

CASH AND INVESTMENT MANAGEMENT POLICY

DRAKENSTEIN MUNICIPALITY

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1. **Scope of the Investment Management Policy**

Investment policy is in accordance with the requirements of section 13 (1)(b) of the Municipal Finance Management Act and any further prescriptions made by the Minister of Finance.

2. **Investment Policy Objectives**

- 2.1 Drakenstein Municipality's investment policy is aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenue is 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 has to identify the time when and period, for which such revenues are surplus
- 2.2 It is the council's responsibility as a trustee of the community's revenue, to ensure that the money that is not immediately required should be invested in order to optimize the funds available to the municipality and cash resources are effectively and efficiently managed.
- 2.3.1 Cash management of the municipality identifies the amounts of the surplus to the municipality's needs, as well as the period for which revenues are surplus.

3. **Cash Management**

3.1 Bank Account administration: (MFMA – Section 7,8,9 and 10)

- 3.1.1 *Cash Management:* All cash that has been receipted are deposited into the current primary bank account the following working day.

3.1.1.1 Cash Surpluses and Shortages

- Surpluses:* Cash Surpluses on hand after daily balancing of cashiers is to be paid in the next working day into a surplus vote(500525050500)
- Shortages:* Shortages with a value of R5 and to a maximum of R50 must be paid in by the cashier at end of their daily shifts. Amounts greater than R50 gets deducted once off from their next salary payment. Amounts less, than R5 are be credited against cahier shortages vote to be generated.

3.1.2 Cheque Management: Cheques are printed in batch format (to be inserted into line printers) to prevent the removing of cheques from to batch. 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.

3.1.3 Delegations/Rights: The incumbents of the following post are authorised to sign cheques on behalf of Council.

3.1.3.1 Cheques

A-Signatories: Municipal Manager
Head: Finance Section
Head: Income Section
Head: Expenditure Section
Head: Financial Information Section
Head: Supply Chain Management Section
B-Signatories: All Accountants

3.1.3.2 Electronic Fund Transforms: Authorisation same as cheques above

3.1.3.3 Petty cash: Petty cashiers receives an amount (float) to reimburse employees for expenditure to a maximum amount of R150 per item (see procedure manual attached)

3.1.3.4 Control over bank account: This function is delegated to the Head: Financial Information Section

3.1.3.5 Receipting of money: The following persons or institution have delegated power to receive money on Council's behalf - *Municipal Cashiers, Easy Pay pay points, Pre paid Electricity Vendors, Actaris (Pre paid Electricity software supplier and Vendor administration company)*

3.1.4 Private money: No municipal employee is allowed to:

- Use Council's cash funds at any stage to be replaced at a later stage again.
- Change an official's cheque for cash

- Safeguard private money amongst Council's cash (e.g. Cashier drawers, petty cash boxes, safes etc.)

3.1.5 Management of Cashflow

The Chief Financial Officer shall maintain a cashflow system, and ensure that funds not immediately required are invested on a daily basis. All Department or Directorates shall in this regard furnish the Chief Financial Officer with their respective cashflow needs on a weekly basis, clearly indicating possible future dates of payments, as well as any possible inflow of cash from other sources of finance arranged by Departments themselves.

3.1.6 Working Capital

The contribution to the provision for bad debts is done from the operational budget under working capital which are obtained from debtors older than 60 days which is in accordance with Council's resolution.

4. Due Care

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

- 4.1** The Chief Financial Officer shall not accede to any influence by or interference from councillors, investment agents, institutions or any other outsiders.
- 4.2** Under no circumstances may inducements to invest be accepted;
- 4.3** Interest rates quoted by one institution must not be disclosed to another institution; and
- 4.4** 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. Investment Principles and Practice

The following guiding principles are to be adhered to in order to facilitate the administration of Council's investment portfolio.

5.1 Limit exposure to single institution

Investment of funds, where this involves large amounts, should be distributed over more than one institution in order to limit Council's risk exposure.

It is considered prudent that not more than 35% of Council's investment portfolio should be held with any specific Institution identified as one of the four largest banking institutions in South Africa (A1 + Banks) at any given time.

With regard to other A1 banking institutions, not more than 25% of Council's Investment portfolio should be held at such institutions at any given time.

5.2 Risks and Return

As a general principle, it must be accepted that the greater the return, the greater the risk.

5.3 Borrowing for Re-Investment

Council should refrain from borrowing monies for the purpose of re-investment, as this is tantamount to speculation with public funds.

5.4 Nominee Accounts

All monies shall be invested directly with the relevant institutions. On no account may monies be placed in nominee account.

5.5 Registered Financial Institutions

When investments are made with Financial Institutions, Council should ensure that the Institution is registered in terms of the Deposit Taking Institutions Act of 1990 and/or other applicable legislation.

