



**NKOMAZI LOCAL MUNICIPALITY**

**MP324**

**CASH MANAGEMENT**

**AND**

**INVESTMENT POLICY**

## **VISION**

A leading Local Municipality that empowers its Communities through excellent service delivery

## **MISSION**

To enhance the quality of life of all people in the Nkomazi Local Municipality through a sustainable developmental system of Local Government and rendering of efficient, effective and affordable services.

## **MUNICIPALITY'S CORE VALUES**

The Nkomazi Local Municipality subscribes to the following core values:

- Accountability;
- Good Governance;
- Transparency;
- Integrity; and
- Responsiveness.

**Contents**

PART 1 LEGAL COMPLIANCE ..... 3

PART 2 OBJECTIVE OF INVESTMENT POLICY ..... 5

PART 3 EFFECTIVE CASH MANAGEMENT ..... 5

PART 4 INVESTMENT ETHICS ..... 9

PART 5 INVESTMENT PRINCIPLES ..... 10

PART 6 CONTROL OVER INVESTMENTS ..... 11

PART 7.OTHER EXTERNAL INVESTMENTS ..... 11

PART 8 BANKING ARRANGEMENTS ..... 12

PART 9 RAISING OF DEBT ..... 12

PART 11 INTEREST ON INVESTMENTS ..... 13

PART 12. REPORTING OBLIGATION ..... 13

PART 13. REVIEW OF POLOCIES ..... 13

PART 14. ANNEXURE I: PARAPHRASE OF REQUIREMENTS OF MUNICIPAL  
FINANCE MANAGEMENT ACT NO.56 OF 2003 ..... 13

PART 15. ANNEXURE II: PARAPHRASE OF REQUIREMENTS OF MUNICIPAL  
INVESTMENT REGULATIONS ..... 17

PART 16. ANNEXURE II: PARAPHRASE OF REQUIREMENTS OF MUNICIPAL  
SUPPLY CHAIN MANAGEMENT REGULATIONS ..... 23

PART 17. ANNEXURE IV: CODE OF PRACTICE ..... 23

## DEFINITIONS

**Accounting Standards Board** is a legislative entity established by chapter 11 of the Public Finance Management Act No.1 of 1999 to set standards of generally recognized accounting practice as required by section 216 (1) (a) of the Constitution.

**Cash** comprises cash on hand and demand deposits.

**Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Cash flows** are inflows and outflows of cash and cash equivalents.

**Fair value** is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

**GRAP-** general recognized accounting practice as required by section 216 (1) (a) of the Constitution to ensure transparency and expenditure control.

**Interest** money born from investment, which is expressed in a form of percentage rate over a certain period and reflects the rate of exchange of present consumption for future consumption

**Investment** means the placing the funds of the municipality on deposit with a financial institution in order to obtain interest or the equivalent

**Liquidity** means the ability to make funds available to meet all anticipated obligations and maintaining a prudent reserve to meet unanticipated cash requirements. It is also the ability to change an investment into its cash equivalent on short notice.

**Long-term investments** are funds not immediately required and deposited for a period exceeding one year, either as security to loans obligations or as an interest earning investments.

**Maturity** is the date upon which the principal or stated value of an investment becomes due and payable.

**Municipality** refers to Nkomazi Local Municipality.

**Municipal Manager or Accounting Officer** means a person appointed in terms of section 82 of the Municipal Structures Act.

**Policy** refers to the Cash Management Policy of Nkomazi Local Municipality.

**Risk Analysis** means that the overall value of funds shall not be diminished in the process of securing and investing those funds or over the duration of the investment.

**Short-term investments** are funds not immediately required and deposited for a period not exceeding one year.

**Trust money** is the money held in trust on behalf of third parties in a trust contemplated in terms of section 12 of the Municipal Financial Management Act.

**The Act or "MFMA"** means the Municipal Financial Management Act (Act 56 of 2003)

**The Regulation** means is the Municipal Investment Regulation No. R 308 Gazetted on 1 April 2005 in Gazette number 27431.

## **PART 1 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 the regulations issued in terms of that Act.

A paraphrase of the provisions of this Act is attached as Annexure I to this policy, and a paraphrase of the regulations as Annexure II.

## **PART 2 OBJECTIVE OF INVESTMENT POLICY**

The Council of the municipality is the trustee of the public revenues 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.

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.

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, 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 3 EFFECTIVE CASH MANAGEMENT**

### **3.1 Cash 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. The respective responsibilities of the chief financial officer and other heads of departments in this regard are defined in a code of financial practice approved by the municipal manager and this code of practice is attached as Annexure III to this policy.
- c. 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.

