds adequate cash or favourable bank balance in order to settle its obligations as and when they become due and payable.
- 1.6. Continuously seek investment opportunities for surplus cash with an authorized financial services provider in a minimum risk investment exposure.

### 2. CURRENT ASSETS MANAGEMENT PRILCIPLES

- 2.1. Current Assets Management including cash on hand debtors and any other short term investments is the responsibility of the accounting officer at Maluti-A-Phofung Local municipality in line with the National Treasury Regulation (Regulation ) and the Municipal Finance Management Act
- 2.2. Inherent within the delegations of powers or duty (ies) the municipal manager delegates some of these duties to the Chief Financial Officer by whatever designation, who in turn delegates some of these to all persons appointed within the approved organizational structure of the Maluti-A-Phofung Local Municipality.

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- 2.3. Inherently all persons appointed by the municipality are expected to act with fidelity, honesty, and in the best interest of the Maluti-A-Phofung Local Municipality.
- 2.4. Prevent all potential prejudice/damage to the financial interest of the municipality
- 2.5. Utilize municipal resources inclusive of capital and operational assets prudently, effectively and efficiently for the benefit of the municipality and the community living within its jurisdiction

### 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 principles.
- 3.5. General investment practice
- 3.6. Call and fixed deposit
- 3.7. Other external deposit
- 3.8. Control over investment

### 4. RESPONSIBILITY / ACCOUNTABILITY

- 4.1. In line with the Municipal Systems Act, the council shall only delegate to an executive committee or executive mayor or chief financial officer decisions to make investments on behalf of the municipality within a policy framework determined by the Minister of Finance.
- 4.2. The chief Financial Officer shall, in terms of the delegation of powers **and in consultation with the Municipal Manager**, be responsible for.

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- 4.2.1.establishing systems,
- 4.2.2.procedures,
- 4.2.3.processes and
- 4.2.4.training and awareness programmes to ensure efficient and effective management of net current assets banking and cash management.

### 5. CURRENT ASSETS MANAGEMENT

Current assets management shall include the following:

- 5.1. Collecting revenue when it is due and receivable in line with the credit control policy;
- 5.2. Pay current liabilities as and when they become due and payable, including transfer to other levels of government entities;
- 5.3. Avoiding pre-payments for goods or services ( i.e. payments in advanced of the receipts of goods or services), unless required by the contractual arrangement with the supplier;
- 5.4. Accepting discounts to effect early payments only when the payments has been included in the monthly cash flow estimates provided to the relevant treasury;
- 5.5. Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the municipality are collected and banked promptly;
- 5.6. Timing the inflow and outflow of cash;
- 5.7. Recognizing the time value of money, i.e. economically, efficiently managing cash;

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- 5.8. Taking any other action that avoids locking up money unnecessary and inefficiently for efficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or under utilised assets;
- 5.9. Avoiding bank overdrafts;
- 5.10. Management of net current assets
- 5.11. Debt collections; (The municipal council must set a target for debt collection. The target must be expressed as a percentage of potential income and/or the turnover rate of debtors)
- 5.12. Cash collected should be banked daily. Cash collected after the daily banking has been executed but during office hours should be restricted to authorized persons only, until the next business day when such cash should be banked.
- 5.13. The level of cash on hand at any particular day should not exceed the amount comprehensively insured to be on site at any given time.
- 5.14. In the event that such amount of money as may be insured has been reached prior end of business day, the Chief Financial Officer shall apply his discretion on a risk adverse approach whether to keep the excess not covered within the premises or to bank the excess.
- 5.15. All monies owing to the council must be collectively reflected in the debtors system.
- 5.16. Any deferment of payment by an existing debtor should be allowed within the prescription of the credit control policy

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5.17. Where the municipality has entered into an agency relationship for collection of money, such collected money should be deposited in the bank account of the council in the manner prescribed by the Municipal Manager, preferably within seven days

### 6. RECEIPT OF PAYMENTS

#### 6.1. Receipt of the money over the counter

- Every amount of payments received by a cashier or other officer responsible for a receipt of money shall be acknowledge at once by the issue of the sequentially numbered official receipt or cash ticket; and
- Every receipt form, which is cancelled, will be reattached in the correct place in the receipt book. Where a computer generated receipts are used, the original receipt must be filed for audit purposes.

#### 6.2. Receipt of money by Post

- At least two persons shall open the post on a daily basis at the same time
- When money (including postal orders and cheques) is received with the council's mail, the official responsible shall record all payments remittances as and when received in the register of money received through post. Post dated cheques received in the council's mail must also be recorded in the cheque register. The cheque register must be regarded as the register of the remittances received by post;

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6.2.1. Amongst the contents of the cheque or remittance register shall be

- Date of receipt;
- Payee;
- Indication on whether the cheque is restricted against transferability; Indication that no alteration on the specific cheque had been observed at the opening of remittance;
- Where possible indication on the designated account to which the amount on the cheque is to be applied;
- Possible indication of the persons present during the remittance/cheque opening session.
- Receipt number issued for the cheque received.

