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DISTRICT MUNICIPALITY

Province of the Eastern Cape

progress through development

BANKING AND INVESTMENT POLICY

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INDEX

	Page No.
1. LEGAL COMPLIANCE	3
2. OBJECTIVE OF INVESTMENT POLICY	3
3. EFFECTIVE CASH MANAGEMENT	3
3.1 Cash Collection	3
3.2 Payments to Creditors	4
3.3 Cash Management Programme	4 - 5
3.4 Unresolved Reconciling Items	5
4. INVESTMENT ETHICS	5
5. INVESTMENT PRINCIPLES	5
5.1 Limiting Exposure	5 - 6
5.2 Risk and Return	6
5.3 Call Deposits and Fixed Deposits	6
5.4 Investment Committee	7
5.5 Restriction of Tenure of Investments	7
6. CONTROL OVER INVESTMENTS	7
7. OTHER EXTERNAL INVESTMENTS	7
8. BANKING ARRANGEMENTS	7 - 8
9. INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES	8
10. INTEREST ON INVESTMENTS	8
ANNEXURE A: PARAPHRASE	9 - 14
ANNEXURE B: NATIONAL TREASURY REGULATIONS: CASH MANAGEMENT AND INVESTMENT REGULATIONS	(Attached separately)
ANNEXURE C INVESTMENT QUOTATION SCHEDULE	15 - 17

1. 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 provision of this Act is attached as **ANNEXURE A** to this policy.

2. OBJECTIVE OF INVESTMENT POLICY

The council of the municipality is the trustee of the public revenues which it collects on behalf of the community, 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 in a knowledgeable and judicious way, and can account fully to the community in regard to such investments.

The investment policy provides a framework to ensure the preservation, safety of investments and diversification of investments and adequate cash flows are available to meet short and long term commitments.

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.

3. EFFECTIVE CASH MANAGEMENT

3.1 Cash Collection

All monies due to the municipality must be collected as soon as possible, either on or immediately after due date, and banked monthly or once an amount of R2000 has been received.

The respective responsibilities of the chief financial officer and other heads of departments in this regard are defined in a code of financial practice approved by Council.

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.

3.2 Payments of Creditors

The chief financial officer shall endeavor to ensure that all tenders and quotations invited by and contracts entered into by the municipality stipulate payment terms favourable to the municipality (not more than 30 days), 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 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 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.

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 prior to the normal month end processing.

3.3 Cash Management Programme

The Chief Financial Officer shall monitor cash flows on a daily basis to ensure that council is able to meet its financial commitments and that the operating bank account does not carry unduly high balances. Any surplus funds shall be transferred on a daily basis to a call account attracting the highest possible interest provided that those funds can be retrieved at short notice.

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 quarterly 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 Mayoral Committee or the Portfolio Councillor, as the case may be, on a quarterly basis the cash flow estimate or revised estimate for such quarter or reporting period respectively, together with the actual cash flows for the quarter 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.

3.4 Unresolved Reconciling Items

Unidentified bank deposits must be adequately followed up. After a period of 6 (six) months where no claims are made or the origin of the payment is still unknown / unidentified, the amount will be journalised as current year revenue.

Cheques older than 6 months (stale) must be re-issued subsequent to follow up. Should the new cheque to the same supplier become stale, the amount will be reversed against the expenditure account.

4. 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 investment committee, and 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 shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties.

Neither the chief financial officer nor the executive mayor or portfolio councillor, may accept commission or other reward in respect of any investment.

5. INVESTMENT PRINCIPLES

5.1 Limiting Exposure

Subject to section 6 of Municipal Cash Management and Investment Regulations 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.

To limit exposure to a single institution:

- i. The amount invested with any financial institution should be based on the following formula:

$$\begin{aligned} \text{Percentage Exposure} &= \frac{\text{Total shareholder Equity of individual Approved Bank}}{\text{Total Shareholder Equity of All Approved Banks}} \\ \text{For Individual Bank} &= \\ &= \quad \% \text{ subject to sub-paragraph (ii) and (iii)} \end{aligned}$$

- ii. Not more than 30% of available funds should be placed with any financial institution subject to sub-paragraph (iii);
- iii. Investments should be placed only with financial institutions that have shareholder equity in excess of R10 billion.

