



**OVERBERG DISTRICT MUNICIPALITY
OVERBERG DISTRIKSMUNISIPALITEIT**

**CASH MANAGEMENT AND
INVESTMENT POLICY**

APPROVED ON THIS 20 DAY OF April 2011.

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1. DEFINITIONS

For the purpose of this policy-

“Accounting Officer” – means the Accounting Officer appointed in terms of Section 82 of the Municipal Structures Act 1998 (Act 117 of 1998) and includes any person to whom the Accounting Officer has delegated a power, function or duty in respect of such a delegated power, function or duty;

“Council” – shall mean the Council of the municipality, any committee or person to which or to whom an instruction has been given or any power has been delegated or sub-delegated in terms of, or as contemplated in, section 59 of the Local Government: Municipal Systems Act, 2000 or a service provider in respect of any power, function or duty of the Council;

“Councillor” – shall mean a member of the municipal council of the Overberg District Municipality;

“Chief Financial Officer” – shall mean the head of the Financial Services Department as contemplated in sec 80 of the *MFMA*;

“Investment” – means –

- a) The placing on deposit of funds with a financial institution; or
- b) The acquisition of monetary assets with funds not immediately required,
- c) With the primary aim of preserving those funds;

“Municipality” – means the Overberg District Municipality;

“Official” – shall mean all persons in the employment of the Overberg District Municipality.

2. COMPLIANCE WITH LAWS AND LEGISLATION

2.1. Section 13(1) and (2) of the Local Government Municipality Finance Management Act, 2003 (Act No. 56 of 2003) requires that a municipality establish an appropriate and effective cash management and investment policy within which the municipality must;

2.1.1. conduct its cash management and investments, and

2.1.2. invest money not immediately required, in accordance with any framework which may be prescribed.

2.2. National Treasury has issued municipal investment regulations (No. R. 308) dated 1st April 2005 (Government Gazette no. 27431) which sets out a framework within which, all municipalities shall conduct their cash management and investments.

3. OBJECTIVES OF THE INVESTMENT POLICY

3.1. To ensure compliance with the relevant legal and statutory requirements relating to cash management and investments;

3.2. To ensure that the council of the municipality who effectively are the custodians of the public revenues, which it collects, managed the cash resources effectively and efficiently;

3.3. The investment policy of the municipality is therefore aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes; and

3.4. 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.

4. STANDARDS OF ETHICS AND JUDGEMENT AND DUE CARE

4.1. The accounting officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in consultation with the accounting officer or mayoral committee and in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance;

4.2. All investments made, shall be in the name of the Overberg District Municipality;

- 4.3. In making such investments the accounting officer, shall at all times have only the best considerations of the municipality in mind, and, except for the outcome of the consultation process with the executive mayor or mayoral committee, shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties;
- 4.4. The Accounting officer must at all times, when making an investment, consider:
 - 4.4.1. The security of the investment.
 - 4.4.2. The liquidity needs of the Overberg District Municipality.
 - 4.4.3. Probable income or return derived from the investment.
- 4.5. Neither the accounting officer nor chief financial officer nor members of the mayoral committee, may accept any gift, other than an item having such negligible value of not more than R 150 that it cannot possibly be constructed as anything other than a token of goodwill by the donor, from any investment agent or institution or any party with which the municipality has made or may potentially make an investment.

5. UNDERLYING INVESTMENT PRINCIPLES

5.1. Permitted investments:

- 5.1.1. The Accounting Officer must ensure that only the following investment types are utilized in terms of sec 6 of the Municipal Investment Regulations (No. R. 308) dated 1 April 2005:
 - 5.1.1.1. Securities issued by national government;
 - 5.1.1.2. Listed corporate bonds with an investment grade rating from a recognized credit rating agency;
 - 5.1.1.3. Deposits with banks registered in terms of the Banks Act (Act 45 of 1984);
 - 5.1.1.4. Deposits with the Public Investment Commissioners;
 - 5.1.1.5. Deposits with the Corporation for Public Deposits;
 - 5.1.1.6. Banker's acceptance certificate or negotiable certificates of deposits of registered banks;
 - 5.1.1.7. Guaranteed endowment policies with the intention of establishing a sinking fund;
 - 5.1.1.8. Repurchase agreements with registered banks;
 - 5.1.1.9. Municipal bonds issued by a municipality;
 - 5.1.1.10. Any other investment type as identified by the Minister of Finance in consultation with the Financial Service Board.

