



DRAFT

**PHOKWANE MUNICIPALITY
INVESTMENT AND CASH
MANAGEMENT POLICY**

2022/2023

2022/2023

1. Introduction

- 1.1 As trustees of public funds, Councillors and officials have an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible.
- 1.2 The Council of Phokwane Municipality has a responsibility to invest public funds carefully and has to report to the community in this regard.

2. Objective

The objective of the investment policy is to gain the highest possible return, without unnecessary risk, during periods when excess funds are not being used. To establish this, it is essential to have an effective cash flow management program.

3. Responsibility/Accountability

- 3.1 According to the Municipal Finance Management Act, 2000, section 60, the Municipal Manager is the accounting officer of the municipality. However, he/she may delegate certain duties/tasks to designated officials, who would be accountable to him. The Municipal Manager is therefore accountable for all transactions entered into by his designates. One of the main functions of the Municipal Manager is that of adequate and effective cash management.

Phokwane Municipality hereby establishes an appropriate and effective cash management and investment policy in terms of section 13 of the MFMA.

The Chief Financial Officer is responsible for establishing systems, procedures, processes and training and awareness programmes to ensure efficient and effective banking and cash management. Sound cash management includes the following:

- Collecting revenue when it is due and banking it promptly;
- 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 programme delivery and the government's normal terms for account payments;
- Avoiding pre-payments 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;
- Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the relevant treasury;
- Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the municipality are collected and banked promptly;

2022/2023

- Accurately forecasting the municipality's cash flow requirements;
 - Timing the inflow and outflow of cash;
 - Recognising the time value of money, i.e. economically, efficiently, and effectively managing cash; and
 - 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 under utilised assets.
- 3.2 The overall responsibility of investments lies on the Municipal Manager. However, the day to day handling of investments is the Chief Financial Officer's or his/hers delegate's responsibility.
- 3.3 In the instance that the investment amount requires that the Municipal Manager submit recommendations to the Council for decision on the best investment to be made, quotations are required from the various financial institutions. In the case of telephonic quotations, the following information is required:
- The name of the person who gave the quotation;
 - The relevant terms and rates; and
 - Other facts such as if interest is payable on a monthly basis or on maturation date.
- 3.4 In the instance that the Municipal Manager authorises the investment, both he/she and the Chief Financial Officer must authorise and affect the electronic funds transfer in respect of the investment amount.
- 3.5 Where payments to financial institutions in respect of investments are to be effected by cheque, the following procedures must apply:
- The Chief Financial Officer's clerk must complete a cheque requisition form and submit it to the Municipal Manager and Chief Financial Officer together with the supporting quotations;
 - The Municipal Manager and Chief Financial Officer must either authorise the requisition or submit it to Council for authorisation depending on the value of the investment;
 - When the Council or the Municipal Manager have authorised the requisition, the Municipal Manager and the Chief Financial Officer or their delegated signatories are required to sign the cheque and submit it to the financial institution.
- 3.6 All investment documents will require two signatories, namely the Municipal Manager and the Chief Financial Officer or their delegated signatories. Specimen signatures must be signed by all financial institutions that the municipality deals

with.

2022/2023

- 3.7 The Chief Financial Officer must ensure that a bank, insurance company or other financial institution which at the end of a financial year holds, or at any time during a financial year held, an investment for the municipality must -
- Within 30 days after the end of that financial year, notify the Auditor-General, in writing, of that investment, including the opening and closing balances of that investment in that financial year; and
 - Promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General.

4. Cash Management

Adequate and effective cash management is one of the main functions of the Chief Financial Officer or his/her Delegate.

