

TOKOLOGO LOCAL MUNICIPALITY



CASH MANAGEMENT POLICY

This policy was adopted by the Tokologo Local Municipality on the
by Resolution Number in terms of Section 13(2) of the Municipal
Finance Management Act, No 56 of 2003 and Regulation 3 of the Municipal
Investment Regulations 2005.

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1. DEFINITIONS

- (a) "Chief financial officer" means an officer of a Municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions or any person to whom delegations have been given.
- (b) "Councillor" means a member of a municipal council.
- (c) "Current assets" are-
 - (i) Debtors;
 - (ii) Cash;
 - (iii) Stock; and
 - (iv) The short-term portion of long-term debtors.
- (d) "Current liabilities" are
 - (i) Creditors;
 - (ii) Bank overdrafts and
 - (ii) Short-term portion of long-term liabilities.
- (e) "Debtors Turn-over Rate" this ratio comprises current plus arrear debtors divided by budgeted annual income multiplied by 365-days.
$$\frac{\text{Outstanding debtors}}{\text{Budgeted Annual Income}} \times 365$$
- (f) "Investments" are funds not immediately required for the defraying of expenses and invested at approved financial institutions.

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- (g) "Municipal Manager" means a person appointed in terms of section 82 of the Municipal Structures Act No.117 of 1998 as the head of the Municipality's administration;
- (h) "Municipal stock" means the stock certificate issued by the municipality as a proof of long-terms fixed period loan of which the capital is repayable at the end of the period while interest is payable at predetermined intervals at a fixed rate.
- (i) "Negotiable certificate" means a loan certificate that is tradeable on the capital market.
- (j) "Net current assets" is the difference between current assets and current liabilities.
- (k) "Public funds" means all monies received by the Municipality to perform the functions allocated to them.
- (l) "Short-term portion of long-term debtors" refers to the capital installments of long-term debtors due and in arrears in the current financial year.
- (m)
"Short-term portion of long-term liabilities" refers to the capital repayment of long-term loans due in the current financial year.
- (n) "Stock Turn-over Rate" total issues divided by average stock holding.
- (o) "Trade Creditor Turn-over Rate" is equal to outstanding creditors divided by general expenses plus Repairs and Maintenance plus Capital expenses minus internal recharges minus municipal service charges minus Councillors allowances minus other Personnel expenses multiplied by 365-days.

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Outstanding Creditors

General Expenses

+

Repair & Maintenance

+

Capital Expenses

-

x365

Internal Recharges

-

Municipal Service Charges

-

Councillors Allowances-

Other Personnel Expenses-

(p) "Registry Clerk" refers to the person responsible for all Councils incoming mail

2.

OBJECTIVES OF THE POLICY

The objectives of the cash and investment policy are:-

a)

to manage the net current asset requirement of the municipality in such a manner that it will not tie up the municipality's scarce resources required to improve the quality of life of the citizens;

b)

to manage the financial affairs of the municipality in such a manner that sufficient cash resources are available to finance the capital and operating budgets of the municipality; and

c)

to gain the highest possible return on investments, within the framework prescribed on permitted investments, during periods when excess funds are not being used.

3.

SCOPE OF THE POLICY

The policy deal with:

(a)

Short title

(b)

Responsibility / accountability.

(c)

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Management of net current assets.

(d)

Investment instruments

(e)

Cashflow estimates

(f)

Investment ethics and principles.

(g)

Investment procedures and reporting.

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- (h) Other external deposits.
- (i) Control over investments.

4. SHORT TITLE

The short title of this Policy is the investment and cash Management Policy of Tokologo local Municipality

5. RESPONSIBILITY/ACCOUNTABILITY

(a) The Municipal Manager as the Accounting Officer of the municipality is accountable for cash management and investments.

(b) The Municipal Manager may delegate the management of cash and investment to the Chief Financial Officer.

(2) The municipal council must approve a policy directing procedures, processes and systems required to ensure efficient and effective management of cash and investments.

(c) Efficient and effective management include:-

(i) Collecting revenue when it is due.

(ii) Banking and depositing monies when received.

(iii) 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 service delivery and the creditor's normal terms for account payments.

(iv) Avoiding pre-payment 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.

(v) Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the department of the chief financial officer.

(vi) Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the municipality are collected and banked promptly.

(vii) Accurately forecasting the institution's cash flow requirements.

(viii) Timing of in-and outflow of cash.

(ix) Recognising the time value of money.

(x) 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 underutilized assets.

(xi) Avoiding bank overdrafts.

6. MANAGEMENT OF NET CURRENT ASSETS

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(a)

Cash management includes the management of net current assets which entail:

(i)

debtors;

(ii)

cash;

(iii)

stock;

(iv)

short-term portion of debtors;

(v)

creditors;

(vi)

bank overdraft;

(vii)

provisions;

(viii) short-term portion of liabilities; and

Will subscribe to procedures recognized in terms of generally accepted recognized accounting practice (GRAP) and generally accepted Municipal Accounting Practice [G.A.M.A.P].

