



# LEPELLE–NKUMPI MUNICIPALITY



## REVIEWED DRAFT CASH AND INVESTMENT MANAGEMENT POLICY 2020-2021



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## 1. Definitions

- ❖ Accounting officer, is the Municipal Manager
- ❖ Act: means the local government MFMA act 56 of 2003 MSMA act 32 2000
- ❖ Accounting principles; means acquiring goods and services through procurement Policies
- ❖ Agent means professional bodies appointed to execute a specific task on behalf of the municipality entity
- ❖ Accounts means statements of monies received
- ❖ Assignee means a person with delegated authority
- ❖ Bank means an institution recognised statement of financial holdings on behalf of the municipality
- ❖ Cash management: means efficient and effective management of funds
- ❖ Chief financial officer means a responsible official for financial affairs of the municipality
- ❖ Constitution of the republic of South Africa act 108 of 1996: means the supreme law of South Africa
- ❖ Cash management: means efficient and effective management of funds
- ❖ Delegated authority: means any authority delegated to MFMA
- ❖ Diversification of investments: means investing in more, or more than one type of Financial instruments
- ❖ Investments ethics: means ethical framework within which investment must take place
- ❖ Liquidity means the ease with which financial instruments can be converted to cash or cash equivalents
- ❖ Municipality means the agent of the central government at local level
- ❖ Ownership means all investment must be in the name of municipality entity
- ❖ Short-term investments means a financial instrument with a lifespan or maturity of less than 1 year
- ❖ Long term means financial instrument with a lifespan or maturity of greater than a year.
- ❖ Investee means an institution with which an investment is placed or its agent
- ❖ Investment Manager means a natural person or legal entity that is a portfolio manager registered in terms of the financial markets control act (Act No.55 of 1989), and stock exchange control act, (Act No:1 of 1985), contracted by the municipality.
- ❖ Trust money means money held in trust on behalf of the third parties in a trust Contemplated in terms of section 12 of the act.
- ❖ LNM means Lepelle-nkumpi Local Municipality
- ❖ NT means National Treasury



## **2. Introduction and background**

Section 13 (1) and (2) of the Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003) requires that a municipality establish an appropriate and effective cash management and Cash and Investment Management Policy within which the municipality must (a) conduct its cash management and investments, and (b) invest money not immediately required, in accordance with any framework which may be prescribed.

National Treasury has issued municipal investment regulations dated 1<sup>st</sup> April 2005 (Gazette no. 27431 – see ANNEXTURE A.1 attached) which set out a framework within which all municipalities shall conduct their cash management and investments.

This policy is consistent with the Act and the gazetted framework.

## **3. Adoption of Cash and Investment Management Policy**

The Municipality must formally adopt Cash and Investment Management Policy which shall be consistent with the Act and its regulations.

All investment made by the municipality, or by an investment manager on behalf of the municipality, must be in accordance with this Cash and Investment Management Policy, and with any investment regulations promulgated by national government.

## **4. Purpose**

The purpose of this policy is to secure the sound and sustainable management of the Municipality's surplus cash and investments.

## **5. Scope and Application**

The policy governs the investment of money not immediately required by the Municipality for the defrayment of expenditure.

The policy applies to all new and existing investments made by:-

- (a) The Municipality; and
- (b) All investment managers acting on behalf of the Municipality in making or managing investments.

The policy does not apply to trust funds as defined or any other funds received by the municipality for transfer to other entities or institutions, including other municipalities.



This policy shall also apply to all moneys and/or investments held by any bank or institution registered in terms of the bank act, at the effective date of this policy.

## **6. Objectives**

The objectives of the policy are –

- To ensure compliance with the relevant legal and statutory requirements relating to cash management and investments.
- to ensure the preservation of the Municipality's investments.
- To ensure diversification of the Municipality's investment portfolio across acceptable investees, permitted types of investments and investment maturities and to ensure timeous reporting of the investment portfolio as required by the Act in accordance with generally recognized accounting practice.
- To ensure that the liquidity needs of the Municipality are properly addressed.

