

# MORETELE LOCAL MUNICIPALITY



## BANKING AND INVESTMENT POLICY

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## INDEX

PART 1: DEFINITIONS.....	2
PART 2: LEGAL COMPLIANCE.....	2
PART 3: OBJECTIVE OF INVESTMENT POLICY.....	2
PART 4: EFFECTIVE CASH MANAGEMENT.....	3
PART 5: INVESTMENT ETHICS .....	4
PART 6: INVESTMENT PRINCIPLES .....	4
PART 7: CONTROL OVER INVESTMENTS.....	6
PART 8: BANKING ARRANGEMENTS.....	6
PART 9: SHORT-TERM BORROWINGS.....	7
PART 10: INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES ....	7
PART 11: INTEREST ON INVESTMENTS .....	7
PART 12: REVIEW OF POLICY.....	7
ANNEXURE I: APPLICABLE SECTIONS OF MUNICIPAL FINANCE MANAGEMENT ACT NO 56 OF 2003.....	8
ANNEXURE II: CODE OF PRACTICE IN REGARD TO PAYMENTS, REVENUE COLLECTION AND STORES.....	9

## **PART 1: DEFINITIONS**

In this Banking and Investment Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned, shall mean:

- “Council” means the Municipal Council of the Moretele Local Municipality, its legal successors in title and its delegates;
- “” means the person who is appointed by the Council as the CFO for the Municipality or his / her delegate;
- “” means the person who is appointed by the Council as the head of the administration and as for the Municipality in accordance with section 82 of the Municipal Structures Act or his/ her delegate;
- “SMME” means small, medium and micro enterprises in the supply chain management system of the Municipality;
- “Investment”, in relation to funds of a municipality, 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

## **PART 2: LEGAL COMPLIANCE**

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 Regulations promulgated under the Act. Applicable sections of this Act are attached as Annexure I to this policy.

## **PART 3: OBJECTIVE OF INVESTMENT POLICY**

The objectives of the investment policy of the municipality are:

- ✓ Preservation of capital / safety of public funds;
- ✓ Maintaining liquidity;
- ✓ Appropriate return on investments and
- ✓ Adherence to legal requirements

The Council is the trustee of the municipal funds, 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.

## **PART 4: EFFECTIVE CASH MANAGEMENT**

### **4.1 Cash Collection**

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. The respective responsibilities of the Chief Financial Officer (CFO) and other Executive Directors in this regard is defined in a code of financial practice approved by the accounting officer and the CFO, and this code of practice is attached as Annexure II to this policy. The unremitting 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.

### **4.2 Payments to Creditors**

The CFO 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 end 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 the CFO shall approve any such departure before any payment is made. In the case of SMME's, payment may be effected at the end of the month or within seven days of the date of receipt of the invoice for services rendered, whichever is the latter. The CFO shall approve any such early payment before any payment is effected. The CFO 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. Wherever possible, payments shall be effected by means of electronic transfers rather than by cheques. Special payments to creditors shall only be made with the express approval of the CFO, who shall be satisfied that there are compelling reasons for making such payments prior to the normal month end processing.

### **4.3 Cash Management Programme**

The CFO shall prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a monthly basis.

4

### **PART 5: INVESTMENT ETHICS**

The CFO shall in consultation with the Municipal Manager be responsible for investing the surplus funds of the municipality, and shall manage such investments in compliance with any policy directives formulated by the Council and prescriptions made by the Minister of Finance. In making such investments the CFO, shall at all times have only the best considerations of the municipality in mind, and shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties. Neither the CFO nor the executive, 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.

### **PART 6: INVESTMENT PRINCIPLES**

#### **6.1 Limiting Exposure**

Where surplus funds are available for investment the CFO shall in consultation with the Municipal Manager ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the municipality. The CFO shall further ensure that, as far as it is practically and legally possible, the municipality's investments are distributed that more than one investment category is covered (that is, call, money market and fixed deposits). Investments which are determined to be inconsistent with the objective of preserving and protecting the principal amount are prohibited.

#### **6.2 Risk and Return**

Although the objective of the CFO in making investments on behalf of the municipality shall always be to obtain the best interest rate on offer, this consideration must be influenced by the degree of diversification required by the policy. No investment shall be made with an institution where it does not meet the requirements provided in Section 6.3 below.