5.2 Limiting exposure:

The accounting officer shall ensure that the municipality diversifies its investment portfolio across institutions, types of investment and investment maturities in order to limit the risk exposure of the municipality.

5.3 Risk and return:

- 5.3.1 Although the objective of the accounting 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 regards to both the financial institution and the investment instrument concerned.
- 5.3.2 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 only be made with deposit-taking institutions registered in terms of the Banks Act (Act 45 of 1984).
- 5.3.3 No investment is allowed which is affected by fluctuations in the value of the Rand against any foreign currency.

5.4 Payment of commission:

- 5.4.1 Every financial institution with which the municipality makes an investment must issue a certificate to the accounting 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, including councillors, officials or related spouses or family members.

5.5 Call deposits and fixed deposits:

- 5.5.1 Before making any call or fixed deposits, the accounting officer, shall obtain quotations from at least three financial institutions.
- 5.5.2 Given the volatility of the money market, the accounting 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).
- 5.5.3 Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, e-mail or any other expedient means).

5.5.4 Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of section 7 below) shall be paid over only to such institution itself and not to any agent or third party.

5.5.5 Once the investment has been made, the accounting 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.

5.6 Restriction on tenure of investments:

5.6.1 No investment with a tenure exceeding twelve months shall be made without the prior approval of the executive mayor.

6. CONTROL OVER INVESTMENT PORTFOLIO

6.1 The accounting officer shall ensure that proper records are kept of all investments made by the municipality.

6.2 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, and the maturity date.

6.3 If the investment is liquidated at a date other than the maturity date, such date shall be indicated.

6.4 The accounting 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.

6.5 The accounting 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.

7. REPORTING ON INVESTMENTS

7.1. The Accounting officer must submit, as part of the Section 71 report of the Municipal Finance Management Act (Act 56 of 2003), a report to the Accounting Officer describing, in accordance with GRAP, the investment portfolio of the Overberg District Municipality at the end of the month.

7.2. The monthly report on Investments must include:

7.2.1. Market value of each investment – beginning and end period;

7.2.2. Any changes to the Investment portfolio;

7.2.3. Accrued interest; and

7.2.4. Liquidated investments that have no minimum acceptable credit rating.

8. INVESTMENT FOR THE REDEMPTION OF LONG TERM

- 8.1. In managing the municipality's investments, the accounting 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;
- 8.2. Such investment shall be made against the bank account maintained for the external finance fund, and shall be accumulated and used only for the redemption of such loan on due date;
- 8.3. The making of such investment shall be approved by the council at the time that the loan itself is approved; and
- 8.4. If the loan raised is not a fixed term loan, but an annuity loan, the accounting officer shall ensure that sufficient resources are available in the account maintained for the external finance fund to repay the principal amounts due in respect of such loan on the respective due dates.

9. INTEREST ON INVESTMENTS

- 9.1. The interest accrued on all the municipality's investments shall, in compliance with the requirements of generally accepted municipal accounting practice, be recorded in the first instance in the municipality's operating revenues, and shall thereafter be appropriated, every six months, to the fund or account in respect of which such investment was made;
- 9.2. In the case of the external finance fund, the accounting officer may reduce the amount which must be annually invested to redeem any particular loan by the amount of interest so accrued; and
- 9.3. If the accrual of interest to the external finance fund, unutilised capital receipts and trust funds results in a surplus standing to the account of any such funds, that is, an amount surplus to the resources required in respect of such funds or accounts, such surplus amount shall be credited by the accounting officer to the appropriation account and re-appropriated to the asset financing reserve.

