

# **THABA CHWEU LOCAL MUNICIPALITY**



## **DRAFT CASH MANAGEMENT AND INVESTMENT POLICY**

# THABA CHWEU LOCAL MUNICIPALITY

## CASH MANAGEMENT & INVESTMENT POLICY

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## 1. INTRODUCTION

**Commented [TM1]:** Included the introduction which was not previously there on the adopted policy

- (1) As trustee of public funds, *Thaba Chweu Local Municipality Council* has an obligation to ensure that all investments are made by the Municipality in the most efficient and effective manner.
- (2) *Money invested must be for the benefit of the whole of the community and must be governed by the principle objective to maximise returns from authorised investments, consistent with the secondary objective of minimising risk.*

## 2. LEGISLATIVE CONTEXT

**Commented [TM2]:** Previously referenced as legal requirements on the adopted policy.

Additional reference to MFMA and MSA has been added on the legislative context

- (1) *This policy is established in terms of section 13(1) and section 13(2) of the MFMA which requires that the Municipality establish an appropriate and effective Cash Management and Investment Policy within which the Municipality must:*
  - (a) *conduct its cash management and investments; and*
  - (b) *invest money not immediately required in accordance with any framework which may be prescribed by law.*
- (2) *In addition, the Regulations set out the framework within which all municipalities shall conduct their cash management and investment.*
- (3) *This policy is consistent with the MFMA, the aforementioned gazetted framework and section 60(2) of the Systems Act.*
- (4) *The Municipality shall at all times manage its banking accounts and investments, as well as implement this policy in compliance with the provisions of and the prescriptions made by the Minister of Finance in terms of the MFMA.*

## 3. PURPOSE OF THIS POLICY

**Commented [TM3]:** Included the purpose of the policy which was not there previously

*The purpose of this policy is to secure the sound and sustainable management of the Municipality's surplus cash and investments.*

#### 4. SCOPE OF THIS POLICY

**Commented [TM4]:** Reviewed and added additional notes on the scope of the policy heading.

- (1) *This policy prescribes the manner in which the Municipality must conduct its cash management and investments. This policy further prescribes the obligations and the accountability of the Municipality as a trustee of public funds, and that cash resources are managed as effectively as possible by ensuring that such funds are invested with great care.*
- (2) *This policy aims through effective cash flow management, having regard to legislative provisions, at gaining the highest possible return without undue risk to the investment during those periods when funds are not required.*
- (3) *The policy governs the investment of money not immediately required by the Municipality for the defrayment of expenditure.*
- (4) *This policy applies to all new and existing investments made by:*
  - (a) *the Municipality;*
  - (b) *all investment managers acting on behalf of the Municipality in making or managing investments.*

#### 5. OBJECTIVES OF THIS POLICY

**Commented [TM5]:** Expanded and added additional points on the objectives of the policy. Furthermore, diversification of investments is a separate clause/point on the policy

- (1) *To ensure compliance with the relevant legal and statutory requirements relating to cash management and investments.*
- (2) *To ensure that investment of surplus funds of the Municipality forms part of the financial system of the Municipality.*
- (3) *To create consistency in that the same procedure is followed in respect of each investment so as to conform to the requirements of transparency, equitability and fairness. In each case the preservation and safety of investments is a primary aim.*
- (4) *To promote and ensure the need for investment diversification of the Municipality's investment portfolio across acceptable investees permitted types of investments and investment maturities.*
- (5) *To ensure the liquidity needs of the Municipality are duly discounted and provided for.*
- (6) *To ensure timeous reporting of the investment portfolio as required by the MFMA and in accordance with the Generally Recognised Accounting Practice (GRAP) and as required by the National Treasury.*
- (7) *To provide measures for ensuring implementation of this policy and internal control over, investment made as well as procedures for reporting on and monitoring of all investments made procedure for benchmarking and performance evaluation.*
- (8) *To provide the assignment of roles and functions, any delegation of decision-making powers including the conditions for the use of investment managers,*

*and their liability in the event of non-compliance with the provisions of this policy.*