### **6.3 Permitted Investments**

From time to time it may be in the best interest of the municipality to make longer-term investments. In such cases the CFO in consultation with the Municipal manager, 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. A municipality or municipal entity may invest funds only in any of the following investment types:

- ✓ Securities issued by the national government;
- ✓ deposits with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990), with investment grade rating of not lower than "A" from a nationally or internationally recognized credit rating agency;
- ✓ deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No 45 of 1984);
- ✓ deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No 46 of 1984);
- ✓ banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990; with investment grade rating of not lower than "A" from a nationally or internationally recognized credit rating agency;
- ✓ Guaranteed endowment policies (with credit worthy institutions), with the intention of establishing a sinking fund;
- ✓ Municipal bonds issued by a municipality; and
- ✓ Any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.

### **6.4 Payment of commission**

- ✓ 6.4.1 No fee, commission or other reward may be paid to a councillor or official of a municipality or to a spouse or close family member of such councillor or official, in respect of any investment made or referred by a municipal entity.
- ✓ 6.4.2 The investee must declare in writing that no fees, commission or other reward was paid to persons mentioned in above.

### **6.5 Call Deposits and Fixed Deposits**

Before making any call or fixed deposits, the CFO, shall obtain quotations from at least three financial institutions. Given the volatility of the money market, the CFO, shall, whenever necessary, request quotations telephonically, and shall record and keep on file 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 (for example, whether the interest is payable monthly or on maturity, and so forth). 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. Once the investment has been made, the CFO shall ensure that the municipality receives a properly documented certificate for such investment, issued by the institution concerned in the name of the municipality:

### **6.6 Restriction on Tenure of Investments**

No investment with a maturity date exceeding twenty four months shall be made without the prior approval of the council and the municipal manager.

## **PART 7: CONTROL OVER INVESTMENTS**

The CFO 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. The CFO shall ensure that all interest and capital property due to the municipality are timeously received, and shall take appropriate steps or cause such appropriate steps to be taken if interest or capital is not fully or timeously received. The CFO 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.

## **PART 8: BANKING ARRANGEMENTS**

The CFO in consultation with the municipal manager is responsible for the management of the municipality's bank accounts, but may delegate this function to the CFO. The accounting officer and CFO are authorized at all times to sign cheques and any other documentation associated with the management of such accounts. The accounting officer, in consultation with the CFO, is authorized to appoint 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 Accounting officer, as the case may be, on a yearly basis, as part of the report dealing with the municipality's investments. In compliance with the requirements of good governance, the accounting officer shall open a bank account for ordinary operating purposes, and may 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 may also be maintained for the following: capital receipts in the form of grants, donations or contributions from whatever source; trust funds; and the municipality's self-insurance reserve (if legally permissible). In determining the number of additional accounts to be maintained, the accounting officer, in consultation with the CFO, 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. The accounting officer shall invite tenders for the placing of the municipality's bank accounts within nine months of the expiry of the current contract, such new banking arrangements to take effect from the first day of the ensuing financial year. The bank account contract period shall be for five years.

## **PART 9: SHORT-TERM BORROWINGS**

The accounting officer is responsible for the raising of short-term loans, but may delegate this function to the CFO, who shall then manage this responsibility in consultation with the accounting officer. All short-term loans shall be raised in strict compliance with the requirements of the Municipal Finance Management Act 2003, and only with the approval of the council. Short-term loans 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 loans, both as to extent and duration, is clearly indicated in the cash flow estimates prepared by the CFO.

## **PART 10: INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES**

In managing the municipality's investments, the CFO shall ensure that, whenever a long-term (non-annuity) loan is raised by the municipality, an amount is invested at least annually towards the redemption of the loan on maturity, or in guaranteed endowment policies with the intention of establishing a sinking fund to redeem the loan on maturity. Such investment may 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.

## **PART 11: INTEREST ON INVESTMENTS**

The interest accrued on all the municipality's investments shall, in compliance with the requirements of generally accepted municipal accounting practice, be recorded as revenue in accordance with prescribed accounting standards.

## **PART 12: REVIEW OF POLICY**

A Committee shall review the policy annually before the start of each financial year. The Committee shall be constituted by Senior Managers within the finance directorate and chaired by the CFO.

