

NGAKA MODIRI MOLEMA DISTRICT MUNICIPALITY



CASH MANAGEMENT AND INVESTMENT POLICY

DATE APPROVED BY COUNCIL :

COUNCIL RESOLUTION NUMBER :

CASH MANAGEMENT AND INVESTMENT POLICY

1. APPLICATION

- 1.1 This policy applies to the Ngaka Modiri Molema District Municipality and all managers acting on behalf of, or assisting, Municipality.
- 1.2 This policy prescribes the manner in which a Municipality must conduct its cash management and investments as well as invest all monies not immediately required.

2. ADOPTION OF CASH MANAGEMENT AND INVESTMENT POLICY

- 2.1 The cash management and investment policy to be established by a municipality in terms of section 13 (2) of the Act, must be –
 - (a) adopted by the council of the municipality after the community has been given the opportunity to make representations or comments thereon; and
 - (b) consistent with the regulations.
- 3.2 All investments made by a municipality or municipal entity, or by an investment manager on behalf of a municipality or entity, must be in accordance with the cash management and investment policy of the municipality or entity and these regulations.

3. CORE ELEMENTS

3.1 Scope of policy

The scope of this policy shall be as follows:

- (a) securities issued by the national government;
- (b) listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- (c) deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- (d) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984);
- (e) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);

- (f) banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990;
- (g) guaranteed endowment policies with the intention of establishing a sinking fund;
- (h) repurchase agreements with banks registered in terms of the Banks Act, 1990;
- (i) municipal bonds issued by a municipality; and
- (j) any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.

3.2 Objects of policy

The objectives of this policy is to ensure –

- 3.2.1 that investment of surplus funds form part of the financial system of the Municipality;
- 3.2.2 that the same procedure is followed in respect of investments to conform to the requirements of transparency, equitability and fairness in each case;
- 3.2.3 the preservation and safety of investments as a primary aim;
- 3.2.4 the need for investment diversification; and
- 3.2.5 the liquidity needs of .a..Municipality

Minimum acceptable rating and requirements for investments

3.3 Investment Types

The Municipality shall invest funds only in any of the following investment types as may be appropriate to the anticipated future need for the funds:

- (a) securities issued by the national government;
- (b) listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- (c) deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- (d) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984);
- (e) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);

- (f) banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990;
- (g) guaranteed endowment policies with the intention of establishing a sinking fund;
- (h) repurchase agreements with banks registered in terms of the Banks Act, 1990;
- (i) municipal bonds issued by a municipality; and
- (j) any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.

3.4 Regular Review

The Municipality shall review its investments regularly and liquidate any investment that no longer has the minimum acceptable rating as specified.

3.5 Reporting requirements

In terms of reg. 9 the accounting officer of Municipality must within 10 working days of the end of each month submit a report in accordance with generally recognized accounting practice, describing the investment portfolio as at the end of the month **such** report shall contain the following particulars:

- 3.5.1 the market value of each investment as at the beginning of the reporting period;
- 3.5.2 any changes to the investment portfolio during the reporting period;
- 3.5.3 the market value of each investment as at the end of the reporting period; and
- 3.5.4 fully accrued interest or yield for the reporting period.

4. EFFECTIVE CASH MANAGEMENT

4.1 Cash Management Plan

Adequate and efficient cash management is one of the main functions of the Chief Financial Officer. It is therefore imperative that a cash management plan be established and adhered to at all times.

4.2 Cash Collections

- 4.2.1 All monies due to the municipality must be collected as soon as possible and banked on a daily basis. Cash left in the safe can pose a security risk, could necessitate additional insurance coverage and does not earn any interest. Special deposits should be arranged for the larger amounts received, to make sure that these are banked on the same day they are received.
- 4.2.2 **It is essential that all amounts owed to the Municipality are levied by way of a debit in the applicable debtors system. A well managed debtor- and banking control system is the proper measure for ensuring that monies owed to the Municipality are timeously received and banked. It is also important to review the debt collection performance by regularly comparing monies presently owed to the Municipality in relation to the total income as well as to the situation in previous financial years, in order to determine whether the debt collection is deteriorating or improving and this is also required by the Act.**
- 4.2.3 By utilizing the available information and expertise, the Chief Financial Officer can assess the timing with regard to the applicable investment policy accordingly. Daily cash flow estimates will provide for daily call investments and investment withdrawals, whereas long-term investments need to be based on projections further into the future.

5. INVESTMENT ETHICS

The following ethics apply when dealing with financial institutions and other interested parties:

- 5.1 The Accounting Officer is accountable for the investment of funds, and must ensure that staff steers clear from outside interference, regardless of whether such interference comes from individual councilors, agents or any institution.
- 5.2 Under no circumstances may any staff member be held susceptible to coercive measures of any description. No member of staff may accept any gift other than something that is so small (monetary value not exceeding R100,00) that it cannot possibly be seen as anything but a sign of goodwill, regardless of whether such gift influences him in his work or is intended to do so.
- 5.3 The Chief Financial Officer must act according to his/her own discretion and should report any serious cases such as for instance offers of a personal commission or payment in kind, etc., to the accounting officer. Discretion should be the order of the day, and excessive gifts and hospitality must be refused and avoided.

5.4 Interest rates should never be divulged to another institution.

6. INVESTMENT PRINCIPLES

6.1 Limited Exposure to a Single Institution

Money, especially large sums of money should be invested with more than one Institution, in order to limit the risk exposure of the Municipality. Where legislation allows, the Municipality must try to pan the distribution of their investments to cover more than one investment category. In this case it should be noted that a group of financial institutions would be treated as individual institutions.

6.2 Risk and Return

It should be accepted as general principle that the larger the return, the greater the risk will be.