- (9) *To provide the procedures for the annual review of this policy.*

## **6. PERMITTED INVESTMENT TYPES**

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- (1) *The Municipality shall only invest funds in any of the following investment types as set out and referred to in regulation 6 of the Regulations, being:*
- (a) *securities issued by the National Government;*
  - (b) *listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency;*
  - (c) *deposits with banks registered in terms of the Banks Act, Act 94 of 1990;*
  - (d) *deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, Act 45 of 1984;*
  - (e) *deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, Act 46 of 1984;*
  - (f) *banker's acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, 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, Act 94 of 1990;*
  - (i) *municipal bonds issued by another municipality; and*
  - (j) *any other investment type as the Minister of Finance may identify by regulation in terms of section 168 of the MFMA, in consultation with the Financial Services Board.*

## **7. PROHIBITED INVESTMENTS**

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- (1) *The Municipality shall not be permitted to make the following investments:*
- (a) *investments in listed or unlisted shares or unit trusts;*  
(The amount invested fluctuates with changes in the value of the shares in the portfolio. Although the returns are higher than most other investment options, it may be difficult to realise the investment at the time funds are required and the risk of capital loss is considerable.)
  - (b) *investments in stand-alone or derivative instruments;*

**Commented [TM6]:** Included Prohibited Investments paragraph and definitions thereof

*(The safety of principal is not assured. A high degree of expertise is required to utilise derivative instruments effectively, and there is a risk of losing the principal amount.)*

**(c) investments denominated in, or linked to, foreign currencies;**

*(however, it is possible to make an investment 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 in terms of clause 7 of the Municipal Investment Regulation.)*

**(d) investments in market linked endowment policies.**

*(The safety of principal is not assured as the principal will fluctuate with changes in the value of the investments underlying the policy. The funds are tied up for the duration of the investment and are illiquid.)*

- (2)** *The Municipality shall not borrow funds for the purposes of investing, as stated in terms of the Regulation 12 (3).*

## **8. STANDARD OF CARE**

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- (1)** *The Municipality must take all reasonable and prudent steps consistent with, and according to the provisions of this policy to ensure that it places its investments with credit-worthy institutions. The international rating given should be used to evaluate the creditworthiness of financial institutions.*
- (2)** *The investment shall be made with the judgement and care, under the prevailing circumstances, which a person of prudence, discretion and intelligence would exercise in the management of his/her own affairs, not for speculation, but for investment, and with primary regard to:*
- (a)** *the safety of its capital;*
  - (b)** *the liquidity needs of the Municipality; and*
  - (c)** *the probable income or return derived from the investment.*

## **9. DELEGATION OF INVESTMENT PORTFOLIO MANAGEMENT**

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- (1)** *The authority to make investments and fulfil all functions related herein is in terms of section 59 of the Systems Act delegated by the Council to the Chief Financial Officer who will exercise his/her power, function and duty to make investments on behalf of the Municipality within a policy framework determined by the Minister of Finance and in accordance with the provisions contained within this policy. This power may not be sub-delegated.*

- (2) *The Chief Financial Officer shall make invitation and selection of competitive bids or offers from approved institutions to make short-term investments as and when necessary.*
- (3) *The Chief Financial Officer shall invite bids or offers from approved institutions, in accordance with the applicable provisions of the Supply Chain Management Policy of the Municipality, and make investments in consultation with the Municipal Manager in respect of the long-term investment of funds.*

#### **10. REPORTING AND MONITORING**

**Commented [TM7]:** Have expanded the reporting and monitoring provisions and requirements

- (1) *The Accounting Officer, assisted by the Chief Financial Officer, shall in terms of section 71 of MFMA submit, on a monthly basis, a report describing in accordance with Generally Recognised Accounting Practice (GRAP) the investment portfolio of the Municipality as at the end of the month and such report shall contain at least the following particulars:*
  - (a) *the market value of each investment as at the beginning of the reporting period;*
  - (b) *any changes to the investment portfolio during the reporting period;*
  - (c) *the market value of each investment as at the end of the reporting period;*
  - (d) *applicable interest rates; and*
  - (e) *fully accrued interest or yield for the reporting period.*
- (2) *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 investment must form part of the monthly financial report by the Accounting Officer to the Mayor and the provincial treasury.*
- (3) *There shall at all times be regular reporting mechanisms in place in order to assess the performance of the investment portfolio and to ensure that the investments comply with policy objectives, guidelines, applicable laws and regulations.*
- (4) *The following investment reports shall be prepared:*
  - (a) *For the Chief Financial Officer:*
    - (i) *a daily summary of current investments for all Investees;*



