



**MTUBATUBA**

**LOCAL MUNICIPALITY**

**CASH MANAGEMENT AND  
INVESTMENT POLICY**

**2016/2017**

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## 1. DEFINITIONS

In this policy, unless the context indicates otherwise, a word or expression, to which a meaning has been assigned in the Municipal Finance Management Act (MFMA) No. 56 of 2003, has the same meaning:

**“accounting officer”** the municipal manager of a municipality for the purposes of this policy in relation to a municipality, and includes a person acting as the accounting officer.

**“Auditor-General”** means the person appointed as Auditor-General in terms of section 193 of the Constitution, and includes a person as acting as Auditor-General, designated by the Auditor-General to exercise a power or perform a duty of the Auditor-General.

**“chief financial officer”** means a person designated in terms of section 80(2) (a) of the MFMA.

**“creditor”** in relation to a municipality, means a person to whom money is owing by the municipality.

**“debt”** means a monetary liability or obligation created by a financing agreement, bond or overdraft, or by the issuance of municipal debt instruments; or a contingent liability such as that created by guaranteeing a monetary liability.

**“debt agreement”** includes any loan agreement under which a municipality undertakes to repay a long-term debt over a period of time.

**“financial year”** means a year ending on 30 June.

<b>“investment”</b>	in relation to funds of a municipality, means <ul style="list-style-type: none"> <li>a) the placing on deposit of funds of a municipality with a financial institution,</li> <li>b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds.</li> </ul>
<b>“lender”</b>	in relation to a municipality, means a person who provides debt finance to a municipality;
<b>“long-term debt”</b>	means debt repayable over a period exceeding one year;
<b>“long-term investments”</b>	means any cash or liquid securities owned by the Municipality which have a maturity date, and/or callable date reasonably expected to be exercised, that is greater than one year;
<b>“month”</b>	means one of the 12 months of a calendar year;
<b>“municipal council”</b>	means the council of a municipality referred to in section 18 of the Municipal Structures Act;
<b>“municipal entity”</b>	has the meaning assigned to it in section 1 of the Municipal Systems Act;
<b>“municipal manager”</b>	means a person appointed as the accounting officer of the municipality;

**“primary bank account”** means the main bank account referred to in section 8(1) of the MFMA;

**“municipality”** means Mtubatuba Municipality

**“short-term debt”** means debt repayable over a period not exceeding one year;

**“short-term investments”** Any cash or liquid securities owned by the municipality which is having a maturity date, and/or Callable date reasonably expected to be exercised, that is equal to or less than one year.

## **PREAMBLE**

Whereas section 13 of the Local Government: Municipal Finance Management Act, 2003 (No. 56 of 2003) determines that a municipality must introduce an appropriate, prudent and effective cash management and investment arrangement; *and where* as a bank, in accordance with the provisions of section 13 of the Act, has to disclose details regarding a municipalities' investments; *and whereas* councillors and officials, as trustees of public funds have an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible; *now therefore* the Mtubatuba Municipality adopt the cash and investment management policy set out in this document.

## **1. LEGAL FRAMEWORK**

- a) Legislation – local government: Municipal Finance Management Act 56 of 2003 (As amended)
- b) Treasury regulations in terms of Section 13(1) of the Act (As amended). In this policy the Act refers to the MFMA.

## **2. OBJECTIVES**

- a) To maximize returns from authorized investments, consistent with the secondary objective of minimizing risk
- b) To ensure compliance with all legislation governing the investment of funds.
- c) To maintain adequate liquidity to meet cash flow needs
- d) To undertake the investment of funds not immediately required for operational purposes in a prudent financial manner.
- e) To ensure diversification of permitted investment.

## **3. CASH MANAGEMENT POLICY**

### **3.1. General Policy**

It is recognised that from time to time, Council has cash flow surpluses and borrowing requirements due to daily receipts and payments. Council maintains a daily cash position summary and a yearly cash flow projection is prepared during

the annual planning process and is updated monthly. This determines Council's borrowing requirements and surpluses for investment. Cash invested "outside" the bank account is covered by section 4 of this policy.

### **3.2. Bank Accounts**

Council operates one primary bank account for its day to day operational activity requirements.