CASH MANAGEMENT

10. BANKING ARRANGEMENTS

- 10.1. The accounting officer is responsible for the management of the municipality's bank accounts, but may delegate this function to the chief financial officer;
- 10.2. The accounting officer and chief financial officer are authorised at all times to sign cheques and any other documentation associated with the management of such accounts;

- 10.3. The accounting officer, 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;
- 10.4. The list of current signatories shall be reported to the executive mayor on a monthly basis, as part of the report dealing with the municipality's investments;
- 10.5. In compliance with the requirements of good governance, the accounting officer shall open a Primary Bank Account for ordinary operating purposes, and shall further maintain a separate ledger account for each of the following: the administration of the external finance fund and of the Capital Replacement Reserve;
- 10.6. 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);
- 10.7. In determining the number of additional accounts to be maintained, the accounting officer, in consultation with the chief financial officer, shall have regard to the likely number of transactions affecting each of the accounts referred to;
- 10.8. 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;
- 10.9. The accounting officer 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 directly after the procurement of a new banking service as prescribed by the procurement policy of Council; and
- 10.10. However, such tenders may be invited at any earlier stage, if the accounting officer, 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 executive mayor or the mayoral committee, as the case may be, agrees to the invitation of such tenders.

11. RAISING OF DEBT FINANCE

- 11.1. The accounting officer is responsible for the raising of debt, but may delegate this function to the chief financial officer, who shall then manage this responsibility in consultation with the accounting officer;
- 11.2. All debt shall be raised in strict compliance with the requirements of the Municipal Finance Management Act 2003, and only with the prior approval of the council;
- 11.3. Long-term debt shall be raised only to the extent that such debt is provided for as a source of necessary finance in the capital component of the approved annual budget or adjustments budget;

- 11.4. Short-term debt shall be raised only when it is unavoidable to do so in terms of cash requirements, whether for the capital or operating budgets or to settle any other obligations, and provided the need for such short-term debt, both as to extent and duration, is clearly indicated in the cash flow estimates prepared by the accounting officer;
- 11.5. Short-term debt shall be raised only to anticipate a certain long-term debt agreement or a certain inflow of operating revenues; and
- 11.6. The municipality shall not borrow for the purposes of investing or speculating in short or long term financial instruments.

12. CASH COLLECTION

- 12.1. All monies due to the municipality must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis except in the case of satellite offices, i.e. Overstrand, Theewaterskloof, Cape Agulhas and Swellendam;
- 12.2. The respective responsibilities of the accounting officer and other executive directors of departments in this regard is defined in a code of financial practice approved by the accounting officer and the chief financial officer, and this code of practice is attached as Annexure II to this policy;
- 12.3. 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.

13. PAYMENTS TO CREDITORS

- 13.1. The accounting officer shall ensure that all tenders and quotations invited by and contracts entered into by the municipality stipulate payment terms favourable to the municipality, 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;
- 13.2. 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 accounting officer before any payment is made;
- 13.3. In the 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 fourteen days of the date of such service being rendered, whichever is the later. Any such early payment shall be approved by the accounting officer before any payment is made;

- 13.4. Notwithstanding the foregoing policy directives, the accounting officer shall make full use of any extended terms of payment offered by suppliers and not settle any accounts earlier than such extended due date, except if the accounting officer determines that there are financial incentives for the municipality to do so;
- 13.5. The accounting officer shall not ordinarily process payments, for accounts received, more than once in each calendar month, such processing to take place on or about the end of the month concerned;
- 13.6. Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques;
- 13.7. Special payments to creditors shall only be made with the express approval of the accounting officer, who shall be satisfied, that there are compelling reasons for the making such payments prior to the normal month end processing.

14. MANagements of Inventory

- 14.1. Each head of department shall ensure that such department's inventory levels do not exceed normal operational requirements in the case of items which are not readily available from suppliers, and emergency requirements in the case of items which are readily available from suppliers;
- 14.2. Each head of department shall periodically review the levels of inventory held, and shall ensure that any surplus items be made available to the accounting officer for sale at a public auction or by other means of disposal, as provided for in the municipality's supply chain management policy.

15. Cash Management Programme

- 15.1. The accounting officer shall prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a monthly basis;
- 15.2. 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;
- 15.3. 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;
- 15.4. The accounting officer shall report to the mayoral committee on a monthly basis and to every ordinary council meeting the cash flow estimate or revised estimate for such month or reporting period respectively, together with the actual cash flows for the month 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; and

15.5. The cash flow estimates shall be divided into calendar months, and in reporting the accounting 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.

16. AMENDMENTS

16.1. The accounting officer or his/her delegate must review the policy on an annual basis.