6. CASH MANAGEMENT PRINCIPLES AND PRACTICES

6.1 General

Should it be ascertained that surplus funds are available for investment, and then written quotations including faxed quotations should be obtained

from financial institutions for various forms of investment, investment terms and rates of interest.

The investment shall be placed with an institution offering the most favourable rate provided such investment is in accordance with the terms and conditions of this policy.

Institutions should be advised that, in submitting quotations, they must offer their best rates of interest and that no further negotiation or discussion will be entered into with them after they have submitted their quotation.

6.2 Payment of Commission

A certificate shall be issued in respect of each and every investment made by the financial institution receiving the investment and no payment of any commission or payment in kind will be made to any party in respect of the investment so made.

6.3 Internal Investments

Before planning to invest funds externally, consideration must be given to whether the funds may be utilized at an equivalent rate to substitute external borrowing as there is normally a margin between the rate at which Council may borrow funds and the rate at which investments may be made over similar periods.

6.4 Cash at Bank

When funds are held in a current account, it is a good business practice to operate a call account. The overriding principle is that funds in the current account are to be kept at an absolute minimum.

6.5 Credit Worthiness

Prior to investing in smaller registered financial institutions, the Financial Officer must ensure that the Council is not over-exposed and should satisfy itself as to the credit-worthiness and previous track record of the institution before placing funds.

In order to reduce risks in this regard, investments must only be made with financial institutions with shareholder's equity of at least R750m and with an office within the Council's area of jurisdiction. The shareholder's

equity figure must be obtained from the latest available audited financial statements of the relevant financial institutions.

6.6 Receipting Management Section 64 of MFMA all moneys received and receipted must be deposited the next working day in Council's primary bank account.

- all revenue received by the Municipality, including revenue received by any collecting agent on its behalf, is recorded at least on a weekly basis
- all monies collected by the Municipality on behalf of another organ of state must be transferred to that organ of state at least on a weekly basis.

6.7 Expenditure Management (Section 65 of MFMA)

- all payments by the Municipality are made.
 - (i) directly to the person to whom it is due unless otherwise for reasons as may be prescribed and
 - (ii) either electronically or by way of non-transferable cheques or cash payments for exceptional reasons and only to an approved/prescribed limit
 - (iii) Creditors payments must be paid within 30 days of the creditor's statement, with the exception of Bee's, where a seven day payment cycle applies.

All payments are requested (payment requisition) by one signatory and authorised by a second signatory. The responsibility lies with the Accountant: Expenditure to verify all payments for corrections.

Cheque and electronic payments must be signed by two authorized signatures.

6.8 Withdrawals (Section 11 of MFMA)

Only a senior official acting on the written authority of the accounting officer may withdraw money or authorise the withdrawal of money from any of the Municipality's bank accounts and may do so only

- (a) to defray expenditure appropriated in terms of an approved budget;
- (b) to defray expenditure authorised in terms of section 26(4);
- (c) to defray unforeseeable and unavoidable expenditure authorised in terms of section 29 (1);
- (d) in the case of a bank account opened in terms of section 12, to make payments from the account in accordance with subsection (4) of that section;
- (e) to pay over to a person or organ of state money received by the municipality on behalf of that person or organ of state, including-
 - (i) money collected by the municipality on behalf of that person or organ of state by agreement; or

- (ii) any insurance or other payments received by the municipality for that person or organ of state;
- (f) to refund money incorrectly paid into a bank account;
- (g) to refund guarantees, sureties and security deposits;
- (h) for cash management and investment purposes in accordance with section 13;
- (i) to defray increased expenditure in terms of section 31; or
- (j) for such other purposes as may be prescribed.

Money may be withdrawn from a bank account in terms of subsection (b) to (j) without appropriation in terms of an approved budget.

The accounting officer must within 30 days after the end of each quarter –

- (a) table in the municipal council a consolidated report of all withdrawals made in terms of subsection (1) (b) to (j) during that quarter; and
- (b) submit a copy of the report to the relevant provincial treasury and the Auditor-General.

6.9 **Short Term debt** (Section 45 of MFMA)

- (1) A municipality may incur short-term debt only in accordance with and subject to the provisions of this Act and only when necessary to bridge-
 - (a) shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year; or
 - (b) capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocation or long-term debt commitments.
- (2) A municipality may incur short-term debt only if-
 - (a) a resolution of the municipal council, signed by the mayor, has approved the debt agreement; and
 - (b) the accounting officer has signed the agreement or other document, which creates or acknowledges the debt.
- (3) For the purpose of subsection (2) (a), a municipal council may-
 - (a) approve a short-term debt transaction individually; or
 - (b) approve an agreement with a lender for a short-term credit facility to be accessed as and when required, including a line of credit or bank overdraft facility, provided that-
 - (i) the credit limit must be specified in the resolution of the council;
 - (ii) The terms of the agreement, including the credit limit, may be changed only by a resolution of the council; and

- (iii) If the council approves a credit facility that is limited to emergency use, the accounting officer must notify the council in writing as soon as practical of the amount, duration and cost of any debt incurred in terms of such a credit facility, as well as options for repaying such debt.

