**Inkosi Langalibalele Municipality**



**BANKING, CASH MANAGEMENT AND INVESTMENT POLICY**

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**1. Scope of the Investment Management Policy**

Investment policy is in accordance with the requirements of section 13 (1) (b) of the Municipal Finance Management Act and any further prescriptions made by the Minister of Finance.

1. **DEFINITIONS**

In this policy, unless the context indicates otherwise, a word or expression, to which a meaning has been assigned in the Municipal Finance Management Act (MFMA) No. 56 of 2003, has the same meaning.

**‘‘accounting officer’’** meansthe municipal manager of a municipality for the purposes of this policyin relation to a municipality, and includes a person acting as the accounting officer;

**‘‘Auditor-General’’** means the person appointed as Auditor-General in terms of section 193 of the Constitution, and includes a person as acting as Auditor-General, designated by the Auditor-General to exercise a power or perform a duty of the Auditor-General;

**‘‘chief financial officer’’** means a person designated in terms of section 80(2) (a) of the MFMA;

**‘‘creditor’’** in relation to a municipality, means a person to whom money is owing by the municipality;

**‘‘debt’’** means a monetary liability or obligation created by a financing agreement, bond or overdraft, or by the issuance of municipal debt instruments; or a contingent liability such as that created by guaranteeing a monetary liability;

**‘‘debt agreement’’** means any loan agreement under which a municipality undertakes to repay a long-term debt over a period of time;

**‘‘financial year’’** means a year ending on 30 June;

**“Investee”** means an institution with which an investment is placed or its agent;

**‘‘investment’’** in relation to funds of a municipality, means-

1. the placing on deposit of funds of a municipality with a financial institution;
2. the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

**‘‘lender’’** in relation to a municipality, means a person who provides debt finance to a municipality;

**‘‘long-term debt’’** means debt repayable over a period exceeding one year;

**“Long-term investments”** means any cash or liquid securities owned by a

municipality which have a maturity date, and/or callable date reasonably expected to be exercised, that is greater than one year;

**‘‘month’’** means one of the 12 months of a calendar year;

**‘‘municipal council’’** means the council of Inkosi Langalibalele Local Municipality;

**‘‘municipal entity’’** has the meaning assigned to it in section 1 of the Municipal Systems Act;

**‘‘municipality’’** means Inkosi Langalibalele Local Municipality;

**‘‘municipal manager’’** means a person appointed as the accounting officer of the municipality;

**‘‘Municipal Systems Act’’** means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

**‘‘primary bank account’’** means the main bank account referred to in section 8(1) of the MFMA;

**‘‘short-term debt’’** means debt repayable over a period not exceeding one year;

**“Short-term investments”** means any cash or liquid securities owned by the municipality which is having a maturity date and/or callable date reasonably expected to be exercised, that is equal to or less than one year.

1. **OBJECTIVE** **OF POLICY**

3.1 The Council 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, and in a manner which will ensure that sufficient cash resources are available to finance the capital and operating budgets of the Municipality.

3.2 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.

3.3 To obtain the optimal balance between available cash and cash investments.

3.4 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. To ensure investments that will provide reasonable returns for the Municipality:

1. The Municipality shall take all reasonable and prudent steps, consistent with its investment policy and according to the standard of care as prescribed in its investment policy, to diversify its investment portfolio across institutions, types of investments and investment maturities.
2. The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements.
3. The investment portfolio shall be designed with the objective of attaining a maximum rate of return subject to the investment risk constraints and liquidity requirements of the Municipality.
4. **LEGAL COMPLIANCE**

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. A paraphrase of the provisions of this Act is attached as Annexure I to this policy.

1. **EFFECTIVE CASH MANAGEMENT**

5.1 Cash Collection

a) 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. The bank reconciliation should be prepared on a daily basis. Every month end it must reflect agreeing balances between the balances as per bank statement and that arrived at by the Municipality in its bank account in terms of Bank and Cash, as per the Municipal GRAP Manuals. Prepared bank reconciliations must be reviewed by the Chief Financial Officer within five (5) days after the end of each month. The Chief Financial Officer must investigate any irregularities and report them to the Accounting Officer. 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.

b) The unremittent 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.

5.2 Payments to Creditors

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. 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.
2. 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 (14) 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.
3. 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. 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.
5. 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.

5.3 Cash Management Programme

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. 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.
2. The Chief Financial Officer shall report to the Executive Committee or the Executive Mayor, as the case may be, on a quarterly basis and 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.
3. 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.
4. **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 Accounting Officer or Chairperson of the Executive Committee, 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 Accounting Officer or Chairperson of the Executive Committee, 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 Accounting Officer or Chairperson of the Executive Committee, 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. INVESTMENT PRINCIPLES**

7.1 Limiting Exposure

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. 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).

7.2 Risk and Return

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. 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. Deposits shall be made only with registered deposit-taking institutions (see 6.4 below).

7.3 Payment of Commission

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.

