



LEKWA TEEMANE LOCAL MUNICIPALITY

APPROVED

BANKING AND INVESTMENT POLICY

2021/22 FINANCIAL YEAR

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1 INTRODUCTION

- 1.1 As trustees of public funds, the Council has an obligation to ensure that cash resources are managed as effectively as possible.
- 1.2 Council has a responsibility to invest public funds with great care and is accountable to the community in this regard.
- 1.3 The investment policy should be aimed at gaining the highest possible return without undue risk during those periods when surplus cash is not needed. In this regard, it is essential to have an effective cash management system.
- 1.4 Legislation must be adhered to at all times. Where this policy is contrary to legislation, legislation will override this policy. It is an explicit responsibility of the Municipal Manager to bring such conflicts to the attention of the Council immediately he or she is aware of such conflicts and to propose changes to this Policy to eliminate such conflicts.

2 DELEGATION OF POWERS

This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Council and Municipal Manager as well as between the Municipal Manager and other responsible officials. All delegations in terms of this policy document should be recorded in writing.

3 PURPOSE OF THE POLICY

The purpose of this policy is to ensure that investment of surplus funds is controlled and to ensure that prudent investment procedures are consistently applied. The council of the municipality is the trustee of the public revenues which it collects. 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 is aimed at gaining the optimal return on investments, without incurring undue risks, during 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.

4 EFFECTIVE CASH MANAGEMENT

Adequate and efficient cash management is one of the main functions of the Chief Financial Officer. It is therefore imperative that a cash management plan be established and adhered to at all time.

4.1 Cash Collections

All monies due to the Municipality must be collected as soon as possible 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.

4.2 Payment to Creditors

4.2.1 The Chief Financial Officer shall ensure that all bids 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 or goods are received by the municipality. This rule will be departed from if settlement discounts offered as per clause 4.2.2 are to the benefit of the municipality and need to be approved by the Chief Financial Officer.

4.2.2 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. Any such early payment shall be approved by the Chief Financial Officer before any payment is made.

4.2.1 To reduce bank costs with regard to cheque payments it is essential to limit the payment of creditors to one payment per creditor per week if possible and to consider making use of electronic transfer facilities if these are available, subject to strict control measures.

4.2.2 When considering the timing of payments to creditors, proper consideration must be given to the conditions of credit/ terms of payment offered. In cases where a cash discount is offered for early settlement, the discount, if the relevant time scale is taken into account, will in most cases be more than any investment return from temporarily investing the funds. If discounts are therefore offered for early settlement, they should be assessed and utilised if beneficial.

4.2.3 In addition, the normal conditions of credit/ terms of payment offered by suppliers should be considered and utilised by timing payments so that they are received by the creditor on the due date.

4.3 Management of investment in inventories

4.3.1 Cash management can be improved by ensuring that adequate inventory control is exercised over all goods in the stores. The inventory levels in any stores system must be reviewed continually in the light of annual contracts from local suppliers. Only essential inventory levels are to be maintained in the case of inventory items that are easily available from local suppliers.

4.3.2 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.

4.4 Cash-flow Estimates

- 4.4.1 The Chief Financial Officer shall prepare annual estimates 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.
- 4.4.2 The Chief Financial Officer shall report to the Executive Mayor, 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.
- 4.4.3 Before any money can be invested, the Chief Financial Officer has to determine whether there will be surplus funds available. The term of investment should also be investigated to ensure that surplus cash will be invested for the period it is not required.

4.4.4 Prior to making investments other than for daily call accounts, it is essential that cashflow estimates be compiled monthly for at least the forthcoming twelve months.

4.4.5 When compiling cash-flow estimates, on a monthly basis, it is essential that the Chief Financial Officer 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 LEGAL REQUIREMENTS

The way in which surplus funds and other monies of municipalities can be invested, is controlled in terms of the Local Government Municipal Finance Management Act, 2003 (Act No. 53 of 2003) (MFMA) and the National Investment Policy as determined by the Minister of Finance.

6 PERMITTED INVESTMENTS

6.1 In terms of the MFMA, the Municipality may only invest in the following instruments or investments:

6.1.1 Deposits with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);

6.1.2 Securities issued by the National Government;

6.1.3 Investments with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No 45 of 1984);

6.1.4 Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No 46 of 1984);

6.1.5 The Municipality's own stock or similar type of debt;

6.1.6 Internal funds of the Municipality which have been established in terms of a law to pool money available to the Municipality and to employ such money for the granting of loans or advances to departments within the Municipality, to finance capital expenditure;

6.1.7 Bankers, acceptance certificates or negotiable certificates of deposit of banks;

- 6.1.8 Long-term securities offered by insurance companies in order to meet the redemption fund requirements of the Municipality; and
- 6.1.9 Any other instruments or investments in which the Municipality was under a law permitted to invest before the commencement of the Local Government Transition Act Second Amendment Act, 1996: Provided that such investments shall not extend beyond the date of maturity or redemption thereof.

6.2 Other Investments

- 6.2.1 The Minister of Provincial and Local Government may, with the concurrence of the Minister of Finance, by notice in the *Gazette* determine instruments or investments other than those in paragraph 6.1 in which the Municipality may invest.
- 6.2.2 This investment policy must be updated with such permitted investments before investments can be made in such permitted instruments.

