

Cape Agulhas Municipality

Cash Management and Investments Policy

(Approved by Council on 30 October 2007)

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CASH MANAGEMENT AND INVESTMENT POLICY FOR THE CAPE AGULHAS MUNICIPALITY

1. INTRODUCTION

- 1.1 In terms of the Local Government: Municipal Finance Management Act, 2003 (Act No.56 of 2003) (The Act), the municipality must establish an appropriate and effective cash management and investment policy with the implementation date being 1 July 2004
- 1.2 Further, the Minister of Finance urged all Municipalities, in Government Gazette 27431 of 1 April 2005, to prepare for implementing proposed new regulations immediately.
- 1.3 Due to the delay in the promulgation of the regulations and the fact that the municipality must have an investment policy consistent with the abovementioned Act as well as the permission to implement the draft regulations, this policy, which complies with the requirements of the Act as well as the draft regulations, was prepared.
- 1.4 The Cape Agulhas Municipal Council considered and approved the underlying policy as its “Cash Management and Investment Policy” to which all functionaries of the municipality and Municipal Entities involved in cash management and investments must comply.

2. SCOPE OF THE POLICY

In order to ensure sound and sustainable management of the cash resources of the municipality this policy addresses all principles and processes involved in cash management and investments and includes:

- 2.1 The objectives of the policy;
- 2.2 Due care;
- 2.3 Delegation of authority;
- 2.4 Management and internal control procedures;
- 2.5 Cash Management;
- 2.6 Investments; and
- 2.7 Review of the policy.

3. OBJECTIVES OF THE POLICY

The objectives of the policy are to -

- 3.1 Sketch the general framework within which the municipality should invest and manage funds;
- 3.2 Ensure compliance with all legislation governing the investment of funds;
- 3.3 Maintain adequate liquidity to meet cash flow needs;
- 3.4 Ensure diversification of permitted investments;
- 3.5 Ensure optimal performance with the least possible risk, in managing and investing the cash resources of the municipality;
- 3.6 Ensure transparency, accountability and appropriate lines of responsibility in the process.
- 3.7 Ensure the preservation & safety of investments

4. DUE CARE

- 4.1 Each functionary in the cash management and investment process must do so with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of his or her own affairs and with his or her primary regard being to the probable safety of his or her own capital, in the second instance to his or her liquidity needs and lastly to the probable income derived.
- 4.2 Officials entrusted with investment and management of funds, have a responsibility and are accountable to the community to exercise due care when investing funds.
- 4.3 Speculation may not be undertaken in any of the processes.

5. DELEGATION OF AUTHORITY

- 5.1 The management of all the cash resources of the municipality is the responsibility of the Municipal Manager, as Accounting Officer, who must, for the proper application of this policy, develop an appropriate system of delegation that will both maximise administrative and operational efficiency and provide adequate checks and balances in the management of the cash resources.
- 5.2 The Chief Financial Officer, as designated in writing by the Municipal Manager, must advise the Municipal Manager on the exercise of the powers and duties with regards to this policy and must assist the Municipal Manager in the administration of the cash resources, the bank accounts and the investment accounts. The Chief Financial Officer may not sub – delegate the duty to assist the Municipal Manager in the administration of the municipality's bank and investment accounts.

- 5.3 The delegation to withdraw money from the municipality’s bank or investment accounts may only be given to the Chief Financial Officer or any other senior financial officer as determined, in writing, by the Municipal Manager and of which a copy, signed by the Municipal Manager, must be kept with the official set of delegations of the municipality.
- 5.4 The Municipal Manager may not delegate any power or duty in the administration of the municipality’s cash resources to a political structure or councillor and no councillor is allowed to interfere or attempts to interfere in the management of the municipality’s cash resources.
- 5.5 Any delegation by the Municipal Manager in terms of this policy:
- 5.5.1 must be in writing;
 - 5.5.2 is subject to any limitations and conditions as the Municipal Manager may impose;
 - 5.5.3 May either be to a specific individual or to the holder of a specific post in the municipality and may not be to a committee of officials; **and**
 - 5.5.4 Does not divest the Municipal Manager of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty.
- 5.6 The Municipal Manager may confirm, vary or revoke any decisions taken in consequence of a delegation or sub – delegation in terms of this policy, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.
- 5.7 For the application of this policy any referral to “Municipal Manager” also means “Any other person acting under a delegated power or performs a function delegated by the Municipal Manager” in terms of paragraph 5 of this document.

