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MTHONJANENI LOCAL MUNICIPALITY

BANKING AND INVESTMENT POLICY

Date Approved:	May 2013
Date Implemented:	01 July 2013

1. DEFINITIONS

2. INTRODUCTION

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 Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

3. OBJECTIVE OF INVESTMENT POLICY

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.

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.

The investment policy of the municipality is therefore aimed at gaining the highest possible 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.

4. EFFECTIVE CASH MANAGEMENT

4.1 Cash Collection

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 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 "A" to this policy.

The unremitant 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.

4.2 Payments to Creditors

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.

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.

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.

The Chief Financial Officer shall ordinarily process payments on a weekly basis, for accounts received, Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques.

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.

4.3 Management of Inventory

Each Head of Department shall ensure that such department's inventory levels do not exceed **normal operational requirements** in the case of items which are not readily available from suppliers, and **emergency requirements** in the case of items which are readily available from suppliers.

Each Head of Department shall periodically review the levels of inventory held, and shall ensure that any surplus items be made available to the Chief Financial Officer for sale at a public auction or by other means of disposal, as provided for in the municipality's supply chain management policy.

4.4 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 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.

The Chief Financial Officer shall report to the Executive Committee on a monthly 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. 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.

5. INVESTMENT ETHICS

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 in compliance with any policy directives formulated by the Council and prescriptions made by the Minister of Finance.

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, shall not accede to any influence by or interference from councilors, investment agents or institutions or any other outside parties.

Neither the Chief Financial Officer nor the Municipal Manager, 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.

6. INVESTMENT PRINCIPLES

6.1 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.

6.2 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. 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).

6.3 Call Deposits and Fixed Deposits

Before making any call or fixed deposits, the Chief Financial Officer, shall obtain quotations from at least three (3) financial institutions, and it shall be accepted

that in seeking such quotations the Chief Financial Officer may bargain between the institutions concerned.

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).

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).

Any monies paid over to the investing institution in terms of the agreed investment shall be paid over only to such institution itself and not to any agent or third party. 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.

6.4 Restriction on Tenure of Investments

No investment with a tenure exceeding twelve (12) months shall be made without the prior approval of the Municipal Manager.

7. CONTROL OVER INVESTMENTS

The Chief Financial Officer shall ensure that proper records are kept of all investments made by the municipality. 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.

The Chief Financial Officer shall ensure that all interest properly due to the municipality is timeously received, and shall take appropriate steps or cause such appropriate steps to be taken if interest is not fully or timeously received.

The Chief Financial Officer shall ensure that all investment documents and certificates are properly secured.

8. OTHER EXTERNAL INVESTMENTS

From time to time it may be in the best interests of the municipality to make longer-term investments in the stock issued by the national government, Eskom or any other

parastatal or institution, or by another 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 instrument available at the time.

9. BANKING ARRANGEMENTS

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 (2) 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 on a monthly basis, as part of the report dealing with the municipality's investments.

In compliance with the requirements of Section 8 of the Municipal Finance Management Act, the Municipal Manager shall open a bank account for ordinary operating purposes. 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.

The Municipal Manager shall invite tenders for the placing of the municipalities bank accounts within six (6) 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, and the Executive Committee agrees to the invitation of such tenders.

10. RAISING OF DEBT

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 Local Government : Municipal Finance Management Act, 2003, and only with the prior approval of the Council.

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.

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. Short-term debt shall be raised only to anticipate a certain long-term debt agreement or a certain inflow of operating revenues.

11. INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES

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.

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

12. INTEREST ON INVESTMENTS

The interest accrued on all 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 year, to the fund or account in respect of which such investment was made.

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.

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.

ANNEXURE “A”

CODE OF PRACTICE IN
REGARD TO PAYMENTS,
REVENUE COLLECTION AND
STORES

1. STORES ADMINISTRATION

The Chief Financial Officer shall be responsible for the proper administration of all stores. If sub-stores are established under the control of any Head of Department, such Head of Department shall be similarly responsible for the proper administration of such sub-store, and in doing so shall comply with the stock level policies as determined from time to time by the Chief Financial Officer, acting in consultation with the Head of Department concerned. No sub-store may be established without the prior written consent of the Chief Financial Officer.

2. CONTRACTS : MANAGEMENT OF

Within such general buying and related procedures as the Chief Financial Officer shall from time to time determine, and further within the confines of any relevant legislation and of such rules and procedures as may be determined by the Executive Committee:-

- all buying contracts shall be administered by the Chief Financial Officer, and all payments relating to such contracts shall be authorised by the Chief Financial Officer or the Head of Department concerned; and
- all other contracts, including building, engineering and other civil contracts shall be administered by the Head of Department concerned, and all payments relating to such contracts shall be authorised by such Head of Department in accordance with the provisions of section 3 below. The Head of Department concerned shall ensure that all payment certificates in regard to contracts are properly examined and are correct in all respects – before being submitted to the Chief Financial Officer for payment.

3. PAYMENTS

- 3.1** All payments, other than petty cash disbursements, shall be made through the municipality's bank account(s).
- 3.2** The Chief Financial Officer shall draw all cheques on this account, and shall, in consultation with the Municipal Manager and with due regard to the Council's policy on banking and investments, determine the rules and procedures relating to the signing of cheques, and from time to time jointly with the Municipal Manager decide on appropriate signatories.
- 3.3** All requests for payments of whatever nature shall be submitted on payment vouchers, the format of which shall be determined by the Chief Financial Officer. Such vouchers shall be authorised in terms of such rules and procedures as are determined from time to time by the Chief Financial Officer.

- 3.4** The maximum amount and nature of petty disbursements, where not covered by the general buying procedures referred to in section 2, shall be generally determined from time to time by the Chief Financial Officer. No cash float shall be operated without the authority of the Chief Financial Officer, who may prescribe such procedures relevant to the management of such float as are considered necessary.
- 3.5** The Chief Financial Officer shall be responsible for the payment of all salaries and remuneration benefits to employees and councilors, and for the determination of the payment system to be used.

4. REVENUE AND CASH COLLECTION

- 4.1** Every Head of Department shall be responsible for the collection of all moneys falling within the ambit and area of his or her designated functions.
- 4.2** The Chief Financial Officer shall ensure that all revenues are properly accounted for.
- 4.3** The collection of all arrear revenues and the control of arrear accounts shall be co-ordinated by the Chief Financial Officer in terms of any policies determined by the Council. If it is clear that any revenues are not recovered or likely to be recovered after the necessary steps have been taken, the Chief Financial Officer shall report the matter adequately and timeously to the Executive Committee.
- 4.4** The Chief Financial Officer shall ensure that adequate provision is maintained to cover the writing off or irrecoverable revenues, having due regard to the Council's policy on rates and tariffs.

5. BANKING OF RECEIPTS

- 5.1** Guidelines and procedures for the banking of cheques and other receipts shall, if necessary, be determined from time to time by the Chief Financial Officer.
- 5.2** Where applicable, every Head of Department shall ensure that all revenues are banked daily with the municipalities banker(s), or less frequently if so approved by the Chief Financial Officer.