

“The City of Heritage”



**Ulundi
Local Municipality**

**Banking, Cash and
Investment Policy**

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1. Introduction

- (1) Ulundi Local Municipality shall at all times manages its banking arrangements and investments and conduct its cash management in accordance with the provisions of Municipal Finance Management Act No.56 of 2003.
- (2) In terms of Treasury Regulations Chapter 9, paragraph 31.3.1 and 31.3.2, states that a public entity or any public-interest institution with funds under management must have an investment policy approved by the Accounting Authority.
- (3) The Council of Ulundi Local Municipality has an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible.
- (4) The Investment Policy referred to in this policy must include:
 - (a) Selection of counter-parties through credit risk analyses;
 - (b) Establishment of investment limits per institution;
 - (c) Establishment of investment limits per investment instrument;
 - (d) Monitoring of investments against limits;
 - (e) Reassessment of investment policies on a regular basis;
 - (f) Reassessment of counter-party credit risk based on credit ratings; and
 - (g) Assessment of investment instruments based on liquidity requirements.

2. Purpose

- (1) In terms of the Municipal Finance Management Act (MFMA), the Accounting Officer of the Municipality is responsible for managing the financial administration of the Municipality and must take all reasonable steps to ensure that the Municipality has and implements a Cash Management Policy.

3. Definitions

<i>Accounting Officer</i>	Means the Rector acting in his capacity as the Accounting Officer of the Municipality
<i>Act</i>	Municipal Finance Management Act (No. 56 of 2003)
<i>Bank</i>	Any institution recognised by the Registrar of Banks in South Africa
<i>Cash Management</i>	Means efficient and effective management of funds
<i>Ownership</i>	All investments must be in the name of Ulundi Local Municipality
<i>Primary bank account</i>	Bank account referred to in Section 10 of this Policy.

4. *Legal requirements*

- (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 in terms of the Municipal Finance Management Act 2003.
- (2) The manner in which surplus funds and other entity funds can be invested, is controlled in terms of legislation:
 - (a) Municipal Finance Management Act, 2003
- (3) Regulations

5. *Policy objective*

- (1) The Council of the Municipality as the Council of the public revenue, has an obligation to ensure that the Municipality's cash resources are managed effectively and efficiently.
- (2) The objective of the Bank, Cash and Investment policy is to ensure that the Municipality complies with all statutory and other requirements relating to establishment, control over and withdrawals from its bank accounts.

6. *General principles*

- (1) This policy is subject to the following general principles that guides its implementation:
 - (a) The Municipality must open and operate at least one bank account.
 - (b) The Municipality must have a primary or main bank account.
 - (c) All bank accounts operated by the Municipality must be in its name.
 - (d) All monies received by the Municipality must be paid into its bank account or accounts promptly in accordance with any prescribed requirements.
 - (e) The Municipality may not open or operate a bank account otherwise than its name or abroad or with an institution not registered as a bank in terms of the Banks Act, No. 94 of 1990.
 - (f) The Chief Financial Officer must assist the Accounting Officer in the administration of the Municipality's bank accounts.

7. *Bank account details to be submitted to Provincial Treasury and the Auditor-General*

- (1) The Accounting Officer must advise both the Provincial Treasury and the Auditor-General in writing of the name of the bank where the primary bank account of the Municipality is held and the type and number of such account.

- (2) If the Municipality intends changing its primary bank account, it may do so only after the Accounting Officer has, at least 30 days before effecting any change, in writing informed the Provincial Treasury and the Auditor-General of the contemplated change.

8. Cash Management

- (1) *Adequate and effective cash management is one of the main functions of the Chief Financial Officer. Direct unreferenced and unallocated deposits shall remain in the unallocated vote for three months and thereafter be moved to sundry income; with a proviso that government deposits shall remain in the unallocated vote for 12 months.*

9. Debtor Collections

- (1) All funds due to the Municipality must be collected timeously and banked on a daily basis.
- (2) Cash left in the safe which poses a security risk, could result in higher insurance premiums to cover the additional risk and does not earn interest.
- (3) Large sums of money received must be deposited into the bank account on the same day the payment is received.
- (4) It is important that all monies owing to the Municipality are correctly reflected in the debtors system. The following control measures are necessary:
 - (a) A well managed debtors and banking control system will ensure that funds owed to the Municipality are received and banked; and
 - (b) It is also important to review debt collection performance by comparing the debtors outstanding in relation to total turnover and then comparing this to previous financial years, in order to determine whether the debt collection process is deteriorating or improving.
 - (c) All payments with unclear or incorrect references will be subject to investigation not exceeding 90 days after which, if the correct account numbers are not identified funds will be transferred to the sundry income vote account.
 - (d) All payments from government and corporate companies (businesses) will be subject to investigation not exceeding 12 months after which the correct account numbers are not identified funds will be transferred to the sundry income vote account.
- (5) (i) All monies collected by the Municipality must be banked in the primary or main bank account of the Municipality.

