



LEJWELEPUTSWA DISTRICT MUNICIPALITY

CASH MANAGEMENT AND INVESTMENT POLICY

Original Council Approval		Amended
Date of Council Approval		
Resolution Number		
Effective Date		

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CASH MANAGEMENT AND INVESTMENT POLICY

1. APPLICATION

- 1.1 This policy applies to the Municipality and all investment managers acting on behalf of, or assisting, the Municipality.
- 1.2 This policy prescribes the manner in which the Municipality must conduct its cash management and investments as well as invest all monies not immediately required.
- 1.3 An investment manager shall have the same meaning as defined under R308 of 01 April 2005.

2. ADOPTION OF CASH MANAGEMENT AND INVESTMENT POLICY

- 2.1 The cash management and investment policy to be established by a municipality in terms of section 13(2) of the MFMA, must be –
 - (a) Adopted by the council of the municipality after the local community has been given the opportunity to make representations or comments thereon; and
 - (B) Consistent with the regulations published under R308 of 01 April 2005 in Government Gazette No. 27431 of same date.
- 2.2 All investments made by a municipality or by an investment manager on behalf of a municipality must be in accordance with the cash management and investment policy of the municipality and the regulations mentioned in 2.1(b)

3 DEFINITIONS

Accounting Policies: Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements.

Accrual Basis: Accrual basis means a basis of accounting under which transactions and other events are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore the transactions and events are recorded in the accounting

records and recognised in the financial statements of the periods to which they relate. The elements recognised under accrual accounting are assets, liabilities, net assets, revenue and expenses.

Assets: Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

Associate: Associate is an entity in which the investor has significant influence and which is neither a controlled entity nor a joint venture of the investor.

Cash: Cash comprises cash on hand and demand deposits.

Cash Equivalents: Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash flows: Cash flows are inflows and outflows of cash and cash equivalents.

Consolidated Financial Statements: Consolidated financial statements are the financial statements of an economic entity presented as those of a single entity.

Contributions from owners: Contributions from owners means future economic benefits or service potential that have been contributed to the entity by parties external to the entity that establish a financial interest in the net assets of the entity, provided that the contributions:

- (a) do not result in liabilities of the entity, and
- (b) meet the following tests, that they:
 - (i) convey entitlement both to distributions of future economic benefits or service potential by the entity during its life, such distributions being at the discretion of the owners or their representatives, and to distributions of any excess of assets over liabilities in the event of the entity being wound up; and/or
 - (ii) can be sold, exchanged, transferred or redeemed.

Control: Control is the power to govern the financial and operating policies of another entity so as to benefit from its activities.

Controlled entity: Controlled entity is an entity, including an unincorporated entity such as a partnership that is controlled by another entity (known as the controlling entity).

Controlled entity: Controlling entity is an entity that has one or more controlled entities.

Cost method: Cost method is a method of accounting whereby the investment is recorded at cost. The statement of financial performance reflects revenue from the investment only to the extent that the investor receives distributions from accumulated surpluses of the investee arising subsequent to the date of acquisition.

Distributions to owners: Distributions to owners means future economic benefits or service potential distributed by the entity to all or some of its owners, either as a return on investment or as a return of investment.

Exchange Difference: Exchange difference is the difference resulting from translating a given number of units of one currency into another currency at different exchange rates.

Exchange Rate: Exchange rate is the ratio of exchange for two currencies.

Financing Activities: Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.

Foreign Currency: Foreign currency is a currency other than the functional currency of the entity.

Functional Currency: Functional currency is the currency of the primary economic environment in which the entity operates.

Fair value: Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Investment: In relation to the funds of the municipality, means:

- The placing on deposit of funds of a municipality with a financial institution; or
- Acquisition of assets with funds of the municipality not immediately required, with the primary aim of preserving those funds.

Liabilities: Liabilities are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

Management: Management comprises those persons responsible for the governance of the entity in accordance with legislation, including the accounting officers, however described in legislation.

Revenue: Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

4 CORE ELEMENTS

This policy must –

- be in writing;
- give effect to the regulations; and
- Set out the requirements of regulation 4(c).

