



The home of harmony, prosperity and growth

Banking and Investments Policy

1. Objectives of the Policy

- a) The council of the Ngwathe Local Municipality is the trustee of the public revenues, which it collects, and it therefore has an obligation to the community of Ngwathe Local Municipality to ensure that the municipality's cash resources are managed effectively and efficiently.
- b) 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.
- c) This investment policy 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.

2. Legislative Requirement

The municipality shall at all times manage its banking arrangements and investments and conduct its banking and Investment in compliance with the provisions of Municipal Finance Management Act No. 56 of 2003 and Municipal Investment Regulations.

3. Effective Cash Management

- a) The effectiveness of this investment policy is dependent 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.
- b) In order to establish and maintain effective cash management programme, the Chief Financial Officer shall prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a weekly basis.
- c) The estimate shall indicate when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments shall have to be liquidated, and when – *if applicable* – either long-term or short-term debt must be incurred. Heads of other departments shall in this regard furnish the Chief Financial Officer with all such information as is required, timeously and in the format indicated.

3.1 Revenue Collection

- a) 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.
- b) In cases where monies due to and collectible by the municipality become overdue, the Revenue Collection and Credit Control Policy shall immediately become applicable and enforceable.
- c) By approving the present policy the council pledges itself to unremitting support of and commitment to the municipality's Revenue Collection and Credit Control Policy.

3.2 Payments of Creditors

- a) The Chief Financial Officer shall ensure that all tenders 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 to or goods are received by 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.
- b) 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.
- c) 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.
- d) The Chief Financial Officer shall not ordinarily process 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.
- e) 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 month end processing.

3.3 Management of Inventory

- a) 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.
- b) Each head of department shall periodically review the levels of inventory held, and shall ensure that any redundant items be made available to the Chief Financial Officer for sale at a public auction or by other means of disposal, as provided for in the municipality's supply chain management policy.

4. Banking Arrangements

- a) The Accounting Officer is responsible for the management of the municipality's bank accounts, but has delegated this function to the Chief Financial Officer.
- b) The Accounting Officer and Chief Financial Officer are authorised at all times to sign any documentation associated with the management of the municipality's bank accounts.
- c) 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 Council committee on a quarterly basis, as part of the report dealing with the municipality's investments.
- d) 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 (if these accounts are legally permissible). One or more separate accounts may 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 permissible in terms of generally recognized accounting practice.
- e) However, all the money collected, received or earned by the municipality through its operations must firstly be deposited into the municipality's primary bank account before it can be re-deposited or transferred into any other account.
- f) The Accounting Officer 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

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 committee agrees to the invitation of such tenders.

5. Investment Ethics

- a) In making any 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 executive committee, shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties.
- b) Neither the Chief Financial Officer, Accounting Officer nor the Council member 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 goodshall by the donor, from any investment agent or institution or any party with which the municipality has made or may potentially make an investment.

6. Investment Principles

6.1 Transaction Procedures

- a) In terms of this policy, the Chief Financial Officer shall be responsible for investing the surplus revenues of the municipality, in consultation with the executive committee and only with an institution registered as a bank in terms of the Banks Act, 1990 (Act No. 94 of 1990).
- b) Before any investment is made, the Chief Financial Officer or his duly delegated official shall determine and identify the amounts surplus to the municipality's needs, as well as the time when and period for which such revenues are surplus.
- c) For all call or fixed deposits, the Chief Financial Officer or duly delegated official shall obtain written quotations from at least three financial institutions. This is specifically important for the purpose of comparison of the relevant terms and rates offered by such institution, whether the interest is payable monthly or only on maturity, etc.
- d) The Chief Financial Officer or duly delegated official 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).

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- e) 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.
- f) No investment in a foreign currency may be made prior to approval by Council.

6.2 Limiting Exposure

- a) 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, in order to limit the risk exposure of the municipality.
- b) 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).
- c) Where appropriate, the Chief Financial Officer shall obtain a professional advice on the degree of perceived risk of various institutions where investments may be made in order to limit exposure as far as possible.
- d) Based on professional judgment and any professional advice sourced, the Chief Financial Officer shall prevent any investment with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions.
- e) Under no circumstances shall the Council borrow monies for the purpose of re-investment, as this is tantamount to speculation using public funds.

6.3 Payment of Commission

Every financial institution with which the municipality makes an investment must issue a certificate to the Chief Financial Officer in regard to such investment, stating that such financial institution has not paid and shall not pay any commission and has not and shall not grant any other benefit to any party for obtaining such investment.

6.4 Condition on Tenure of Investments

No investment with a tenure exceeding twelve months shall be made without the prior approval of the Council.

7. Control Over Investments

- a) The Chief Financial Officer shall ensure that proper records are kept of all investments made by the municipality, including accurate and up-to date investments register. 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.
- b) 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.
- c) The Chief Financial Officer shall ensure that all investment documents and certificates are properly secured in a fireproof safe with segregated control over the access to such safe, or are otherwise lodged for safekeeping with the municipality's bankers or attorneys.
- d) On an annual basis, the Chief Financial Officer shall reconcile the general ledger with the investment certificates and investments register to ensure accuracy and correctness.

8. Other External Investments

- a) From time to time it may be in the best interests of the municipality to make long-term investments in secure stock issued by the national government, Eskom or any other reputable parastatal or institution, or by another reputable municipality.
- b) 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.

9. Investments for the Redemption of Long-Term Liabilities

- a) 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 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. The making of such investment shall be approved by the council at the time that the loan itself is approved.

- b) 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.

10. Recognition of Interest on Investments

- a) 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.
- b) 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.
- c) 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 appropriation account and re-appropriated to the asset financing reserve.

11. Reporting Requirements

- a) Within 10 working days of the end of each month, as part of reporting in terms of section 71 of MFMA, the Chief Financial Officer shall submit to the mayor of the municipality a report describing in accordance with generally recognised accounting practice the investment portfolio of the municipality at the end of the month.
- b) 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.
- c) 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.

12. Documentation

- a) The Chief Financial Officer shall exercise the highest degree of care in documenting investments of the municipality. The retention of all supporting documentation shall include, but not limited to the following:
- (i) Description of each investment made and reason for transaction.
 - (ii) Where applicable, statutory or any other Fund for which the investments made.
 - (iii) Name of the Bank / Institution with which the investment is made.
 - (iv) Transaction date and maturity date
 - (v) Interest rate and whether fixed or variable.
 - (vi) Investment value.
 - (vii) Investment number.

13. Review and Approval

This policy and underlying strategies shall be reviewed at least annually, or as necessary, to ensure its continued application and relevance.

Approved by Council on: _____