7.4 Call Deposits and Fixed Deposits

1. Before making any call or fixed deposits, the Chief Financial Officer, shall obtain quotations from at least three financial institutions. 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).
2. Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, email or any other expedient means).
3. Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of part 7 below) shall be paid over only to such institution itself and not to any agent or third party.
4. 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.

7.5 Restriction on tenure of investments

No investment with a tenure exceeding twelve months shall be made without the prior approval of the Accounting Officer or the Executive Committee, as the case may be.

7.6 Registered Financial Institutions

When investments are made with financial institutions, council should ensure that the institution is registered

In terms of the Deposit Taking Institutions Act of 1990 and / other applicable legislation.

8. **INVESTMENT PROCEDURES AND REPORTING**

8.1 After determining whether there is cash available for investment and fixing the maximum term of investment, the Municipal Manager must consider the way in which the investment is to be made.

8.2 Short-term Investment:

1. The term of Investment shall not be more than 3 months
2. Quotations must be obtained from a minimum of three financial institutions, for the term of which the funds will be invested.
3. Should one of the institutions offer a better rate for a term, other than the term originally quoted for, the other institutions which were approached, must also be asked to quote a rate for the other term.
4. Quotations can be obtained telephonically, as rates generally change on a regular basis and time is a determining factor when investments are made.
5. The person responsible for requesting quotations from institutions must record the following:-
6. name of institution;
7. name of person quoting rates;
8. period of the investment
9. relevant terms; and
10. Other facts i.e. are interest payable monthly or on maturation date.
11. 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.
12. No attempts must be made to make institutions compete with each other.
13. Once a quote has been accepted written confirmation of the details must be obtained from the financial institution.
14. The investment capital must only be paid over to the institution with which it is to be invested and not to an agent.
15. The financial institution where the investment is made must issue a faxed or written confirmation stating the details of the investments.
16. The Chief Financial Officer must ensure that the investment document received is authentic.
17. The financial institution, where the investment is made, must issue a confirmation for each investment made stating 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.
18. The Council must be given a quarterly report on all investments.
    * + - * The Accounting Officer of the Municipality must within ten (10) working days of the end of each month submit to the Mayor of the Municipality or the board of directors of the municipal entity a report describing in accordance with generally recognised accounting practice the investment portfolio of the Municipality as at the end of the month.
          * The report referred to in subsection (i) above and as set out in the Government Gazette No: 27431, published Municipal Investment Regulations, must set out at least:- - the market value of each investment as at the beginning the reporting period;

- additions and changes to the market value during the period;

- ending market value for the period;

- fully accrued interest/yield for the reporting period.

1. Where money is kept in current accounts, the Municipality must bargain for more beneficial rates with regards to deposits.

8.4 Long-term investments:

1. Written quotations must be obtained for all investments made for periods longer than twelve months.
2. The prior approval of the Accounting Officer or the Executive Committee must be obtained for all investments made for periods longer than twelve months after considering the cash requirement for the next three years.

8.5 Re-investment

1. Upon maturity of the investment the Council:-
2. Shall withdraw the whole amount invested
3. Shall make quotations from various Financial Institutions approved by Council, and
4. Shall re-invest 100% interest plus the original amount that had been invested, unless if Council wishes to utilize the original money or the interest.

**9. CONTROL OVER INVESTMENTS**

9.1 The Chief Financial Officer shall ensure that proper records are kept of all investments made by the Municipality. Such records shall indicate the following facts:

Name of institution;

1. capital invested;
2. date invested;
3. interest received;
4. interest rate;
5. maturation date;
6. capital repaid; and
7. balance invested.

9.2 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.

9.3 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.

1. **BANKING ARRANGEMENTS**

10.1 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. The Municipal Manager, in consultation with the Chief Financial Officer, is authorised to appoint two or more additional signatories in respect of such accounts, and to amend such appointments from time to time. The list of current signatories shall be reported to the Executive Committee or the Executive Mayor, as the case may be, on a quarterly basis, as part of the report dealing with the Municipality’s investments.

10.2 In compliance with the requirements of good governance, the Municipal Manager shall open a bank account for ordinary operating purposes, and shall further maintain a separate account for each of the following: the administration of the external finance fund and of the asset financing reserve (if these accounts are legally permissible). 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). 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. 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.

10.3 The Municipal Manager shall invite tenders for the placing of the Municipality’s bank accounts within six months after the election of each new Council, such new banking arrangements to take effect from the first day of the ensuing financial year. However, such tenders may be invited at any earlier stage, if the Municipal Manager, in consultation with the Chief Financial Officer, is of the opinion that the services offered by the Municipality’s current bankers are materially defective, or not cost-effective, and the Accounting Officer or the Executive Committee, as the case may be, agrees to the invitation of such tenders.

1. **INTEREST ON INVESTMENTS**

11.1. The interest accrued on all of the Municipality’s investments shall, in compliance with the requirements of Generally Accepted Municipal Accounting Practice (GAMAP), 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.