6. MANAGEMENT AND INTERNAL CONTROL PROCEDURES

- 6.1 The Municipal Manager, assisted by the Chief Financial Officer, must take all reasonable steps to ensure:
- 6.1.1 That the municipality’s available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework;
 - 6.1.2 That the municipality has and maintains a management, accounting and information system that accounts for all bank and investment accounts, receipting, withdrawals, cash management and investment transactions;
 - 6.1.3 That the municipality has and maintains a system of internal control over its bank and investment accounts, receipting, withdrawals, cash management and investment transactions.
- 6.2 In order to prevent losses arising from fraud, misrepresentations, error, conflict of interest or imprudent action, a system of internal controls governs the administration and management of the investment and cash management portfolios.

- 6.3 Controls deemed most important include –
- 6.3.1 Control of collusion, separation of duties;
 - 6.3.2 Custodial safekeeping;
 - 6.3.3 Clear delegation of duties;
 - 6.3.4 Written confirmation of telephonic transactions;
 - 6.3.5 Minimising the number of authorised investment officials;
 - 6.3.6 Checking and verification by senior officials of all investment
 - 6.3.7 Documentation of transactions and strategies;
 - 6.3.8 Code of ethics and standards;
 - 6.3.9 Strict adherence to Investment Framework Policy and Guidelines;
 - 6.3.10 Limits placed on investments by the various officials;
 - 6.3.11 Procedures manuals;
 - 6.3.12 Electronic Funds Transfer limits and a detailed procedure manual for the system; and
 - 6.3.13 Regular reporting to Committee of all investments.

7. CASH MANAGEMENT

7.1 BANK ACCOUNT ADMINISTRATION

- 7.1.1 The Municipal Manager or delegated nominee is responsible for the administration of the municipality's bank accounts including the opening of the bank accounts, the designation of the primary bank account and all banking and withdrawal procedures. The bank account may only be managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Chapter 3 of the Act as well as section 64 of the Act.
- 7.1.2 The Municipal Manager may delegate the duties attached to the administration of the bank accounts as per paragraph 5 of this policy.
- 7.1.3 The Accounting Officer (MM), in conjunction with the Chief Financial Officer (CFO) is responsible for the effective and efficient management of the council funding, namely-
- 7.1.3.1 The municipality must open at least one bank account in the name of the municipality;
 - 7.1.3.2 The municipality may not open a bank account –
 - abroad; (**Foreign currency**)
 - with an institution not registered as a bank in terms of the Banks Act, 1990 (Act 94 of 1990); or
 - otherwise in the name of the municipality.
 - 7.1.3.3 ensure that its funding always has sufficient money for appropriated expenditure and direct charges to meet the progressive cash flow requirements.
- 7.1.4 Bank account requirements, guidelines and regulations in terms of sections 7, 8, 9, 10 and 11 of the MFMA are adhered to.