4.1 Scope of policy

The scope of this policy shall be as follows:

- 4.1.1 As trustees of public funds, the Municipality has an obligation to see to it that cash resources are managed as effectively as possible.
- 4.1.2 The Municipality has a responsibility to invest public funds with great care and is accountable to the community in this regard.
- 4.1.3 The investment policy should be aimed at gaining the highest possible return without undue risk during those periods when funds are not needed. To bring this about, it is essential to have an effective cash flow management program.
- 4.1.4 All legislation must be adhered to.

4.2 Objects of policy

The objects of this policy is to ensure –

- 4.2.1 That investment of surplus funds form part of the financial system of the Municipality;
- 4.2.2 That the same procedure is followed in respect of each investment to conform to the requirements of transparency, equitability and fairness in each se;
- 4.2.3 The preservation and safety of investments as a primary aim;
- 4.2.4 The need for investment diversification; and
- 4.2.5 The liquidity needs of the Municipality.
- 4.2.6 A minimum acceptable credit rating and requirements for investments, including
 - (aa) a list of approved investment types that may be made, subject to regulation 6;
 - (bb) a list of approved institutions where or through which investments may be made, subject to regulation 10;
- 4.2.7 Procedures for the invitation and selection of competitive bids or offers in accordance with Part 1 of Chapter 11 of the MFMA;
- 4.2.8 Measures for ensuring implementation of the policy and internal control over investments made;
- 4.2.9 Procedures for reporting on and monitoring of all investments made, subject to regulation 9;
- 4.2.10 procedures for benchmarking and performance evaluation;
- 4.2.11 the assignment of roles and functions, including any delegation of decision-making powers;
- 4.2.12 if investment managers are to be used, conditions for their use, including their liability in the event of non-compliance with the policy or these regulations; and
- 4.2.13 procedures for the annual review of the policy.

4.3 Permitted Investment Types

The Municipality shall invest funds only in any of the following investment types:

- (a) Securities issued by the national government;
- (b) Listed corporate bonds with an investment grade rating
From a nationally or internationally recognized credit rating agency;
- (c) Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- (d) Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984);
- (e) Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);
- (f) Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 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;
- (i) municipal bonds issued by another municipality; and
- (j) any other investment type as the Minister may identify by regulation in terms of section 168 of the MFMA, in consultation with the Financial Services Board.

4.4 Credit Requirements

Subject to regulation 10, the Municipality must take all reasonable and prudent steps consistent with this policy and according to the standard of care as required by regulation 5 to ensure that it places its investments with credit-worthy institutions. The international credit rating should be used to evaluate the credit-worthiness of financial institutions.

4.5 Regular Review

The Municipality shall review its investments regularly and liquidate any investment that no longer has the minimum acceptable rating as specified.

4.6 Portfolio Diversification

The Municipality must take all reasonable and prudent steps, consistent with this policy and standard of care prescribed in regulation 5, to diversify its investment portfolio across institutions, types of investment and investment maturities.

4.7 Invitation and selection of competitive bids or offers for long-term investments

The Chief Financial Officer shall invite bids or offers from a list of approved institutions for the long-term investment of funds and make recommendations to the Mayor for approval in terms of s.60(2) of the Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000).

4.8 Reporting requirements

In terms of reg. 9 the accounting officer of the Municipality must within 10 working days of the end of each month submit a report in accordance with generally recognized accounting practice, describing the investment portfolio as at the end of the month and such report shall contain the following particulars:

4.8.1 The market value of each investment as at the beginning of the reporting period;

4.8.2 Any changes to the investment portfolio during the reporting period;

4.8.3 The market value of each investment as at the end of the reporting period; and

4.8.4 Fully accrued interest or yield for the reporting period.

5. EFFECTIVE CASH MANAGEMENT

5.1 Cash Management Plan

Adequate and efficient cash management is one of the main functions of the Chief Financial Officer. It is therefore imperative that a cash management plan be established and adhered to at all times.

5.2 Cash Collections

5.2.1 All monies due to the municipality must be collected as soon as possible and banked on a daily basis. Cash left in the safe can pose a security risk, could necessitate additional insurance coverage and does not earn any interest. Special deposits should be arranged for the larger amounts received, to make sure that these are banked on the same day it is received.