4.1 Debtor Collections:

- 4.1.1 All funds due to the Council must be collected timeously and banked on a daily basis without shortages. Should a shortage occur, the cashier or person responsible will be held liable and expected to pay the amount immediately. Cash left in the safe, which poses a security risk, could result in higher insurance premiums to cover the additional risk and does not earn interest. Large sums of money received must be deposited into the bank account on the same day the payment is received.
- 4.1.2 It is important that all monies owing to the Council are correctly reflected in the debtors system. The following control measures are necessary:
- A well managed debtors and banking control system will ensure that funds owed to the Council are received and banked; and
 - It is also important to review debt collection performance by comparing the debtors outstanding in relation to total turnover and then comparing this to previous financial years, in order to determine whether the debt collection process is deteriorating or improving.
- 4.1.3 All monies collected by the Council must be banked in the primary bank account of Phokwane Municipality.
- 4.1.4 Moneys collected by some other agency on behalf of Phokwane Municipality shall be paid over to the Council or deposited in the primary bank account of the Council in a manner prescribed by the Municipal Manager.
- 4.1.5 The receipt of all monies collected by the Council shall be acknowledged forthwith by the issue of a numbered official receipt.

4.2 Payment of Creditors

- 4.2.1 Due to the high bank charges with regard to cheque payments, it is essential to limit the payment of creditors to one payment per creditor per month. Should the facility be available, payments should be done by electronic transfer – subject to strict control measures.
- 4.2.2 When considering the time to pay a creditor, proper consideration must be given to the conditions of credit terms of payment offered:
- In cases where a cash discount is given for early settlement, the discount, if the relevant time scale is taken into account, will in most cases be more than any investment benefit that could be received from temporarily investing the funds.
 - If discounts are offered for early settlement they must be properly considered and utilised.
- 4.2.3 Besides this, the normal conditions of credit terms of payment offered by suppliers, must also be considered and utilised to the full by paying on the due date and not earlier.

4.3 Receipt of Payments

4.3.1 Receipt of money over the counter:

- Every amount of payment received by a cashier or other officer responsible for the receipt of money shall be acknowledged at once by the issue of a numbered official receipt or cash ticket; and
- Every receipt form, which is cancelled, will be reattached, in the correct place, in the receipt book. Where computer generated receipts are used, the original receipt must be filed for audit purposes.

4.3.2 Receipt of Money by Post:

- When money (including postal orders and cheques) is received with the Council's mail, the Registry Clerk shall record all payment remittances as and when received in the cheque register in the presence of a witness. Post-dated cheques received in the Council's mail must also be recorded in the cheque register. The cheque register shall be regarded as the register of remittances received by post;
- The cheque register together with all remittances received must be sent to the cashier in the finance section;
- The cashier on receipt of the cheque register together with the remittances will receipt all remittances in the register;
- The cashier will record all receipts in the cheque register, the receipt date and sign the register and return to registry. The Registry Clerk must ensure that all receipts are recorded in the cheque register;

-
- All documents relating to remittances received in the mail must be filed by the cashier for audit purposes;

2022/2023

4.4 Bank and Cash

- 4.4.1 All bank and cash should be made in terms of the Cash Management Policy.
- 4.4.2 Phokwane Municipality must open and maintain at least one primary bank account in the name of Phokwane Municipality.
- 4.4.3. All money received by Phokwane Municipality must be paid into its bank account or accounts, and this must be done promptly and in accordance with this Chapter (Chapter 3, Part 1 MFMA) and any requirements that may be prescribed.

4.5 Management of Stocks

Cash management must be improved by seeing that adequate stock control is exerted over all goods kept in stock.

5. Investments

5.1 Legal Requirements

5.1.1 The way in which surplus funds and other municipal funds can be invested, is controlled in terms of legislation:

- GAMAP 106;
- MFMA

5.1.2 The Minister with the concurrence of the Minister of Finance by notice R. 308 in the Gazette No. 27431 determines the instruments or investments other than those referred to below in which Phokwane Municipality may invest:

- Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- Securities issued by the National Government;
- Investments with the Public Investment Commissioners as contemplated by the Public Deposits Act, 1984 (Act No.46 of 1984);
- A municipality's own stock or similar type of debt;
- Internal funds of a municipality which have been established in terms of a law to pool money available to the municipality and to employ such money for the granting of loans or advances to departments within a municipality, to finance capital expenditure;
- Bankers, acceptance certificates or negotiable certificates of deposits of banks;

-
- Long term securities offered by insurance companies in order to meet the redemption fund requirements of municipalities; and
- 2022/2023

- Any other instruments or investments in which a municipality was under a law permitted to invest before the commencement of the Local Government

Transition Act, 1996: Provided that such instruments shall not extend beyond the date of maturity or redemption thereof.