### **3.2 Payments to 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 favorable 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 accounting 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 surplus items be made available to the chief financial officer who must refer such items to the disposal committee for sale at a public auction or by other means of disposal, as provided for in the municipality's supply chain management policy.

### 3.4 Cash Management Programme

The chief financial officer shall in consultation with the accounting officer:

- a. Prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a weekly 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 or short-term debt must be incurred. 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.

- b. report to the mayoral committee, 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. 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.

### 3.5 Petty Cash

#### **TARGET AUDIENCE**

This applies to the following roles and/or positions

- Salaries Clerks
- Petty Cash Holders
- Accountant Expenditure
- Directors
- Political officer bearers

#### **REQUIREMENTS**

1. Request for petty cash float
  - a. The Chief Financial Officer approves a new Petty Cash Float and an amount for a Department requesting a petty cash facility
  - b. Once approved, the Chief Financial Officer takes full responsibility for the petty cash functioning in their respective offices
  - c. The Chief Financial Officer ensures that a suitable official (preferable Income official ) is appointed in writing as the Petty Cash Official and that this employee is adequately trained
  - d. The Chief Financial Officer is responsible for appointing and arranging training for an alternative petty cash official as back-up in cases where the appointed petty cash official resigns or takes any form of a leave
  - e. The Petty Cash Float operates on an imprest basis. Replenishment can only be requested for the amount disbursed, which is supported by valid supporting documentation, up to a maximum of the authorized size of the petty cash float.
  - f. The petty cash facility may not be utilized to cash any private or personal cheques

2. Petty Cash Safekeeping

- a. The safekeeping of petty cash is ultimately the sole responsibility of the Chief Financial Officer.

3. Money requested from Petty Cash (prior to a purchase being Made)

- a. Petty cash advances are not to be utilized for items classified as:
- (i) Non –Nkomazi business expenditure
  - (ii) Purchases of capital nature / Inventory items
  - (iii) Recurring expenses
  - (iv) Services to be rendered for longer than 30 days
- b. The Municipal official receiving a cash advance is entirely accountable for the amount of the advance
- c. Valid supporting documentation for petty cash purchases performed with petty cash advances, together with change, are to be submitted to the Petty Cash Official within 48 hours of the advance being received
- d. Any amount paid as an advance to an employee that is not settled or returned within 4 working days is recovered from the employee via a salary deduction during the next month
- e. All entries on the application form are in ink- no correcting fluid is permitted

4. Reimbursement from petty cash (after purchase has been made)

- a. Reimbursement from petty cash is only made with the written authorization from the CFO or his or her delegate.
- b. Procurement of products and services from petty cash are only made in accordance with the R200.00 limit as determined in the Supply Chain Management Policy of the Municipality.
- c. Petty Cash claims for subsistence and travel are not permitted
- d. No reimbursements are to be made for items classified as:
- (i) Non-Municipal business expenditure
  - (ii) Purchases of capital nature / Inventory
  - (iii) Recurring expenses
  - (iv) Services rendered for longer than 30 days
- e. No reimbursement from petty cash is made without valid supporting documentation
- f. All entries on the application forms are in ink- no correcting fluid is permitted

5. Balancing of petty cash
  - a. Petty cash is balanced and reconciled on a weekly basis to prevent the float from being depleted before replenishment takes place
  - b. The petty cash register is maintained electronically and backed-up daily. The register is printed on a weekly basis and kept on file
  - c. The petty cash register is reviewed and signed on a weekly basis
  - d. The petty cash float must be counted at least once a month on an unscheduled unannounced basis
  
6. Replenish Petty cash Float
  - a. The petty cash float operates on an imprest basis. Replenishment can only be requested for the amount disbursed, which is supported by valid supporting documentation, up to a maximum of the authorized size of the petty cash float.
  - b. Sufficient petty cash float must be maintained to ensure that the day-to-day requirements are accommodated and must be replenished as and when required.
  - c. All petty cash batches which are accumulated and grouped for replenishment must be reviewed and approved.
  
7. Petty Cash Hand –over Procedures
  - a. The petty cash official is responsible for informing the Manager concerned in advance of the intention to take leave.
  - b. The Manager is responsible for appointing an alternative petty cash official as a backup in case where the petty cash official resigns, or takes any form of leave.
  - c. Where petty cash official is sick or off without prior arrangements, the petty cash must be counted and balanced by two responsible officials.

