



Harry Gwala District Municipality

**HGDM-P004
BANKING AND
INVESTMENT
POLICY
2016-17
(DRAFT)**



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1. PURPOSE OF THE POLICY

The purpose of this policy is to ensure that investment of surplus funds forms part of the financial system of the Municipality and to ensure that prudent investment procedures are consistently applied.

2. LEGAL COMPLIANCE

2.1 The municipality shall at all times manage its banking arrangements and investments and conduct its cash management policy in compliance with the provisions of and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003 and in so doing an appropriate and effective cash management and investment policy.

3. DEFINITIONS/ABBREVIATIONS

MFMA - the Municipal Finance Management Act, (No.56 of 2003)

MBRR - means Municipal Budgeting & Reporting Regulations (Government Gazette 32141 dated 17 April 2009)

GRAP - means Generally Recognised Accounting Practice

DORA - Division of Revenue of Act.

CFO - means Chief Financial Officer

IDP - means Integrated Development Plan

SDBIP - means Service Delivery and Budget Implementation Plan

HOD - means Head of Department

CPIX - means Consumer Price Index excluding interest rates on mortgage bonds

CHIEF FINANCIAL OFFICER - means

COUNCILLOR - means a member of a municipal council

INVESTMENTS - means the placing on deposit of funds of a municipality with a financial institution or the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds.

MUNICIPAL ANAGER - means a person appointed in terms of section 82(1)a of the Municipal Structures Act

PUBLIC FUNDS - means funds collected by the National Government from taxes and other forms.



4. OBJECTIVE OF BANKING AND INVESTMENT POLICY

- 4.1 The council of the municipality is the trustee of the public revenues, which it collects, and it therefore has an obligation to the community to ensure that the municipality's cash resources are managed effectively and efficiently.
- 4.2 The council therefore has a responsibility to invest these public revenues knowledgeably and judiciously, and must be able to account fully to the community in regard to such investments.
- 4.3 The investment policy of the municipality is therefore aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes.
- 4.4 The effectiveness of the investment policy is dependent on the accuracy of the municipality's cash management programme, which must identify the amounts surplus to the municipality's needs, as well as the time when and period for which such revenues are surplus.

5. EFFECTIVE CASH MANAGEMENT

- 5.1 Adequate and efficient cash management is one of the main functions of the Municipal Manager. It is therefore imperative that a cash management plan be established and adhered to at all time. The Municipal Manager may delegate the management of cash and investment to the Chief Financial Officer.

5.2 Cash Collection

- 5.2.1 All monies due to the municipality must be collected as soon as possible, either on or immediately after due date, 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 larger amounts to make sure that these are banked on the same day they are received.
- 5.2.2 The respective responsibilities of the chief financial officer and other heads of departments in this regard is defined in a code of financial practice approved by the municipal manager and the chief financial officer, and this code of practice is attached as Annexure II to this policy.



5.2.3 The unqualified support of and commitment to the municipality's credit control policy, both by the council and the municipality's officials, is an integral part of proper cash collections, and by approving the present policy the council pledges itself to such support and commitment.

5.3 Payments to Creditors

5.3.1 To reduce bank costs with regard to payments, it is essential to limit the payment of creditors to one payment per creditor per month if possible.

5.3.2 The chief financial officer shall ensure that all tenders and quotations invited by and contracts entered into by the municipality stipulate payment terms favourable to the municipality, that is, payment to fall due not sooner than the conclusion of the month following the month in which a particular service is rendered to or goods are received by the municipality. This rule shall be departed from only where there are financial incentives for the municipality to effect earlier payment, and any such departure shall be approved by the chief financial officer before any payment is made.

5.3.3 Notwithstanding 4.3.2, in the case of small, micro and medium enterprises, where such a policy may cause financial hardship to the contractor, then the following shall apply:

5.3.3.1 if the invoice for the goods or services is received by the municipality before the fifteenth day of the month in which the goods are delivered or the service rendered, the chief financial officer may in his discretion authorise payment thereof to be effected at the end of such month;

5.3.3.2 if the invoice for the goods or services is received by the municipality before the last day of the month in which the goods are delivered or the services rendered, the chief financial officer may in his discretion authorise payment thereof to be effected on the fifteenth day of the following month;

5.3.3.3 if the amount to be paid is less than R 5000-00 (Five Thousand Rand) and the invoice for the goods or service in question is received by the municipality by no later than 12 noon of the Thursday of the week in which the goods are delivered or the services rendered, the chief financial officer may in his discretion authorise payment thereof to be effected on the Friday of that week.

