



NEWCASTLE MUNICIPALITY

**CASH MANAGEMENT & INVESTMENT
POLICY**

CASH MANAGEMENT & INVESTMENT POLICY

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CASH MANAGEMENT & INVESTMENT POLICY

1. INTRODUCTION

This policy has been prepared to fulfill Councils' obligations under Section 13(2) of the Municipal Finance Management Act 2003 and the Municipal Investment Regulations.

The purpose of this policy is to ensure that public funds are safeguarded and protected and that returns on investment are maximized whilst Councils' exposure to risk in relation to its investments is minimized.

Council acknowledges that there are various financial risks arising from its investments activities and it accepts its fiduciary responsibilities as a public authority by accepting that any investments held should be at an appropriate level of risk, giving preference to conservative investments and avoiding speculative investments. Council accepts that lower risk generally means lower returns on investments.

2. SCOPE

This policy applies to all cash investments made by Newcastle Municipality and the municipality shall at all times manage its cash management and investments in compliance with this policy and this policy must not be inconsistent with the Municipal Finance Management Act and the Municipal Investment Regulations.

3. OBJECTIVES

- To manage cash flows in an efficient and prudent manner
- To maintain a level of liquidity sufficient to meet both planned and unforeseen cash requirements
- To invest only in approved financial institutes
- To minimize the risk of investments
- To maximize returns on investments without incurring undue risks
- To ensure all relevant information is disclosed to Council
- To ensure that all investment decisions are made by the appropriate delegated authority
- To prohibit investment of funds for speculative purposes
- To ensure transparency and compliance in all investment processes

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4. INVESTMENT ETHICS

The Chief Financial Officer, or delegated official, shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in compliance with this policy and any other policy directives formulated by Council and any regulations promulgated.

In making such investments the Chief Financial Officer, shall at all times have only the best interest of the municipality in mind and shall not accede to any influence or interference from other Council officials, Councillors, investment agents or institutions or any other outside parties.

Neither the Chief Financial Officer or any other municipal official, Executive Member or Councillor, 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. This paragraph should be read in conjunction with the code of conduct for Councillors & Staff as contained in the Systems Act, Act no 32 of 2000 as well as section 62 (1) of the Supply Chain Management Policy.

5. INVESTMENT PRINCIPLES

5.1 Permitted investments

A municipality may invest only in any of the following investment types:

- a) Securities issued by the national government;
- b) Listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- c) Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- d) Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984);
- e) Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);
- f) Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990;
- g) Guaranteed endowment policies with the intention of establishing a sinking fund;
- h) Repurchase agreements with banks registered in terms of the Banks Act, 1990;

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- i) Municipal bonds issued by a municipality; and
- j) 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.

5.2 Standard of Care

5.2.1 Investments made by Newcastle Municipality must be made with such judgement and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that persons own affairs.

5.2.2 All investments must be genuine investments that are, not made for speculation.

5.2.3 Investments must in the first instance be made with the primary regard being to the probable safety of the investments. In the second instance, to the liquidity needs of the municipality and lastly to the probable income derived from the investment.

5.3 Limiting Exposure

The municipality must take all reasonable and prudent steps, consistent with its Investment Policy and according to the standard of care in section 5.2 above, to diversify its investment portfolio across institutions, in order to limit the risk exposure of the municipality.

The municipality shall further ensure that investments are spread across more than one investment category or type, that is, call, money market and fixed deposits and that the investment maturities are not all the same.

5.4 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.

Investments are to be with credit worthy institutions only, measured as follows;

1. Long Term Investments(greater than one year)
Investments are to be made with institutions with a minimum long term rating of an A+, as disclosed by Fitch Ratings Report.

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2. Short Term Investments (one year or less)

Investments are to be made with institutions with a minimum short term rating of F1, as disclosed by Fitch Ratings Report.

5.5 Payment of Commission

No fee, commission or other reward may be paid to a Councillor or official of Newcastle Municipality, or to a spouse or close family member of such Councillor or Official in respect of any investment made or referred by Newcastle Municipality.

If an investee pays any fee, commission or other reward to an investment manager, in respect of any investment made by Newcastle Municipality, both the investee and the investment manager must declare such payment to the Council by way of a certificate disclosing full details of the payment.

5.6 Prohibition on certain Investments

Newcastle Municipality may only make an investment if the investment is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

6. MISCELLANEOUS PROVISIONS

All investments made by the municipality must be in the name of the municipality and a municipality may not borrow money for the purpose of investment.

7. PROCESS FOR INVESTING FUNDS

Before making any call or short term fixed deposits, the Chief Financial Officer, shall obtain quotations from at least three financial institutions, taking into account the requirements as listed in section 5.2, 5.3 and 5.4.

The Chief Financial Officer, shall, 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

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obtained (by facsimile or e-mail) from the successful financial institution.

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 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.

For investments of a long term nature, that is, greater than one year, the Chief Financial Officer must provide evidence to the Municipal Manager that the funds are not required in the short term and that investing funds long term will not create liquidity problems.