#### **PART 4 INVESTMENT ETHICS**

The accounting officer and the chief financial officer acting on a resolution of the mayoral committee shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance.

In making such investments the accounting officer and the chief financial officer shall at all time have only the best considerations of the municipality in mind, and shall not accede to any influence by or interference from investment agents or institutions or any other outside parties.

The accounting officer and the chief financial officer may not accept any gift from any investment agent or institution or any party with which the municipality has made or may potentially make an investment.

## **PART 5 INVESTMENT PRINCIPLES**

### **5.1 Limiting Exposure**

Where large sums of money are available for investment the accounting officer and the chief financial officer shall in consultation with the mayoral committee, ensure that they are invested with more than one institution, wherever practicable, in order 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).

### **5.2 Risk and Return**

Although the objective of the accounting officer and 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. 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. Deposits shall be made only with registered deposit-taking institutions (see 5.6 below).

### **5.3 Types of Investments**

In making investments the accounting officer and the chief financial officer shall ensure that only one or more of the investment types set out in Regulation 6 to the Act are selected.

### **5.4 Acceptable Investing Institutions**

In making investments accounting officer and the chief financial officer shall further ensure that such investments are made only with one or more of the investing institutions set out in Regulation 6 to the Act.

### **5.5 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 will not any party for obtaining such investment.

### **5.6 Call Deposits and Fixed Deposits**

Before making any call or fixed deposits, the chief financial officer must as prescribed by the supply chain management policy obtain written quotations from at least three financial institutions.

Consistent with the supply chain management policy, the chief financial officer shall never request quotations telephonically.

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 accounting officer and 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.

#### 5.1 Credit Worthiness

The municipality must ensure it places its investments only with credit worth investees and the municipality must liquidate an investment where the credit rating falls below the acceptable rate;

#### List of current approved investees

ABSA Bank  
Investec Bank  
Ned Bank

Standard Bank  
FNB Bank

### **PART 6 CONTROL OVER INVESTMENTS**

The accounting officer and 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 accounting officer and the chief financial officer shall in consultation with the mayoral committee, 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 accounting officer and 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.

### **PART 7. 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 accounting officer and 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 investment adviser is engaged for this purpose, the accounting officer and the chief financial officer shall ensure that such adviser has the credentials specified for the "investment manager" in Regulation I to the Act.

## **PART 8 BANKING ARRANGEMENTS**

The municipal manager is responsible for the management of the municipality's bank accounts, but may delegate this function to the chief financial officer. The municipal manager and chief financial officer are authorised at all times to sign cheques and any other documentation associated with the management of such accounts. The municipal manager is authorized to appoint two or more 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 mayoral committee on a monthly basis and to the council on a quarterly basis, as part of the report dealing with the municipality's investments.

In compliance with the requirements of good governance, the municipal manager shall open a bank account for ordinary operating purposes, and shall further maintain a separate account for each of the following (as required): the administration of the external finance fund and of the capital replacement reserve one or more separate accounts shall also be maintained for the following (as required): capital receipts in the form of grants, donations or contributions from whatever source; trust funds; and the municipality's self-insurance reserve (if any). In determining the number of additional accounts to be maintained, the chief financial officer, in consultation with the accounting 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 municipal manager shall invite tenders for the placing of the municipality's bank accounts within six months after the election of each new council, or within a period of 5 years from the date on which the existing banking service contract became effective, whichever date is the earlier. However, such tenders may be invited at any earlier stage, if the chief financial officer, in consultation with the accounting officer, is of the opinion that the services offered by the municipality's current bankers are materially defective, or not cost-effective, and the council agrees to the invitation of such tenders. Wherever possible, new banking services contracts should take effect from the first day of the ensuing financial year.

The invitation of tenders for banking services must take place in compliance with the requirements of the supply chain management policy and Regulation 30 of the Municipal Supply Chain Management Regulations.

## **PART 9 RAISING OF DEBT**

The municipal manager is responsible for the raising of debt, but may delegate this function to the chief financial officer, who shall then manage this responsibility in consultation with the

municipal manager. 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.

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.

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 10 INVESTMENTS FOR THE REDEMPTION OF LONG-TERM LIABILITIES**

In managing the municipality's investments, the chief financial officer shall in consultation with accounting officer 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.

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.

### **PART 11 INTEREST ON INVESTMENTS**

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.

In the case of the external finance fund, the chief financial officer may in consultation with the accounting officer reduce the amount which must be annually invested to redeem any particular loan by the amount of interest so accrued.

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 re-appropriated to the capital replacement reserve.