6.3 The cheque must be registered together with all remittances received must be sent to a designated official in the finance section.

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

6.5 The cashier will receipts all receipt in the cheque register and return same to registry. The Registry clerk must ensure that all receipt numbers are recorded in the cheque register;

6.6 All documents relating to remittance received in the mail must be filled for audit purposes;

## 7. MANAGEMENT OF INVENTORY (STOCK)

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

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

7.3. A stock register, reflecting the under mentioned detail must be kept and updated daily; amongst others it shall include

- Item description;
- Stores code number;
- Transaction date;
- Goods received.
- Delivery note number;
- Number of items received; and
- Value of item received
- Goods issued
- Requisition number; and
- Number of item issued.
- Stock item number
- Balance of items in stock

7.4. Stock count must be executed monthly and an annual report reflecting stock shortage and surpluses must be submitted to council as at 30 June of each financial year. All surpluses and shortage must be explained by the accountable head of department.



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### 8. MANAGEMENT OF CASH

8.1. In order to establish and maintain effective cash management programme, 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 weekly basis. 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.

8.2. Cash float allocation to cashiers shall vary between R 2,000 and R 3,000 at different pay point / receipting points based on the operational needs as determined by the Chief Financial Officer.

8.3. The petty cash of the municipality shall be kept at the minimum level required to finance the day to day operation of the municipality. For this purpose a daily, weekly, monthly and annual cash flow forecast are required.

8.4. A maximum threshold of R5 000, or any other amount as the council may from time to time determine, shall be applicable to be the maximum cash to be held in relation to minor disbursements by the council. Disbursements from the petty cash shall not exceed an initial amount of R 200, or any other amount that the council may determine from time to time.

8.5. Sufficient provision must be made to the payment of:

- Salaries;
- Bulk purchases of water and electricity;
- General expenditure;
- Capital cost (Interest and redemption);

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- Maintenance and repairs
- Payment to the creditors involved in capital projects
- Contractual obligations including lease contracts; and.
- Payment of Creditors

8.6. Due to the high bank charges with regard to cheque payments per creditors per month. Should the facility be available, payment shall be done by electronic transfer-subject to strict control measures.

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

8.8. If discounts are offered by early settlement they must be properly considered and utilized

8.9. Creditor's statement must be reconciled monthly in line with the accepted practice of creditor's reconciliation and any differences between the creditor's statement and the creditor's General Ledger balance investigated as and when they are noticed.

8.10. Payment must only occur on receipt of an official order, certified good received note and official company tax invoice.

### 9. MANAGEMENT OF BANK OVERDRAFT

9.1. The municipality shall apply for a Bank Overdraft facility / increase the current facility for the municipality 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.

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9.2. The municipality must pay off bank overdraft or any short-term debt within the financial year that it was incurred; and shall not renew or refinance a bank overdraft or short-term debt, whether its own debt or that of any other entity, where such renewal or refinancing will have the effect of extending the overdraft or short-term debt into a new financial year.

9.3. 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.

### 10. PERMITTED INVESTMENTS

10.1. The minister of Cooperative Affairs and Traditional Leaders may with the concurrence of the Minister of Finance by notice in the Government Gazette determine instruments or investments other than those referred to below in which Municipality may invest:

- Deposit with banks registered in term of the Banks Act,94 of 1990
- Securities issued by the National Government;
- A Municipality own stock or similar type of instrument;
- Internal funds of a municipality which has been established in term of a law to pool money available to the municipality and to employ such money for the granting of loans or advanced to department within a municipality, to finance capital expenditure;
- Bankers, acceptance certificates or negotiable certificate of deposit of banks;
- Long term security offered by insurance companies in order to meet the redemption fund required of municipality; and

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- Any other instruments or investment in which a municipality was under a law permitted to invest before the commencement of the Municipal Finance Management Act: Provided that such instruments shall not extend beyond the date of maturity or redemption thereof.

### 11. CASH FLOW ESTIMATES

- 11.1. Before money can be invested, the Chief Financial Officer or his/her delegates must determine whether there will be surplus funds available during the term of the investment.
- 11.2. In order to be able to make investments for any fixed term, it is essential that cash flow estimates be drawn up.
- 11.3. Provision must be made in the cash flow estimates for the operating and capital requirements of the municipalities.
- 11.4. From time to time the council will have surplus funds available which are not needed immediately and which could be invested. Depending on the circumstances some funds could be invested for a long term whilst others would only be short-term investment. Surplus funds in the current account may also be invested for short periods or days.