(ii) Unpaid cheques and debit orders will be charged a penalty fee of R 115.00 and administration fee of R 90.00.

(iii) The penalty fees of unpaid cheques should be paid by cash direct to Municipality account or to the cashiers office.

10. Payments of Creditors

- (1) Due to the high bank charges with regard to cheque payments, it is essential to limit the payment of creditors to one payment per creditor per month.

- (2) Exceptions, authorised by the Chief Financial Officer, with regard to emerging contractors can however be made, should the cash position allow for it. Should the facility be available, payments should be done by electronic transfer – subject to strict control measures.
- (3) When considering the time to pay a creditor, proper consideration must be given to the conditions of credit terms of payment offered:
 - (a) In cases where a cash discount is given for early settlement, the discount, if the relevant time scale is taken into account, will in most cases be more than any investment benefit that could be received from temporarily investing the funds.
 - (b) If discounts are offered for early settlement they must be properly considered and utilised.
- (4) Besides this, the normal conditions of credit terms of payment offered by suppliers, must also be considered and utilised to the full by paying on the due date and not earlier.

11. Bank and Cash:

- (1) When a public entity listed intends to open a new bank account, the National Treasury must approve the bank. For purposes of section 7 (2) (a) of the Act, existing banking arrangements can be regarded as approved by the National Treasury, but the accounting authority must, by 31 May of each year, submit to the National Treasury, a list of all such banking accounts of the public entity.
- (2) When going to tender, and if the National Treasury has not proposed a bank, the public entity must take into account:
 - (a) That the bank is registered with the South African Registrar of Banks;
 - (b) That the bank is a member or sponsored by a member of the Payments Association of South Africa;
 - (c) The bank's contracting with persons, or categories of persons historically disadvantaged by unfair discrimination on the basis of race, gender or disability;
 - (d) The cost effectiveness; and
 - (e) The ability of the bank to provide the required services which through adequate systems, infrastructure and branch networks.
- (3) New bank accounts may be opened if required and approved by the CFO.
- (4) All bank accounts must be accounted for in the accounting system.

12. Cash flow estimates

- (1) Before money can be invested, the Chief Financial Officer must determine whether there will be surplus funds available during the term of the investment.
- (2) He/she must fix the term of the investment
- (3) In order to be able to make investments for any fixed term, it is essential that cash flow estimates be drawn up.

- (4) When drawing up cash flow estimates, it is essential that the Chief Financial Officer take note of the following:
 - (a) Be aware of the expected cash flow and when it is likely to take place, as the timing with regard to cash outflow, as far as both the operating and the capital budgets are concerned;
 - (b) By utilising the available information and expertise, the Chief Financial Officer or his/her Delegate must assess the timing with regard to when, for how long and the amount to be invested; and
 - (c) Daily cash flow estimates must provide for daily call investments and investment withdrawals, whereas long-term investments must be based on projections further into the future.
- (5) From time to time the Municipality will have surplus funds available which are not needed immediately and which could be invested.
- (6) Depending on circumstances some funds could be invested for a long term whilst others would only be short term investments. Surplus funds in the current account may also be invested for short periods (days).
- (7) Generally investments are done every month when prior investments mature and funds are available for re-investment. Investments may be made by the Chief Financial Officer as follows:
 - (a) Long term investments should be made with financial institutions of minimum BBB rating (where BBB refers to lower risk institutions);
 - (b) Short term investments should be made with financial institutions of minimum B rating (where B refers to higher risk institutions);
 - (c) All available funds should not be placed with a single institution, the invested amount should, where possible, be spread equally to all relevant institution's; and
 - (d) The total amount invested at an institution may not exceed 10% of the relevant institution's shareholder's funds (Capital and Reserves).

13. Investment ethics

- (1) The following ethics must apply when dealing with financial institutions and other interested parties:
 - (a) The Municipal Manager and Chief Financial Officer will be responsible for the investment of funds, and he/she has to steer clear of outside interference, regardless of whether such interference comes from individual council members, agents or any other institution.
 - (b) Under no circumstances may he/she be forced or bribed into making an investment. No official may accept any gift unless that gift can be deemed so small that it would not have an influence on his/her work or was not intended to do so, and can merely be seen as goodwill. A certificate in respect of the gift should be furnished to the Chief Financial Officer. The gift should not be in lieu of a commission.
 - (c) The Chief Financial Officer must act according to his/her discretion and must report any serious cases of payment in kind or gifts, to the Municipal Manager. Excessive gifts and hospitality should however be avoided.
 - (d) Interest rates offered should never be divulged to another institution.