### **PART 12: REPORTING OBLIGATIONS**

In addition to the reporting obligations specified in 3.4, the accounting officer and the chief financial officer shall report monthly to the Executive Mayor and quarterly to the council on the following:

- the market value of each investment at the beginning of each month
- each additional investment made during the month
- each investment liquidated during the month
- the market value of each investment at the end of the month
- total interest received and/or accrued for the month.

Where an investment has been liquidated for an amount less than its opening market value, the chief financial officer shall provide a brief explanation for such loss.

In addition, the accounting officer and the chief financial officer shall provide a brief performance evaluation of each investment indicating how such investment is performing both in comparison with other currently held investments and in the context of the expectations of the mayoral committee at the time the investment was made.

Finally, the accounting officer and the chief financial officer shall indicate how it is proposed to deal with investments which are not performing to expectation or which are performing unsatisfactorily in comparison with other investments, if the accounting officer and the chief financial officer has not already addressed the problem.

### **PART 13: ANNUAL REVIEW OF POLICY**

The Council shall ensure that its cash management and investment policy is reviewed as part of the process of preparing its annual budget

<b>ANNEXURE I: PHARAPHRASE OF REQUIREMENTS OF MUNICIPAL FINANCE MANAGEMENT ACT NO.53 OF 2003</b>
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### **PART 14**

Note: In terms of Section 60(2) of the Municipal Systems Act No. 32 of 2000 the council may delegate the authority to take decisions on making investments on behalf of the municipality only to the executive mayor, municipal manager or chief financial officer. The foregoing policy is based on the assumption that such authority has been delegated to the chief financial officer

### **SECTION 7: OPENING OF BANK ACCOUNTS**

Every municipality must open and maintain at least one bank account. This bank account must be in the name of the municipality, and all monies received by the municipality must be

paid into this bank account or accounts, promptly and in accordance with any requirements that may be prescribed.

A municipality may not open a bank account:

- otherwise than in the name of the municipality;
- abroad; or
- with an institution not registered as a bank in terms of the Banks Act 1990.

Money may be withdrawn from the municipality's bank account only in accordance with the requirements of Section 11 of the present Act.

### **SECTION 8: PRIMARY BANK ACCOUNT**

Every municipality must have a primary bank account, and if the municipality has only one bank account that account is its primary bank account. If the municipality has more than one bank account, it must designate one of those bank accounts as its primary bank account.

The following must be paid into the municipality's primary account:

- all allocations to the municipality;
- all income received by the municipality on its investments;
- all income received by the municipality in connection with its interest in any municipal entity;
- all money collected by a municipal entity or other external mechanism on behalf of the municipality, and;
- any other monies as may be prescribed.

The accounting officer of the municipality must submit to the national treasury, the provincial treasury and the Auditor-General, in writing, the name of the bank where the primary bank account of the municipality is held, and the type and number of the account. If the municipality wants to change its primary bank account, it may do so only after the accounting officer has informed the national treasury and the Auditor-General, in writing, at least 30 days before making such change.

### **SECTION 9: BANK ACCOUNT DETAILS TO BE SUBMITTED TO PROVINCIAL TREASURIES AND AUDITOR-GENERAL**

The accounting officer of the municipality must submit to the provincial treasury and to the Auditor-General, in writing, within 90 days after the municipality has opened a new bank account, the name of the bank where the account has been opened, and the type and number of the account; and annually, before the start of each financial year, the name of each bank where the municipality holds a bank account, and the type and number of each account.

## **SECTION 10: CONTROL OF MUNICIPAL BANK ACCOUNTS**

The accounting officer of the municipality must administer all the municipality's bank accounts, is accountable to the municipal council for the municipality's bank accounts, and must enforce compliance with Sections 7, 8 and 11 of the present Act.

The accounting officer may delegate the duties referred to above only to the municipality's chief financial officer.

## **SECTION 11: WITHDRAWALS FROM MUNICIPAL BANK ACCOUNTS**

Only the accounting officer or the chief financial officer of the municipality (presumably where this power has been appropriately delegated), or any other senior financial official of the municipality acting on the written authority of the accounting officer, may withdraw money or authorise the withdrawal of money from any of the municipality's bank accounts. Such withdrawals may be made only to:

- defray expenditure appropriated in terms of an approved budget;
- defray expenditure authorised in terms of Section 26(4) (this Section deals with situations in which the budget was not timeously approved, and the province has been compelled to intervene);
- defray unforeseeable and unavoidable expenditure authorised in terms of Section 29(1);
- in the case of a bank account opened in terms of Section 12, make payments from the account in accordance with Section 12(4);
- pay over to a person or organ of state money received by the municipality on behalf of such person or organ of state, including money collected by the municipality on behalf of such person or organ of state by agreement, or any insurance or other payments received by the municipality for such person or organ of state;
- refund money incorrectly paid into a bank account;
- refund guarantees, sureties and security deposits;
- make investments for cash management purposes in accordance with Section 13;
- defray increased expenditure in terms of Section 31; or
- for such other purposes as may be prescribed.