5.2 Risk and Return

Subject to section 4 (c) (ii) of the Municipal Cash Management and Investment Regulations, 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.

At the end of every financial year, a certificate must be obtained from every institution with which funds were invested, certifying that no monetary consideration (of whatever nature) was paid in respect of investments and that no advantage accrued or will accrue to any councillor or employee, his representative or nominee as a result of investments being made.

5.3 Call Deposits and Fixed Deposits

Before making fixed deposits, the chief financial officer shall obtain quotations from all qualifying institutions.

Given the volatility of the money market, the chief financial officer, shall, whenever necessary, request quotations telephonically, and shall record on an appropriate investment schedule 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.

Once the verbal investment quotations have been recorded, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, email or any other expedient means).

The responsible officer then prepares an agenda for the investment committee which should at least contain the following information / documents:

- Cash Flow Budget;
- Quotations for Investment of Funds;

- Investment Criteria Schedule; and
- Current Investment Portfolio.

Copies of these documents are attached for reference purposes.

5.4 Investment Committee

The Investment Committee consists of the following officials who will be responsible for final decision making relating to the investment of funds:

Municipal Manager	Chairperson
Director: Finance & Corporate Services	Deputy Chairperson
Manager: Finance	
Senior Accountant: Income & Expenditure	
Senior Accountant: Financial Accounting, Asset and Risk Management	
Other Departmental Heads	

Four of the aforementioned officials form a quorum and at least the chairperson or the deputy chairperson must be present at the meeting. The committee has the delegated authority to make final decisions relating to the investment of funds within the framework of applicable legislation, regulations and council's investment policy.

5.5 Restriction on Tenure of Investments

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

6. CONTROL OVER INVESTMENT

The chief financial officer shall ensure that proper records and an investment register is 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, interest accrued 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.

7. OTHER EXTERNAL INVESTMENTS

From time to time it may be in the best interests of the municipality to make longer-term investments. Subject to section 6 of the Municipal Cash Management & Investment Regulations the chief financial officer must be guided by the best rates of the interest pertaining to the specific type of investment which the municipality requires, and to the best instrument available at the time.

8. 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 authorized 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 authorized 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 mayor, on an annual basis.

9. 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 accumulated and used only for 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 to repay the principal amounts due in respect of such loan on the respective due dates.

10. INTEREST ON INVESTMENTS

The interest accrued on all municipality's investments shall, in compliance with the requirements of generally recognized accounting practice, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and may thereafter be appropriated to the fund or account in respect of which such investment was made depending on the conditions which apply to the fund or account.

**ANNEXURE A: PARAPHRASE
OF REQUIREMENTS OF
MUNICIPAL FINANCE
MANAGEMENT ACT NO. 56
OF 2003**

SECTION 7: OPENING OF BANK ACCOUNTS

Every municipality must open and maintain at least one account. This bank account must be in the name of the municipality, and all monies received by the municipality must be paid into this bank account or accounts, promptly and in accordance with any requirements that may be prescribed.

A municipality may not open a bank account:

- otherwise than in the name of the municipality;
- abroad; or
- with an institution not registered as a bank in terms of the Banks Act 1990.

Money may be withdrawn from the municipality's bank account only in accordance with the requirements of Section 11 of the present Act.

SECTION 8: PRIMARY BANK ACCOUNT

Every municipality must have a primary bank account, and if the municipality has only one bank account that account is its primary bank account. If the municipality has more than one bank account, it must designate one of those bank accounts as its primary bank account.

The following must be paid into the municipality's primary account:

- all allocations to the municipality;
- all income received by the municipality on its investments;
- all income received by the municipality in connection with its interest in any municipality entity;
- all money collected by the municipal entity or other external mechanism on behalf of the municipality; and
- any other monies as may be prescribed.

The accounting officer of the municipality must submit to the national treasury, the provincial treasury and the Auditor-General, in writing, the name of the bank where the primary bank account of the municipality is held, and the type and

number of the account. If the municipality wants to change its primary bank account, it may do so only after the accounting officer has informed the national treasury and the Auditor-General, in writing, at least 30 days before making such change.