- 7.1.5 Ensure that the municipality accounts daily for the cash movements of all bank accounts in the financial records.
- 7.1.6 The Municipal Manager, in conjunction with the CFO are responsible for establishing systems, procedures, processes and training and awareness programmes to ensure efficient and effective banking and cash management for the treasury and budget offices.
- 7.1.7 Sound cash management would include -
- collecting revenue when it is due and banking it promptly;
 - making payments, including transfers, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the municipality's normal terms for account payments;
 - avoiding prepayments for goods or services (i.e. payments in advance of the receipt of the goods or services), unless required by the contractual arrangements with the supplier;
 - pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the municipality are collected and banked promptly;
 - taking any other action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or under utilized assets
 - performing bank reconciliations on a monthly basis to detect any unauthorised entries;
 - ensuring that dishonoured cheques are followed up immediately; and
 - the separation of duties to minimise the incidence of fraud.
- 7.1.8 Private money, private bank accounts and cashing private cheques is prohibited.
- 7.1.9 Delegated authority by the accounting officers of departments must assign authority in writing to officials to approve warrant vouchers, cheques or electronic payments.
- 7.1.10 Only authorised officials may sign cheques and must initial the counterfoils.
- 7.1.11 All cheques must be crossed "NOT NEGOTIABLE" or "NOT TRANSFERABLE" between parallel lines. The cancellation of crossings is not permitted.
- 7.1.12 When an issued cheque is lost, stolen or damaged, an instruction to stop payment must immediately be issued to the responsible bank. Once confirmation has been received that the cheque was stopped, the transaction must be reversed and a new cheque issued and accounted for, but only at least thirty (30) days after the date of the original cheque.
- 7.1.13 Deposit all money received into the bank account(s) promptly and in accordance with the MFMA, Chapter 3.
- 7.1.14 Withdrawals from bank account(s) should be completed in terms of the MFMA, Section 11.

- 7.1.15 Designate and advise NT in writing of details of the primary bank account, or any change in the primary bank account.
- 7.1.16 In cases where a municipality has more than one bank account, ensure that only the municipal manager or CFO is delegated authority to withdraw funds from the primary bank account.
- 7.1.17 Check to ensure that all relief, charitable and trust accounts are set up in the name of the municipality and are administered by the municipal manager.
- 7.1.18 Deposit all money received for relief, charitable and trust accounts into the correct account, and make withdrawals from those accounts only for the purposes for which the fund was established and where appropriately authorised by the municipal manager in terms of the MFMA.
- 7.1.19 Notify NT of occasions when the bank account(s) of the municipality show an (consolidated) overdraft position for a period exceeding a prescribed period, and provide details of the amount, the reasons for the overdraft and the steps taken to correct the matter.
- 7.1.20 Table in council a consolidated report of withdrawals each quarter, and submit a copy of the consolidated report to the provincial treasury and Office of the Auditor General.
- 7.1.21 Submit to provincial treasury and the Office of the Auditor General written details of new bank accounts when opened, and all bank accounts each year.

7.2 RECEIPTING MANAGEMENT

- 7.2.1 The Municipal Manager is responsible for the administration of all receipting procedures and must take all reasonable steps to ensure receipting is being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 64 of the Act.
- 7.2.2 The Municipal Manager may delegate the duties attached to receipting as per paragraph 5 of this policy.

7.3 EXPENDITURE MANAGEMENT

- 7.3.1 The Municipal Manager is responsible for the administration of all expenditure procedures and must take all reasonable steps to ensure expenditure is being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 65 of the Act, giving due consideration to Section 11 of the Act.
- 7.3.2 The Municipal Manager may delegate the duties attached to expenditure as per paragraph 5 of this policy.

7.4 WITHDRAWALS

- 7.4.1 The Municipal Manager is responsible for the administration of all withdrawals procedures and must take all reasonable steps to ensure withdrawals are being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 11 of the Act.
- 7.4.2 The Municipal Manager may delegate the duties attached to withdrawals as per paragraph 5 of this policy.