(Note that Section 11(1) does not expressly provide for the withdrawal of monies to pay creditors, where the relevant obligations arose in terms of the previous budget; to repay loans; or to repay consumer deposits).

Any authorisation to a senior financial official to withdraw money or to authorise the withdrawal of money from a bank account must be in accordance with the framework as may be prescribed. The accounting officer may not authorise any official other than the chief financial officer to withdraw money or to authorise the withdrawal of money from the

municipality's primary bank account if the municipality has a primary bank account which is separate from its other bank accounts.

The accounting officer must, within 30 days after the end of each quarter, table in the council a consolidated report of all withdrawals made other than withdrawals to defray expenditure appropriated in terms of the approved budget, and submit a copy of the report to the relevant provincial treasury and the Auditor-General.

## **SECTION 12: RELIEF, CHARITABLE, TRUST OR OTHER FUNDS**

No political structure or office bearer of the municipality may set up a relief, charitable, trust or other fund of whatever description, except in the name of the municipality. Only the municipal manager may be the accounting officer of any such fund.

A municipality may open a separate bank account in the name of the municipality for the purpose of such relief, charitable, trust or other fund. Money received by the municipality for the purpose of such fund must be paid into the bank account of the municipality, or if a separate bank account has been opened for such fund, into that account.

Money in a separate account opened for such fund may be withdrawn from the account without appropriation in terms of the approved budget, but only by or on the written authority of the accounting officer, acting in accordance with decisions of the council, and for the purposes for which, and subject to any conditions on which, the fund was established or the money in the fund was donated.

## **SECTION 13: CASH MANAGEMENT AND INVESTMENTS**

The Minister, acting with the concurrence of the cabinet member responsible for local government, may prescribe a framework within which municipalities must conduct their cash management and investments, and invest money not immediately required.

A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be so prescribed.

A bank where the municipality at the end of the financial year holds a bank account, or held a bank account at any time during such financial year, must, within 30 days after the end of such financial year, notify the Auditor-General, in writing, of such bank account, indicating the type and number of the account, and the opening and closing balances of that account in that financial year. The bank must also promptly disclose any information regarding the account when so requested by the national treasury or the Auditor-General.

A bank, insurance company or other financial institution which at the end of the financial year holds, or at any time during the financial year held, an investment for the municipality, must, within 30 days after the end of that financial year, notify the Auditor-General, in writing, of that investment, including the opening and closing balances of that investment in that financial year. Such institution must also promptly disclose any information regarding the investment when so requested by the national treasury or the Auditor-General.

## **SECTION 17: CONTENTS OF ANNUAL BUDGETS AND SUPPORTING DOCUMENTS**

The following documents must accompany each tabled annual budget (inter alia):

- a projection of cash flows for the budget year by revenue source, divided into calendar months
- particulars of the municipality's investments.

## **SECTION 22: PUBLICATION OF ANNUAL BUDGETS**

The accounting officer must make public, immediately after a annual budget is tabled, the budget itself and all the prescribed supporting documents, and invite comments from the local community in connection with such budget (and documents).

## **SECTION 36: NATIONAL AND PROVINCIAL ALLOCATIONS TO MUNICIPALITIES**

In order to provide predictability and certainty about the sources and levels of intergovernmental funding for municipalities, the accounting officer of a national or provincial department and the accounting authority of a national or provincial public entity responsible for the transfer of any proposed allocations to a municipality, must by no later than 20 January of each year notify the national treasury or the relevant provincial treasury as may be appropriate, of all proposed allocations and the projected amounts of those allocations to be transferred to each municipality during each of the next 3 financial years.

The Minister or the MEC responsible for finance in the province must, when tabling the national annual budget in the national assembly or the provincial annual budget in the provincial legislature, make public particulars of any allocations due to each municipality in terms of that budget, including the amount to be transferred to the municipality during each of the next 3 financial years.