(4) A municipality-

- (a) Must pay off short-term debt within the financial year; and
- (b) May not renew or refinance short-term debt, whether it's own debt or that of any other entity, where such renewal of refinancing will have the effect of extending the short-term debt into a new financial year.

- (5) (a) No lender may wilfully extend credit to a municipality for the purpose of renewing or refinancing short-term debt that must be paid off in terms of subsection (4) (a)
- (b) If a lender wilfully extends credit to a municipality in contravention of paragraph (a), the municipality is not bound to repay the loan or interest on the loan.

(6) Subsection (5) (b) does not apply if the lender-

- (a) relied in good faith on written representations of the municipality as to the purpose of the borrowing; and
- (b) did not know and has no reason to believe that the borrowing was for the purpose of renewing or refinancing short-term debt.

6.10 CASH PROCEDURES

Internal Controls

The supervisor checks floats of all the cashiers on daily basis.

Issuing of Receipts

Potential clients come to cash office, provide cashier with a municipal account to make a payment, the cashier will then issue a receipt.

Cancellation of Receipts

If and when the cashier made an error in respect of payment receipted, the cashier will call the supervisor, to cancel the receipt. This is done while the client is still at the cash office, and re-issue the correct receipt to the client. The cashier and the supervisor then signs the cancelled receipt.

Cash Balancing

After the end of each shift, the cashier will count the monies received, and do a daily cashier balancing. If the amounts entered by the cashier is correct the system automatically prints a balancing report, but if the amounts entered by the cashier is not correct, the supervisor is called. The supervisor will then re-count the money, as well as the cash float, enter the supervisor password to establish what the cash collected for the day should be. If short the cashier will then pay the monies in immediately, if there is a surplus the cashier will receipt the surplus on the next working day. If the cashier balance's with the first attempt the procedure is that the supervisors will re-count the cash collected for the day, do a supervisor balancing and a report is generated automatically. This then balance's off the cashier for that day and the day is then closed off and no transactions can be done for that day.

Deposit Books

Each cashier has a deposit book, as each pay point has a number. The deposit books are in numerical order. Four deposit books per cashier is kept in stock, and when the last book is used the senior clerk: cashier will then re-order 4 books from the bank.

Other payment Methods.

Direct Deposits and ACB

Client will do a direct deposit into municipal bank account via the Internet or by deposit slip via their bank, using municipal account number as reference. This information is extracted daily and when doing uploads from the bank is then credited against the clients accounts.

Accounts are also paid by means of a debit order (ACB) payment by consumer's banker.

3rd Party

Client do a payment at Pick & Pay, Shoprite, etc. Up load's is done daily from Easy Pay extracting the information and then crediting the various clients accounts.

Cheque Deposit

Client will come to cash office, pay with a cheque and a receipt will be issued to him/her. Clients will also deposit cheques into cheque deposit box at the municipal office, these cheques are taken out of the box on a

daily basis, receipted by the cashier and the receipt is posted to client on request thereof. For a week after the municipal due date, cheques deposited into the cheque box is written up, and receipted by the cashier.

Mailed Cheques

Clients will mail their cheques attached to their municipal account, this is then collected from the post office daily, it then goes to our records department, it will then be sent to the financial department's secretary, who will write all the cheques up in a book, distribute it to the supervisor: cashier. The supervisor will then tick it off, and the supervisor will hand it to the cashier to be receipted.

7. CONTROLS OVER MANAGEMENT OF CASH AND INVESTMENT:

A proper record must be maintained of all investments made indicating at least the Institution, fund, interest rate, maturing date and purpose of investment.

The Financial Officer must retain all quotations received for record and audit purposes.

Interest must be correctly calculated, received and recorded timeously.

All investment certificates are to be kept in a securities file which shall be safeguarded in a fire proof safe.

In respect of grant funds, a separate file must be kept of the letter of grant and other pertinent information. Regular reports must be submitted to all grant agencies.

The Financial Officer must compile and will be responsible for the maintenance of an Investment Register complying with audit requirements.

The Financial Officer shall every month submit a report to the Council on the Council's Investment portfolio, including the type of investment, interest rates, period of investment and summary of the exposures to particular financial institutions.

8. DELEGATION OF AUTHORITY

The Council may, in terms of Section 59 of the Municipal Systems Act 2000, delegate any of its functions and responsibilities in respect of this policy to a Committee of the Council, the Municipal Manager, the Financial Officer or any political functionary of the Council provided that such delegation will not absolve the person to whom such a function or responsibility has been delegated from complying with any statutory reporting requirement or such reporting requirement as may be contained in this policy.