- (ii) *a detailed schedule of investment capital and interest maturing on the current day;*
- (iii) *a daily summarised schedule of future maturities for all investments;*
- (iv) *a monthly reconciliation of all interest accrued and interest received;*

(b) *For the Mayor:*

*A monthly investment portfolio report (in accordance with the Generally Recognised Accounting Practice) to be submitted to the Mayor by the Accounting Officer, within 10 (ten) working days of the end of each month, as part of the section 71 report required in terms of the MFMA, detailing:*

- (i) *the market value of each investment as at the beginning of the reporting period;*
- (ii) *any changes in the investment portfolio during the reporting period;*
- (iii) *the market value of each investment as at the end of the reporting period; and*
- (iv) *fully accrued interest and yield for the reporting period.*

(c) *For Council:*

- (i) *the Accounting Officer must table a quarterly report to Council within 30 (thirty) days after the end of each quarter on the cash withdrawals from the Municipality's bank account for investment purposes.*

(d) *For the Auditor-General:*

- (i) *all investees shall, within 30 (thirty) days after the end of the financial year, notify the Auditor-General, in writing, of all investments held by them for and on behalf of the Municipality during that year, 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;*
- (ii) *within 90 (ninety) days after opening up any new bank account, the Municipality shall notify the Auditor-General and the provincial treasury of the name, type and number of any new bank account opened by the Municipality; and annually before the start of a financial year, the name of each bank account where the Municipality holds a bank account, and the type and number of the account.*

- (iii) *all banks, where the Municipality, at the end of a financial year holds a bank account or held a bank account at any time during a financial year, must –*
  - a) *within 30 days after the end of that financial year notify the Auditor-General in writing of such bank account including –*
    - (i) *the type and number of the account; and*
    - (ii) *the opening and closing balances of that bank account in that financial year; and*
  - b) *promptly disclose information regarding the account when so requested by the National Treasury or the Auditor-General.*

#### **11. DIVERSIFICATION**

**Commented [TM8]:** I am proposing a threshold for diversification

*No more than 50% of the total investment portfolio may be invested with a single institution, except with the prior authorisation of Council.*

#### **12. COMPETITIVE SELECTION PROCESS AND INVITATION FOR QUOTATION**

- (1) *No investments may be made without obtaining quotations from at least 3 (three) institutions or investees permitted in terms of this policy, for the terms for which the investment is to be placed.*
- (2) *The selection of an investee for any investment shall be a competitive process in terms of the Supply Chain Management Policy of the Municipality.*
- (3) *In the event of one or more of the investees offering a more beneficial rate for an alternative term, the other investees who previously quoted or invited to quote shall be approached for their rates on the alternative term.*
- (4) *Written confirmation of the terms of the investments shall be prepared and signed with the investee in all cases.*
- (5) *Save where other considerations or factors as provided in this policy apply the best rate offered shall secure the investment.*

#### **13. CONTROL OVER INVESTMENT(S)**

- (1) *Proper records should be kept of all investment made. At the very least the following facts should be indicated for each investment: the institution, the funds, the interest rate and the maturity date.*
- (2) *Interest correctly calculated should be received timeously together with any distributable capital.*
- (3) *Investment documents and certificates shall be kept in a locked and fire-resistant safe.*
- (4) *The Chief Financial Officer is responsible for ensuring that the invested funds are reasonably secure and should there be a measure of risk, such risk must be rated realistically.*
- (5) *All investment made must be in the name of the Municipality and recorded as such by the Investee.*
- (6) *The responsibility and the risk arising from any investment vests in the Municipality.*

#### **14. CREDITWORTHINESS**

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- (1) The Municipality shall only invest with Investees having, as applicable, an investment grade rating higher than **B+** or better for short term from a nationally or internally recognised credit rating agency.
- (2) The Municipality shall ensure that it places its investments only with credit-worthy Investees. The credit worthiness of every Investee shall be monitored throughout the year on an ongoing basis.