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11.5. Investments should be made with an institution of minimum risk and according to the following framework:

- Preferably with operating branch within the jurisdiction of the municipality.
- Not more than 20% of available funds should be placed with a single institution; and
- The amount should not exceed 10% of the relevant institution's shareholder's funds ( Capital and reserves)

## 12. INVESTMENT ETHICS

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

12.1. In making any 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 Executive Mayor, shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties.

12.2. Council may at its discretion employ, in accordance to the supply chain management policy, the use of specialist advisors to provide advice on investments from time to time.

12.3. Specialist advisors are not entitled to commission.

12.4. Specialist advisors may not directly invest funds on behalf of Council.

12.5. All investment must be made by the Municipal Manager or the official to whom responsibility to make investment has been delegated.

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12.6. Under no circumstances may the municipal manager or any member of staff or council be forced or bribed into making an investment.

12.7. The Chief Financial Officer or his/her delegate must act according to their discretion and must report any serious cases of payment in kind or gifts, to the council.

12.8. Excessive gifts and hospitality should however be avoided.

12.9. Interest rates offered should never be divulged to another institution

### 13. INVESTMENT PRINCIPLES

13.1. Exposure to a single institution:

- A materiality figure should be established in order to assess how much can be invested with one authorized financial services provider.
- Where the excess over the materiality level is considered to be immaterial, the whole amount can be invested with the single financial services provider.

13.2. Risk and return:

- It can be accepted as a general rule that the larger the return, the greater the risk.
- Borrowing money for reinvestment (Speculative 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.

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### 13.3. Registered financial institutions:

- If the Chief Financial Officer or his/ her delegates invests with financial institutions, he/she must ensure that such institutions are registered in terms of the Bank Act 94 of 1990 and that they are approved financial institutions-as approved by the Reserve Bank, from time to time.

### 13.4 Growth -related Investment:

- When making investment, the Chief Financial Officer or his/her delegate must have guarantee that at least the capital amount invested will not reduce other than through known service charges and must exercise due diligence in this regard.

## 14. GENERAL INVESTMENT PRACTICE

### 14.1. General

Prior to making an investment, a supply chain policy must be complied with.

### 14.2. Commission certificate

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

### 14.3. Reports

The council must be presented with quarterly reports on all investments.

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### **14.4. Cash in the bank**

Where money is kept in current account, it would be possible to bargain for more beneficial rates with regards to deposits, for instance call deposit. 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.

### **14.5. Creditworthiness**

When investments are placed with smaller registered institutions, the Chief Financial Officer or his/her delegates has to see to it that the creditworthiness and performance of the institution are to his/her satisfaction, before investing money in the institution

The Chief Financial Officer or his/her delegates is entitled to information from which the creditworthiness of financial institutions can be obtained and analysed annually.

### **14.6. Call and Fixed Deposits**

Quotation should be obtained in line with the supply chain management policy, bearing in mind the limits of the term of which intended to invest the funds. Should one of the institutions offers a better rate for a term, other than what a municipality had in mind, the other institutions which were approached, should also be asked to fix for that long term.

It is acceptable to get quotation telephonically, although least preferred, 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:



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- Name of institutions;
- Name of person quoting rate
- Period of the investment
- Relevant terms; and
- Other facts i.e. are interested payable monthly or on maturation date.

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

Once the required number of quotes has been obtained, a decision must be taken regarding the best term 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 principles. No attempts 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 institutions 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.

The above procedure must be followed for all investments.

The Chief Financial Officer or his/her delegate must make sure that the investment document received is a genuine, issued by an approved institution, and the investment capital must only be paid over to the institution with which it is to be invested and not to an agent.

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### 14.7. Other External deposits

Other investment possibilities, which are subject to the applicable legislation and are available to the council, include debenture and other securities of the state as well as other municipalities or statutory bodies in the Republic, the principles and practices set out above must apply.

### 14.8. Control over investment

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

- Name of institution,
- Capital investment,
- Date invested,
- Interest rate,
- Maturation date,
- Interest received,
- Capital repaid; and
- Confirmation numbers

The investment register and accounting records must be reconciled on monthly basis.

The investment register must be examined on a monthly basis to identify investment falling due within the next two months. It must then be established as what to do with the funds, bearing in mind the cash flow requirements.

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Interest, correctly calculated, must be received timeously, together with any distribution capital. The Chief Financial Officer or his/her delegates must verify that the interest is calculated correctly.

Investment document and certificate must be safeguarded in a fire resistance safe, with dual custody. The following documents must be safeguarded:

- Fixed deposit letter or investment certificate,
- Receipt for capital invested,
- Copy of electronic transfer or cheque requisition,
- Excel schedule of comparative investment Figures,
- Commission certificates indicating no commission was paid on the investment and
- Interest rate quoted.

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