5.2 Cash Flow Estimates

5.2.1 Before money can be invested, the Chief Financial Officer or his/her Delegate must determine whether there will be surplus funds available during the term of the investment. He/she must fix the term of the investment.

5.2.2 In order to be able to make investments for any fixed term, it is essential that cash flow estimates be drawn up.

5.2.3 When drawing up cash flow estimates, it is essential that the Chief Financial Officer or his/her Delegate take note of the following:

- Be aware of the expected cash flow and when it is likely to take place, as well as the timing with regard to cash outflow, as far as both the operating and the capital budgets are concerned;
- By utilising the available information and expertise, the Chief Financial Officer or his/her Delegate must assess the timing with regard to when, for how long and the amount to be invested; and
- Daily cash flow estimates must provide for daily call investments and investment withdrawals, whereas long-term investments must be based on projections further into the future.

5.3 From time to time the Council will have surplus funds available which are not needed immediately and which could be invested. Depending on circumstances some funds could be invested for a long term whilst others would only be short-term investments. Surplus funds in the current account may also be invested for short periods (days).

5.4 Generally investments are done every 3 months when prior investments mature and funds are available for re-investment.

6. Investment Ethics

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

6.1 The Municipal Manager and Chief Financial Officer will be responsible for the investment of funds, and he/she has to steer clear of outside interference, regardless of whether such interference comes from individual Councilors, agents or any other institution.

- 6.2 Under no circumstances may he/she be forced or bribed into making an investment. No member of staff may accept any gift unless that gift can be deemed so small that it would not have an influence on his/her work or was not intended to do so, and can merely be seen as goodwill. A certificate in respect of the gift should be furnished to the Council. The gift should not be in lieu of a commission.

The Chief Financial Officer or his/her Delegate must act according to their discretion and must report any serious cases of payment in kind or gifts, to the Council. Excessive gifts and hospitality should however be avoided.

- 6.3 Interest rates offered should never be divulged to another institution.

7. Investment Principles

- 7.1 Exposure to a single institution:

Money, especially large sums of money, must be invested with more than one institution, in order to limit risk exposure of the Council. Not more than 80% of the available funds should be placed with a single institution. If legislation permits, the Council must try to plan the distribution of its investments to cover different types of investments.

- 7.2 Risk and Return

It can be accepted as a general rule that the larger the return, the greater the risk.

- 7.3 Borrowing money for reinvestment

The Council will only borrow money for reinvestment in exceptional cases, as this would mean interest rates would have to be estimated in advance, which can be seen as speculation with public funds.

- 7.4 Registered Financial Institutions

If the Chief Financial Officer or his/her Delegate invests with financial institutions, he/she must ensure that such institutions are registered in terms of the Banks Act 94 of 1990 and that they are approved financial institutions – as approved by the Reserve Bank, from time to time.

- 7.5 Growth-related Investments

When making investments, the Chief Financial Officer or his/her Delegate must guarantee that at least the capital amount invested is safe, and must exercise due diligence in this regard.

2022/2023

8. Investment of Funds by the municipality:

- 8.1 The investment register must be examined on a daily basis to identify investments falling due within the two weeks following and start the investment process such as looking at alternatives, cash flow requirements and timeous reporting to the Municipal Manager and Council.
- 8.2 Prior to the investment of monies, the Municipal Manager and Chief Financial Officer (CFO) must determine whether there will be surplus funds available, as well as to fix the term for which such money should be invested.
- 8.3 In order to be able to make investments for any fixed term, it is essential that cash flow forecasts be drawn up.
- 8.4 In the instance surplus funds are available for investment, the Chief Financial Officer should contact the various banking institutions for interest rate quotations and prepare a manual or computerised of the quotations indicating the amounts to be invested, the rates quoted and the maturity values (maximum return).
- 8.5 Based on the results of 8.4 above, and the value of the prospective investment, the Municipal Manager or his authorised designate should either make an investment recommendation to the Council or, if the value is within a prescribed limit set by the Council, authorise the investment himself. The spreadsheet must be filed together with the investment documentation.

