

CITY OF UMLATHUZE



CASH MANAGEMENT AND INVESTMENT POLICY



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1. DEFINITIONS

“Act” means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

“Chief financial officer” means the officer of the uMhlathuze Municipality designated by the City Manager to be administratively in charge of the budgetary and treasury functions.

“Councillor” means a member of the uMhlathuze Municipal Council.

“Current assets” means any asset, which can reasonably be expected to be sold, consumed, or exhausted through the normal operations of a business within the current fiscal year or operating cycle or financial year eg.

- Debtors;
- Cash;
- Stock; and
- The short-term portion of long-term debtors.

“Current liabilities” means the Council’s short-term financial obligations that are due within one year or within a normal operating cycle eg. –

- Creditors;
- Bank overdrafts and
- Short-term portion of long-term liabilities

“Debtors Turnover Rate” the ratio which comprises current plus arrear debtors divided by billed annual income multiplied by 365-days.

$$\frac{\text{Outstanding debtors}}{\text{Billed Annual Income}} \times 365$$

“Investments” are funds not immediately required for the defraying of expenses and invested at approved financial institutions to generate profit overtime.

“City Manager” means the person appointed in terms of section 82 of the Municipal Structures Act, 1998 (Act 117 of 1998) as the head of the uMhlathuze Municipality’s administration;

Minimum Cash Holding” means the amount of cash in the primary bank accounts plus short term investments. The minimum amount shall be 2 times the municipal operational creditors excluding the following cash backed amounts:

1. Unspent borrowing;
2. Unspent Conditional Grant Funds
3. Unspent Capital Replacement Reserves;
4. Immediate forthcoming financial years Capital Replacement Reserves;
5. Cash portion of Consumer Deposits;
6. Retention Funds;
7. Leave Provisions;
8. Immediate forthcoming capital redemptions
9. All GRAP compliant Contingent Liabilities.

“Municipal stock” means the stock certificate issued by the uMhlathuze Municipality as proof of a long-term fixed period loan of which the capital is repayable at the end of the period while interest is payable at predetermined intervals at a fixed rate.

“Negotiable certificate” means a loan certificate that is tradable on the capital market.

“Net current assets” is the difference between current assets and current liabilities.

“Public funds” means all monies received by the uMhlathuze Municipality to perform the functions allocated to them.

“Liquidity” means adequate cash available to cover current expenditure or short-term liabilities. .

“Short-term portion of long-term debtors” refers to the capital instalments of long-term debtors due and in arrears in the current financial year.

“Short-term portion of long-term liabilities” refers to the capital repayment of long-term loans due in the current financial year.

“Stock Turn-over Rate” is the total issues divided by average stock holding.

$$\frac{\text{Total Issues}}{\text{Average Stock Holding}}$$

Trade Creditors Turn-over Rate” is equal to outstanding creditors divided by general expenses plus repairs and maintenance plus capital expenses minus internal recharges minus municipal service charges minus Councillors allowances minus other personnel expenses multiplied by 365-days.

Outstanding Creditors

General Expenses +
Repair & Maintenance +
Capital Expenses -
Internal Recharges - x 365
Municipal Service Charges -
Councillors Allowances -
Other Personnel Expenses

2. OBJECTIVES

The objectives of a cash and investment policy are:-

- 2.1 to ensure compliance with the relevant legal and statutory requirements relation cash management and investments;
- 2.2 to ensure the preservation and safety of the City's investments;
- 2.3 to maintain adequate liquidity to meet cash flow needs;
- 2.4 to manage the net current asset requirement of the municipality in such a manner that it will not tie up the municipality's scarce resources required to improve the quality of life of the citizens;
- 2.5 to manage the financial affairs of the municipality in such a manner that sufficient cash resources are available to finance the capital and operating budgets of the municipality; and
- 2.6 gain the highest possible return on investments, within the framework prescribed on permitted investments, during periods when excess funds are not being used.