## **ANNEXURE I: APPLICABLE SECTIONS OF MUNICIPAL FINANCE MANAGEMENT ACT NO 56 OF 2003**

The above policy must be read in conjunction with the following sections of the Act:

- ✓ Section 7 – Opening of Bank Accounts
- ✓ Section 8 – Primary Bank Accounts
- ✓ Section 9 – Bank Account details to be submitted to Provincial Treasury and Auditor General
- ✓ Section 10 – Control of Municipal Bank Accounts
- ✓ Section 11 – Withdrawal from Municipal Bank Accounts
- ✓ Section 12 – Relief, charitable trust or other funds
- ✓ Section 13 – Cash Management and Investments
- ✓ Section 17 – Contents of annual budget and supporting documents
- ✓ Section 22 – Publication of Annual Budget
- ✓ Section 36 – National and Provincial Allocations to Municipalities
- ✓ Section 37 – Promotion of Co-Operative Government by Municipalities
- ✓ Section 45 – Short-Term Debt
- ✓ Section 46 – Long-Term Debt
- ✓ Section 47 – Conditions Applying to both Short-Term and Long-Term Debt
- ✓ Section 64 – Revenue Management
- ✓ Section 65 – Expenditure Management

**Note:** In terms of Section 60(2) of the Municipal Systems Act No. 32 of 2000 the council may delegate the authority to take decisions on making investments on behalf of the municipality only to the executive Mayor / Mayor, executive committee or CFO. The foregoing policy is based on the assumption that such authority has been delegated to the CFO.

## **ANNEXURE II: CODE OF PRACTICE IN REGARD TO PAYMENTS, REVENUE COLLECTION AND STORES**

### **1. STORES ADMINISTRATION**

The CFO shall be responsible for the proper administration of all stores. If sub-stores are established under the control of any Directors, such Directors shall be similarly responsible for the proper administration of such sub-store, and in doing so shall comply with the stock level policies as determined from time to time by the CFO, acting in consultation with the Directors concerned. No sub-store may be established without the prior written consent of the CFO.

### **2. CONTRACTS: MANAGEMENT OF CONTRACTS**

Within such general buying and related procedures as the CFO shall from time to time determine, and further within the confines of any relevant legislation and of such rules and procedures as may be determined, as the case may be:

- ✓ all buying contracts shall be administered by the CFO, and all payments relating to such contracts shall be authorised by the CFO or the Directors concerned; and
- ✓ all other contracts, including building, engineering and other civil engineering contracts shall be administered by the Directors concerned, and all payments relating to such contracts shall be authorised by such head of department in accordance with the provisions of Section 3 below. The head of department concerned shall ensure that all payment certificates in regard to contracts are properly examined and are correct in all respects - before being submitted to the CFO for payment.

### **3. PAYMENTS**

- ✓ 3.1 All payments, other than petty cash disbursements, shall be made through the municipality's bank account(s).
- ✓ 3.2 The CFO shall draw all cheques on these account, and shall, in consultation with the accounting officer and with due regard to the council's policy on banking and investments, determine the rules and procedures relating to the signing of cheques, and from time to time jointly with the accounting officer decide on appropriate signatories.
- ✓ 3.3 All requests for payments of whatever nature shall be submitted on payment vouchers, the format of which shall be determined by the CFO. Such vouchers shall be authorised in terms of such rules and procedures as are determined, from time to time by the CFO.
- ✓ 3.4 The maximum amount and nature of petty disbursements, where not covered by the general buying procedures referred to in Section 2, shall be generally determined from time to time by the, on advice from the Internal Audit Division. No cash float shall be operated without the authority of the CFO, who may prescribe such procedures relevant to the management of such float as are considered necessary.

### **4. REVENUE AND CASH COLLECTION**

- ✓ 4.1 Every Directors shall be responsible for the collection of all moneys falling within the ambit and area of his or her designated functions.
- ✓ 4.2 The CFO shall ensure that all revenues are properly accounted for.
- ✓ 4.3 The collection of all arrear revenues and the control of arrear accounts shall be co-ordinated by the CFO in terms



- ✓ of any policies determined by the council. If it is clear that any arrear accounts are not recoverable, the CFO shall report the matter to the Municipal manager and council.
- ✓ 4.4 The Council shall, as far as it is affordable, ensure that adequate provision is maintained to cover the writing off of irrecoverable revenues, having due regard to the council's policy on rates and tariffs.

#### 5. BANKING OF RECEIPTS

- ✓ Guidelines and procedures for the banking of cheques and other receipts shall, be determined from time to time by The CFO.

#### 6. MANAGEMENT OF INVENTORY

Each Directors shall ensure that such department's inventory levels do not exceed normal operational requirements in the case of items which are not readily available from suppliers, and emergency requirements in the case of items which are readily available from suppliers. Each Directors shall periodically review the levels of inventory held, and shall ensure that any surplus items be made available to the CFO for sale at a public auction or by other means of disposal, as provided for in the municipality's account.

#### **REVIEW OF POLICY**

A policy Management and review committee shall review the policy annually before the start of each financial year.