9. General Investment Practice

9.1 General

After determining whether there is cash available for investment and fixing the maximum term of investment, the Chief Financial Officer or his/her Delegate must consider the way in which the investment is to be made. As rates can vary according to money market perceptions with regard to the terms of investment, quotations must be requested telephonically, within term limitations, and these must be set out on a schedule.

9.2 Commission Certificate

The Auditor General requires the financial institution, where the investment is made, to issue a certificate for each investment made. This certificate must state 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.

9.3 Reports

- 9.3.1 The Council must be given a quarterly report on all investments.

9.3.2 A municipality must within 30 days after an investment with currency of 12 months or longer has been made, publish in a local newspaper in 2022/2023 circulation within its area of jurisdiction, full details of any investments so made.

9.4 Cash in the Bank

Where money is kept in current accounts, it would be possible to bargain for more beneficial rates with regards to deposits, for instance call deposits. Fixed term deposits can increase these rates.

The most important factor is that the cash in the current account must be kept to an absolute minimum.

9.5 Creditworthiness

When investments are placed with smaller registered institutions, the Chief Financial Officer or his/her Delegate has to see to it that the municipality is not exposed to too much risk. He/she has to ensure that the creditworthiness and performance of the institution are to his/her satisfaction, before investing money in the institution. The Chief Financial Officer or his/her Delegate is entitled to information from which the creditworthiness of financial institutions can be determined. This must be obtained and analysed annually.

10. Call Deposits and Fixed Deposits

10.1 Quotations should be obtained from a minimum of three financial institutions, bearing in mind the limits of the term of 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 which were approached, should also be asked to fix a rate for that long a term.

10.2 It is acceptable to ask for quotations telephonically, as rates can generally change on a regular basis and time is a determining factor when investments are made. The person responsible for requesting quotations from institutions must record the following:

10.2.1 Name of institution;

10.2.2 Name of person quoting rates;

10.2.3 Period of the investment;

10.2.4 Relevant terms; and

10.2.5 Other facts i.e. are interest payable monthly or on maturation date.

Once a quote has been accepted written confirmation of the details must be obtained from the financial institution.

10.3 Once the required number of quotes has been obtained, a decision must be taken regarding the best terms offered and the institution with which funds are going to be invested. The best offer must under normal circumstances be accepted, with thorough consideration of investment principles. No attempt must 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 must be requested to give the best rate in their quotation. They must also be informed that, once the quotation has been given, no further bargaining or discussions will be entered into in that regard.

10.4 The above procedure must be followed for all investments.

10.5 The Chief Financial Officer or his/her Delegate must make sure that the investment document received is a genuine document, issued by an approved institution, and the investment capital must be paid over only to the institution with which it is to be invested and not to an agent.

11. Other External Deposits

Other investment possibilities, which are subject to the applicable legislation and are available to the Council, include 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. With regard to such investments, the principles and practices set out above must apply.

12. Control over Investments

12.1 An investment register should be kept of all investments made. The following facts must be indicated:

- 13.1.1 Name of institution;
- 13.1.2 Capital invested;
- 13.1.3 Date invested;
- 13.1.4 Interest rate; and
- 13.1.5 Maturation date.

The investment register and accounting records must be reconciled on an annual basis.

12.2 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 as what to do with the funds bearing in mind the cash flow requirements.

12.3 Interest, correctly calculated, must be received timeously, together with any distributable capital. The Chief Financial Officer or his/her Delegate must check that the interest is calculated correctly.

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

- 12.4.1 Fixed deposit letter or investment certificate;
- 12.4.2 Receipt for capital invested;
- 12.4.3 Copy of electronic transfer or cheque requisition;

12.4.4 Excel schedule of comparative investment figures;

2022/2023

12.4.5 Commission certificate indicating no commission was paid on the investment; and

12.4.6 Interest rate quoted.

12.5 The Chief Financial Officer or his/her Delegate is responsible for ensuring that the invested funds are secure and, should there be a measure of risk, that such risk be rated realistically.