SECTION 9: BANK ACCOUNT DETAILS TO BE SUBMITTED TO PROVINCIAL TREASURIES AND AUDITOR-GENERAL

The accounting officer of the municipality must submit to the provincial treasury and the Auditor-General, in writing, within 90 days after the municipality has opened a new bank account, the name of the bank where the account has been opened, and the type and number of the account, and annually, before the start of each financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account.

SECTION 10: CONTROL OF MUNICIPAL BANK ACCOUNTS

The accounting officer of the municipality must administer the entire municipality's bank accounts, is accountable to the municipal council for the municipality's bank accounts, and must enforce compliance with Section 7, 8 and 11 of the present Act.

The accounting officer may delegate the duties referred to above only to the municipality's chief financial officer.

SECTION 11: WITHDRAWALS FROM MUNICIPAL BANK ACCOUNTS

Only the accounting officer or the chief financial officer of the municipality (presumably where this power has been appropriately delegated), or any other senior financial official of the municipality acting on the written authority of the accounting officer, may withdraw money or authorize the withdrawal of money from any of the municipality's bank accounts. Such withdrawals may be made only to:

- defray expenditure appropriated in terms of an approved budget;
- defray expenditure authorized in terms of Section 26 (4) (this section deals with situations in which the budget was not timeously approved, and the province has been compelled to intervene);
- defray unforeseeable and unavoidable expenditure authorized in terms of Section 29 (1);
- in the case of a bank account opened in terms of Section 12, make payments from the account in accordance with Section 12 (4);
- pay over to a person or organ of state money received by the municipality on behalf of such person or organ of state, including money collected by the municipality on behalf of such a person or organ of state by agreement, or any insurance or other payments received by the municipality for such person or organ of state;
- refund money incorrectly paid into a bank account;

- refund guarantees, sureties and security deposits;
- make investments for cash management purposes in accordance with Section 13;
- defray increased expenditure in terms of Section 31; or
- for such other purposes as may be prescribed.

(Note that Section 11 (1) does not expressly provide for the withdrawal of monies to pay creditors, where the relevant obligations arose in terms of the previous budget, to repay loans, or to repay customer deposits).

Any authorization to a senior financial official to withdraw money or to authorize the withdrawal of money from a bank account must be in accordance with the framework as may be prescribed. The accounting officer may not authorize any official other than the chief financial officer to withdraw money or to authorize the withdrawal of money from the municipality's primary bank account if the municipality has a primary bank account which is separate from its other bank accounts.

The accounting officer must, within 30 days after the end of each quarter, table in the council a consolidated report of all withdrawals made other than withdrawals to defray expenditure appropriated in terms of the approved budget, and submit a copy of the report to the relevant provincial treasury and the Auditor-General.

SECTION 12: RELIEF, CHARITABLE, TRUST OR OTHER FUNDS

No political structure or office bearer of the municipality may set up a relief, charitable, trust or other fund of whatever description, except in the name of the municipality. Only the municipal manager may be the accounting officer of any such fund.

A municipality may open a separate bank account in the name of the municipality for the purpose of such relief, charitable, trust or other fund. Money received by the municipality for the purpose of such fund must be paid into the bank account of the municipality, or if a separate bank account has been opened for such fund, into that account.

Money in a separate account opened for such fund may be withdrawn from the account without appropriation in terms of the approved budget, but only by or on the written authority of the accounting officer, acting in accordance with decisions of the council, and for the purposes for which, and subject to any conditions on which, the fund was established or the money in the fund was donated.

SECTION 13: CASH MANAGEMENT AND INVESTMENTS

The Minister, acting with the concurrence of the cabinet member responsible for local government, may prescribe a framework within which municipalities must

conduct their cash management and investments, and invest money not immediately required.

A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be so prescribed.

A bank where the municipality at the end of the financial year holds a bank account, or held a bank account at any time during such financial year, must, within 30 days after the end of such financial year, notify the Auditor-General, in writing, of such bank account, indicating the type and number of the account, and the opening and closing balances of that account in that financial year. The bank must also promptly disclose any information regarding the account when so requested by the national treasury or the Auditor-General.

A bank, insurance company or other financial institution which the end of the financial year holds, or at any time during the financial year held, an investment for the municipality, must, within 30 days after the end of that financial year, notify the Auditor-General, in writing, of that investment, including the opening and closing balances of that investment in that financial year. Such institution must also promptly disclose any information regarding the investment when so requested by the national treasury or the Auditor-General.

