Fezile Dabi

District Municipality

BANKING AND INVESTMENT POLICY

Date of approval by council: ....

Council Resolution number: ....

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Definitions

Accounting Standards Board	Was established by the Public Finance Management Act to set standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.
AGSA	Auditor-General of South Africa
Agreement	In relation to a *prohibited Practice in terms of the Competition Act 89 of 1998 as amended*, includes a contract, arrangement or understanding, whether or not legally enforceable
AO	Accounting Officer – (Municipal Manager)
Appropriation	Money set aside by Council for a specific purpose
CFO	The Chief Financial Officer of a municipality designated by Municipal Manager to be administratively in charge of the budgetary and treasury functions.
Current Asset (Inventory, Debtors And Cash)	An asset that would, in the normal course of operations, be consumed or converted to cash within 12 months after the last reporting date.
Current Liabilities	Current and existing obligations which are due and payable within the subsequent twelve months including but not limited to: • Creditors; • Bank Overdrafts; and • Short term portion of the long term liabilities.
Current Replacement Cost	Is the cost of replacing an existing asset with a modern asset of equivalent capacity.
Demand Management	Demand management ensures that the resources required to support the strategic objectives are delivered at the correct time, at the right price, location, quantity and quality that will satisfy the needs.
Final Award	In relation to bids or quotations submitted for a contract, means the final decision on which bid or quote to accept.
Investments	In relation to funds of a municipality, means; preserving those funds not immediately required for the defraying of expenses and invested at approved financial institutions a person appointed in terms of section 83 of the Municipality Structures Act, 1998 (Act 117 of 1998) as the head of municipality administration;.
Long Term Contract	Means a contract with a duration period exceeding one year.
MFMA	Municipal Finance Management Act
MFO	Manager: Financial Operations

MM	Municipal Manager (Accounting Officer)
MTEF	Medium Term Expenditure Framework
Municipal Stock	Stock certificate issued by the municipality as a proof of a long-term fixed period loan of which the capital is repayable at the end of the period. Interest is payable at predetermined intervals at a fixed rate.
Negotiable Certificate	A loan certificate that is tradable on the capital market.
Net Present Value (NPV)	The sum that results when the discounted value of the expected costs of an investment are deducted from the discounted value of the expected returns. If the NPV is positive the project in question is potentially worth undertaking.
Procedures	Policies are carried out by means of more detailed guidelines called “standard methods”. A series of actions conducted in a certain order or manner.
Process	A series of actions or steps towards achieving a particular end.
Provider	A provider is the private person or institution that provides supplies, services or works to the Government.
Public Funds	All monies received by the municipality to perform the function allocated to them.
Risk Management	Risk management may be defined as the identification, measurement and economic control of risks that threaten the assets and earnings of a business or other enterprise.
Rules	Rules are statements that a specific action must or must not be taken in a given situation.
Security	A lien, pledge, mortgage, cession or other form of collateral intended to secure the interests of the creditor
Senior Manager	Is a manager referred to in section 56 of the Municipal Systems Act being someone reporting directly to the Municipal Manager.
Sourcing	Find out where to obtain.
Transfer	Shifting of allocated funds from one department (vote), line-item (vote number) or both to the other.
Treasury Guidelines	Means the guidelines on supply chain management issued by the Minister in terms of section 168 of the Act.
Written Or Verbal Quotations	Means quotations referred to in sub-section 11 of section 23 of this policy.

1 Objective of Investment Policy

The council of the municipality is the trustee of the public revenues, which it collects or receives as a grant, and it therefore has an obligation to the community to ensure that the municipality's cash resources are managed effectively and efficiently.

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. These investments must only be made in the name of the Municipality

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.

2 Legal Compliance

The municipality shall at all times manage its banking arrangements and investments and conduct its cash management policy in compliance with the provisions of and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003 and regulations issued in terms of this Act

3 Effective Cash Management

3.1 Cash Collection

All monies due to the municipality must be collected as soon as possible, either on or immediately after due date, and banked once a week of receiving the monies or within 48 hours once the amounts exceeds R1000.

The respective responsibilities of the Chief Financial Officer and other heads of departments in this regard is defined in a code of financial practice approved by the municipal manager and the Chief Financial Officer, and this code of practice is attached as Annexure II to this policy.

3.2 Payments to Creditors

Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques. 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 bio-week / week / month end processing. The Chief Financial Officer shall ensure that payments to suppliers are made within 30 days of receiving the valid tax invoice provided that the service / goods was rendered / delivered satisfactory.

3.3 Cash Management Programme

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 monthly 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 or 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.

Petty cash of the municipality shall be kept at the minimum level required to finance the day to day operation of the municipality. For this purpose a daily, weekly, monthly and annual cash flow forecast are required.

The Chief Financial Officer shall ensure that sufficient cash provision in the municipality's primary bank account is maintained for the payment of:

- Salaries;
- General expenditure;
- Capital cost (Interest and redemption);

- Maintenance and repairs;
- Payment to the creditors and suppliers; and
- Contractual obligations including lease contracts

Due to the high bank charges with associated with cheque payments, payment shall, as far as possible, be done by electronic transfer-subject to strict control measures.

The Chief Financial Officer shall report to the finance portfolio committee or the executive mayor, on a monthly basis and to ordinary council meeting on a quarterly basis 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 heads of departments must provide necessary information to the Chief Financial Officer in order to make informed cash flow projections.

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.

3.4 Management of Bank Overdraft

Where the municipality operates on a bank overdraft, the council may increase the current credit facility 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.