14. Investment principles

- (1) *Exposure to a single institution* – Money, especially large sums of money, must be invested with *more than one* institution, in order to limit risk exposure of the Municipality. All available funds should not be placed with a single institution, the invested amount should, where possible, be spread equally to all relevant institutions.
- (2) If legislation permits, the Chief Financial Officer must try to plan the distribution of the investments to cover different types of investments.
- (3) *Risks and return* – It can be accepted as a general rule that the larger the return, the greater the risk.
- (4) *Borrowing money for reinvestment* – The Municipality 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.
- (5) *Registered Financial Institutions* – If the Chief Financial Officer invests with financial institutions, he/she must ensure that such institutions are registered in terms of the Banks Act 94 of 1990 and that they are approved financial institutions – as approved by the Reserve Bank, from time to time. An updated list of the approved financial institutions should be obtained regularly.
- (6) *Growth-related Investments* – When making growth-related investments, the Chief Financial Officer must obtain a guarantee that at least the capital amount invested is safe, and must exercise due diligence in this regard.
- (7) Municipality may make an investment only if the investment is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the rand against foreign currency.

15. Investments of funds

- (1) The Investment Register must be examined on a fortnightly basis to identify investments falling due within the two weeks following and start the investment process such as looking at alternatives, cash flow requirements and timeous reporting to the Municipal Manager and the Council.
- (2) Prior to the investment of monies, the Chief Financial Officer (CFO), must determine whether there will be surplus funds available, as well as to fix the term for which such money should be invested.
- (3) In order to be able to make investments for any fixed term, it is essential that cash flow forecasts be drawn up.
- (4) In the instance surplus funds are available for investment, the Chief Financial Officer should contact the various banking institutions for interest rate quotations and prepare a manual or computerised list of the quotations indicating the amounts to be invested, the rates quoted and the maturity values (maximum return).
- (5) Based on the results of 8.4 above, and the value of the prospective investment, the Chief Financial Officer should, authorise the investment. All relevant information must be filed together with the investment documentation.

15.1 Call Deposits and Fixed Deposits

- (1) Quotations should be obtained from a minimum of **three** financial institutions, bearing in mind the limits of the term of which it is intended to invest the funds. Should one of the institutions offer a better rate for a term, other than what the Municipality had in mind, the other institutions which were approached, should also be asked to fix a rate for that term.
- (2) Quotations must be obtained electronically, otherwise per facsimile, as rates can generally change on a regular basis and time is a determining factor when investments are made. It is however prudent to obtain written (e-mail acceptable) quotations. No quotes received after closing date and time may be considered.
- (3) The person responsible for requesting quotations from institutions must record the following:
 - (a) Name of institution;
 - (b) Name of person quoting rates;
 - (c) Closing date and time;
 - (d) Period of the investment;
 - (e) Relevant terms; and
 - (f) Other facts i.e. are interest payable monthly or on maturation date.
- (4) 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. The best offer must under normal circumstances be accepted, with thorough consideration of investment principles.
- (5) The Chief Financial Officer must note any deviation if such best offer is not accepted. No attempt must be made to make institutions compete with each other as far as their rates and terms are concerned.
- (6) If institutions have been asked for a quotation with regard to a specific package, the institution 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.
- (7) The above procedure must be followed for all investments.
- (8) The Chief Financial Officer must make sure that the investment document received is a genuine document, issued by an approved institution, and the investment capital must be paid over only to the institution with which it is to be invested and not to an agent.

15.2 Other External deposits

- (1) Other investment possibilities, which are subject to the applicable legislation and are available to the Municipality, include debentures and other securities of the state as well as other Entities or statutory bodies in the Republic, instituted under and in terms of any law.
- (2) With regard to such investments, the principles and practices set out above must apply.
- (3) No investment with a tenure exceeding twelve (12) months shall be made without prior approval of the Accounting Officer.

16. Controls over investments

- (1) The Chief Financial Officer shall ensure that proper records are kept for all investments made by the Municipality.

- (2) An Investment Register must be kept of all investments made.
- (3) The following facts must be indicated on the register:
 - (a) Name of banking institution;
 - (b) Type of investment;
 - (c) Capital invested
 - (d) Capital withdrawn
 - (e) Date invested;
 - (f) Term of investment
 - (g) Interest rate;
 - (h) Maturation date;
 - (i) Interest earned;
 - (j) Interest received;
 - (k) Interest capitalised.
- (4) The Investment Register and accounting records must be reconciled on **monthly** basis.
- (5) The Investment Register must be examined on a fortnightly basis to identify investments falling due within the next two weeks. It must then be established as what to do with the funds bearing in mind the cash flow requirements.
- (6) Interest, correctly calculated, must be received timeously, together with any distributable capital. The Chief Financial Officer must check that the interest is calculated correctly.
- (7) Investment documents and certificates must be kept in a safe place. The following documents must be safeguarded:
 - (a) Fixed deposit letter or investment certificate;
 - (b) Receipt for capital invested;
 - (c) Copy of electronic transfer or cheque requisition;
 - (d) Excel schedule of comparative investment figures;
 - (e) Commission certificate indicating no commission was paid on the investment; and
 - (f) Interest rate quoted.
- (8) The Chief Financial Officer is responsible for ensuring that the invested funds are secure and, should there be a measure of risk, that such risk be rated realistically.

