NKETOANA MUNICIPALITY

BANKING AND INVESTMENT POLICY

PART 1:

1. SCOPE

This policy applies to all banking and investments made by Nketoana Local Municipality (NLM).

PART 2:

2. DEFINITIONS

In this Banking and Investment Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned, shall mean:

(a) "council" means the Municipal Council of the Nketoana Local Municipality, its legal successors in title and its delegates;

(b) "Chief Financial Officer" means the person who is appointed by the Council as the CFO for the Municipality or his / her delegate;

(c) "Municipal Manager" means the person who is appointed by the Council as the head of the administration and as for the Municipality in accordance with section 82 of the Municipal Structure Act or his / her delegate;

(d) "SMME" means small, medium and micro enterprises in the supply chain management systems of the Municipality;

(e) "Investment", in relation to funds of a municipality, means;

- the placing on deposit of funds of a municipality with a financial institutions; or
- the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds.

PART 3:

3. 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 promulgated under the Act.

Applicable sections of this Act are attached as Annexure I to this policy.

PART 4:

4. **OBJECTIVES OF INVESTMENT POLICY**

(1) The Council is the trustee of the municipal funds, which it collects, and it therefore has an obligation to the community to ensure that the municipality's cash resources are managed effectively and efficiently.

(2) The council therefore has a responsibility to invest these public funds knowledgeably and judiciously, and must be able to account fully to the community in regard to such investments.

(3) The investment policy of the municipality is therefore aimed at gaining the optimal return in investments, without recklessly incurring undue risks, during those periods when cash revenues are not needed for capital purposes.

(4) The effectiveness of the 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.

PART 5:

5. **EFFECTIVE CASH MANAGEMENT**

5.1 **Cash Collection**

(1) All revenue due to the municipality shall be calculated on a monthly basis unless in particular instances where monthly accounts are uneconomical. All monies due to the municipality must be collected as soon as possible, either on or immediately after their due date, and banked on the primary or other specific and related account/s.

The municipality should strife by all means to collect monies due to it before their due date.

(2) The respective responsibilities of the Chief Financial Officer (CFO) and other Managers in this regard is defined in a code of Financial Practice approved by the Accounting Officer and the CFO, and this code of practice is attached as Annexure II to this policy.

(3) The unremitting support of and commitment to the municipality's credit control policy, both by the council and the municipality's officials, is an

integral part of proper cash collections, and by approving the present policy the council pledges itself to such support and commitment.

5.2 **Payments to Creditors**

(1) The CFO and all officials delegated with powers to enter into contracts on behalf of the municipality 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 the CFO taking into consideration the financial position of the municipality, shall approve any such departure before any payment is made.

(2) In the case of SMME's, where such a policy may cause financial hardship to the contractor, payment may be effected at the conclusion of the month during which such service is rendered or within seven days of the date of receipt of the invoice for services rendered, whichever is the later. The CFO shall approve any such early payment before any payment is effected.

(3) Notwithstanding the foregoing policy directives, The CFO or a delegated official 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 CFO or a delegated official determines that there are financial incentives for the municipality to do so.

(4) The CFO or a delegated official 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 non-transferable cheques. Cash, non-transferable or cash cheques may be used only for payment in exceptional cases and then only for

payments of up to R 1 000.00 in cash and non-transferable cheques for up to R 50 000.00 per transactional invoice

(5) Special payments to creditors shall only be made with the express approval of the CFO, who shall be satisfied that there are compelling reasons for making such payments prior to the normal processing.

5.3 Management of Inventory

(1) 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.

(2) Each head of department shall periodically review the levels of inventory held, and shall ensure that any surplus items be made available to the CFO for sale at a public auction or by other means of disposal, as approved for in the municipality's Supply Chain Management Policy

5.4 Cash Management Programme

(1) The CFO shall prepare an annual estimate of the municipality's cash flows divided into calendar month, 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, and when – if applicable – either long-term of short-term debt must be incurred.

(2) Heads of departments shall in this regard furnish the CFO with all such information as is required, timeously and in the format indicated.

(3) The CFO shall report to the executive committee, as the case may be, 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.

(4) The cash flow estimates shall be divided into calendar months, and in reporting the CFO shall provide comments or explanations in regard to any significant cash flow deviation in any movements in respect of the municipality's investments, together with appropriate details of the investments concerned.

PART 6:

6. **INVESTMENT ETHICS**

(1) The CFO shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in consultation with the chairperson of the executive committee and in compliance with any policy directives formulated by the Council and prescriptions made by the Minister of Finance.

(2) In making such investments the CFO, 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 chairperson of the executive committee, as the case may be, shall not accede to any influence by or interference from councilors, Investment agents or institutions or any other party either inside or outside the municipality

(3) Neither the CFO, the delegated official nor the chairperson of the executive committee, as the case may be, may accept any gift, other than an item having such negligible value that it cannot possibly be constructed 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.

PART 7

7. **INVESTMENT PRINCIPLES**

7.1 Limiting Exposure

(1) Where surplus funds are available for investment the CFO shall ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the municipality. The CFO 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).

(2) Investments which are determined to be inconsistent with the objective of preserving and protecting the principal amount ate prohibited.

7.2 **Risk and Return**

(1) Although the objective of the CFO in making investments on behalf of the municipality shall always be to obtain the best interest rate on offer, this consideration must be influenced by the degree of diversification required by the policy.