#### **15. ELECTRONIC FUNDS TRANSFER**

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- (1) *Investments shall be made by electronic transfer.*
- (2) *Strict segregation of duties shall be maintained in respect of the creator of the payment and the payment authoriser.*
- (3) *Investment payments shall be authorised by the Chief Financial Officer.*

## 16. EFFECTIVE CASH MANAGEMENT

Commented [TM9]: Included provisions around cash management

- (1) *In order to ensure adequate and efficient cash management of the Municipality, the Chief Financial Officer must establish and implement at all times a cash management plan and reports which entails at least the following:*
- (a) *daily cash flow reporting shall be prepared as follows:*
    - (i) *a summary of the preceding day, and month date, closing bank account and investment balances, cash receipts, payments and inter-bank transfers;*
    - (ii) *a detailed schedule of investment capital and interest maturing on the current day;*
    - (iii) *a summarised schedule of daily investment maturities for all existing investments;*
    - (iv) *a summary of daily cash receipts and payments, actual against forecast for the month to date; and*
    - (v) *a daily projection of cash receipts and payments through to the end of the current month;*
  - (b) *monthly reporting showing:*
    - (i) *comparisons of actual cash flow with forecast, current month and year to date;*
    - (ii) *an explanation of any variances in sub-paragraph (i) above;*
    - (iii) *updating the estimates on a monthly basis and in reporting provides comments or explanations regarding any significant cash flow deviation in any calendar month;*
    - (iv) *a summarised monthly projected cash flow over the next 12 (twelve) months;*
    - (v) *an analysis of actual year to date cash receipts and payments and projected cash flows for the remaining months of the current financial year to be submitted to National Treasury; and*
    - (vi) *the cash backing of statutory funds and reserves balances at the end of the month;*
  - (c) *every quarter preparing a revised detailed cash flow projection for the next 12 (twelve) months;*
  - (d) *regular reports indicating, 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, if applicable, either long-term or short-term debt must be incurred; and*
  - (e) *preparing annually*

- (i) *the annual estimates for the budget year of the municipality's cash flows per revenue sources divided into calendar months;*
  - (ii) *the annual cash flow budget for the new financial year.*
- (2) *The Chief Financial Officer shall ensure regular and effective cash flow monitoring and forecasting which is essential for determining the timing and size of cash surpluses and deficits affecting investment decisions.*
- (3) *The balance on the Municipality's current account shall be maintained at the minimum required level taking into account the day to day cash and expenditure requirements of the Municipality. Surplus cash shall be immediately invested in order to maximise interest earnings.*

## **17. INVESTMENTS ETHICS AND PRINCIPLES**

**Commented [TM10]:** Amended and added additional comments thereon

- (1) *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, as the case may be, and in compliance with any policy directives formulated by Council and the prescriptions made by the Minister of Finance.*
- (2) *Under no circumstances may any staff member be subjected to coercive measures of any description.*
- (3) *No member of staff may accept any gift other than something that is so small (monetary value not exceeding R350.00 (Three hundred and fifty rand)) that it cannot possibly be seen as anything but a sign of goodwill, regardless of whether such gift influences such staff member in his/her work or is intended to do so. Excessive gifts and hospitality must be refused and avoided.*
- (4) *The Chief Financial Officer must record and report all cases to the Accounting Officer where there is a contravention of this policy.*
- (5) *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.*
- (6) *No employee or councillor of the Municipality or their family may under any circumstances whatsoever on his/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. This shall be confirmed annually by all Investees to the Auditor-General.*
- (7) *No fee, commission or other reward may be paid or given, directly or indirectly, to a councillor or official of the Municipality, or to a spouse or close family member of such councillor or official, in respect of any investment*

*made by the Municipality. This shall be confirmed annually by all Investees to the Auditor-General.*