5.2.2 It is essential that all amounts owed to the Municipality be levied by way of a debit in the applicable debtors system. A well managed debtor- and banking control system is the proper measure for ensuring that monies owed to the Municipality are timeously received and banked. It is also important to review the debt collection performance by regularly comparing monies presently owed to the Municipality in relation to the total income as well as to the situation in previous financial years, in order to determine whether the debt collection is deteriorating or improving and this is also required by the Act.

5.2.3 By utilizing the available information and expertise, the Chief Financial Officer can assess the timing with regard to the applicable investment policy accordingly. Daily cashflow estimates will provide for daily call investments and investment withdrawals, whereas long-term investments need to be based on projections further into the future.

6. INVESTMENT ETHICS

The following ethics apply when dealing with financial institutions and other interested parties:

6.1 The Accounting Officer is accountable for the investment of funds, and must ensure that the staff steers clear from outside interference, regardless of whether such interference comes from individual councillors, agents or any institution.

6.2 Under no circumstances may any staff member be held susceptible to coercive measures of any description. No member of staff may accept any gift other than something that is so small (monetary value not exceeding R100,00) that it cannot possibly be seen as anything but a sign of goodwill, regardless of whether such gift influences him in his work or is intended to do so.

6.3 The Chief Financial Officer must act according to his/her own discretion and should report any serious cases such as for instance offers of a personal commission or payment in kind, etc., to the Accounting Officer. Discretion should be the order of the day, and excessive gifts and hospitality must be refused and avoided.

6.4 Interest rates should never be divulged to another institution.

7. INVESTMENT PRINCIPLES

7.1 Limited Exposure to a Single Institution

Money, especially large sums of money should be invested with more than one institution, in order to limit the risk exposure of the Municipality. Where legislation allows, the Municipality must try to plan the distribution of their investments to cover more than one investment category. In this case it should be noted that a group of financial institutions would be treated as individual institutions.

7.2 Risk and Return

It should be accepted as general principle that the larger the return, the greater the risk will be.

7.3 Borrowing Money for Reinvestment

The municipality may not borrow any money for investment purposes as this can be seen as speculation with public funds.

7.4 Cash in the Bank

Where money is kept in current accounts, it would be possible, as well as being an expedient practice, to bargain for more beneficial rates with regard to deposits, for instance call deposits. These rates can be increased by fixed term investments. The overriding principle is to limit the cash in the current account to the absolute minimum but always taking into account the cash management plan and monthly cashflow estimates.

7.5 Employees and Councillors Benefiting from Investments

No employee or councillor of the Municipality or their family may under any circumstances whatsoever on his or her own behalf or on behalf of any other person whether directly or indirectly, stipulate, claim or receive any consideration of whatever nature in connection with an investment made.

7.6 Transparency and Fairness

There shall at all times be transparency, equitability, fairness and accountability in respect of every investment made and of the Municipality's investment portfolio. In this regard details of all investments must form part of the monthly financial report by the Accounting Officer to the Mayor.

8. GENERAL INVESTMENT PRACTICE

8.1 General Principles

8.1.1 After determining whether cash is available for investment and fixing the maximum term of investment, the Chief Financial Officer has to consider the way in which the investment is to be made in conjunction with the Accounting Officer. Because rates can vary according to money market perceptions with regard to the term of investment, quotations for fixed deposits should be requested telephonically for a period within the limitations of the maximum term. All telephonic quotations must be recorded on a schedule and the accepted quotation must be confirmed in writing before the actual investment is made. The same procedure must be followed before any re-investment is made with the same institution.

8.1.2 Where a fixed deposit is made at an institution at a lower rate than other quotations, reasons must be recorded by the Chief Financial Officer and reported to the Mayor as part of the monthly financial report by the Accounting Officer.

8.2 Payment of Commission

8.2.1 The financial institution where a fixed deposit is made must issue a certificate with regard to each investment when the investment is made, in which it states that the financial institution has not or will not pay any commission and has not or will not grant any other benefit for obtaining such investment to any employee or councillor of the Municipality or their family or an agent or go-between, or to any person nominated by such agent or go-between, except where the Municipality has decided, in terms of duly authorizing legislation, to appoint a go-between/agent/consultant and the fee/commission has been decided and approved by the Mayor before any investment is made with such a firm.

