

# **LEKWA-TEEMANE LOCAL MUNICIPALITY**

**“NW396”**



## ***BANKING AND INVESTMENT POLICY***

**ADOPTED BY COUNCIL  
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1. **LEGAL COMPLIANCE**

The Lekwa Teemane Local Municipality shall at all time manage its banking arrangements and investments and conduct its cash management policy in compliance with any prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act.

2. **OBJECTIVE OF INVESTMENT POLICY**

The Council of the Lekwa Teemane Local 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.

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.

The investment policy of the municipality must therefore be aimed at gaining the highest possible return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes. The effectiveness of the investment policy is dependant 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.

### 3. **EFFECTIVE CASH MANAGEMENT**

#### 3.1 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 and other heads of departments in this regard are defined in the code of financial practice approved by the municipal manager and the chief financial officer in terms of the municipality's financial regulations.

The unremitant 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.

#### *Guideline controls for cash receipts*

Most of the under mentioned factors are prescribed by legislation. Controls should be implemented to ensure the completeness of revenue. The revenue guidelines should be applied simultaneously in this aspect.

- All direct deposits and cash received from customers should be recorded, and a sequential/numerical receipt should be issued for every cash transaction entered into.
- All copies of cancelled receipts should be retained.
- Daily receipts should be reconciled to till slips, debtors and income accounts, and actual cash.
- Sufficient physical controls should be implemented over cash and the transit of cash
- Sufficient security controls should be implemented in the municipalities' premises that would prevent theft and fraud.
- Cash should be banked daily with the use of a security company

- Once the cash is banked, the deposit slips should be reconciled to the daily receipts summary and authorised correct
- Variance reports should be prepared daily for non-reconciling items. These variance reports should be followed up and reviewed by a senior official daily.
- Sufficient controls should be implemented to allocate direct deposits to individual debtor accounts. Customers should be warned that if no reference to their account can be obtained from the deposit slip, their accounts would not be credited.
- Unfavourable cash collection ratios should be followed up in line with the revenue guidelines

### 3.2 Payments to Creditors

All tenders and quotations invited by and contracts entered into by the municipality must 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 should be departed from only where there are financial incentives for the municipality to effect earlier payment.

In the case of small, micro and medium enterprises, where such a policy may cause financial hardship to the contractor, payment may be effected at the conclusion of the month during which the service is rendered or within fourteen days of the date of such service being rendered, whichever is the later.

Notwithstanding the foregoing policy directives, the municipality must 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 there are financial incentives for the municipality to do so.

The municipality shall not ordinarily process cheque 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 chief financial officer, who shall satisfy himself or herself that there are compelling reasons for making such payments prior to the normal month end processing.

### 3.3 Management of Inventory

Each head of department 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 head of department shall periodically review the levels of inventory held, and shall ensure that any surplus items be made available to the chief financial officer for sale at a public auction or by other means of disposal.

### 3.4 Cash Management Programme

In terms of the Municipal Finance Management Bill a municipality must establish appropriate and effective cash management in accordance with framework prescribed by National Treasury.

The chief financial officer shall prepare an annual estimate of the municipality's cash flows, 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, and when and for what amounts investments will have to be liquidated.

The chief financial officer shall report to the executive committee on a monthly basis and to every ordinary Council meeting the 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. Such report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned. 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.

*General Treasury Regulations in respect of cash management*

- 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;
- Accurately forecasting the institution'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;
- 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 underutilised assets.
- Performing bank reconciliation's on a daily basis to detect any unauthorised entries; and
- Ensuring that dishonoured warrant vouchers and cheques are followed up immediately.
- Petty cash payments refers to expenditure related to the purchasing of small items or expenditure or re imbursement for out of pocket expenditure, and will be limited to R3000

#### **4. INVESTMENT ETHICS**

The municipal manager shall be responsible for investing the surplus revenues of the municipality, but may delegate this function to the chief financial officer, who shall then manage such investments in consultation with the municipal manager, and in compliance with any policy directives formulated by the municipality and prescriptions made by the Minister of Finance (see Section 1. above).

In making such investments the municipal manager or the chief financial officer, as the case may be, 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 chief financial officer nor the municipal manager 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.

#### **5. INVESTMENT PRINCIPLES**

##### **5.1 Limiting Exposure**

Where large sums of money are available for investment they must be invested with more than one institution, wherever practicable, in order to limit the risk exposure of the municipality. The municipal manager or the chief financial officer, as the case may be, must ensure that, as far as it is legally possible, the municipality's investments are so distributed that more than one investment category is covered.

## 5.2 Risk and Return

Although the objective of the municipal manager or the chief financial officer, as the case may be, in making investments on behalf of the municipality must always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved. No investment must 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 deposit-taking institutions (see 5.4 below).

## 5.3 Payment of Commission

Every financial institution with which the municipality makes an investment must issue a certificate to the municipal manager 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.

## 5.4 Call Deposits and Fixed Deposits

Before making any call or fixed deposits, the municipal manager or the chief financial officer, as the case may be, shall obtain quotations from at least three financial institutions, and it shall be accepted that in seeking such quotations the municipality may bargain between the institutions concerned.

Given the volatility of the money market, the municipal manager or the chief financial officer, as the case may be, 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 (for example, whether the interest is payable monthly or only on maturity, and so forth).

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).

Any monies paid over to the investing institution in terms of the agreed investment shall be paid over only to such institution itself and not to any agent or third party. Once the investment has been made, the municipal manager or the chief financial officer, as the case may be, shall ensure that the municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned.

## **6. CONTROL OVER INVESTMENTS**

The municipal manager or the chief financial officer, as the case may be, 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 municipal manager or the chief financial officer, as the case may be, shall ensure that all interest properly due to the municipality is timeously received, and shall take appropriate steps or cause such appropriate steps to be taken if interest is not fully or timeously received.

The municipal manager or the chief financial officer, as the case may be, shall ensure that all investment documents and certificates are properly secured.

**7. OTHER EXTERNAL INVESTMENTS**

From time to time it may be in the best interests of the municipality to make longer-term investments in the stock issued by the national government, Eskom or any other parastatal or institution, or by another municipality. In such cases the municipal manager or the chief financial officer, as the case may be, must be guided by the best rates of interest pertaining to the specific type of investment which the municipality requires, and to the best instrument available at the time.

**8. BANKING ARRANGEMENTS**

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 shall be authorised at all times to sign cheques and any other documentation associated with the management of such accounts. The municipal manager, in consultation with the chief financial officer, shall be authorised 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 executive committee on a monthly basis, as part of the report dealing with the municipality's investments.

In compliance with the requirements of generally accepted municipal accounting practice, the municipality 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 fund. 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; trust funds; and the municipality's self-insurance fund.

In determining the number of additional accounts to be maintained, the municipal manager or the chief financial officer, as the case may be, 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.

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, and the executive committee agrees to the invitation of such tenders.

## **9. INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES**

In managing the municipality's investments, the municipal manager or the chief financial officer, as the case may be, 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.

If the loan raised is not a fixed term loan, but an annuity loan, the municipal manager or the chief financial officer, as the case may be, shall similarly 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.

#### **10. 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 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.

In the case of the external finance fund, the municipal manager or the chief financial officer, as the case may be, may reduce the amount which must be annually invested to redeem any particular loan by the amount of interest so accrued.

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 reappropriated to the asset financing fund.