## **SECTION 37: PROMOTION OF CO-OPERATIVE GOVERNMENT BY MUNICIPALITIES**

In order to enable municipalities to include allocations from other municipalities in their budgets and to plan effectively for the spending of such allocations, the accounting officer of every municipality responsible for the transfer of any allocation to another municipality, must, by no later than 120 days before the start of its budget year, notify the receiving municipality of the projected amount of any allocation proposed to be transferred to that municipality during each of the next 3 financial years.

## **SECTION 45: SHORT-TERM DEBT**

The municipality may incur short-term debt only in accordance with and subject to the provisions of the present Act, and only when necessary to bridge shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic income to be received within that financial year; or to bridge capital needs within a financial year, to be

repaid from specific funds to be received from enforceable allocations or long-term debt commitments.

The council may approve a short-term debt transaction individually, or may approve an agreement with a lender for a short-term credit facility to be accessed as and when required, including a line of credit or bank over facility, provided that the credit limit must be specified in the resolution of the council; the terms of the agreement, including the credit limit, may be changed only by a resolution of the council; and if the council approves a credit facility limited to emergency use, the accounting officer must notify the council in writing as soon as practicable of the amount, duration and cost of any debt incurred in terms of such a credit facility, as well as the options available for repaying such debt.

The municipality must pay off short-term debt within the financial year in which it was incurred, and may not renew or refinance short-term debt, whether its own debt or that of any municipal entity, where such renewal or refinancing will have the effect of extending the short-term debt into a new financial year.

#### **SECTION 46: LONG-TERM DEBT**

A municipality may incur long-term debt only in accordance with and subject to any applicable provisions of the present Act, and only for the purpose of capital expenditure on property, plant or equipment to be used for the purpose of achieving the objects of local government as set out in Section 152 of the Constitution; or refinancing existing long-term debt subject to the requirements of Section 46(5).

#### **SECTION 47: CONDITIONS APPLYING TO BOTH SHORT-TERM AND LONG-TERM DEBT**

The municipality may incur debt only if the debt is denominated in rand and is not indexed to, or affected by, fluctuations in the value of the rand against any foreign currency.

#### **SECTION 64: REVENUE MANAGEMENT (EXCERPTS)**

The accounting officer of the municipality is responsible for the management of the revenue of the municipality.

The accounting officer, must, among other things, take all reasonable steps to ensure that all money received is promptly deposited in accordance with the requirements of the present Act into the municipality's primary and other bank accounts.

The accounting officer must also ensure that all revenue received by the municipality, including revenue received by any collecting agent on its behalf, is reconciled on at least a weekly basis.

The accounting officer must take all reasonable steps to ensure that any funds collected by the municipality on behalf of another organ of state are transferred to that organ of state at least on a weekly basis, and that such funds are not used for purposes of the municipality.

## **SECTION 65: EXPENDITURE MANAGEMENT (EXCERPTS)**

The accounting officer of the municipality is responsible for the management of the expenditure of the municipality.

The accounting officer must take all reasonable steps to ensure, among other things, that payments made by the municipality are made direct to the person to whom they are due, unless agreed otherwise for reasons as may be prescribed, and either electronically or by way of non-transferable cheques, provided that cash payments and payments by way of cash cheques may be made for exceptional reasons only, and only up to a prescribed limit.

The accounting officer must also ensure that all money owing by the municipality is paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure.

The accounting officer must further ensure that the municipality's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework.

### **ANNEXURE II: PHARAPHRASE OF MUNICIPAL INVESTMENT REGULATIONS**

#### **PART 15 REGULATION 1: DEFINITIONS**

An investment manager shall mean a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act 1989 and Stock Exchanges Control Act 1985, contracted by a municipality or municipal entity to advise it on investments, and/or manage investments on its behalf.

#### **REGULATION 2: APPLICATION OF REGULATIONS**

The regulations apply to all municipalities and municipal entities, as well as to all investment managers acting on behalf of or assisting a municipality or municipal entity in making or managing its investments.

The regulations do not apply to any municipal pension or provident fund registered in terms of the Pensions Fund Act 1956 or any subsequent legislation, or in respect of trust monies received and administered by the municipality or municipal entity where a trust deed prescribes how such trust money is to be invested.

#### **REGULATION 3: ADOPTION OF INVESTMENT POLICY**

The municipality must an investment policy which must be adopted by the council of the municipality, and which must be consistent with the present regulations. Similarly, the board of directors of a municipal entity must adopt such an investment policy.

All investments made by the municipality or municipal entity, or by an investment manager on behalf of such municipality or entity, must be made in accordance with the investment policy and the present regulations.