6.1

Debtors:

(a)

The municipal council must set a target for debt collection based on the performance of the Municipal Manager during the last financial year.

(b)

The target must be expressed as a percentage of potential income and/or the turn over rate of debtors.

(c)

All monies owing to the council must be correctly reflected in the debtors system.

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(d)

All money received by a municipality must be paid into its primary bank account and this must be done promptly in a manner prescribed by the MFMA.

(e)

Take all reasonable steps that all money received must be deposited into the bank account on the same or next day that payments are received.

(f)

Extension for payment of rate and service charges must only be given in terms of the municipality's credit control and debt collection by-laws and in exceptional circumstances.

(g)

Moneys collected by other agencies on behalf of the council must be paid over to the council or deposited in the bank account of the council in a manner prescribed by the Municipal Manager.

6.2

Management of cash:

(a)

The cash holding of the municipality must be kept at the minimum level required to financial the day-to-day operations of the municipality.

(b)

Monthly and annual cash flow forecasts must be reviewed and amended daily.

6.3 Management of Stock:

(a) Adequate stock control using a stock register must be exercised over all goods kept in stock

(b) Minimum and maximum

stock levels, reordering procedures and

turnover rate of stock items must be reviewed upon re-order to ensure that funds are not unnecessary tied up in stock.

(c) Stock counts must be effected monthly and an annual report reflecting stock shortage, surpluses and redundancies as at 30 June of each financial year must be submitted to Council.

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6.4

Short-term portion of debtors:

(a)

Debtors outstanding relating to long-term debtor loans must be treated as any other outstanding account for rates and service charges.

6.5

Payment of Creditors:

(a) Payment to creditors must be aligned to creditor payment terms.

(b) Discounts for early settlement must be considered and utilized.

(c) Credit statements must be reconciled monthly.

(d) Trade creditor payments must only occur on receipt of official orders, certified goods received notes and company invoices.

(e) All other payments must be duly authorized by departmental heads and/or duly authorized officials.

(f) Council shall develop a procedure manual regarding payment to creditors, which procedure shall include payments to be made through E.F.T

6.6

Management of short-term loan/bank overdraft:

(a)

A short-term may only be obtained in anticipation of a positive income stream or to finance capital projects in anticipation of an approved capital grant or long-term loan.

(b)

The short-term loan must be repaid by the end of the financial year.

(c)

The council can only approve a short-term loan on the submission of a cash flow statement indicating the anticipated income stream or a certificate stating the approved grant or long-term loan.

6.7

Provisions:

(a)

Provisions for known short-term liabilities must be made.

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(b)
Sufficient cash must be available when payments for provisions are due.

6.8

Short-term portion of long-term liabilities:

(a)

Loan installments due in the current financial year must be provided for in the financial statements.

(b)

Sufficient cash must be available when payments are due.

7.

INVESTMENT INSTRUMENTS

(a)

Only the following investments, taking into account the future need for funds, may be undertaken:

(h)

Securities issued by the national government

(ii)

Listed corporate bonds with an investment grade rating from an internationally recognized credit rating agency

(iii)

Deposits with banks registered in terms of the Banks Act No.94 of 1990

(iv)

Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act No.45 of 1984

(v)

Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act No.46 of 1984

(vi)

Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act No. 94 of 1990

(vii)

Guaranteed endowment policies with the intention of establishing a sinking fund

(viii)

Repurchase agreements with banks registered in terms of the Banks Act 94 of 1990

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(b)

The Minister of Finance may by notice in the Gazette determine investments other than those already mentioned above in which a municipality may invest, after the suitability of the investment(s) for use by municipalities has been approved by the Financial Services Board.

8.

CASHFLOW ESTIMATES

(a) Before money can be invested, the Municipal Manager or his/her delegate must determine whether there will be surplus funds available during the term of the investment.

(b) In order to be able to make investments for any fixed term, it is essential that cash flow estimates be drawn up.

(c) Provision must be made in the cash flow estimates for the operating and capital requirements of the municipalities.

9.

INVESTMENT ETHICS AND PRINCIPLES

(a)

Investments made on behalf of Council must be made with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would do in the management of his or her own affairs, not for speculation, but for investment, and with his or her primary regard being to the probable safety of his or her capital, in the second instance to his or her liquidity needs and lastly to the probable income derived.

(b)

Investments may not be undertaken with a view to speculation.

(c)

The Municipal Manager will be responsible for the investment of funds, and he/she has to steer clear of outside interference, regardless of whether such interference comes from individual councilors, agents or any other institution.