7 GENERAL INVESTMENT PRACTICE IN RESPECT OF INVESTMENTS REFERRED TO IN PARAGRAPHS 6.1.1 AND 6.1.7

7.1 Obtaining of quotations

- 7.1.1 Quotations for call deposits for longer periods 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 in writing for a period within the limitations of the anticipated term of the investment.
- 7.1.2 Quotations must be solicited from a minimum of two financial institutions, bearing in mind the limits of the term for which it is intended to invest the funds.
- 7.1.3 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.

7.1.4 Where an investment is made at an institution at a rate lower than that of other quotations, reasons must be recorded by the Chief Financial Officer and reported by the Municipal Manager to the Councillor responsible for Finance.

7.2 Payment of Commission Certificates

The financial institution referred to in paragraphs 6.1.1 and 6.1.7 above must issue a certificate with regard to each investment 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, their immediate family or an agent or go-between, or to any person nominated by such agent or go-between.

7.3 Limited Exposure to a Single Institution

Council may not invest more than 50% of its total investments at any time with one banking institution in order to limit the risk exposure of the Municipality. In this case it should be noted that a group of financial institutions should be regarded as an individual institution. Monies retained in a current banking account or placed on call for 32 days or less with the financial institution where the current banking account is held shall not be regarded as an investment for the purpose of this paragraph.

8 GENERAL INVESTMENT PRACTICE IN RESPECT OF INVESTMENTS REFERRED TO IN PARAGRAPHS 6.1.2 TO 6.1.4 AND 6.1.8

8.1 Long-term Investments

8.1.1 Long-term investments are investments that mature more than one-year after the initial date the investment is made. Only the Council can approve such investments. The institution with which the investment is made must guarantee at least the capital portion of long-term investments.

8.1.2 Investments referred to in paragraphs 6.1.2 to 6.1.4 and 6.1.8 shall be considered long-term investments for the purposes of this policy document and the provisions of paragraph 8.1.1 shall apply to such investments, regardless of the investment period.

8.2 Advertisements

The Municipality must within 30 days after an investment with a frequency of 12 months or longer has been made publish in a local newspaper in circulation within its area of jurisdiction a notice setting out full details of any investments so made.

9 INVESTMENT PRINCIPLES AND ETHICS

9.1 Borrowing Money for Reinvestment

The Municipality shall not borrow any money for investing purposes, as this is equivalent to speculation with public funds. Furthermore, investments should not be made where Council is utilising an overdraft facility unless in accordance with applicable legislation.

9.2 Cash in the Bank

Where money is kept in current banking accounts, the balance of such account shall be kept at a minimum. Surplus cash shall be invested taking into account the cash management plan and monthly cashflow estimates.

9.3 Employees and Councillors Benefiting from Investments

No employee or Councillor of the Municipality or their immediate families may under any circumstances whatsoever, on his or 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 any investment made by or on behalf of the Municipality.

9.4 Transparency

There shall at all times be transparency and accountability in respect of every investment made and of the Municipality's investment. In this regard detail of all investments made and withdrawn must form part of the monthly financial report by the Chief Financial Officer.

9.5 Independent decisions

The Municipal Manager is ultimately responsible for the investment of funds, and should ensure that investments are made in the best interests of the municipality. Investment decisions should be done independently of individual councillors, agents or any financial institutions.

9.6 Specialist advisors

Council may at its discretion employ the use of specialist advisors to provide advice on investments from time to time. Specialist advisors are not entitled to commission. Furthermore, specialist advisors may not directly invest funds on behalf of Council. All investments must be made by the Chief Financial Officer or the official to whom responsibility to make investments has been delegated.

9.7 Excessive risks to be avoided

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 the investment institutions. Deposits shall be made only with registered deposit-taking institutions.

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 are authorized 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, is 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 Mayor, on a monthly basis, as part of the report dealing with the municipality's investments.
- 10.2 In compliance with the requirements of good governance, the Municipal Manager shall open a bank account for ordinary purposes, and shall further maintain a separate account for the administration of the external finance fund and of the asset financing reserve. 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 reserve (if established).
- 10.3 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 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 competitive bids for the placing of the municipality's bank accounts. However, such bids must be invited every 5 years, but 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. The process of procuring a banking contract must commence at the least nine months before the existing contract ends.

11 INTEREST ON INVESTMENTS

11.1.1 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.

11.1.2 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.

11.1.3 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 such funds, that is, an amount surplus to the resources required in respect of such funds or accounts, such surplus amount shall be credited by the Chief Financial Officer to the appropriate account and re-appropriated to the asset financing reserve.

12 CONTROL OVER INVESTMENTS

12.1 Proper records should be kept of all investments made. At the very least the following information should be recorded in an investment register; the investee institution, the principle investment, the interest rate, the maturity date and details of growth of the investment, calculated at 30 June annually, including interest capitalised.

12.2 Interest, correctly calculated, should be received timeously, together with any distributable capital.

12.3 Investment documents and certificates should be kept in a fire-resistant safe to which access is controlled.

13 IMPLEMENTATION OF THIS POLICY

This policy shall be implemented upon approved by Council. Where existing investments previously made before such approval are in contravention of this policy, the Municipal Manager must effect the necessary changes within 30 days from the date of the Council approval. If such changes cannot be done the Council should be informed of such investments and the implications thereof.

APPROVED BY COUNCIL ON2018 UNDER ITEM NO.....

MUNICIPAL MANAGER

MAYOR OBO COUNCIL