8.2.2 In the case of long-term securities at Insurance Companies any payment of commission to any go-between/agent/consultant must be clearly stated on the application form and

approved by the Mayor in terms of duly authorizing legislation, before any investment is made.

- 8.2.3 If any fee, commission or other reward is paid to an investment manager in respect of an investment made by the municipality both the investee and the investment manager must declare such payment to the Council by way of a certificate disclosing full details of the payment.

8.3 Call Deposits and Fixed Deposits Shorter than 12 Months

- 8.3.1 Quotations ought to be solicited from a minimum of three financial institutions bearing in mind the limits of the term for which it is intended to invest the funds. Should one of the institutions offer a better rate for a term, other than what the Municipality had in mind, the other institutions that were approached should also be asked to quote a rate for the same term.

- 8.3.2 It is acceptable to ask for quotations telephonically, as rates can generally change on a regular daily basis and time is a determining factor when investments are made.

- 8.3.3 The person responsible for requesting quotations from institutions should record the name of the institution, the name of the person who gave the telephonic quotation and the relevant terms and rates and other facts such as whether the interest is payable on a monthly basis or on a maturity date. Written confirmation of the telephonic quotation accepted is essential before the investment is made.

- 8.3.4 Once the required number of quotations has been obtained, a decision has to be taken regarding the best terms offered and the institution with which the funds are going to be invested. The best offer is normally accepted, with thorough consideration of investment principles. No attempts may be made to make institutions compete with each other as far as their rates and terms are concerned. If institutions have been asked for a quotation with regard to a specific package, the institution has to be told to offer their best rate in their quotation. They should also be informed that, once the quotation has been given, no further bargaining or discussions would be entered into in that regard.

- 8.3.5 The above mentioned procedure should be followed regardless of whether the money is to be invested in a fixed deposit or on a call basis.

8.3.6 It is essential to make sure that the investment document received is a genuine document, issued by an approved institution. The investment capital should be paid over only to the institution with which it is to be invested, and not to any agent.

8.3.7 The Chief Financial Officer should seek professional advice whenever there is a degree of uncertainty regarding investment opportunities that he/she evaluates.

8.4 Internal Investments

Depending on the determining legislation, the Municipality may utilize amongst others, the following possibilities of internal investment; the taking up of all or any part of the securities issued by itself, debentures and other securities, provided that applicable contributions are made to the Loan Redemption Fund with regard to the redemption, on the due date of each loan. This also includes any investment in any Loan Fund or any Consolidated Investment Fund established by itself. The principles and practices as set out above will once again apply.

8.5 Standard of care to be exercised when making investments

8.5.1 Investments by a municipality or by an investment manager on behalf of a municipality –

8.5.1.1 must be made with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs;

8.5.1.2 may not be made for speculation but must be a genuine investment; and

8.5.1.3 must in the first instance be made with primary regard being to the probable safety of the investment, in the second instance to the liquidity needs of the municipality and lastly to the probable income derived from the investment.

9. CONTROL OVER INVESTMENTS

9.1 Proper records should be kept of all investments made. At the very least the following facts should be indicated; the institution the funds, the interest rate and the maturity date.

- 9.2 Interest, correctly calculated, should be received timeously, together with any distributable capital.
- 9.3 Investment documents and certificates should be kept in a fire-resistant safe.
- 9.4 The Chief Financial Officer is responsible for ensuring that the invested funds are quite secure and should there be a measure of risk, such risk must be rated realistically.
- 9.5 All investments made must be in the name of the municipality.
- 9.6 The responsibility and risk arising from any investment vests in the municipality.

10. INVESTMENTS DENOMINATED IN FOREIGN CURRENCY PROHIBITED.

A municipality may make an investment only if the investment is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

MISCELLANEOUS

1. REVIEWAL OF POLICY

This policy will be reviewed annually and be amended, if necessary.

2. NAME OF POLICY

This policy will be known as the Cash Management and Investment Policy.