All monies due to Council and due by Council emanating from Council activities must passthrough this primary account.

## **1. BANKING ARRANGEMENTS**

11.1 The Municipal Manager is responsible for the management of the Municipality's bank accounts, but may delegate this function to the Chief Financial Officer. The Municipal Manager and Chief Financial Officer are authorised at all times to sign cheques and any other documentation associated with the management of such accounts. The Municipal Manager, in consultation with the Chief Financial Officer, is authorised to appoint two or more additional signatories in respect of such accounts, and to amend such appointments from time to time. The list of current signatories shall be reported to the Executive Committee on a monthly basis, as part of the report dealing with the Municipality's investments.

11.2 In compliance with the requirements of good governance, the Municipal Manager shall open a bank account for ordinary operating purposes, and shall further maintain a separate account for each of the following: the administration of the external finance fund and of the asset financing reserve (if these accounts are legally permissible). One or more separate accounts shall also be maintained for the following: capital receipts in the form of grants, donations or contributions from whatever source; trust funds; and the Municipality's self-insurance reserve (if legally permissible). In determining the number of additional accounts to be maintained, the Municipal Manager, in consultation with the Chief Financial Officer, shall have regard to the likely number of transactions affecting each of the accounts referred to. Unless there are compelling reasons to do otherwise, and the council expressly so directs, all the Municipality's bank

accounts shall be maintained with the same banking institution to ensure pooling of balances for purposes of determining the interest payable to the Municipality.

11.3 The Municipal Manager shall invite tenders for the placing of the Municipality's bank accounts within six months after the election of each new Council, such new banking arrangements to take effect from the first day of the ensuing financial year. However, such tenders may be invited at any earlier stage, if the Municipal Manager, in consultation with the Chief Financial Officer, is of the opinion that the services offered by the Municipality's current bankers are materially defective, or not cost-effective, and the Accounting Officer or the Executive Committee, as the case may be, agrees to the invitation of such tenders.

### **3.2.1 Cheque Management**

Cheques are printed in batch format. To prevent the removing of cheques, cheques are delivered in sealed boxes where strict control is exercised over the numerical sequence of cheques on the expenditure system by means of a cheque register.

### **3.2.2 Delegation/Rights**

The incumbents of the following post are authorized to sign cheques on behalf of Council

### **3.2.3 Cheques**

**A-Signatories:** Municipal Manager

Chief Financial Officer

**B-Signatories:** Finance Manager

Each payment needs to be signed by at least two A-signatories, or one A-signatory and one B-signatory.

### **3.2.4 Electronic Funds Transfer (EFT)**

Authorisation same as cheques above

### **3.3 Bank Overdraft**

- 3.3.1 Barring the fact that Council has an approved overdraft facility with its primary banker for possible unanticipated short-term cash flow shortfall, its general policy is to avoid going into overdraft.
- 3.3.2 Short-term debt is incurred based on expected income and must be repaid within the same financial year. (Section 45 of the MFMA)
- 3.3.3 Council set the credit limit for the bank overdraft facility at R6, 000,000 (six million rand).
- 3.3.4 The terms of the agreement for the bank overdraft facility, including the credit limit, may be changed only by a resolution of council.
- 3.3.5 Any overdrawn bank account at any date must be reported without avail to Council supported by reasons therefore.
- 3.3.6 Any short term facility that requires review must first be approved by the Accounting Officer.

## **4. INVESTMENT POLICY**

### **4.1 General Policy**

Generally Council will invest surplus funds with deposit taking institutions registered in terms of the Bank's Act, 1990 (Act 94 of 1990) for terms not exceeding one year in anticipation of cashflow expectations. From time to time, with prior Executive Mayoral Committee approval, investments can exceed 1 [one] year and be made at other institutions/instruments as approved in the National Treasury regulations from time to time.

## **4.2 Application**

4.2.1 This policy applies to all investments made by the Mtubatuba Municipality or its duly appointed investment manager.

4.2.3 This policy do not apply to -

(a) a pension or provident fund registered in terms of the Pension Funds Act 24 of 1956, or any subsequent legislation; or

(b) in respect of trust money administered by a municipality where a trust deed prescribe show the trust money is to be invested.