#### **REGULATION 4: CORE ELEMENTS OF INVESTMENT POLICY**

The investment policy must be in writing, give effect to the present regulations, and set out:

- the scope of the policy;
- the objectives of the policy, with due regard to the provisions of the present regulations relating to the preservation and safety of investments as the primary aim, the need for investment diversification, and the liquidity needs of the municipality or municipal entity; and
- a minimum acceptable rating for investments, including a list of approved investment types and a list of approved institutions where or through which investments may be made.

In addition, such policy must specify the procedures for the invitation and selection of competitive bids or offers (presumably in regard to investments), and measures for ensuring the implementation of the policy and internal control over investments made.

The policy must further provide for procedures for reporting on and monitoring of all investments made, procedures for benchmarking and performance evaluation, the assignment of roles and functions, including any delegation of decision making powers, and, if investment managers are to be used, conditions for their use, including their liability in the event of non-compliance with the policy or present regulations.

Finally the policy must specify the procedures for the annual review of the policy.

#### **REGULATION 5: STANDARD OF CARE TO BE EXERCISED WHEN MAKING INVESTMENTS**

Investments by a municipality or municipal entity, or by an investment manager on behalf of such municipality or entity, must be made with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of such person's own affairs, may not be made for speculation but for genuine investment purposes only, and must in the first instance be made with primary regard being to the probable safety of the investment, in the second instance to the liquidity needs of the municipality or municipal entity, and lastly to the probable income derived from the investment.

#### **REGULATION 6: PERMITTED INVESTMENTS**

A municipality or municipal entity may invest funds only in one or more of the following investment types, whichever is the most appropriate to the expected future need for the resources concerned:

- securities issued by the National Government;
- list of corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency;
- deposits with banks registered in terms of the Banks Act 1990;
- deposits with the public investment commissioners as contemplated by the Public Investment Commissioners Act 1984;
- deposits with the corporation for public deposits as contemplated by the Corporation for Public Deposits Act 1984;
- bankers acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act 1990;
- guaranteed endowment policies with the intention of establishing a sinking fund;
- repurchase agreements with banks registered in terms of the Banks Act 1990;
- municipal bonds issued by a municipality; and
- any other investment types that the Minister of Finance, acting in consultation with the financial services board, may identify by regulation in terms of Section 168 of the Municipal Finance Management Act 2003.

#### **REGULATION 7: INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES PROHIBITED**

A municipality or municipal entity may make an investment only 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.

#### **REGULATION 8: PAYMENT OF COMMISSION**

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

If a 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 such investee and investment manager must declare such payment to the council of the municipality or the board of directors of the entity, as the case may be, by way of a certificate disclosing full details of the payment.

#### **REGULATION 9: REPORTING STRUCTURE**

The accounting officer of a municipality or a municipal entity, as the case may be, must within ten working days of the end of each month submit to the executive mayor of the municipality or the board of directors of the entity a report describing in accordance with Generally Recognised Accounting Practice the investment portfolio of such municipality or entity as at the end of such month.

Such report must set out at least:

- the market value of each investment as at the beginning of the reporting period;
- any changes in the investment portfolio during the reporting period;
- the market value of each investment as at the end of the reporting period; and
- fully accrued interest or yield for the reporting period.

#### **REGULATION 10: CREDIT REQUIREMENTS**

A municipality or municipal entity must take all reasonable and prudent steps consistent with its investment policy and in accordance with the standard of care set out in Regulation 5 to ensure that it places its investments with creditworthy institutions.

The municipality or municipal entity must regularly monitor its investment portfolio, and – when appropriate – liquidate any investment which no longer has the minimum acceptable rating as specified in its investment policy.

#### **REGULATION 11: PORTFOLIO DIVERSIFICATION**

A municipality or municipal entity must take all reasonable and prudent steps consistent with its investment policy and in accordance with the standard of care prescribed in Regulation 5 to diversify its investment portfolio across institutions, types of investment and investment maturities.

#### **REGULATION 12: MISCELLANEOUS PROVISIONS**

The responsibility and risk arising from any investment transaction, vests in the municipality or municipal entity

All investments must be in the name of the municipality or municipal entity, as the case may be.

A municipality or municipal entity may not borrow money for the purpose of making an investment.

#### **REGULATION 13: EXISTING INVESTMENTS**

Nothing in the present regulations shall compel a municipality or municipal entity to liquidate any investment which it had made prior to the date on which the present regulations took effect, merely because such investment does not comply with a provision of the present regulations.

#### **REGULATION 14: COMMENCEMENT**

These regulations took effect on 1 April 2005.