(2) No investment shall be made with an institution where it does not meet the requirements.

7.3 **Permitted Investments**

(1) From time to time it may be in the best interest of the municipality to make long-term investments. In such cases the CFO, 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.

(2) A municipality or municipal entity may invest funds only in any of the following investment types.

(3) Securities issued by the national government;

(4) deposits with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990), with investment grade rating of not lower than "A" from a nationally or internationally recognized credit rating agency;

(5) deposits with the Public Investment Commissioner as contemplated by the Public Investment Commissioners Act, 1984 (Act No 45 of 1984);

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

(7) banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990; with investment grade rating of not lower than "A" from a nationally or internationally recognized credit rating agency;

(8) Guaranteed endowment policies (with credit worthy institutions), with the intention of establishing a sinking fund;

(9) Municipal bonds issued by a municipality; and

(10) Any other investment type as the Minister any identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.

7.4 **Payment of commission**

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

(2) Every financial institution with which the municipality makes an investment must issue a certificate to the CFO 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 benefit to any party for obtaining such investment.

7.5 **Calls Deposits and Fixed Deposits**

(1) Before making any call or fixed deposits, the CFO, shall obtain quotations from at least three financial institutions.

(2) Given the volatility of the money market, the CFO, shall whenever necessary, request quotations telephonically, and shall record and keep on file 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 on maturity, and so forth);

(3) Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, e-mail or any other expedient means).

(4) Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of part 7 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 CFO 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.

7.6 **Restriction on Tenure of Investments**

(1) No investment with a maturity date exceeding twenty four months shall be made without the prior approval of the executive committee or the council, as the case may be.

PART 8

8. CONTROL OVER INVESTMENTS

(1) The CFO shall ensure that proper records are kept of all investments made by the municipality. Such records shall indicate that 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.

(2) The CFO 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.

(3) The CFO shall ensure that all investment documents and certificate are properly secured in a fireproof safe with segregated control over the access to safe, or are otherwise lodged for safekeeping with the municipality's bankers or attorneys.

PART 9

9. OTHER EXTERNAL INVESTMENTS

(1) From time to time it may be in the best interest 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.

(2) In such cases the CFO, 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.

(3) No investment with a tenure exceeding twelve months shall be made without the approval of the chairperson of the executive committee or the council, as the case may be, and without guidance having been sought from the municipality's bankers or other credible investment advisors on the security and financial implications of the investment concerned.

PART 10

10. **BANKING ARRANGEMENTS**

(1) The Municipal Manager is responsible for the management of the municipality's bank accounts. The Municipal Manager may without abdicating his/her overall and overseeing authority and responsibility partly or otherwise delegate this function to the CFO. The Municipal Manager and CFO are authorized at all times to sign cheques and any other documentation associated with the management of such accounts. Each cheque or electronic payments must be signed by at least two authorized signatories.

(2) The Municipal Manager, in consultation with the CFO, at a time may appoint one 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

(3) to the Executive committee, on a monthly basis, as part of the report dealing with the municipality's investments.

(4) In compliance with the requirements of good governance, the accounting officer shall open a primary bank account in the name of the municipality for ordinary operating purposes. The Municipal Manager may further maintain a separate account in the name of the municipality. The following monies must be deposited into the primary account: (see) section 8 (2) (a) to (d)

a. the administration of the external finance fund (loans)
b. the asset financing reserve
c. capital receipts in the form of grants, donations or contributions from whatever
d. trust funds
e. the municipality's self-insurance reserve

(5) In determining the number of additional accounts to be maintained, the Municipal Manager, in consultation with the CFO, shall have regard to the likely number of transactions affecting each of the accounts referred to.

(6) 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.

(7) 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.

(8) 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, as the case may be, agrees to the invitation of such tenders.

PART 11

11. RAISING OF DEBT

(1) The Municipal Manager is responsible for the raising of short-term loans. The Municipal Manager may delegate the debt management function to the CFO, who shall then manage this responsibility in consultation with the Municipal Manager. All short-term loans shall be raised in strict compliance with the requirements of chapter 6 of the Municipal Finance Management Act 2003, and only with the approval of the council.

(2) Long-term debt shall be raised only to the extent that such debt is provided for as a source of necessary finance for capital expenditure relating to property or equipment necessary to enable the municipality to render services and long-term refinancing purposes.

(3) Short-term loans 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 loans, both as to extent and duration, is clearly indicated in the cash flow estimates prepared by the CFO.

(4) Short-term debt shall be raised only to anticipate a certain long-term debt agreement enforceable allocations or a certain inflow of operating revenues.

PART 12

12. INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES

(1) In managing the municipality's investments, the CFO shall ensure that, whenever a long-term (non-annuity) loan is raised by the municipality, an amount is invested at least annually towards the redemption of the loan on establishing a sinking fund to redeem the loan on maturity.

(2) Such investment may 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.

PART 13

13. INTEREST ON INVESTMENTS

(1) The interest accrued on all the municipality's investments shall, in compliance with the requirements of Generally Recognized Accounting Practice / Generally Accepted Municipal Accounting Practice, be recorded in the first instance in the municipality's primary 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.

(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.

(3) If the accrual of interest to the external finance fund, unutilized 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 expropriated to the asset financing reserve.