## **7. Standards of ethics, judgement and care**

### **7.1 Investments made by or on behalf of the Municipality**

- Must be made whilst maintaining a strict code of ethics and standards.
- Must be a genuine investment and not an investment made for speculation.
- Must be made with primary regard to the security of the investment, secondly to the liquidity needs of the Municipality, and lastly to the income or return from the investment.
- Must be made without internal or external interference whether such interference comes from individual officials, councilors, agents, investees or any other external body.

7.2 No fee, commission or other reward may be paid to a councillor or official of the Municipality, or to a spouse or close family member of such councillor or official, in respect of any investment made by the Municipality. This shall confirmed annually by all investees to the Auditor- General.

7.3 All investments made by or on behalf of the Municipality must be in the name of the municipality.

7.4 The municipality shall take reasonable steps to diversify its investment portfolio across investees, type of investment and investment maturities.

### **7.5 Confidentiality**

- Although alternative rates on offer need to be disclosed when negotiating a rate on an investment, the disclosure of a specific rate from a specific named investee to another investee shall be strictly prohibited.
- The municipality's current cash position and its projected future cash flows shall not be discussed with or disclosed to investees.



## 8. Permitted investments

The municipality shall invest only in the following instruments or investments:

- National government securities
- Listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency.
- Deposits with banks registered in terms of the Banks Act, 1990 (Act No.94 of 1990)
- Deposits with public Investment Commissioners as contemplated by the Public investment Commissioners Act, 1984 (Act No 45 of 1984)
- Deposits with Corporations for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984)
- Banker's acceptance certificates or negotiable certificates of deposit of Banks registered in terms of the Banks Act, 1990
- Guaranteed endowment policies with the intention of establishing a sinking Fund
- Repurchase agreements with banks registered in terms of the Banks Act, 1990
- Municipal bonds issued by the municipality
- 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.
- The accounting Officer must ensure that all the investment made does not contravene the Municipal Finance Management Act, No.56 of 2003 (MFMA) and Municipal Investment Regulations

## 9. Internal control over investment function

### 9.1 Delegations

In terms of section 59 of the Local Government: Municipal Systems Act (no. 32 of 2000), Council has delegated to the Accounting Officer (AO) the power, function and duty to make investments on behalf of the Municipality within policy framework determined by the Minister of finance and the investment of surplus funds in terms of council policy.

### 9.2 Obtaining quotations and concluding deals

Written mandates, signed by the Chief Financial Officer and his or her delegate, shall be issued to all investees with whom the Municipality invests funds setting out the following:

- Authorized Dealers: names and particulars of the Municipality officials who are authorised to transact investment deals telephonically with the investees.



- **Authorised Signatories:** names and particulars of the Municipality officials who are authorised to sign written confirmations or any other correspondence in respect of investment deals.

A dealing sheet, signed by an authorised dealer, shall be prepared in all instances for each individual investment, detailing the quotations received and the recommended investee.

CFO, or, in his absence, any of the authorised signatories referred to above, shall be authorised to approve the deal.

An authorisation of Investments Made form shall be prepared each day detailing the terms of each new investment made on that day. This form shall be signed off by the Chief Financial Officer and his or her delegate.

### 9.3 Electronic Funds Transfer (ECT)

Investments shall be made electronically by EFT. Strict segregation of duties shall be maintained between the creator of a payment file and the payment authorizer/releaser.

Invest EFT payments shall be authorised/released by the CFO or one of the authorised signatories referred to above.

### 9.4 Control over Investment Portfolio

A proper record shall be maintained of all investments made indicating, at a Minimum the investee, capital amount, interest rate and maturity date.

Municipality must make investment with registered institutions as per the MFMA, municipal investment regulations and Cash and Investment Management Policy

Interest must be correctly calculated and receipted timeously together with any capital which matures. Depending on the situation where the bank is having maturity of funds at a particular time, the municipality can either reinvest with the same bank or withdraw the funds.