3. LEGAL FRAMEWORK

- The Local Government: Municipal Finance Management Act no. 56 of 2003 (Section 13)
- The Local Government: Municipal System Act
- Municipal Investment Regulation

4. RESPONSIBILITY/ACCOUNTABILITY

- 4.1 The City Manager as the Accounting Officer of the UMhlathuze Municipality is accountable for cash management and investments.
- 4.2 The City Manager may delegate the management of cash and investment to the Chief Financial Officer.
- 4.3 The Municipal Council must approve a policy directing procedures, processes and systems required to ensure efficient and effective management of cash and investments. Efficient and effective management includes:-
 - 4.3.1 Collecting revenue when it is due;
 - 4.3.2 Banking and depositing monies when received;
 - 4.3.3 Making payments, including transfers to other levels of government and non-government entities, no earlier than necessary, with due regard for efficient, effective and economical service delivery and the creditor's normal terms for account payments;
 - 4.3.4 Avoiding pre-payment for goods or services (i.e. payments in advance of the receipt of goods or services), unless required by the contractual arrangements with the supplier;
 - 4.3.5 Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the department of the Chief Financial Officer;
 - 4.3.6 Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the municipality are collected and banked promptly;
 - 4.3.7 Accurately forecasting the institution's cash flow requirements;
 - 4.3.8 Timing of in- and outflow of cash;
 - 4.3.9 Recognising the time value of money;
 - 4.3.10 Taking any other action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or underutilised assets;

4.3.11 Avoiding bank overdrafts.

5. DELEGATIONS

- 5.1** In terms of Section 60(2) of the Local Government: Municipal Systems Act, act 32 of 2000, the Council may only delegate to the Accounting Officer the power to make decisions on investments on behalf of the Municipality.
- 5.2** In terms of section 79 of the Local Government: Municipal Finance Management Act no. 56 of 2003 the Accounting Officer has delegated to the Chief Financial Officer (CFO) in writing , his duty under section 65(2)(h) to manage the Council's available working capital effectively and economically in terms of the prescribed cash management and investment framework.
- 5.3** In terms of section 82 of the Local Government: Municipal Finance Management Act no. 56 of 2003, the Chief Financial Officer may sub-delegate any of the duties referred to in section 81 (1)(b), (d) and (e) to an official in the budget and treasury office.

6. MANAGEMENT OF NET CURRENT ASSETS

Cash management includes the management of net current assets, which entails:

- debtors;
- cash;
- stock;
- short-term portion of debtors;
- creditors;
- bank overdraft;
- provisions;
- short-term portion of liabilities;

and will subscribe to procedures recognised in terms of generally recognised accounting practice (GRAP).

6.1 Debtors:

- 6.1.1** The municipal council must set a target for debt collection based on the performance of the City Manager during the last financial year.

- 6.1.2 The target must be expressed as a percentage of potential income and/or the turnover rate of debtors.
- 6.1.3 All monies owing to the council must be correctly reflected in the debtors system.
- 6.1.4 All money received by a municipality must be paid into its bank account or accounts, and this must be done promptly in a manner prescribed by the City Manager.
- 6.1.5 All reasonable steps must be taken to ensure that all large sums of money received are deposited into the bank account on the same day that payments are received.
- 6.1.6 Extension for payment of rates and service charges must only be given in terms of the municipality's credit control and debt collection by-laws.
- 6.1.7 Moneys collected by other agencies on behalf of the council shall be paid over to the council or deposited in the bank account of the council in a manner prescribed by the City Manager.

6.2 Cash Management

- 6.2.1 The minimum *cash holding* of the municipality shall be kept at a minimum of two times operational creditors.
- 6.2.2 The following non-operational liabilities shall be held separately from the *minimum cash holding* and at all times be cash backed:
 - A. Unspent borrowing;
 - B. Unspent Conditional Grant Funds
 - C. Unspent Capital Replacement Reserves;
 - D. Immediate forthcoming financial years Capital Replacement Reserves;
 - E. Cash portion of Consumer Deposits;
 - F. Retention Funds;
 - G. Leave Provisions;
 - H. Immediate forthcoming capital redemptions

I. All GRAP compliant Contingent Liabilities

- 6.2.3 Monthly and annual cash flow forecasts must be reviewed and amended daily.

6.3 Payment of Creditors

- 6.3.1 Suppliers shall be paid in accordance with the payment clause in section 65(e) of the MFMA no. 56 of 2003
- 6.3.2 Discounts for early settlement must be considered and utilised.
- 6.3.3 Credit statements must be reconciled monthly.
- 6.3.4 Trade creditor payments must only occur on receipt of official orders; certified goods received notes and company invoices.
- 6.3.5 All other payments must be duly authorised by departmental heads and/ or duly authorised officials.
- 6.3.6 The number of monthly electronic batch payment runs shall be reduced and shall be done in a structured manner in order to facilitate efficient cash flow management.
- 6.3.7 The balance on the City's current account shall be maintained at the minimum level possible taking into account daily cash requirements.
- 6.3.8 Surplus cash shall be immediately invested in order to maximise interest earnings.