17. General investment practice

17.1 General

- (1) After determining whether there is cash available for investment and fixing the maximum term of investment, the Chief Financial Officer must consider the way in which the investment is to be made.
- (2) As rates can vary according to money market perceptions with regard to the terms of investment, quotations must be requested electronically, within term limitations, and these must be set out on a schedule.

17.2 Commission certificate

- (1) The Auditor General requires the financial institution, where the investment is made, to issue a certificate for each investment made.
- (2) This certificate must state 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.

17.3 Reports

- (1) The Accounting Authority must be given a monthly report on all investments.
- (2) Investments: (For each individual Investment)
 - (a) Name of Institution invested with;
 - (b) Date of investment;
 - (c) Type of investment;
 - (d) Period of investment;
 - (e) Interest rate;
 - (f) Maturity date;
 - (g) Interest earned during month;
 - (h) Balance of investment at beginning of month;
 - (i) Investments made during month;
 - (j) Investments withdrawn during month;
 - (k) Balance of Investments at end of the month;
 - (l) Allocation of investments to reserves and other funds
 - (m) Source of investment;
 - (n) Appropriation of investments.

17.4 Reporting Requirements

- (1) The Municipality must promptly disclose information regarding cash, banking and investment management when so requested by the National Treasury.
- (2) The report must set out at least:
 - (a) The market value of each investment as at the beginning of the reporting period
 - (b) Any changes to the investment portfolio during the reporting period
 - (c) The market value of each investment as at the end of the reporting period; and
 - (d) Fully accrued interest and yield for the reporting

17.5 Cash in the Bank

- (1) Where money is kept in current accounts, it would be possible to bargain for more beneficial rates with regards to deposits, for instance call deposits.
- (2) Fixed term deposits can increase these rates.
- (3) The most important factor is that the cash in the current account must be kept to absolute minimum.

17.6 Creditworthiness

- (1) When investments are made, the Chief Financial Officer has to see to it that the Municipality is not exposed to too much risk. He/she has to ensure that the creditworthiness and performance of the institution are to his/her satisfaction, before investing money in the institution.
- (2) The Chief Financial Officer is entitled to information from which the creditworthiness of financial institutions can be determined. This must be obtained and analysed annually.

17.7 Performance measurement

- (1) Measuring the effectiveness of Municipality's treasury activities is achieved through a mixture of subjective measures.
- (2) The predominant subjective measure is the overall quality of treasury management information.
- (3) Objective measures include:
 - (a) Adherence to policy
 - (b) Timely receipt of interest income

18. Oversight role of the Council

- (1) The Municipality Council reserves its right to maintain oversight over the implementation of this Policy.
- (2) For the purposes of such oversight, the CFO must:
 - (a) Within 30 days of the end of each financial year; submit a report on the implementation of this Policy, to the Council; and
 - (b) Whenever there are serious and material problems in the implementation of this Policy, immediately submit a report to the Council.

19. Annual reviews and approval

19.1 Policy consultations & approval

- (a) *Consultation Process* - The policy shall be reviewed at least once annually, unless circumstances dictate otherwise, by the Chief Financial Officer.
- (b) *Policy Approval Process* - This policy shall be approved by the Council thereafter. All reviews and revisions to any section of the policy and procedures document must be approved by the Council.
- (c) Any amendments to the Policy must be approved at the next Council meeting.
- (d) No policy amendments may be implemented without prior Council approval.

19.2 Review and revision arrangements including version control

- (a) *Review and Revision Process* - The policy shall be reviewed at least once annually, unless circumstances dictate otherwise, by the Chief Financial Officer and the Accounting Officer.
- (b) All reviews and revisions to any section of the policy and procedures document must be approved by the Council.
- (c) *Version Control* - A version control sheet shall be maintained with the document.

19.3 Dissemination and implementation

- (a) *Dissemination* - Once approved, this policy document shall be circulated by e-mail to appropriate staff within the organization including management, staff and financial management staff.
- (b) The document will also be supplied to the Registry Department for archiving, and publishing.
- (c) *Implementation* - Implementation shall be carried out by the Chief Financial Officer and the Municipal Manager shall exercise oversight.