## 10. Cash management

### 10.1 Cash collections

The Municipality shall insure that all cash received via the cash offices is collected and banked as early as possible in a controlled and secure manner.



## 10.2 Payments to suppliers

The number of monthly electronic batch payment runs shall be done in a structured and scheduled manner in order to facilitate efficient cash flow management.

## 10.3 Bank current account balance

The balance on the Municipality's current account shall be maintained at the minimum level possible taking into account daily cash requirements. Surplus cash shall be immediately invested in order to maximize interest earnings.

## 10.4 Cash forecasting

Effective cash flow forecasting is essential for determining the timing and size of cash surpluses and payments shall be prepared on a regular basis to facilitate investment decisions.

## 10.5 Cash flow reporting

In order to insure effective cash management for investment purposes, the following cash flow reports shall be prepared Monthly

- A comparison of actual cash flow with forecast, current month and year to date.
- An explanation of variances in the above.
- An analysis of actual year to date cash receipts and payments, and projected cash flows for the remaining months of the current financial year, to be submitted to National Treasury.
- The cash backing of statutory funds and reserves balances at month end.

Annually

- Preparation of the annual cash flow budget for the new financial year.

## 11. Investment reporting

Regular reporting mechanisms shall be in place in order to assess the performance of the investment portfolio and to ensure that the investments comply with police objectives, guidelines, applicable laws and regulations –

The following reports shall be prepared:

- for internal Treasury management:
  - A monthly reconciliation of all interest accrued with interest actually received.
- for external parties





- Notification to the Auditor-General, within 30 days after the end of the financial year, by all investees of any investment held by them for the municipality during that year.
- Notification to the Auditor-General and the Provincial Treasury, within 90 days, of the name, type and number of any new bank account opened by the Municipality.

## **12. Use of investment managers**

The Municipality shall be permitted to employ investment managers to:

- advise it on its investment ; and/or
- Manage specific investments on its behalf.

Appointment of an investment manager shall be made in accordance with the municipality's supply chain management policy.

All investments made by an investment manager on behalf of the Municipality must be in accordance with this policy and with National Treasury's investment regulations, with the exception of paragraph 9.3 above which restriction shall not apply to investment managers.

If an investee pays any fee or commission to an investment manager in respect of the Municipality's investments, both the investee and the investment manager must declare such payment to the Council by way of a certificate disclosing full details of the payment.

Investment managers found guilty of non-compliance with this policy, as well as the national treasury investment regulations, shall be held liable for any loss or penalty Suffered by the Municipality.

## **13. Accounting for investments**

The Municipality's investments shall be accounted for as held to maturity (HTM) financial investments in accordance with the Municipality's approved accounting policies. Initially recognized at cost, these investments shall be subsequently measured, at balance sheet date, at amortised cost, using the effective interest rate method, less any write-down for impairment or un-collectability.

## **14. Annual review of policy**

This policy on investments will be reviewed annually or earlier if so required by legislation. Any changes to the Cash and Investment Management Policy must be adopted by Council and be consistent with the Act and any National Treasury regulations.



## **15. Effective date**

The effective date of this policy is the 1<sup>st</sup> of July 2020.

## **16. Conclusion**

The municipal manager in particular and chief financial officer must ensure that the operationalisation of the policy is done in accordance to the prescripts. Any deviations due to unforeseen circumstances must be brought to the attention of the municipal council in a written form and recommendation remedial solutions thereof.

## **17. Policy Amendments and Reviewal**

No amendment(s) may be made to any section of this policy without such amendment (s) first being:

- Consulted upon with the Municipal Manager.
- Duly approved and signed by the Council.

The reviewal of the policy is part of the submissions of the Budget related policies that are done when tabling the Budget or the Adjustment Budget.

The policy will come into effect from 1 July 2020 after approval by Council and shall be reviewed annually and as and when the need arises.

<b>Date</b>	<b>29 May 2020</b>
<b>Resolution Number</b>	<b>VSC.11/2019-2020/5.1.3</b>
<b>Signature</b>	