6.4 Management of short-term loan/ bank overdraft

- 6.4.1 A short-term loan may only be obtained in anticipation of a positive income stream or to finance capital projects in anticipation of an approved capital grant or long-term loan.
- 6.4.2 The short-term loan must be repaid by the end of the financial year.
- 6.4.3 The council can only approve a short-term loan on the submission of a cash flow statement indicating the anticipated income stream or a certificate stating the approved grant or long-term loan.

- 6.4.4 A Council approved overnight overdraft facility for a period of no longer than a fortnight and to a value determined by Council may only be exercised by the City Manager.

6.5 Liabilities and Provisions to be cash-backed

- 6.5.1 Provisions for known short-term liabilities outlined in 6.2.2 above must be made.
- 6.5.2 These short-term liabilities must be cash-backed, i.e. cash equivalent to them must be available at all times.
- 6.5.3 Retention funds still held by the municipalities where projects have been complete for two years and above shall be transferred to revenue and the cash liability derecognised. Retention funds for terminated projects shall be also be transferred to revenue.

6.6 Short-term portion of long-term liabilities

- 6.6.1 Loan instalments due in the current financial year must be provided for in the financial statements.
- 6.6.2 Sufficient cash must be available when payments are due.

7. CASHFLOW ESTIMATES

- 7.1 Effective cash flow forecasting is essential to determine the timing and size of cash surpluses and deficits affecting investment decisions. Forecasts of cash receipts and payments shall be prepared on a regular basis to facilitate investment decisions.

Cash flow target for the working capital ratio is two times. A positive cash flow means council have more money coming in than expenditure, which leads to an increase in your working capital. Sufficient working capital allows council to cover its operating costs, pay suppliers, and also to invest .

- 7.2 The Chief Financial Officer or his/her delegate must determine whether there will be surplus funds available during the term of the investment.
- 7.3 In order to be able to make investments for any fixed term, it is essential that cash flow estimates be drawn up.

- 7.4 Provision must be made in the cash flow estimates for the operating and capital requirements of the municipality.

8. INVESTMENTS

8.1 Permitted Investments

In terms of Section 6 of the Municipal Investment Regulations (No. 308) dated 1 April 2005 the City may invest only in the following instruments of investments:

- a) Securities issued by the National Government;
- b) Listed corporate bonds with an investment grade rating from an internationally recognised credit rating agency;
- c) Deposits with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990)
- d) Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act 45 of 1984)
- e) Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act 46 of 1984)
- f) Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act 94 of 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 (Act 94 of 1990)
- i) Municipal bonds issued by a municipality; and
- j) Any other investment type as the Minister may identify by regulation in consultation with the Financial Services Board.

8.2 Prohibited Investments

8.2.1 The City is not permitted to make the following investments;

- a) In listed or unlisted shares or unit trust;
- b) In stand-alone derivative instruments;
- c) In market linked endowment policies and in credit linked notes.
- d) Denominated in or linked to foreign currencies;

8.2.2 The City may not borrow for the purpose of investing.

- 8.2.3 The City may not buy and sell money market instruments to speculate with a view to making capital profits.

9. INVESTMENT ETHICS AND PRINCIPLES

- 9.1 Investments made on behalf of Council must be made with such judgement and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would reasonably exercise in the management of his or her own affairs, not for speculation, but for investment, and with his or her primary regard being to the probable safety of his or her capital, in the second instance to his or her liquidity needs and lastly to the probable income derived.
- 9.1.1 Investments of money not immediately required must be governed by the following investment objectives, in order of priority:
- a) Preservation and safety of principal,
 - b) Liquidity and yield.
- 9.2 Investments may not be undertaken with a view to speculation.
- 9.3 Investment by the Municipality in foreign currencies is prohibited.
- 9.4 The City Manager is responsible for the investment of funds, and he/she has to avoid outside interference, regardless of whether such interference comes from individual councillors, agents or any other institution.
- 9.5 Under no circumstances may he/she be forced or bribed into making an investment.
- 9.6 Interest rates quoted by one institution must not be disclosed to another institution.
- 9.7 The Council may not borrow money for reinvestment, as this would mean interest rates would have to be estimated in advance, which can be seen as speculation with public funds.



10. INVESTMENT PROCESS AND REPORTING

After determining whether there is cash available for investment and fixing the maximum term of investment, the Chief Financial Officer with approval of the Municipal Manager must consider the way in which the investment is to be made.