SECTION 17: CONTENTS OF ANNUAL BUDGETS AND SUPPORTING DOCUMENTS

The following documents must accompany each tabled draft annual budget (inter alia):

- a projection of cash flows for the budget year by revenue source, divided into calendar months;
- particulars of the municipality's investments.

SECTION 22: PUBLICATION OF ANNUAL BUDGETS

The accounting officer must make public, immediately after a draft annual budget is tabled, the budget itself and all prescribed supporting documents, and invite comments from the local community in connection with such budget (and documents).

SECTION 36: NATIONAL AND PROVINCIAL ALLOCATIONS TO MUNICIPALITIES

In order to provide predictability and certainty about the sources and levels of intergovernmental funding of municipalities, the accounting officer of a national or provincial department and the accounting authority of a national or provincial public entity responsible for the transfer of any proposed allocations to a municipality, must by no later than 20 January of each year notify the national treasury or the relevant provincial treasury as may be appropriate, of all proposed

allocations and the projected amounts of those allocations to be transferred to each municipality during each of the next 3 financial years.

The Minister or the MEC responsible for finance in the province must, when tabling the national annual budget in the national assembly or provincial annual budget in the provincial legislature, make public particulars of any allocations due to each municipality in terms of that budget, including the amount to be transferred to the municipality during each of the next 3 financial years.

SECTION 37: PROMOTION OF CO-OPERATIVE GOVERNMENT BY MUNICIPALITIES

In order to enable municipalities to include allocations from other municipalities in their budgets and to plan effectively for the spending of such allocations, the accounting officer of every municipality responsible for the transfer of any allocation to another municipality, must, no later than 120 days before the start of its budget year, notify the receiving municipality of the projected amount of any allocation proposed to be transferred to that municipality during each of the next 3 financial years.

SECTION 45: SHORT-TERM DEBT

The municipality may incur short-term debt only in accordance with and subject to the provisions of the present Act, and only when necessary to bridge shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic income to be received within that financial year, or to bridge capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

The council may approve a short-term debt transaction individually, or may approve an agreement with a lender for a short-term credit facility to be accessed as and when required, including a line of credit or bank overdraft facility, provided that the credit limit must be specified in the resolution of the council; the terms of the agreement, including the credit limit, may be changed only by a resolution of the council, and if the council approves a credit facility limited to emergency use, the accounting officer must notify the council in writing as soon as practicable of the amount, duration and cost of any debt incurred in terms of such a credit facility, as well as the options available for repaying such debt.

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

SECTION 46: LONG-TERM DEBT

A municipality may incur long-term debt only in accordance with and subject to any applicable provisions of the present Act, and only for the purpose of capital expenditure on property, plant or equipment to be used for the purpose of

achieving the objects of local government as set out in Section 152 of the Constitution, or refinancing existing long-term debt subject to the requirements of Section 46 (5).

SECTION 47: CONDITIONS APPLYING TO BOTH SHORT-TERM AND LONG-TERM DEBT

The Municipality may incur debt only if the debt is denominated in rand and is not indexed to, or affected by, fluctuations in the value of the rand against any foreign currency.

SECTION 64: REVENUE MANAGEMENT (EXCERPTS)

The accounting officer of the municipality is responsible for the management of the revenue of the municipality.

The accounting officer, must, among other things, take all reasonable steps to ensure that all money received is promptly deposited in accordance with the requirements of the present Act into the municipality's primary and other bank accounts.

The accounting officer must also ensure that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled on at least a weekly basis.

The accounting officer must take all reasonable steps to ensure that any funds collected by the municipality on behalf of another organ of state are transferred to that organ of state at least on a weekly basis, and that such funds are not used for purposes of the municipality.

SECTION 65: EXPENDITURE MANAGEMENT (EXCERPTS)

The accounting officer of the municipality is responsible for the management of the expenditure of the municipality.

The accounting officer must take all reasonable steps to ensure, among other things, that payments made by the municipality are made direct to the person to whom they are due, unless agreed otherwise for reasons as may be prescribed, and either electronically or non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reasons only, and only up to a prescribed limit.

The accounting officer must also ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

The accounting officer must further ensure that the municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework.