



LAINGSBURG MUNICIPALITY

CASH MANAGEMENT and INVESTMENT POLICY

APPROVED BY COUNCIL

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INDEX

PART 1:	LEGAL COMPLIANCE
PART 2:	OBJECTIVE OF INVESTMENT POLICY
PART 3:	EFFECTIVE CASH MANAGEMENT
3.1	Cash Collection
3.2	Payments to Creditors
3.3	Management of Inventory
3.4	Cash Management Programme
PART 4:	INVESTMENT ETHICS
PART 5:	INVESTMENT PRINCIPLES
5.1	Limiting Exposure
5.2	Risk and Return
5.3	Payment of Commission
5.4	Call Deposits and Fixed Deposits
5.5	Restriction on Tenure of Investments
PART 6:	CONTROL OVER INVESTMENTS
PART 7:	OTHER EXTERNAL INVESTMENTS
PART 8:	BANKING ARRANGEMENTS
PART 9:	RAISING OF DEBT
PART 10:	INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES
PART 11:	INTEREST ON INVESTMENTS
ANNEXURE 1:	PARAPHRASE OF REQUIREMENTS OF MUNICIPAL FINANCE MANAGEMENT ACT NO. 56 OF 2003
ANNEXURE 2:	CODE OF PRACTICE

PART 1: LEGAL COMPLIANCE

- 1.1 The municipality shall at all times manage its banking arrangements and investments and conduct its cash management and investment policy in compliance with the provisions of and of any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management (MFMA) Act No. 56 of 2003.
- 1.2 A summary of the provisions of the MFMA is attached as Annexure 1 to this policy.

PART 2: OBJECTIVE OF INVESTMENT POLICY

- 2.1 The council of the municipality is the trustee of the public revenues, which it collects, and it therefore has an obligation to the community to ensure that the municipality's cash resources are managed effectively and efficiently.
- 2.2 The council therefore has a responsibility to invest these public revenues knowledgeably and judiciously, and must be able to account fully to the community in regard to such investments.
- 2.3 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. 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.

PART 3: EFFECTIVE CASH MANAGEMENT

3.1 Cash Collection

- 3.1.1 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.

3.1.2 The respective responsibilities of the chief financial officer and other heads of departments in this regard are defined in a Code of Practice approved by the municipal manager and the chief financial officer, and this Code of Practice is attached as Annexure 2 to this policy.

3.1.3 The unqualified support of and commitment to the municipality's credit control policy, both by the council and the municipality's officials, is an integral part of proper cash collections, and by approving the present policy the council pledges itself to such support and commitment.

3.2 Payments to Creditors

3.2.1 The chief financial officer shall ensure that all tenders and quotations invited by and contracts entered into by the municipality stipulate payment terms favorable 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. This rule shall be departed from only where there are financial incentives for the municipality to effect earlier payment, and any such departure shall be approved by the chief financial officer before any payment is made.

3.2.2 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 chief financial officer before any payment is made.

3.2.3 Notwithstanding the foregoing policy directives, the chief financial 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 chief financial officer determines that there are financial incentives for the municipality to do so.

3.2.4 The chief financial 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. Wherever practically possible, payments shall be effected by means of electronic transfers rather than by cheques.

3.2.5 Special payments to creditors shall only be made with the express approval of the chief financial officer, who shall be satisfied that there are compelling reasons for making such payments prior to the normal month end processing.

3.3 Management of Inventory

3.3.1 The chief financial officer shall be responsible for the proper administration of all stores.

3.3.2 If sub-stores are established under the control of any head of department, such head of department shall be similarly responsible for the proper administration of such sub-store, and in doing so shall comply either the stock level policies as determined from time to time by the chief financial officer, acting in consultation with the head of department concerned,

3.3.3 No sub-store may be established without the prior written consent of the chief financial officer.

3.3.4 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.

3.3.5 A stock register, reflecting the undermentioned detail must be kept and updated daily:

3.3.5.1 Item description

3.3.5.2 Stores code number;

3.3.5.3 Transaction date;

3.3.5.4 On goods received-

3.3.5.4.1 Goods delivery note number;

3.3.5.4.2 Number of items received; and

3.3.5.4.3 Value of items received.

3.3.5.5 On goods issued-

- 3.3.5.5.1 Requisition number; and
- 3.3.5.5.2 Number of items issued.
- 3.3.5.6 Balance of items in stock

3.3.6. Stock counts must be affected monthly and an annual report reflecting stock shortage and surpluses must be submitted to council as at 30 June of each financial year. All surpluses and shortages must be explained by the accountable head of departments.

3.3.7 Each head of department shall periodically review the levels of inventory held, And shall ensure that any surplus items be made available to the chief financial officer for sale at a public auction or by other means of disposal, as provided for in the municipality's supply chain management policy.

3.4 Cash Management Programme

3.4.1 The chief financial officer shall prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a regular basis. The estimate shall indicate when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments will have to be liquidated, and when – if applicable – either long-term or short-term debt must be incurred. Heads of departments shall in this regard furnish the chief financial officer with all such information as is required, timeously and in the format indicated by the chief finance officer.

3.4.2 The chief financial officer shall report to the council or the executive mayor, as the case may be, 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. The cash flow estimates shall be divided into calendar months, and in reporting the chief financial officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report. Such

report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned.

PART 4: INVESTMENT ETHICS

- 4.1 The chief financial officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments and in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance.
- 4.2 In making such investments the chief financial officer, shall at all times have only the best considerations of the municipality in mind, and, except for the outcome, as the case may be, shall not accede to any influence by or interference from councilors, investment agents or institutions or any other outside parties.
- 4.3 Neither the chief financial officer nor the executive mayor nor any other member of the council, as the case may be, may accept any gift, other than an item having such negligible value that it cannot possibly be construed 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.

PART 5: INVESTMENT PRINCIPLES

5.1 Supporting Local Financial Institutions

Given that there are only agency branches of ABSA and Standard Bank available in Laingsburg, it shall be an investment principle that these agencies be supported as far as possible in an effort to ensure that the community enjoys the continuation of financial services by both branches.

5.2 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).

5.3 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 5.5 below).

5.4 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.

5.5 Restriction on Tenure of Investments

No investment with a tenure exceeding twelve months shall be made without the prior approval of the executive mayor or the council, as the case may be.

PART 6: CONTROL OVER INVESTMENTS

- 6.1 The chief financial officer shall ensure that proper records are kept of all investments made by the municipality. Such records shall indicate the date on which the investment is made, the institution with which the monies are invested, the amount of the investment, the interest rate applicable, and the maturity date. If the investment is liquidated at a date other than the maturity date, such date shall be indicated.
- 6.2 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.
- 6.3 The chief financial officer shall be responsible for the safekeeping of all investment documents and certificates.

PART 7: OTHER EXTERNAL INVESTMENTS

- 7.1 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.
- 7.2 No investment with a tenure exceeding twelve months shall be made without the prior approval of the executive mayor or council, as the case may be, 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.

PART 8: BANKING ARRANGEMENTS

- 8.1 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 authorized at all times to sign cheques and any other documentation associated with the

management of such accounts. The municipal manager, in consultation with the chief financial officer, is authorized to appoint two or more additional signatories in respect of such accounts, and to amend such appointments from time to time. The list of current signatories shall be reported to the council or the executive mayor, as the case may be, on a monthly basis, as part of the report dealing with the municipality's investments.

- 8.2 In compliance with the requirements of good governance, the municipal manager shall open a bank account for ordinary operating purposes. Apart from this primary operating account, no bank account other than specific investments made from time to time shall be operated. However, separate accounts shall be maintained in the General Ledger for each of the following: the administration of the external finance fund and of the asset financing reserve (if these accounts are legally permissible). Separate accounts shall also be maintained in the General Ledger for the following: capital receipts in the form of grants, donations or contributions from whatever source and trust funds, provisions and reserves.
- 8.3 The municipal manager shall invite tenders for the placing of the municipality's bank accounts, 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 executive mayor or the council, as the case may be, agrees to the invitation of such tenders.

PART 9: RAISING OF DEBT

- 9.1 The municipal manager 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 municipal manager. 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.
- 9.2 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.

- 9.3 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 chief financial officer. Short-term debt shall be raised only to anticipate a certain long-term debt agreement or a certain inflow of operating revenues.

PART 10: INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES

- 10.1 In managing the municipality's investments, the chief financial officer shall ensure that, whenever a long-term (non-annuity) loan is raised by the municipality, an amount is invested at least annually equal to the principal sum divided by the period of the loan. Such investment shall be made, accumulated and used only for the redemption of such loan on due date. The making of such investment shall be approved by the council at the time that the loan itself is approved.
- 10.2 If the loan raised is not a fixed term loan, but an annuity loan, the chief financial officer shall ensure that sufficient resources are available to repay the principal amounts due in respect of such loan on the respective due dates.

PART 11: INTEREST ON INVESTMENTS

- 11.1 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 account as ordinary operating revenues, and shall thereafter be appropriated, at the end of each financial year, to the fund or account in respect of which such investment was made.
- 11.2 In the case of the external finance fund, the chief financial officer may reduce the amount which must be annually invested to redeem any particular loan by the amount of interest so accrued.
- 11.3 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 chief financial officer to the appropriation account and re-appropriated to the asset financing reserve.