10.1 Short-term investments

- 10.1.1 The selection of an investee for any investment shall be a competitive process. Quotations must be obtained from a minimum of three financial institutions, for various terms for which funds could be invested.
- 10.1.2 Should one of the institutions offer a better rate for a term, other than what the Municipality had in mind, the other institutions which were approached, should also be asked to quote a rate for the other term.
- 10.1.3 Quotations can be obtained telephonically, as rates generally change on a regular basis and time is a determining factor when investments are made.
- 10.1.4 The person responsible for requesting quotations from institutions must record the following:-
 - 10.1.4.1 name of institution;
 - 10.1.4.2 name of person quoting rates;
 - 10.1.4.3 period of the investment;
 - 10.1.4.4 relevant terms; and
 - 10.1.4.5 other facts i.e. are interest payable monthly or on date of maturity.
- 10.1.5 Once the required number of quotes have been obtained, a decision must be taken regarding the best terms offered and the institution with which funds are going to be invested.
- 10.1.6 The best offer must under normal circumstances be accepted, with thorough consideration of investment principles.
- 10.1.7 No attempt must be made to make institutions compete with each other as far as their rates and terms are concerned.
- 10.1.8 Once a quote has been accepted, written confirmation of the details must be obtained from the financial institution.



- 10.1.9 The investment capital must only be paid over to the institution with which it is to be invested and not to an agent.
- 10.1.10 The financial institution where the investment is made must issue a written confirmation stating the details of the investments.
- 10.1.11 The Chief Financial Officer must make sure that the investment document received is authentic.
- 10.1.12 The financial institution, where the investment is made, must issue a confirmation for each investment made stating that no commission has, nor will be paid to any agent or third party, or to any person nominated by the agent or third party.
- 10.1.13 The Council must be given a quarterly report on all investments.
- 10.1.14 The report referred to in 10.1.13 above must contain at least a statement, prepared in compliance with generally accepted municipal accounting principles, that gives the –
 - 10.1.14.1 beginning market value for the reporting period;
 - 10.1.14.2 additions and changes to the market value during the period;
 - 10.1.14.3 ending market value for the period;
 - 10.1.14.4 fully accrued interest/yield for the reporting period.
- 10.1.15 Where money is kept in current accounts, the municipality must bargain for more beneficial rates with regard to deposits.
- 10.1.16 Early redemption of fixed short investments can be actioned upon authorisation from the Chief Financial Officer.

10.2 Long-term investments

- 10.2.1 Written quotations must be obtained for all investments made for periods longer than twelve months.
- 10.2.2 The City Manager must approve all investments made for periods longer than twelve months after considering the cash requirements for the next three years.

- 10.2.3 Early redemption of fixed long investments can be actioned upon authorisation from the Chief Financial Officer.

11. OTHER EXTERNAL DEPOSITS

The principles and procedures set out above must apply to other investment possibilities subject to the applicable legislation, which is available to the council, including debentures and other securities of the State as well as other municipalities or statutory bodies in the Republic, instituted under and in terms of any law.

12. CONTROL OVER INVESTMENT DOCUMENTATION

- 12.1 An investment register must be kept of all investments made. The following facts must be recorded:
- 12.1.1 name of institution
 - 12.1.2 capital invested
 - 12.1.3 date invested
 - 12.1.4 interest rate
 - 12.1.5 date of maturity
 - 12.1.6 interest received
 - 12.1.7 capital repaid and
 - 12.1.8 Investment balance
 - 12.1.9 Total interest earned
 - 12.1.10 Total withdrawal amount
- 12.2 The investment register and accounting records must be reconciled on a monthly basis.
- 12.3 The investment register must be examined on a fortnightly basis to identify investments falling due within the next two weeks. It must then be established what to do with the funds, bearing in mind the cash flow requirements.
- 12.4 Interest, correctly calculated, must be received timeously, together with any distributable capital.
- 12.5 The Chief Financial Officer or his/her delegated official responsible for cash and investments must check that the interest is calculated correctly.

12.6 Investment documents and certificates must be safeguarded in a fire resistant safe, with dual custody. The following documents must be safeguarded:

- 12.6.1 Fixed deposit letters or investment certificates;
- 12.6.2 Receipts for capital invested;
- 12.6.3 Copies of electronic transfers or cheque requisitions;
- 12.6.4 Schedules of comparative investment figures;
- 12.6.5 Commission certificates indicating that no commission was paid on the investment; and
- 12.6.6 Interest rates quoted.

13. POLICY IMPLEMENTATION

This policy will be effective from 1 July 2024 and will be subject to annual review with other budget related policies.