7.5 DEBT MANAGEMENT

- 7.5.1 In order to ensure adequate cash flow the municipality may incur short – or long-term debt, provided that the Council approves all debt agreements, the Mayor must sign the resolutions approving the debt agreements and the Municipal Manager signed the debt agreements.
- 7.5.2 The municipality is, in terms of Section 46(5) of the Local Government: Municipal Finance Management Act, 2003, allowed to refinance its long – term debt for the purpose of saving on the cost of debt. The Municipal Manager must, for this purpose, at least annually and as part of the budget process evaluate and report to the Council on the cost of existing debt and whether re-financing such debt will be beneficial to the municipality. As part of the evaluation the Municipal Manager must determine the types of repayments and whether bullet payments at the end of the debt period and the reasonably determined nett cost thereof will not be more beneficial to the Council if the repayments are invested in sinking funds and the reasonable projected yield on the investments are being brought into account.
- 7.5.3 The Municipal Manager is responsible for the administration of all debt procedures and must take all reasonable steps to ensure debt is being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Chapter 6 of the Act.
- 7.5.4 The Municipal Manager may delegate the duties attached to debt management as per paragraph 5 of this policy.

7.6 CASH FLOW BUDGET

- 7.6.1 In order to ensure that the municipality has sufficient cash available to comply with the municipality's commitments to its lenders, creditors, statutory payments and any other commitments, it is necessary to annually compile and submit to Council, as part of the budget documentation, a cash flow projection for the budget year by revenue-source, broken down per month.

7.7 WORKING CAPITAL MANAGEMENT

- 7.7.1 The Municipal Manager must take all reasonable steps to ensure that the municipality obtains maximum performance on its assets and for this purpose the working capital of the municipality must as far as possible be managed to the maximum benefit of the municipality.
- 7.7.2 An acceptable level for the Bad Debt Reserve is 2:1 or better and the Municipal Manager must take all reasonable steps to ensure that the level is being maintained. The exercise to provide for a sufficient level of working capital must be done as part of the budget process in order to budget accordingly. Inventory levels for own use, must be kept as low as possible, creditors must be paid within 30 days of date of receipt of invoice or statement, whichever is the latest or applicable but as late as possible but with due regards to possible discounts on offer and all steps, consistent with the Council's Credit Control and Debt Collection Policy, must be taken to recover moneys due to the municipality.
- 7.7.3 The Municipal Manager must, as part of the monthly reporting to the Mayor within 10 working days of the end of each month, report on:
- The combined nett balance of the bank and investment accounts of the municipality excluding any balances of unutilised conditional grants, trust moneys kept in accordance with trust deeds, Sinking Fund Investments made in accordance with any loan- or other agreements with investors/lenders, other conditional funds for which moneys were received in accordance with Section 12 of the Act, Debt Guarantee Reserve Funds and other cash-backed funds for which spending authority must be obtained from other persons or spheres of government.
 - Whether all commitments and accounts had and can be paid on time from the nett balance above and nett realisable accounts receivable.
 - Whether there is a nett outflow of cash not in accordance with the cash flow budget.
 - Whether all of the above might cause a financial problem on which the Mayor must act in accordance with the provisions of the Act.
- 7.7.4 The Mayor must, within 30 days of the end of each quarter, report to the municipal council on the above, and, in the case of identifying a financial problem, promptly inform the council and act in accordance with the provisions of the Act.

7.8 CASH PROCEDURES

7.8.1 Payments received at the Municipal Cashiers, Traffic and Amenities / Resorts.

7.8.1.1 Internal Controls:

- Segregation of duties (Cashier and Checking Officer);
- Rotation and switching of Cashiers, must be preceded by a cash up procedure (including the float on hand)
- Cash float values should be recorded;
- Cash floats should be periodically reviewed and should be sample checked on a daily basis;
- Shortages and surpluses in cash should be recorded; and

- Cash collection times by third parties and banking should not be at set times.

7.8.1.2 Issuing of Receipts:

- All payments (including payments received in the mail) should be accompanied by a computer-generated receipt.
- Receipts numbers should be sequential and missing sequences should be accounted for.
- Original receipts must be given to the customer.
- A duplicate computer generated receipt should be printed for the audit and paper trail purposes.
- The following should appear on a computer generated receipt –
 - ❖ Date on which the receipt was issued;
 - ❖ Amount for which the receipt was issued;
 - ❖ Cashier responsible for issuing the receipt;
 - ❖ Vote or Account to which the payment is to be credited;
 - ❖ Type of payment transaction (cash, cheque, debit order, etc.); and
 - ❖ Computer generated receipt number.