The Municipal Manager must provide written approval prior to any investments being made.

8. REPORTING REQUIREMENTS

The Chief Financial Officer, as delegated by the Accounting Officer, must within ten working days of the end of each month, submit as part of the Section 71 Report, to the Mayor, a report describing the investment portfolio of the municipality for the month just ended.

The monthly report must set out the following;

- (a) the market value of each investment as at the beginning of the reporting period
- (b) any changes to the investment portfolio during the reporting period
- (c) the market value of each investment as at the end of the reporting period
- (d) fully accrued interest and yield for the reporting period.

9. CASH MANAGEMENT

Adequate and effective cash management is one of the main functions of the Chief Financial Officer or his/her Delegate.

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9.1 Debtor Collection

All funds due to the Council must be collected timeously and banked on a daily basis. Cash left in the safe, which poses a security risk, could result in higher insurance premiums to cover the additional risk and does not earn interest. Large sums of money received must be deposited into the bank account on the same day the payment is received.

It is important that all monies owing to the Council are correctly reflected in the debtors system. The following control measures are necessary:

- A well-managed debtors and banking control system will ensure that funds owed to the Council are received and banked; and
- It is also important to review debt collection performance by comparing the debtors outstanding in relation to total turnover and then comparing this to previous financial years, in order to determine whether the debt collection process is deteriorating or improving.

All monies collected by the Council must be banked in the bank account of the Council.

Moneys collected by some other agency on behalf of the Council shall be paid over to the Council or deposited in the bank account of the Council in a manner prescribed by the Municipal Manager.

The receipt of all monies collected by the Council shall be acknowledged forthwith by the issue of a numbered official receipt.

9.2 Receipt of Payments

Receipt of money over the counter:

- Every amount of payment received by a cashier or other officer responsible for the receipt of money shall be acknowledged at once by the issue of a numbered official receipt or cash ticket; and
- Every receipt form, which is cancelled, will be reattached, in the correct place, in the receipt book. Where computer generated receipts are used, the original receipt must be filed for audit purposes.

Receipt of Money by Post:

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- When money (including postal orders and cheques) is received with the Council's mail, the Registry Clerk shall record all payment remittances as and when received in the cheque register in the presence of a witness. Post-dated cheques received in the Council's mail must also be recorded in the cheque register. The cheque register shall be regarded as the register of remittances received by post;
- The cheque register together with all remittances received must be sent to a designated official in the finance section;
- The designated official on receipt of the cheque register together with the remittances will code all remittances and submit it to the cashier for receipting;
- The cashier will receipt all remittances and issue official receipts to the designated official;
- The designated official will record all receipts in the cheque register and return same to registry. The Registry Clerk must ensure that all receipts are recorded in the cheque register;
- All documents relating to remittances received in the mail must be filed for audit purposes;
- A separate register for postdated cheques will be maintained by the Registry Clerk and all postdated cheques must be stored safely in the Registry Strong room; and
- The Registry Clerk will ensure that all postdated cheques, which become due, are sent promptly to the designated official for receipting and recording of receipts in the postdated cheque register.

Payment of accounts other than petty cash disbursements shall be made by cheque from the municipality's primary bank account.

All requests for payments must be submitted to the Financial Services/Treasury Department. A head of a department or an officer of that department authorised to do so, shall certify in respect of each account to be paid for goods supplied or serviced rendered, that it is in order, that the goods or services have been supplied or rendered, that the price is correct and that it is within a vote authorised by Council.

9.3 Bank Overdraft

Council has an approved overdraft facility with its main Bank for possible unanticipated short term cash flow shortfalls.

It is however noted that it is the general policy of Council to avoid the use of this overdraft facility.

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9.4 Payment of Creditors

Creditors will be paid at least once per month. Should the facility be available, payments should be done by electronic transfer – subject to strict control measures.

When considering the time to pay a creditor, proper consideration must be given to the conditions of credit terms of payment offered:

- In cases where a cash discount is given for early settlement, the discount, if the relevant time scale is taken into account, will in most cases be more than any investment benefit that could be received from temporarily investing the funds.
- If discounts are offered for early settlement they must be properly considered and utilized.

Besides this, the normal conditions of credit terms of payment offered by suppliers, must also be considered and utilised to the full by paying on the due date and not earlier.

Payment of accounts other than petty cash disbursements shall be made by cheque from the municipality's primary bank account.

All requests for payments must be submitted to the Financial Services/Treasury Department. A head of a department or an officer of that department authorised to do so, shall certify in respect of each account to be paid for goods supplied or serviced rendered, that it is in order, that the goods or services have been supplied or rendered, that the price is correct and that it is within a vote authorised by Council.

9.5 Management of Stock

Cash management must be improved by seeing that adequate stock control is exerted over all goods kept in stock.

10 REVIEW OF POLICY

This Cash Management and Investment Policy must be reviewed annually. Any changes to this policy will be tabled to the Finance Standing Committee and on the recommendation of that committee will be submitted to the Executive Committee and Council for approval.