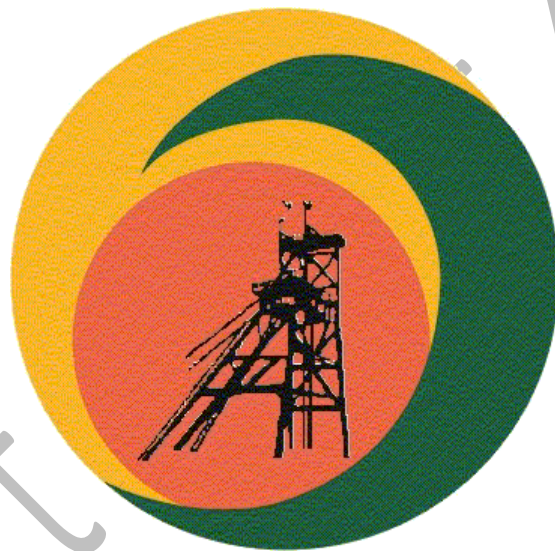


# **WEST RAND DISTRICT MUNICIPALITY**



## **BANKING AND INVESTMENT POLICY**

DATE OF APPROVAL:  
COUNCIL RESOLUTION NUMBER:

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## DEFINITIONS

<b>CFO</b>	An officer of a municipality designated by Municipal Manager to be administratively in charge of the budgetary and treasury functions..
<b>Current Liabilities</b>	Current and existing obligations which are due and payable within the subsequent twelve months including but not limited to <ul style="list-style-type: none"> <li>• Creditors</li> <li>• Bank Overdrafts and</li> <li>• Short term portion of the long-term liabilities</li> </ul>
<b>Investments</b>	In relation to funds of a municipality, means; preserving those funds not immediately required for the defraying of expenses and invested at approved financial institutions
<b>Municipal Manager</b>	A person appointed in terms of section 54A of the Municipality Systems Act, 1998 (Act 117 of 1998) as the head of municipality administration.
<b>Municipal Stock</b>	Stock certificate issued by the municipality as a proof of a long-term fixed period loan of which the capital is repayable at the end of the period. Interest is payable at predetermined intervals at a fixed rate.
<b>Negotiable Certificate</b>	A loan certificate that is tradable on the capital market.
<b>Current asset (inventory-perishable goods, Debtors and Cash)</b>	An asset that would, in the normal course of operations, be consumed or converted to cash within 12 months after the last reporting date.
<b>Public Funds</b>	All monies received by the municipality to perform the function allocated to them.
<b>Security</b>	Pledge, mortgage, cession or other form of collateral intended to secure the interests of the creditor
<b>SMME</b>	Small, medium and micro enterprises conducting business with the municipality
<b>End User Department</b>	A department within the municipality that directly interacts with a product, service, or system to perform their daily tasks or achieve their goals.
<b>Head of Department</b>	An officer of the municipality appointed by the municipal manager to manage a department within the municipality.

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## **PART 1: INVESTMENT POLICY STATEMENT**

The council of the municipality is the trustee of the public revenues, which it collects or receives as a grant, 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. These investments must only be made in the name of the municipality.

The investment policy of the municipality is therefore aimed at gaining the optimal 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 dependent on the accuracy of the municipality's cash management programme.

## **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 issued in terms of this Act.

## **PART 3: EFFECTIVE CASH MANAGEMENT**

### **3.1 Cash Collection**

All monies due to the municipality must be collected as soon as possible, either on due date or immediately and banked promptly.

### **3.2 Payments to Creditors**

The Chief Financial Officer shall ensure that all tenders and quotations invited by the municipality and contracts entered into by the municipality stipulate payment terms favourable to the municipality. This rule shall be departed from only where there are financial incentives for the municipality to effect earlier payment, and any such departure shall be approved by the Chief Financial Officer before any payment is made.

In the case of Small, Micro and Medium Enterprises (SMMEs), where such a policy may cause financial hardship to the contractor / service provider, 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 first. Any such early payment shall be approved by the Chief Financial Officer before any payment is made.

Notwithstanding the foregoing policy directives, the Chief Financial Officer shall 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 the Chief Financial Officer determines that there are financial incentives for the municipality to do so.

All payments shall be remitted strictly by means of electronic transfers.

Special payments to creditors shall only be made with the express approval of the Chief Financial Officer, who shall be satisfied that there are compelling reasons for making such payments prior to the normal bi-week / week / month end processing. The Chief Financial

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Officer shall ensure that payments to suppliers are made within 30 days of receiving the valid tax invoice from the end user department certified by the Head of the Department that the service / goods rendered / delivered satisfactorily.

### 3.3 Cash Management Programme

The Chief Financial Officer shall prepare an annual estimate of the municipality's cashflows divided into calendar months, and shall update this estimate on a monthly 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. 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.

Petty cash transactions of the municipality shall be affected by way of bank debit cards as will be determined by the CFO from time to time.