7.8.1.3 Cancellation of Receipts:

- Receipts that are cancelled are to be clearly marked with cancelled written across the face of the receipt.
- Cancelled receipts are to include the original receipt (attached to transaction report).
- Reasons for the cancellation are to be marked on the cancelled receipt and should include the signatures of the cashier and Checking Officer.
- The transaction trail for the Cashier for the day should be reconciled to the number of cancelled receipts on hand.

7.8.1.4 Cash Balancing:

- Daily day end cash-up procedures must be completed before the Cashier and Checking Officer may leave the municipal premises.
- Balancing of the cash on hand to the computer records must be performed by means of reconciliation before closing of offices everyday.
- Cash on hand should be counted and the cash float should be removed before balancing to the computer records for the receipts for the day, for a given cashier.
- Cash received for the day is keyed into the computer system for each note and coin denomination and for cheques and postal orders.
- The Checking Officer is responsible for ensuring that the records balance.
- Shortages are immediately made good by the Cashier and surpluses are immediately receipted into the cashier surplus vote.
- The Cashier amends the cash received on the computer system and the correct totals are banked.
- Cashiers takings are locked in the safe overnight.
- In the morning the Cashier and the Checking Officer recheck the takings.
- The takings and deposit book are placed in the deposit box and the deposit box is sealed.
- The seal number is recorded in a seal register.
- The Security firm responsible for lifting and banking the municipal takings records the seal number in their records and the Checking Officer and the Security firm representative sign

the documentation as receipt of the takings from the Municipality to the Security firm for banking purposes.

7.8.1.5 Deposit Books for Municipal Takings:

- The deposit book serves as an agreement between the municipality and the bank of the funds forwarded to the bank for deposit purposes, into the appropriately defined municipal banking account.
- Completion of deposit slips (in ink), by the Cashier, must be appropriate, comprehensive and accurate.
- The deposit book sheets are in duplicate –
 - Original for the bank; and
 - Copy 1 fixed copy (book).
- The complete deposit books with all slips are forwarded to the bank for stamping purposes.
- On return from the bank the deposit slips are reviewed by the Checking Officer to follow-up on any discrepancies.

7.8.2 Other Payment Methods

These relate to other payment mediums such as internet banking, direct deposits, ACB's, EasyPay, and Pay-A-Bill transactions.

7.8.2.1 Direct Deposits:

- These transactions are handled by the Accountant: Cash Management.
- A summary is prepared and the transactions are captured into the receipting system by a Cashier.
- Balancing between the Accountant: Cash Management summary and the cashier transactions summary is completed.

7.8.2.2 EasyPay / ACB and Pay-A-Bill Transactions:

- All payments are handled by the Accountant by means of an internet download and transfer to the TADLINK System.
- The Operator: Data & Systems Maintenance within the Financial Information Section transfers the payments received from EasyPay to the Debtors System.
- Balancing of the EasyPay transaction totals to the Bank totals received is completed by the Accountant: Cash Management who completes the cashbook reconciliation.
- Variances are followed up by the Accountant: Cash Management.
- The serial numbers of receipt transfers from the institutions must be checked on a daily basis by accountant to ensure that all receipts/deposits are transferred to the Municipality on a daily basis. These serial numbers must be recorded by the accountant and any discrepancies must be followed up on a daily basis by the accountant.

7.8.2.3 Cheque Deposit Box:

- The cheque deposit box must be opened daily.
- A register of all cheques received are recorded.
- The register includes the following details –
 - ❖ Client name

- ❖ Cheque number
- ❖ Amount
- ❖ Account holders name
- ❖ Date of cheque
- ❖ Date cheque was received
- ❖ Municipal Account number
- ❖ Receipt number (completed by the cashier upon receiving the funding)
- Periodically and on a sample basis the cheque register is reviewed by the Accountant of the section to ensure accuracy and allocation was correct and to verify that the register is appropriately updated with the receipt number allocated to the transaction.