### **4.3.1 Investments dominated in foreign currencies prohibited**

Council may make an investment only if the investment is dominated in Rand and is not indexed to, or affected by, fluctuations in value of the Rand against foreign currency.

## **4.4 Diversification**

4.4.1 Council will only make investments with approved institutions which have an **A** rating as per

### **Appendix A.**

4.4.2 Not more than 30% of available funds will be placed with a single institution.

4.4.3 Council must regularly monitor its investment portfolio and when appropriate liquidate an investment that no longer has the minimum acceptable credit rating as specified in 4.4.1 above.

## **4.5 Investment Managers**

### **4.5.1 External Investment Managers**

The municipality may as and when the need arise approach an external A-graded investment manager to administer the investment portfolio on its behalf. The external investment manager will be appointed in terms of SCM policy and service level agreement will govern the functions and responsibility of the service provider. All

investments made by the external investment manager on behalf of the Council of Mtubatuba must be made within the ambit of this policy and with National Treasury's investment Regulations.

#### **4.5.2 Internal Investment Manager.**

All investments made by the internal investment manager shall be in accordance with section 4.4 of this policy.

### **4.6 INTERNAL CONTROLS OVER INVESTMENTS**

#### **4.6.1 Delegations**

In terms of section 79 of the MFMA Act, the Accounting Officer has delegated to the Director: Finance (CFO), in writing, his duty under section 65(2)(h) to manage the council's available working capital effectively and economically in terms of the prescribed cash management and investment framework. The CFO has sub-delegated this duty to the Manager Financial Administration.

#### **4.6.2 Concluding deals**

Written mandates, signed by the Municipal Manager and the CFO, shall be issued to all investees with whom the Council of Mtubatuba invests funds setting out the following:

4.6.2.1 Authorised dealers: name and particulars of the Council's officials who are authorised to transact investments deals with the investees;

4.6.2.2 Authorised signatories: name and particulars of the Council's officials who are authorised to sign written confirmations or any other correspondence in respect of investments transactions.

4.6.2.3 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. The Manager Financial Administration, together with any one of the authorised signatories referred to above, shall be authorised to approve the transaction.

A written confirmation of the terms of each investment transaction shall be prepared, and signed off by the Manager Financial Administration and the CFO.

#### **4.7 Ownership**

4.7.1 All investments must be made in the name of the Mtubatuba Local Municipality.

4.7.2 Written proof of investments made must be obtained from the institution where the investment is made and must be kept on file.

4.7.3 Council may not borrow money for the purposes of investment.

#### **5. DUE CARE**

In dealing with financial institutions, the following ethical principles must be observed:

5.1 The Chief Financial Officer and all staff in his/her directorate shall not accede to any influence by or interference from Councillors, investment agents, institutions or any other outsiders.

5.2 Under no circumstances may inducements to invest be accepted;

5.3 Interest rates quoted by one institution must not be disclosed to another institution; and

5.4 The business ethics of any controlling body of which the relevant financial institution is a member must be observed by such institution or body at all times.

5.5 Investments must be made with such judgement and care, under prevailing circumstances like a person of prudence, discretion and intelligence would exercise.

5.6 Investment may not be made for speculation but must be a genuine investment; and

5.7 Investments must in the first instance be made with the primary regards being to the probable safety of the investment, in the second instance to the liquidity needs of the municipality and lastly to the probable income derived from the investment.

## **2. INVESTMENT PRINCIPLES**

### **6.1 Limiting Exposure**

Where large sums of money are available for investment the Chief Financial Officer shall ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the Municipality. The Chief Financial Officer shall further ensure that, as far as it is practically and legally possible, the Municipality's investments are so distributed that more than one investment category is covered (that is, call, money market and fixed deposits).

### **6.2 Risk and Return**

Although the objective of the Chief Financial Officer in making investments on behalf of the Municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution and the investment instrument concerned. No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions. Deposits shall be made only with registered deposit-taking institutions (see 6.4 below).

### **6.3 Payment of Commission**

Every financial institution with which the Municipality makes an investment must issue a certificate to the Chief Financial Officer in regard to such investment, stating that such financial institution has not paid and will not pay any commission and has not and will not grant any other benefit to any party for obtaining such investment.