6.3 Borrowing Money for Reinvestment

The municipality may not borrow any money for investment purposes as this can be seen as speculation with public funds.

6.4 Cash in the Bank

Where money is kept in current accounts, it would be possible, as well as being an expedient practice, to bargain for more beneficial rates with regard to deposits, for instance call deposits. These rates can be increased by fixed term investments. The overriding principle is to limit the cash in the current account to the absolute minimum but always taking into account the cash management plan and monthly cash flow estimates.

6.5 Employees and Councilors Benefiting from Investments

No employee or councillor of the Municipality or their family may under any circumstances whatsoever on his or her own behalf or on behalf of any other person whether directly or indirectly, stipulate, claim or receive any consideration of whatever nature in connection with an investment made.

6.6 Transparency and Fairness

There shall at all times be transparency, equitability, fairness and accountability in respect of every investment made and of the

Municipality's investment. In this regard detail of all investments must form part of the monthly financial report by the Accounting Officer to the Accounting Officer.

7. GENERAL INVESTMENT PRACTICE

7.1 General Principles

After determining whether cash is available for investment and fixing the maximum term of investment, the Chief Financial Officer has to consider the way in which the investment is to be made in conjunction with the Accounting Officer. Because rates can vary according to money market perceptions with regard to the term of investment, quotations for fixed deposits should be requested telephonically for a period within the limitations of the maximum term. All telephonic quotations must be recorded on a schedule and the accepted quotation must be confirmed in writing before the actual investment is made. The same procedure must be followed before any re-investment is made with the same institution.

Where a fixed deposit is made at an institution at a lower rate than other quotations, reasons must be recorded by the Chief Financial Officer and reported to the Accounting Officer as part of the monthly financial report by the Accounting Officer.

7.2 Payment of Commission

7.2.1 The financial institution where a fixed deposit is made must issue a certificate with regard to each investment when the investment is made, in which it states that the financial institution has not or will not pay any commission and has not or will not grant any other benefit for obtaining such investment to any employee or councillor of the Municipality or their family or an agent or go-between, or to any person nominated by such agent or go-between, except where the Municipality has decided, in terms of duly authorizing legislation, to appoint a go-between/agent/consultant and the fee/commission has been decided and approved by the Accounting Officer before any investment is made.

7.2.2 In the case of long-term securities at Insurance Companies any payment of commission to any go-between/agent/consultant must be clearly stated on the application form and approved by the Accounting Officer in terms of duly authorizing legislation, before any investment is made.

7.3 Call Deposits and Fixed Deposits Shorter than 12 Months

7.3.1 Quotations ought to be solicited from a minimum of three financial institutions bearing in mind the limits of the term for which it is intended to

- invest the funds. Should one of the institutions offer a better rate for a term, other than what the Municipality had in mind, the other institutions that were approached should also be asked to quote a rate for the same term.
- 7.3.2 It is acceptable to ask for quotations telephonically, as rates can generally change on a regular daily basis and time is a determining factor when investments are made.
- 7.3.3 The person responsible for requesting quotations from institutions should record the name of institution, the name of the person who gave the telephonic quotation and the relevant terms and rates and other facts such as whether the interest is payable on a monthly basis or on a maturity date. Written confirmation of the telephonic quotation accepted is essential before the investment is made.
- 7.3.4 Once the required number of quotations has been obtained, a decision has to be taken regarding the best terms offered and the institution with which the funds are going to be invested. The best offer is normally accepted, with thorough consideration of investment principles. No attempts may be made to make institutions compete with each other as far as their rates and terms are concerned. If institutions have been asked for a quotation with regard to a specific package, the institution has to be told to offer their best rate in their quotation. They should also be informed that, once the quotation has been given, no further bargaining or discussions would be entered into in that regard.
- 7.3.5 The above mentioned procedure should be followed regardless of whether the money is to be invested in a fixed deposit or on a call basis.
- 7.3.6 It is essential to make sure that the investment document received is a genuine document, issued by an approval institution. The investment capital should be paid over only to the institution with which it is to be invested, and not to an agent.
- 7.3.7 The Chief Financial Officer should seek professional advice whenever there is a degree of uncertainty regarding investment opportunities that he/she evaluates.

7.4 Internal Investments

Depending on the determining legislation, the Municipality may utilize amongst others, the following possibilities of internal investment; the

taking up of all or any part of the securities issued by itself, debentures and other securities, provided that applicable contributions are made to the Loan Redemption Fund with regard to the redemption, on the due date of each loan. This also includes any investment in any Loan Fund or any Consolidated Investment Fund established by itself. The principles and practices as set out above will once again apply.

7.5 Standard of care to be exercised when making investments

7.5.1 Investments by a municipality or by an investment manager on behalf of a municipality –

7.5.1.1 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;

7.5.1.2 may not be made for speculation but for investment; and

7.5.1.3 must in the first instance be made with primary regard being to the probable safety of the investment, in the second instance to the liquidity needs of the municipality or entity and lastly to the probable income derived from the investment.

8. CONTROL OVER INVESTMENTS

8.1 Proper records should be kept of all investments made. At the very least the following facts should be indicated; the institution the funds, the interest rate and the maturity date.

8.2 Interest, correctly calculated, should be received timeously, together with any distributable capital.

8.3 Investment documents and certificates should be kept in a fire-resistant safe.

8.4 The Chief Financial Officer is responsible for ensuring that the invested funds are quite secure and should there be a measure of risk, such risk must be rated realistically.

8.5 All investments made must be in the name of the municipality.

8.6 The responsibility and risk arising from any investment vests in the municipality.

9. INVESTMENTS DENOMINATED IN FOREIGN CURRENCY PROHIBITED.

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