7.8.2.4 Mailed Cheques:

- Similar to the process above the Records / Archiving section keep a register of all cheques received.
- Mail is opened by two persons and recorded in the register of cheques.
- The Records / Archiving Section deliver the register and cheques to the Income Section for receipting and capturing.
- The Cashier upon receipting records the receipt number in the register.
- The Checking Officer and Accountant of the section review the register to ensure accuracy and allocation was correct and to verify that the register is appropriately updated with the receipt number allocated for the transaction.

7.8.2.5 Payments received by branches of CAM

- All payments received on behalf of CAM by the branches of CAM should follow the same procedures as stipulated in sections 7.8.1.1 to 7.8.1.5 above.
- After the daily reconciliation had been completed, it must be reconciled with the computer records at the head office in Bredasdorp, before deposit slips are compiled.

7.8.2.6 Payments received by Agencies on behalf of CAM

- Receipts issued for payments received are reconciled with amount recognised for deposit into CAM's bank account.
- Any variances are followed up by the Accountant: Cash Management.
- The Agency is accountable for all monies received until the Security firm, responsible for lifting and banking the municipal takings, collects the deposit box.

8. INVESTMENTS

8.1 INVESTMENT MANAGEMENT

- 8.1.1 The Municipal Manager is responsible for the administration of all investment procedures and must take all reasonable steps to ensure investments are being managed in accordance with any auditing requirements as well as any legal requirements including as prescribed in the Local Government: Municipal Finance Management Act, 2003 and in particular Section 13 of the Act.
- 8.1.2 The Municipal Manager may delegate the duties attached to investments as per paragraph 5 of this policy.
- 8.1.3 In order to ensure that the Municipal Manager or any person delegated in terms of paragraph 5 complies with this policy in terms of investments and to capacitate the municipality further, the Municipal Manager may contract an Investment Manager who is 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 Exchanges Control Act (Act No. 1 of 1985). The Investment Manager must advise the Municipal Manager or delegated officials on investments and may manage investments on the municipality's behalf, subject to any conditions and controls the Municipal Manager may determine, examples this investment and cash management policy.

8.2 INVESTMENT ETHICS

- 8.2.1 All functionaries in the investment management process must act with fidelity, honesty, integrity and in the best interest of the municipality and must seek, within the spheres of influence of the functionaries, to prevent any prejudice to the investments of the municipality.
- 8.2.2 No functionaries in the investment management process may use their position or privileges of, or confidential information obtained as, functionary in the process for personal gain or to improperly benefit another person. Interest rates quoted by one institution should never be disclosed to another.
- 8.2.3 No person contracted by the municipality for the purpose of investments or no person submitting quotes, bids or any other means of competitive submissions may, either directly or through a representative or intermediary promise, offer or grant any reward, gift, sponsorships, loan, bursary, favour or hospitality to –
- Any official, spouse or close family member of such official or spouse; and
 - Any councillor, spouse or close family member of such councillor or spouse.
- 8.2.4 The Municipal Manager must promptly report to the Mayor and National Treasury any alleged contravention of the above and may make recommendations as to whether the alleged offending party should be listed on the National Treasury's database of persons

prohibited from doing business with the public sector. Any such report by the Municipal Manager must give full details of the alleged breach and a written response from the alleged offending party, as well as proof that the alleged offending party received the allegations in writing and were given at least 7 (seven) working days to respond, in writing, to the allegations.

8.2.5 Any sponsorship promised, offered or granted to the municipality must promptly be disclosed to the National Treasury.

8.2.6 Investments by a municipality or municipal entity, or by an investment manager on behalf of a municipality –

- Must be made with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs;
- May not be made for speculation but for investment; and
- Must in the first instance be made with primary regard being to the probable safety of the investment, the second instance to the liquidity needs of the municipality or entity and lastly to the probable income derived from the investment.

8.2.7 Any uncertainty originating from consultation with an institution prior to making the investment, will be considered as a significant reason for not making an investment with this particular institution.