5.3.3.4 Notwithstanding the foregoing policy directives, the chief financial officer shall make full use of any extended terms of payment offered by suppliers



and not settle any accounts earlier than such extended due date, except if the chief financial officer determines that there are financial incentives for the municipality to do so.

- 5.3.4 The chief financial officer shall not ordinarily process payments for accounts received more than once in each calendar month, such processing to take place on or about the end of the month concerned, except when payment is to be effected in circumstances contemplated in 4.3.3.2, 4.3.3.3 or 4.3.3.4. Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques.
- 5.3.5 Special payments to creditors (that is to say, payments made in circumstances not contemplated elsewhere in this part) shall only be made with the express approval of the municipal manager, who shall be satisfied that there are compelling reasons for making such payments.

5.4 Cash Flow Estimates

- 5.4.1 Before any money can be invested, the Municipal Manager has to determine whether there will be surplus funds available. The term of investment should also be investigated to ensure that surplus cash would be invested for the period it is not required.
- 5.4.2 Prior to making investments other than for short-term investments, it is essential that cash-flow estimates be compiled monthly for at least the forthcoming twelve months.
- 5.4.3 When compiling cash-flow estimates on a monthly basis, it is essential that the Municipal Manager is aware of all expected cash-flow and when it is to take place. The timing with regard to cash outflows should be determined as far as possible by reference to both the operational and the capital budgets.

5.5 Cash Management Programme

- 5.5.1 The chief financial officer shall prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a weekly basis. The estimate shall indicate when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments will have to be liquidated, and when – if applicable – either long-term or short-term debt must be incurred. Heads of departments shall in this regard furnish the chief financial officer with all such information as is required, timeously and in the format indicated.



5.5.2 The chief financial officer shall report to the executive committee or the executive mayor, as the case may be, on a monthly basis and to every ordinary council meeting the cash flow estimate or revised estimate for such month or reporting period respectively, together with the actual cash flows for the month or period concerned, and cumulatively to date, as well as the estimates or revised estimates of the cash flows for the remaining months of the financial year, aggregated into quarters where appropriate. The cash flow estimates shall be divided into calendar months, and in reporting the chief financial officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report. Such report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned.

5.7. Unresolved Reconciling Items:

- 5.7.1 Unidentified bank deposits, which have not been resolved after three months, are recorded as current year income.
- 5.7.2 Re-credited cheques, which have not been resolved after three months, are recorded as current year income.

6. INVESTMENT ETHICS

6.1 The chief financial officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in consultation with accounting officer, the executive mayor or chairperson of the executive committee, as the case may be, and in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance.

6.2 In making such investments the chief financial officer, shall at all times have only the best considerations of the municipality in mind, and, except for the outcome of the consultation process with the accounting officer, executive mayor or chairperson of the executive committee, as the case may be, shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties.

6.3 Neither the chief financial officer nor accounting officer, the executive mayor or chairperson of the executive committee, as the case may be, may accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than a token of goodwill by the donor, from any investment agent or institution or any party with which the municipality has made or may potentially make an investment.



7. INVESTMENT PRINCIPLES

7.1 Limiting Exposure

Where large sums of money are available for investment the chief financial officer shall ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the municipality. The chief financial officer shall further ensure that, as far as it is practically and legally possible, the municipality's investments are so distributed that more than one investment category is covered (that is, call, money market and fixed deposits).

7.2 Risk and Return

Although the objective of the chief financial officer in making investments on behalf of the municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution and the investment instrument concerned. No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions.

Deposits shall be made only with registered banks (see 6.4 below).

7.3 Payment of Commission

Every financial institution with which the municipality makes an investment must issue a certificate to the chief financial officer in regard to such investment, stating that such financial institution has not paid and will not pay any commission and has not and will not grant any other benefit to any party for obtaining such investment.

7.4 Call Deposits and Fixed Deposits

7.4.1 Before making any call or fixed deposits, the chief financial officer, shall obtain quotations from at least three institutions which are registered as banks.

7.4.2 Given the volatility of the money market, the chief financial officer, shall, whenever necessary, request quotations telephonically, and shall record in an appropriate register the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be relevant. The chief financial officer shall also a written confirmation regarding the telephonic quotation. (For example, whether the interest is payable monthly or only on maturity, and so forth).