The bank overdraft must be repaid within the financial year that it was incurred; and the council shall not renew or refinance a bank overdraft or short-term debt, whether its own debt or that of any other entity, where such renewal or refinancing will have the effect of extending the overdraft or short-term debt into a new financial year.

4 Investment Ethics

The Chief Financial Officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in consultation with the Accounting Officer where necessary, and in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance.

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 of the consultation process with the Accounting Officer, as the case may be, shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties.

Neither the Chief Financial Officer nor the accounting officer, 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. The gifts received shall be in line with the council policies.

5 Delegation of Powers

Activity	Responsibility
Alter policy	Council
Approve principal banker	Council
Approval of investments of a period exceeding 12 months	Council Approval of investments in foreign currency N/A per sec 163 and foreign currency risk

Activity	Responsibility
Open / Close bank account	Municipal Manager
Cheque signatories	Municipal Manager and Chief Financial Officer Municipal Manager /Chief Financial Officer and Manager Financial operations / any other director
Electronic Transfers	
Final Authorisation of payments:	Municipal Manager/Chief Financial Officer and Manager Financial Operations, Senior Financial Accountant Financial Operations, Senior Financial Accountant
Uploading of transactions	Chief Financial Officer / Municipal Manager / Manager Financials
Capturing of transactions	Senior Expenditure Accountant / Senior Financial Accountant Expenditure Accountant / Expenditure Clerk / Finance Clerk / Financial Interns
Limits per transaction	Municipal Manager – No limits Chief Financial Officer – No Limits Manager Financial Operations – R 1 to R 1 000 000.00 Senior Financial Accountant – R 1 to R 1 000 000
Manage investments	Chief Financial Officer
Approve new borrowings	Council
Manage loans	Chief Financial Officer
Approve early redemption of loans	Municipal Manager
Deciding to make investments	Municipal Manager

6 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).Council shall not to borrow monies for the purpose of re-investment, as this is tantamount to speculation using public funds.

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 with 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. The Chief Financial Officer shall consider any other administrative and operational risk such as failure to perform by the investment institution in his/her investment decision. Deposits shall be made only with registered deposit-taking institutions (see 6.3 below).

6.3 Acceptable Investments

In making the investments the Chief Financial Officer shall ensure that investments are made only with one or more of the investing institutions set out in Regulation 6 of the Act (Refer to attached Annexure III).

6.4 Payment of Commission

Every financial institution with which the municipality makes an investment (excluding short term deposit or call deposits) 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.

6.5 Call Deposits and Fixed Deposits

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). 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).

Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of part 8 below) shall be paid over only to such institution itself and not to any agent or third party. 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.

6.6 Restriction on Tenure of Investments

No investment with a tenure exceeding twelve months shall be made without the prior approval of the council, as the case may be. Chief Financial Officer may not make investment in a foreign currency as per section 163.

7 Control over Investments

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.

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.

The Chief Financial Officer shall ensure that all investment documents or certificates are properly kept.

The Chief Financial Officer shall ensure that the general ledger is reconciled to with the investment certificates on an annual basis.

The Internal Auditor should at least audit the investments of the Council every six months and report to the Audit Committee and Council whether investments of Council are made, managed and controlled in line with this policy.

8 Other External Investments

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 state owned entity 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.

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. If an advisor is engaged for this purpose, the Chief Financial Officer shall ensure that such advisor has the credentials specified for the "Investment Manager" in Regulation I to the Act.

9 Interest on Investments

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 primary bank account as ordinary operating revenues, and shall thereafter be appropriated, at the maturity of each investment, to the fund or account in respect of which such investment was made.

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.

10 Raising Of Debt

The Accounting Officer is responsible for the raising of debt. 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.

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. And such debt shall not be at foreign currency.

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.

11 Investments for the Redemption of Long-Term Liabilities

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 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. The making of such investment shall be approved by the council at the time that the loan itself is approved. 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 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.

12 Banking Arrangements

The Accounting Officer is responsible for the management of the municipality's bank accounts, but may delegate this function to the Chief Financial Officer. 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. 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.

In compliance with the requirements of good governance, the Accounting Officer 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 or any other permissible reserve. One or more separate accounts shall also be maintained for the following: donations or contributions from whatever source; funds kept on behalf of other organs of state; trust funds; and the municipality's self-insurance reserve (if legally permissible). 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. 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.

The Accounting Officer shall invite tenders for the placing of the municipality's bank accounts every five years and 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 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 agrees to the invitation of such tenders.

13 Reporting Obligations

13.1 Activity by Frequency

- Cash flow estimates of each month and actual cash flows:

Chief Financial Officer	Finance Portfolio Committee	Monthly

- Cash flow estimates of each month and actual cash flows:

Chief Financial Officer	Council	Quarterly

- Monthly projections:

Head of Departments	Chief Financial Officer	Monthly and Quarterly

- Implementation of this policy:

Internal Auditor Audit	Committee and Council	Annually

- Bank Reconciliation:

Financial Officer	Financial Manager Operations	Daily and Monthly

- Investment reconciliation:

Financial Officer	Financial Manager Operations	Monthly

In addition to reporting obligations specified above, the Chief Financial Officer shall report monthly to the Executive Mayor / Finance Portfolio Committee and quarterly to Council on the following:

- The market value of each investment at the beginning of the month;
- Each additional investment made during the month;
- Each investment re-called during the month; and
- Total interest received and/or accrued for the month

Where an investment has been re-called for the amount less than its opening market value, the Chief Financial Officer shall provide an explanation for such loss.

14 Review of the Policy

The council shall ensure that its banking and investment policy is reviewed as part of the process of preparing its annual budget.