- (8) All investments must be made without internal or external interference whether such interference comes from individual officials, councillors, agents, Investees or any other external body.*
- (9) The Municipality shall review its investments regularly and liquidate any investment that no longer has the minimum acceptable rating as specified.*
- (10) The Municipality must take all reasonable and prudent steps, consistent with the standard of care provided for in this policy to diversify its investment portfolio across institutions, types of investment and investment maturities. In this case it should be noted that a group of financial institutions would be treated as individual institutions.*
- (11) Investments made by or on behalf of the Municipality must:*
  - (a) be made while maintaining a strict code of ethics and standards;*
  - (b) be a genuine investment and not an investment made for speculation.*

## **18. CONFIDENTIALITY**

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- (1) Interest or investment rates shall not be divulged or disclosed to another institution or Investee.*
- (2) The Municipality's cash position and its future projected cash flows shall not be discussed with or disclosed to any Investee.*

## **19. GENERAL INVESTMENT PRACTICE**

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- (1) General principles:*
  - (a) After determining whether cash is available for investment and fixing the maximum term of investment, the Chief Financial Officer shall 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 re-investment is made with the same institution;*

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

*(2) Payment of commission:*

- (a) The financial institution where a fixed deposit is made must issue a certificate with regard to each investment at the time 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 any other such person, or to any person nominated by such agent or such other person, except where the Municipality has decided, in terms of duly authorising legislation, to appoint an agent, consultant or such other person, and the fee commission has been decided and approved by the Mayor before any investment is made with such a financial institution;*
- (b) In the case of long-term securities at insurance companies, any payment of commission to any agent, consultant or any other person, must be clearly stated on the application form and approved by the Mayor in terms of duly authorising legislation and shall not exceed industry norms, before any investment is made;*
- (c) 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 certificate disclosing full details of the payment.*

*(3) "Call Deposits" and "Fixed Deposits" shorter than 12 (twelve) months:*

- (a) Quotations shall be solicited from a minimum of 3 (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 the term initially requested by the Municipality, the other institutions that were approached shall also be asked for quote a rate for the same term;*
- (b) 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 an investment is made;*
- (c) 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 shall be given before the investment is made;*

- (d) Once the required number of quotations has been obtained, a decision shall 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. The institution shall be informed that, once the quotation has been given, no further bargaining or discussions would be entered into in that regard;*
- (e) 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;*
- (f) The Municipality shall ensure that the investment document received is the 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;*
- (g) The Chief Financial Officer should seek professional advice whenever there is a degree of uncertainty regarding investment opportunities that are required to be evaluated.*

## **20. USE OF INVESTMENT MANAGERS**

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- (1) The Municipality may employ an Investment Manager to:
  - (a) advise it on its investments; and/or*
  - (b) manage specific investments on its behalf.**
- (2) The appointment of an Investment Manager shall be in accordance with the Municipality's Supply Chain Management Policy. No employee, councillor or official of the Municipality or any family member of any of the foregoing may be appointed as Investment Manager.*
- (3) All investments made by an investment manager on behalf of the Municipality shall be in accordance with this policy and the Regulations.*
- (4) Where any investment fee, commission or any other amount is paid by the Investee to the Investment Manager in respect of the Municipality's investments, both the Investee and the investment manager shall declare such payment to Council by way of a certificate disclosing the full details of the payment. Such amount shall not exceed industry norms.*



- (5) *Investment Managers found guilty of non-compliance with this policy, as well as the Regulations, shall be liable for any loss or penalty suffered by the Municipality.*

## **21. INTEREST ON INVESTMENTS**

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- (i) The interest that accrued on all the municipality's investments shall, in compliance with the requirements of generally recognised accounting practice, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and shall thereafter be annually appropriated, at the end of each financial year, to the funds or accounts in respect of which such investment was made.
- (ii) 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.
- (iii) If the accrual of interest to the external finance fund, unutilised capital receipts and trust funds results in a surplus standing to the account of any of such funds, that is, an amount surplus to the resources required in respect of such funds or accounts, such surplus amount shall be credited to the appropriation account and re-appropriated to the asset financing fund.

## **22. ANNUAL REVIEW OF THIS POLICY**

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- (1) This policy will be reviewed annually or earlier if so required by legislation.
- (2) Any changes to this policy must be adopted by Council and be consistent with the MFMA and the Regulations.