7.4.3 Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, e-mail or any other expedient means).

7.4.4 Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of part 7 below) shall be paid over only to such institution itself and not to any agent or third party. Once the investment has been made, the chief financial officer shall ensure that the municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the municipality.

7.5 Restriction on Tenure of Investments

No investment with a tenure exceeding twelve months shall be made without the prior approval of accounting officer, the executive mayor or the executive committee, as the case may be.

7.6 Credit Worthiness

Council must obtain independent credit ratings to evaluate the credit worthiness of financial institutions referred to in paragraphs 6.1.1 and 6.1.7 at least annually. Investments may only be placed with institutions that have the following rating criteria:

A1 (short-term): R20 000 000 per financial institution

A2 (short-term): R 1 000 000 per financial institution

7.7 Credit Worthiness Limited Exposure to a Single Institution

Council may not invest more than 35% of its investments at any time with one banking institution in order to limit the risk exposure of the Municipality.

Monies retained in a current banking account or placed on call for less than 33 days with the financial institution where the current banking account is held, shall not be regarded as an investment for the purpose of this paragraph.

7.8 Investment Committee

The Investment Committee consists of the following officials who will be responsible for final decision making relating to the investment of funds:

- (a) Municipal Manager - Chairperson
- (b) Director: Finance & Corporate Services - Deputy Chairperson
- (c) Manager: Finance
- (d) Senior Accountant: Income & Expenditure
- (e) Senior Accountant: Financial Accounting, Asset and Risk Management



8. CONTROL OVER INVESTMENTS

- 8.1 The chief financial officer shall ensure that proper records are kept of all investments made by the municipality. Such records shall indicate the date on which the investment is made, the institution with which the monies are invested, the amount of the investment, the interest rate applicable, and the maturity date. If the investment is liquidated at a date other than the maturity date, such date shall be indicated.
- 8.2 The chief financial officer shall ensure that all interest and capital properly due to the municipality are timorously received, and shall take appropriate steps or cause such appropriate steps to be taken if interest or capital is not fully or timorously received.
- 8.3 The chief financial officer shall ensure that all investment documents and certificates are properly secured in a fireproof safe with segregated control over the access to such safe, or are otherwise lodged for safekeeping with the municipality's bankers or attorneys.

9. OTHER EXTERNAL INVESTMENTS

- 9.1 From time to time it may be in the best interests of the municipality to make longer-term investments in secure stock issued by the national government, Eskom or any other reputable parasternal or institution, or by another reputable Municipality. In such cases the chief financial officer, must be guided by the best rates of interest pertaining to the specific type of investment, which the Municipality requires, and to the best and most secure instrument available at the time.
- 9.2 No investment with a tenure exceeding twelve months shall be made without the prior approval of the executive mayor or executive committee, as the case may be, and without guidance having been sought from the municipality's bankers or other credible investment advisers on the security and financial implications of the investment concerned.



10. BANKING ARRANGEMENTS

- 10.1 The municipal manager is responsible for the management of the municipality's bank accounts, but may delegate this function to the chief financial officer. The municipal manager and chief financial officer and other finance staff as delegated are authorised at all times to authorise Electronic Funds Transfers (EFT's) and any other documentation associated with the management of such accounts. The municipal manager is authorised to appoint, in consultation with the chief financial officer, two or more additional signatories in respect of such accounts, and to amend such appointments from time to time. The list of current signatories shall be reported to the executive committee or the executive mayor, as the case may be, on a monthly basis, as part of the report dealing with the municipality's investments.
- 10.2 All EFT's and such other documentation shall be effected by two authorized signatories, one of whom shall be the chief financial officer or one of the additional signatories referred to in 9.1, and the other of whom shall be the municipal manager; provided that, during periods of absence of the municipal manager, the municipal manager may authorize another such additional signatory to sign/authorise, in his stead, such EFT's and documents.
- 10.3 In compliance with the requirements of good governance, the municipal manager shall open a bank account for ordinary operating purposes, and shall further maintain a separate account for each of the following: the administration of the external finance fund and of the asset financing reserve (if these accounts are legally permissible). One or more separate accounts shall also be maintained for the following: capital receipts in the form of grants, donations or contributions from whatever source; the municipality's self-insurance reserve (if legally permissible). In determining the number of additional accounts to be maintained, the municipal manager, in consultation with the chief financial officer, shall have regard to the likely number of transactions affecting each of the accounts referred to. Unless there are compelling reasons to do otherwise, and the council expressly so directs, all the municipality's bank accounts shall be maintained with the same banking institution to ensure pooling of balances for purposes of determining the interest payable to the municipality.
- 10.4 The municipal manager shall invite tenders for the placing of the municipality's bank accounts within six months after the election of each new council, such new banking arrangements to take effect from the first day of the ensuing financial year. However, such tenders may be invited at any earlier stage, if the municipal manager, in consultation with the chief financial officer, is of the opinion that the services offered by the municipality's current bankers are materially defective, or not cost-effective,