8.3 INVESTMENT OBJECTIVES

8.3.1 Objective 1 – Security

The first and foremost objective for investments is the preservation and safety of the principal amount invested. It is a requirement that investments may only be made with institutions with a creditworthy rating of A1 and better. Any investments made must be liquidated if an institution's creditworthy rating falls below the level of A 1.

8.3.2 Objective 2 - Liquidity

The cash flow budget must be used as an instrument in determining liquidity needs. Other factors such as the payment runs for creditors, dates for salary and statutory payments and dates for debt repayments must also be brought into account to ensure cash requirements, and resultant investment periods, are being calculated to such an extent that maximum yield on surplus cash can be obtained.

8.3.3 Objective 3 - Yield

It is necessary to ensure optimal yield on the municipality's investments, but a higher yield should never increase the risk of preservation and safety of the principal amount invested or not meeting cash flow requirements. Where an institution has a sudden increase above the average market increase in investment returns, the Municipal Manager must determine

whether the institution is in liquidity or financial problems, and in such an instance liquidate the investments with such an institution as soon as possible.

8.4 TYPES OF INVESTMENT ACCOUNTS

8.4.1 The following cash – backed investment accounts should be established:

- General surplus cash
- Capital replacement reserve fund
- Accumulated leave fund
- Trust funds where a trust- deed exist
- “Allocation “ funds as described in Section 1 of the Local Government: Municipal Finance Management Act, 2003, but excludes the equitable share
- Sinking funds, if applicable
- Debt guarantee reserve fund, if applicable
- Post retirement benefits funds
- Self – insurance reserve, if applicable
- Housing development funds

8.4.2 Where a Trust Deed prescribes how the trust money is to be invested, the prescriptions in the Trust Deed will prevail over this policy.

8.4.3 It is a general principle, the higher the investment the better the yield, and for this purpose the Municipal Manager should combine as much cash allocated to the above funds as possible, and invest it together. Yield should then be allocated according to the capital of the individual cash – backed funds, through the Statement of Financial Performance.

8.5 APPROVED INVESTMENTS

8.5.1 Investments should be structured according to the best yield available and the liquidity needs of the municipality. This can include Call Deposits, Fixed Term Deposits and Endowment Policies for the purpose of Sinking Funds only. Sinking funds must be created for the purpose of bullet – payment loans and to provide for future commitments such as building enough cash to be able to cover post – retirement benefits in full.

8.6 QUALIFYING INSTITUTIONS

8.6.1 It is of utmost importance that the investments only be placed with credit–worthy institutions with a credit–rating of A1 and A1+, unless such Institution is the Bank where the Council’s current account is held.

8.6.2 An Institution’s quotation will only be considered if its current grading as well as the date of the grading is shown on the quotation.

8.6.3 The following investments are permitted:

- 8.6.3.1 Securities issued by National Government
- 8.6.3.2 Listed corporate bonds with an investment grade rating from a nationally or an internationally recognized credit rating agency.
- 8.6.3.3 Deposits with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)
- 8.6.3.4 Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act 45 of 1984)
- 8.6.3.5 Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984)
- 8.6.3.6 Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)
- 8.6.3.7 Guaranteed endowment policies with the intention of establishing a sinking fund
- 8.6.3.8 Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)
- 8.6.3.9 Municipal Bonds issued by the municipality
- 8.6.3.10 Any other as might be approved by the Minister of Finance

8.7 INVESTMENT DIVERSIFICATION

- 8.7.1 Without limiting the Municipal Manager to any specific amount or percentage of investments, it is hereby established that investments made by the municipality should be diversified as much as possible between different institutions, maturity dates and types, but nothing prevents the Municipal Manager from investing more cash with an institution than by another institution with due regards to the standard of care and objectives set in this policy.
- 8.7.2 Having determined that funds are available for investment and the maximum period for which the funds may be invested, the CFO (or his delegated nominee in the treasury and budget section) needs to consider the manner in which the investments are placed. As rates can vary according to the money market perception related to the term of the investment, there is merit in obtaining quotes for periods within the maximum determined.
- 8.7.3 Funds should be invested, as far as it is practically possible, with the two institutions that offer the highest rates. This form of diversification is used to lower the aggregate risk of the investment.
- 8.7.4 No investment will be made with the Institution where the Council's current account is held.