(d)

Under no circumstances may he/she be forced or bribed into making an investment.

(e)

Interest rates offered must never be divulged to another institution.

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(f)

The council may not borrow money for reinvestment, as this would mean interest rates would have to be estimated in advance, which can be seen as speculation with public funds.

10.

INVESTMENT PROCEDURES AND REPORTING

(a)

The Council shall invest not more than 20% of the total amount of its investment as per the investment register.

(b)

After determining whether there is cash available for investment and fixing the maximum term of investment, the Municipal Manager must consider the way in which the investment is to be made.

10.1 Short-term investments:

(a)

The term of Investment shall not be more than three months

(b)

Quotations must be obtained from a minimum of three financial institutions, for the term of which the funds will be invested.

(c)

Should one of the institutions offer a better rate for a term, other than what the Municipality had in mind, the other institutions which were approached, must also be asked to quote a rate for the other term.

(d)

Quotations can be obtained telephonically, as rates generally change on a regular basis and time is a determining factor when investments are made.

(e)

The person responsible for requesting quotations from institutions must record the following:-

(i)

name of institution;

(ii)

name of person quoting rates;

(iii)

period of the investment

(iv)

relevant terms; and

(v)

other facts i.e are interest payable monthly or on maturation date.

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- (f)
Once the required number of quotes has been obtained, a decision must be taken regarding the best terms offered and the institution with which funds are going to be invested.
- (g)
No attempts must be made to make institutions compete with each other
- (h)
Once a quote has been accepted written confirmation of the details must be obtained from the financial institution.
- (i)
The investment capital must only be paid over to the institution with which it is to be invested and not to an agent.
- (j)
The financial institution where the investment is made must issue a faxed or written confirmation stating the details of the investments.
- (k)
The Chief Financial Officer must ensure that the investment document received is authentic.
- (l)
The financial institution, where the investment is made, must issue a confirmation for each investment made stating that no commission has, nor will, be paid to any agent or third party, or to any person nominated by the agent or third party.
- (m)
The council must be given a quarterly report on all investments.
- (n)(i) The Accounting Officer of a municipality must within ten (10) working days of the end of each month submit to the Council a report describing in detail the investment position of the municipality as at the end of the month.
- (ii)
The report referred to in subsection (1) above must contain at least a statement, prepared in compliance with generally accepted municipal accounting principles [GAMAP], that gives the-
 - beginning market value for the reporting period;
 - additions and changes to the market value during the period;
 - ending market value for the period;
 - fully accrued interest/yield for the reporting period.
- (o) Where money is kept in current accounts, the municipality must bargain for more beneficial rates with regards to deposits.

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10.2 Long-term investments:

(a)

Written quotations must be obtained for all investments made for periods longer than twelve months.

(b)

The municipal council must approve all investments made for periods longer than twelve months after considering the cash requirement for the next three years.

11.

OTHER EXTERNAL DEPOSITS

The principles and procedures set out above must apply to other investment possibility to the applicable legislation, which is available to the council, including debentures and other securities of the state as well as other municipalities or statutory bodies in the Republic, instituted under and in terms of any law.

12.

CONTROL OVER INVESTMENTS

(a)

An investment register must be kept of all investments made. The following facts must be recorded:

(i)

Name of institution;

(ii)

capital invested;

(iii)

date invested;

(iv)

interest received;

(v)

Interest rate;

(vi)

maturation date;

(vii)

capital repaid; and

(viii) balance invested.

(b)

The investment register and accounting records must be reconciled on a monthly basis.

(c)

The investment register must be examined by the Chief Financial Officer on a fortnightly basis to identify investments falling due within the next two weeks. It must then be established as what to do with the funds, bearing in mind the cash flow requirements.

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(d)

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

(e)

The Chief Financial Officer must check that the interest is calculated correctly.

(f)

Investment documents and certificates must be safeguarded in a fire resistant safe, with dual custody. The following documents must be safeguarded:

(i)

Fixed deposit letter or investment certificate;

(ii)

Receipt for capital invested;

(iii)

Copy of electronic transfer or cheque requisition;

(iv)

Schedule of comparative investment figures;

(v)

Commission certificate indicating that no commission was paid on the investment; and

(vi)

Interest rate quoted.

13.

PROCEDURES

13.1

Re-Investment

Upon maturity of the Investment the Council :-

(a)

Shall withdraw the whole amount invested

(b)

Shall make quotations from various Financial Institutions approved by Council, and

(c)

Shall re-invest 50% interest plus the original amount that had been invested, unless if Council wishes to utilize the original money or the interest

The amount of interest withdrawn, that is the 50% interest which is not to be re-invested shall be deposited into a call account in order to be utilized on operating activities of the Council.

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14. PRIMARY BANK ACCOUNT

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 Committee [EXCO] agrees to the invitation of such tenders.

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