### **6.4 Call Deposits and Fixed Deposits**

- a) Before making any call or fixed deposits, the Chief Financial Officer, shall obtain quotations from at least three financial institutions. Given the volatility of the money market, the Chief Financial Officer, shall, whenever necessary, request quotations telephonically, and shall record in an appropriate register

the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be relevant (for example, whether the interest is payable monthly or only on maturity, and so forth).

- b) Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, email or any other expedient means).
- c) Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of part 7 below) shall be paid over only to such institution itself and not to any agent or third party.
- d) Once the investment has been made, the Chief Financial Officer shall ensure that the Municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the Municipality.

#### 6.5 Restriction on tenure of investments

No investment with a tenure exceeding twelve months shall be made without the prior approval of the Accounting Officer or the Executive Committee, as the case may be.

### **3. GENERAL INVESTMENT PRACTICE**

#### 7.1 Confirmation Letter

The Auditor General requires the financial institution, where the Investment is made, to issue a confirmation letter for each Investment made. This letter must state the type of Investment, account number, term of Investment, rate payable, amount and date invested and maturity date.

#### 7.2 Reports

The Municipal Manager or delegated person must within 10 working days of the end of each month as part of section 71 report required by the act, submit to the Executive Committee of the Municipality a report describing in accordance with GRAP the investment portfolio of the Municipality as at the end of the month.

### 7.3 Creditworthiness

When investments are placed with smaller registered institutions, the Senior Finance 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. The Senior Finance Officer is entitled to information from which the creditworthiness of financial institutions can be determined. This must be obtained and analysed annually.

## **4. INVESTMENT PROCEDURES AND REPORTING**

8.1 After determining whether there is cash available for investment and fixing the maximum term of investment, the Municipal Manager must consider the way in which the investment is to be made.

### 8.2 Short-term Investment:

- a) The term of Investment shall not be more than 3 months
- b) Quotations must be obtained from a minimum of three financial institutions, for the term of which the funds will be invested.
- c) Should one of the institutions offer a better rate for a term, other than the term originally quoted for, the other institutions which were approached, must also be asked to quote a rate for the other term.
- d) Quotations can be obtained telephonically, as rates generally change on a regular basis and time is a determining factor when investments are made.
- e) The person responsible for requesting quotations from institutions must record the following:-

- i. name of institution;
  - ii. name of person quoting rates;
  - iii. period of the investment
  - iv. relevant terms; and
  - v. other facts i.e. are interest payable monthly or on maturation date.
  
- f) 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.
  
- g) No attempts must be made to make institutions compete with each other.
  
- h) Once a quote has been accepted written confirmation of the details must be obtained from the financial institution.
  
- i) The investment capital must only be paid over to the institution with which it is to be invested and not to an agent.
  
- j) The financial institution where the investment is made must issue a faxed or written confirmation stating the details of the investments.
  
- k) The Chief Financial Officer must ensure that the investment document received is authentic.
  
- l) The financial institution, where the investment is made, must issue a confirmation for each investment made stating 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.
  
- m) The Council must be given a quarterly report on all investments.
  - i. The Accounting Officer of the Municipality must within ten (10) working days of the end of each month submit to the Mayor of the Municipality or

the board of directors of the municipal entity a report describing in accordance with generally recognised accounting practice the investment portfolio of the Municipality as at the end of the month.

ii. The report referred to in subsection (i) above and as set out in the Government Gazette No: 27431, published Municipal Investment Regulations, must set out at least:-

- the market value of each investment as at the beginning the reporting period;

- additions and changes to the market value during the period;

- ending market value for the period;

- fully accrued interest/yield for the reporting period.

n) Where money is kept in current accounts, the Municipality must bargain for more beneficial rates with regards to deposits.

### 8.3 Long-term investments:

a) Written quotations must be obtained for all investments made for periods longer than twelve months.

b) The prior approval of the Accounting Officer or the Executive Committee must be obtained for all investments made for periods longer than twelve months after considering the cash requirement for the next three years.