The Chief Financial Officer shall ensure that sufficient cash provision in the municipality's primary bank account is maintained for the payment of:

- Salaries;
- General expenditure;
- Capital cost (Interest and redemption);
- Maintenance and repairs;
- Payment to the creditors and suppliers; and
- Contractual obligations including lease contracts

All payments shall be remitted by electronic transfer subject to strict control measures.

The Chief Financial Officer shall report to the finance portfolio committee or the executive mayor, on a monthly basis and to ordinary council meeting on a quarterly basis 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 heads of departments must provide necessary information to the Chief Financial Officer in order to make informed cash flow projections.

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.

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### 3.4 Management of Bank Overdraft

Where the municipality operates on a bank overdraft, the council may increase the current credit facility 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.

The bank overdraft must be repaid within the financial year that it was incurred; and the council shall not renew or refinance a bank overdraft or short-term debt, whether its own debt or that of any other entity, where such renewal or refinancing will have the effect of extending the overdraft or short-term debt into a new financial year.

## PART 4: INVESTMENT ETHICS

The Chief Financial Officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in consultation with the Accounting Officer where necessary, and in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance.

In making such investments the Chief Financial Officer, shall at all times have only the best considerations of the municipality in mind, and, except for the outcome of the consultation process with the Accounting Officer, as the case may be, shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties.

No investment should be made with a mutual bank as mutual banks are not registered under the Banks Act, 1990 (Act No. 94 of 1990). Mutual banks are registered under the Mutual Banks Act 124 of 1993.

Neither the Chief Financial Officer nor the Accounting Officer may accept any gift, other than an item having such insignificant 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. The gifts received shall be in line with the council policies.

New investments be reported to Council on an annual basis, indicating the investment certificate as well as a statement showing the commission paid.

## PART 5: DELEGATION OF POWERS

ACTIVITY	RESPONSIBILITY
Alter policy	Council
Approve principal banker	Council
Approval of investments of a period exceeding 12 months	Council
Open / Close bank account	Municipal Manager
Signatories	Municipal Manager; Chief Financial Officer; and Manager: Expenditure Management
<b>Electronic Transfers</b>	
Final Authorization of payments	Municipal Manager; Chief Financial Officer; Manager: Expenditure Management; and Manager: Budget; Treasury and Asset Management
Uploading of transactions	Chief Financial Officer; Manager: Expenditure Management; and Manager: Budget, Treasury and Asset Management; and Credit Recon Officer
Capturing of transactions	Credit Recon Officer; Finance Officers; and Financial Interns
Limits per transaction	Municipal Manager – No limits Chief Financial Officer – R50 000 000 Manager Expenditure management – R 1 to R10 000 000 Manager: Budget, Treasury and Asset Management – R 1 to R10 000 000
Early payment / settlement of creditors	Chief Financial Officer
Manage investments	Chief Financial Officer

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## **PART 6: INVESTMENT PRINCIPLES**

### **6.1 Limiting Exposure**

Where large sums of money are available for investment, the Chief Financial Officer shall ensure that they are invested with more than one institution, wherever practicable, to limit the risk exposure of the municipality. The Chief Financial Officer shall further ensure that, as far as it is practically and legally possible, the municipality's investments are so distributed that more than one investment category is covered (that is, call, money market and fixed deposits).

### **6.2 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 with 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 investment institutions. The Chief Financial Officer shall consider any other administrative and operational risk such as failure to perform by the investment institution in his/her investment decision. Deposits shall be made only with registered deposit-taking institutions (see 6.3 below).

### **6.3 Acceptable Investments**

In making the investments the Chief Financial Officer shall ensure that investments are made only with one or more of the investing institutions set out in section 13 of Municipal Finance Management Act (No 56 of 2003) and Government Gazette No. 27431 of 1 April 2005.

According to Government Gazette No. 27431 of 1 April 2005, the following are permitted investments which a municipality may invest in –

- (a) Securities issued by the national government;
- (b) Listed corporate bonds with an investment grade rating from a national or internationally recognised 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 deposits of bank registered in terms of the Banks Act, 1990;
- (g) Guaranteed endowment policies with the intention of establishing a sinking fund;
- (h) Repurchase agreement with banks registered in terms of the Banks Act, 1990;
- (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 consulting with the Financial Services Board



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#### **6.4 Payment of Commission**

No fee, commission or other reward may be paid to a councillor or official of a municipality or to a director or official of a municipal entity or to a spouse or close family member of such councillor, director or official in respect of any investment made or referred by a municipality or municipal entity.

Every financial institution with which the municipality makes an investment (excluding short term deposit or call deposits) must issue a certificate to the Chief Financial Officer 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.

If an investee pays any fee, commission or other reward to an investment manager in respect of any investment made by a municipality or municipal entity, both the investee and the investment manager must declare such payment to the council of the municipality or the board of directors of the municipal entity by way of a certificate disclosing full details of the payment.