and the executive mayor or the executive committee, as the case may be, agrees to the invitation of such tenders.

11. RAISING OF DEBT

- 11.1 The municipal manager is responsible for the raising of debt, but may delegate this function to the chief financial officer, who shall then manage this responsibility in consultation with the municipal manager. All debt shall be raised in strict compliance with the requirements of the Municipal Finance Management Act 2003, and only with the prior approval of the council.
- 11.2 Long-term debt shall be raised only to the extent that such debt is provided for as a source of necessary finance in the capital component of the approved annual budget or adjustments budget.
- 11.3 Short-term debt shall be raised only when it is unavoidable to do so in terms of cash requirements, whether for the capital or operating budgets or to settle any other obligations, and provided the need for such short-term debt, both as to extent and duration, is clearly indicated in the cash flow estimates prepared by the chief financial officer. Short-term debt shall be raised only to anticipate a certain long-term debt agreement or a certain inflow of operating revenues.

12. INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES

- 12.1 In managing the municipality's investments, the chief financial officer shall ensure that, whenever a long-term (non-annuity) loan is raised by the municipality, an amount is invested at least annually equal to the principal sum divided by the period of the loan. Such investment shall be made against the bank account maintained for the external finance fund, and shall be accumulated and used only for the redemption of such loan on due date. The making of such investment shall be approved by the council at the time that the loan itself is approved.
- 12.2 If the loan raised is not a fixed term loan, but an annuity loan, the chief financial officer shall ensure that sufficient resources are available in the account maintained for the external finance fund to repay the principal amounts due in respect of such loan on the respective due dates.



13. INTEREST ON INVESTMENTS

- 13.1. The interest accrued on the municipality's investments shall, in compliance with the requirements of Generally Recognised Accounting Practices, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and shall thereafter be appropriated, at the end of each month, to the fund or account in respect of which such investment was made as interest earned on external investments.
- 13.2. The interest earned on invested conditional grant funding shall be recognised as own revenue in terms of Generally Recognised Accounting Practices.

14. GENERAL INVESTMENT PRACTICE IN RESPECT OF INVESTMENTS

14.1 Obtaining of quotations

- 14.1.1 Quotations for call deposits greater than 7 days, fixed deposits or any other investment with a financial institution referred to in paragraphs 6.1.1 and 6.1.7 above should be requested telephonically for a period within the limitations of the anticipated term of the investment.
- 14.1.2 Quotations must be solicited from a minimum of three financial institutions referred to in paragraphs 6.1.1 and 6.1.7 above, bearing in mind the limits of the term for which it is intended to invest the funds.
- 14.1.3 All telephonic quotations must be recorded on a schedule and the accepted quotation confirmed in writing before the actual investment is made. This same procedure must be followed before any re-investment is made with the same financial institution.
- 14.1.4 The person responsible for requesting quotations from institutions should record the name of 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.
- 14.1.5 Where an investment is made at an institution at a rate lower than that of other quotations, reasons must be recorded by the Municipal Manager and reported to Council as part of the quarterly report by the Municipal Manager.



15. REVIEW OF POLICY

In terms of section 17(1)(e) of the MFMA this policy must be reviewed on annual basis and the review policy tabled to Council for approval as part of the budget process.

The following should be taken into account for future amendments to this policy:

- Changes in financial strategy;
- Changes in no-financial strategic strategies; and
- Changes in legislation

Policy section:	Director: Budget and Reporting
Current date:	30 March 2016
Previous review date:	22 May 2015

16. APPROVAL AND IMPLEMENTATION OF POLICY

This policy shall be implemented once approved by council on 01 July 2016.

Policy section:	Director: Budget and Reporting
Approval by council:	