### 8.4 Investment maturity

a) Upon maturity of the investment the Council:-

i. Shall withdraw the whole amount invested

ii. Shall make quotations from various Financial Institutions approved by Council, and

iii. Shall re-invest 100% interest plus the original amount that had been invested, in terms of the investment procedure (paragraph 8 above), unless if Council wishes to utilize the original money or the interest.

#### 8.5 Early withdrawal of invested funds

- a) When investing the funds with the banking institutions the Chief Financial Officer shall ensure that such funds are not withdrawn earlier than the maturity date agreed upon, by so doing the Municipality will not incur fruitless and wasteful expenditures in form of penalties resulting from early withdrawal of investments.
- b) The Chief Financial Officer shall only withdraw funds if :
  - i) the banking institution concerned has agreed to exempt any penalties due to early withdrawal of investment or;
  - ii) the Municipal Manager may grant approval to withdraw the invested funds after he/she has satisfied himself/herself that the urgency was unforeseeable at the time when funds were invested and that the need for funds far outweighs the penalties being paid for such early withdrawal.

### **5. CONTROL OVER INVESTMENTS**

9.1 The Chief Financial Officer shall ensure that proper records are kept of all investments made by the Municipality. Such records shall indicate the following facts:

- a) Name of institution;
- b) capital invested;
- c) date invested;
- d) interest received;
- e) interest rate;
- f) maturation date;
- g) capital repaid; and
- h) balance invested.

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

9.3 The Chief Financial Officer shall ensure that all investment documents and certificates are properly secured in a fireproof safe with segregated control over the access to such safe, or are otherwise lodged for safekeeping with the Municipality's bankers or attorneys.

## **6. OTHER EXTERNAL INVESTMENTS**

10.1 From time to time it may be in the best interests of the Municipality to make longer-term investments in secure stock issued by the National Government, Eskom or any other reputable parastatal or institution, or by another reputable municipality. In such cases the Chief Financial Officer, must be guided by the best rates of interest pertaining to the specific type of investment, which the Municipality requires, and to the best and most secure instrument available at the time.

10.2 No investment with a tenure exceeding twelve months shall be made without the prior approval of the Council, and without guidance having been sought from the Municipality's bankers or other credible investment advisers on the security and financial implications of the investment concerned.

## **6. PERFORMANCE MEASUREMENT**

Measuring the effectiveness of Council's treasury activities is achieved through a mixture of subjective measures. The predominant subjective measure is the overall quality of treasury management information. The Chief Financial Officer has primary responsibility for determining this overall quality. Objective measures include:-

**6.1** Adherence to policy.

**6.2** Timely receipt of interest income.

## **7. REPORTING**

### **7.1 Monthly reports**

Monthly reports 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 period.

## **8. ANNUAL REVIEW OF POLICY**

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

## **9. EFFECTIVE DATE**

The effective date of this policy shall be 1 July 2014.

### **1. POLICY ADOPTION**

This policy has been considered and approved by the COUNCIL OF MTUBATUBA LOCAL MUNICIPALITY as follows:

Resolution No:.....

Approval Date:.....

## APPENDIX A

### APPROVED INSTITUTIONS

Banking Institution	Short term	Long term
ABSA Bank Ltd		AAA
Development Bank of SA		AAA
First Rand Bank Ltd		AA+
Sanlam Capital Markets Ltd		A
Investec Bank Ltd		A+
Land and Agricultural Bank of SA		AA-
Nedbank Ltd		AA-
Standard Bank of RSA		AA

#### 1. Long-term ratings

**AAA-** Obligations which have the highest rating assigned by Fitch IBCA on its nation rating scale for that country. This rating is automatically assigned to all obligations issued or guaranteed by the sovereign state. Capacity for timely repayment of principal and interest is extremely strong, relative to other obligors in the same country.

**AA-** Obligations for which capacity for timely repayment of principal and interest is very strong relative to other obligors in the same country. The risk attached to these obligations differs only slightly from the country's highest rated debt.

**A-** Obligations for which capacity for timely repayment of principal and interest is strong relative to other obligors in the same country. However, adverse changes in business economic or financial conditions are more likely to affect the capacity for timely repayment than for obligations in higher rated categories.