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

Before making any call or fixed deposits, the Chief Financial Officer, shall obtain quotations from at least three financial institutions.

Given the volatility of the money market, the Chief Financial Officer, 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 e-mail or any other expedient means).

Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of part 8 below) 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.

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

No investment with a tenure exceeding twelve months shall be made without the prior approval of the council, as the case may be.

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

The Chief Financial Officer 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 Chief Financial Officer shall ensure that all interest and capital properly 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 Chief Financial Officer shall ensure that the general ledger is reconciled with the investment certificates on an annual basis.

The Internal Auditor should at least audit the investments of the Council every six months and report to the Audit Committee and Council whether investments of Council are made, managed, and controlled in line with this policy.

## **PART 8: OTHER EXTERNAL INVESTMENTS**

From time to time, it may be in the best interests of the municipality to make longer-term investments in secure stock issued by the National Government, Eskom or any other reputable parastatal or institution, or by another reputable municipality. In such cases the Chief Financial Officer, 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.

No investment with a tenure exceeding twelve months shall be made without the prior approval of the council and without guidance having been sought from the municipality's bankers or other credible investment advisers on the security and financial implications of the investment concerned. If an advisor is engaged for this purpose, the Chief Financial Officer shall ensure that such advisor has the credentials specified for the "Investment Manager" in Regulation 1 to the Act.

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## **PART 9: INTEREST ON INVESTMENTS**

The Chief Financial Officer should take all reasonable steps to ensure that the interest earned on all investments is paid into the municipality's primary bank account in accordance with the requirements of the MFMA Act 2003. The interest should be disclosed in the municipality's accounting records in line with the Generally Recognised Accounting Practice (GRAP) framework and the Municipal Standard Chart of Accounts regulations at the end of the month that the interest is earned.

In the case of the external finance fund, the Chief Financial Officer may reduce the amount which must be annually invested to redeem any loan by the amount of interest so accrued.

## **PART 10: RAISING OF DEBT**

The Accounting Officer is responsible for the raising of debt. All debt shall be raised in strict compliance with the requirements of the Municipal Finance Management Act 2003, and only with the prior approval of the council unless pre-approved in terms of the municipality's Borrowing Policy.

Long-term debt shall be raised only to the extent that such debt is provided for as a source of necessary finance in the capital component of the approved annual budget or adjustments budget. And such debt shall not be at foreign currency.

Short-term debt 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 debt, both as to extent and duration, is clearly indicated in the cash flow estimates prepared by the Chief Financial Officer. Short-term debt shall be raised only to anticipate a certain long-term debt agreement or a certain inflow of operating revenues.

## **PART 11: INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES**

In managing the municipality's investments, the Chief Financial Officer 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 investments 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. The making of such investment shall be approved by the council at the time that the loan itself is approved.

If the loan raised is not a fixed term loan, but an annuity loan, the Chief Financial Officer shall 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.

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## **PART 12: BANKING ARRANGEMENTS**

The Accounting Officer is responsible for the management of the municipality's bank accounts but may delegate this function to the Chief Financial Officer. The Accounting Officer and the Chief Financial Officer are always authorised to affect EFTs and sign any documentation associated with management of such accounts. The Accounting Officer, 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 annually.

The municipality must open and maintain at least one bank account in the name of the municipality. A municipality may not open a bank account abroad or with an institution not registered as a bank in terms of the Banks Act, 1990.

In compliance with the requirements of good governance, the Accounting Officer 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 reserve or any other permissible reserve. One or more separate accounts shall also be maintained for the following: donations or contributions from whatever source; funds kept on behalf of other organs of state; 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 Chief Financial Officer, 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 account every five years and 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 Accounting Officer, 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 Mayor agrees to the invitation of such tenders.

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## PART 13: REPORTING OBLIGATIONS

Activity	By	To	Frequency
Cash flow estimates of each month and actual cash flows	Chief Financial Officer	Finance Portfolio Committee	Monthly
Cash flow estimates of each month and actual cash flows	Chief Financial Officer	Council	Quarterly
Monthly projections	Head of Departments	Chief Financial Officer	Monthly and Quarterly
Implementation of this policy	Internal Auditor	Audit Committee and Council	Half yearly
The names of signatories	Chief Financial Officer	Executive Mayor	Annually

In addition to reporting obligations specified above, the Chief Financial Officer shall report monthly to the Executive Mayor / Finance Portfolio Committee and quarterly to Council on the following:

- The market value of each investment at the beginning of the month
- Each additional investment made during the month
- Each investment re-called during the month
- Total interest received and/or accrued for the month

Where an investment has been re-called for the amount less than its opening market value, the Chief Financial Officer shall provide an explanation for such loss.

## PART 14: REVIEW OF THE POLICY

The council shall ensure that the Banking and Investment Policy is reviewed as part of the process of preparing its annual budget.