8.8 COMPETITIVE SELECTION OF BIDS OR OFFERS

- 8.8.1 In establishing where investments must be made, at least 3 (three) written quotations must be obtained by the Municipal Manager from any of the institutions listed in paragraph 8.6 above. The Municipal Manager may not divulge interest rates to other institutions during the quotation process. If Investments Managers use treasury desks for the purpose of

obtaining quotations, the quotations, with a written reason why a specific institution was chosen if the yield is lower than that of another institution, must be forwarded to the Municipal Manager, who must evaluate the reasons and issue such instructions as deemed necessary.

- 8.8.2 Before placing funds externally, consideration must be given to whether the funds cannot be utilised at an equivalent rate to substitute external borrowing, as there is normally a margin between the rate at which local authorities can borrow funds and the rate at which investments can be made over similar periods.

8.9 COMMISSIONS OR COSTS

- 8.9.1 No commission for investments made or referred is payable to an official or councillor, or spouse, business partner or close family member of an official or councillor by an institution or investment manager.
- 8.9.2 Any commissions, other rewards or costs paid to an investment manager by an institution must be declared to the municipality by the institution and Investment Manager by way of certificates. Any quotation given to the municipality by an institution or Investment Manager must be net of costs, rewards or commissions, but must also indicate the commissions, rewards or costs which will be paid in respect of the investments.

8.10 PERFORMANCE

- 8.10.1 The Municipal Manager must annually measure and report to the Council on the performance of its:
- Investments in terms of the stipulated objectives of this Policy; and
 - Investment Managers in terms of the stipulated objectives of this policy.

8.11 FORBIDDEN ACTIVITIES

- 8.11.1 No investments may be made other than in the name of the municipality.
- 8.11.2 Money may not be borrowed for the purpose of investments
- 8.11.3 No person, including officials and councillors, may interfere or attempt to interfere in the management of investments entrusted to the Municipal Manager or persons delegated by the Municipal Manager including with the Investment Managers.
- 8.11.4 No investments may be made other than be denominated in Rand and which is not indexed to, or affected by, any fluctuations in the value of the Rand against any foreign currency.

8.12 REPORTING

- 8.12.1 The Municipal Manager must, in addition to the reporting in paragraph 7.7 above, within 10 working days of the end of each month submit to the Mayor a report describing in detail the investment portfolio of the municipality as at the end of the month.
- 8.12.2 The report referred to above must contain at least a statement, prepared in compliance with generally accepted municipal accounting principles, as amended from time to time, that gives the
- Beginning market value of each investment for the month;
 - Additions and changes to the investment portfolio for the month;
 - Ending market value of each investment for the month; and
 - Fully accrued interest/yield for the month.
- 8.12.3 The Municipal Manager, in making investments, must remind the relevant institutions of the institutions' legal reporting responsibilities in terms of Sections 13 (3) and 13 (4) of the Local Government: Municipal Finance Management Act, 2003 and must get a certificate from the institutions that the institutions will comply with the Act. A single certificate per institution for any current and future investments may be obtained and must be kept on the municipality's investment file.

9. *REVIEW OF THE POLICY*

- 9.1 This Cash Management and Investment Policy is the sole policy governing cash management and investments in the municipality. Any reviews to this policy must be approved by the Municipal Council.
- 9.2 The Mayor must submit any proposed changes to this policy to the Council as part of the annual review of policies submitted with the budget documentation.
- 9.3 Whenever the Minister of Finance or the National Treasury or the Auditor-General requires changes to the policy by means of legislation or requests it should be reviewed promptly in accordance with such requirements, giving full details of the reasons for the revision.
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