### **PART 16**

#### **Regulation 15: Petty Cash Purchases**

The supply chain management policy must stipulate the conditions for the procurement of goods by means of petty cash purchases, and such conditions must include:

- determining the terms on which a manager may delegate responsibility for petty cash to an official reporting to such manager;
- limiting the number of petty cash purchases or the maximum amounts per month for each manager;
- excluding any types of expenditure from petty cash purchases, if this is considered necessary; and
- requiring monthly reconciliation reports from each manager to the chief financial officer, including the total amount of petty cash purchases for such month, and receipts and appropriate documents for each purchase.

### **Regulation 30: Procurement of Banking Services**

A contract for the provision of banking services to the municipality must be procured through competitive bids, must be consistent with Section 7 of the MFMA, and may not be for a period of more than 5 years at a time.

The process for procuring a contract for banking services must commence at least 9 months before the end of the existing contract.

The closure date for the submission of bids may not be less than 60 days from the date on which the advertisement is placed in terms of Regulation 22(1).

**ANNEXURE IV: CODE OF PRACTICE IN REGARD TO PAYMENTS, REVENUE COLLECTION AND STORES**

Bids must be restricted to banks registered in terms of the Banks Act No. 94 of 1990.

### **PART 17**

#### **STORES ADMINISTRATION**

The chief financial officer shall be responsible for the proper administration of all stores. If sub-stores are established under the control of any head of department, such head of department shall be similarly responsible for the proper administration of such sub-store, and in doing so shall comply with the stock level policies as determined from time to time by the chief financial officer, acting in consultation with the head of department concerned. No sub-store may be established without the prior written consent of the chief financial officer.

#### **CONTRACTS: MANAGEMENT OF**

Within such general buying and related procedures as the chief financial officer shall from time to time determine, and further within the confines of any relevant legislation and of such rules and procedures as may be determined by the council:

- all buying contracts shall be administered by the chief financial officer in consultation with the accounting officer, and all payments relating to such contracts shall be authorized by the accounting officer; and
- all other contracts, including building, engineering and other civil contracts shall be administered by the head of department concerned, and all payments relating to such contracts shall be authorised by such head of department in accordance with the provisions of Section 3 below. The head of department concerned shall ensure that all payment certificates in regard to contracts are properly examined and are correct in all respects - before being submitted to the chief financial officer for payment.

## **PAYMENTS**

All payments, other than petty cash disbursements, shall be made through the municipality's bank account(s).

The chief financial officer shall draw all cheques on this account, and shall, in consultation with the municipal manager and with due regard to the council's policy on banking and investments, determine the rules and procedures relating to the signing of cheques, and from time to time jointly with the municipal manager decide on appropriate signatories.

All requests for payments of whatever nature shall be submitted on payment vouchers, the format of which shall be determined by the chief financial officer. Such vouchers shall be authorized in terms of such rules and procedures as are determined from time to time by the chief financial officer.

The maximum amount and nature of petty disbursements, where not covered by the general buying procedures referred to in Section 2, shall be generally determined from time to time by the chief financial officer. No cash float shall be operated without the authority of the chief financial officer, who shall prescribe such procedures relevant to the management of such float as are considered necessary, including the documentation required to support acceptable claims for petty cash reimbursements. All claims for reimbursements shall be signed by the head of department concerned, or by the official responsible for financial administration in such department, or if there is no such official by an official reporting to the head of department, and who has been delegated this authority by the head.

Purchases from petty cash shall additionally comply with the municipality's supply chain management policy and Regulation 15 of the Municipal Supply Chain Management Regulations.

The chief financial officer shall be responsible for the payment of all salaries and remuneration benefits to employees and councilors, and for the determination of the payment system to be used.

### **REVENUE AND CASH COLLECTION**

Every head of department shall be responsible for the collection of all moneys falling within the ambit and area of his or her designated functions.

The chief financial officer shall ensure that all revenues are properly accounted for.

The collection of all arrear revenues and the control of arrear accounts shall be co-ordinated by the chief financial officer in terms of any policies determined by the council. If it is clear that any revenues are not recovered or likely to be recovered after the necessary steps have been taken, the chief financial officer shall report the matter adequately and timeously to the council.

The chief financial officer shall ensure that adequate provision is maintained to cover the writing off of irrecoverable revenues, having due regard to the council's policy on rates and tariffs.

### **BANKING OF RECEIPTS**

Guidelines and procedures for the banking of cheques and other receipts shall, if necessary, be determined from time to time by the chief financial officer.

Where applicable, every head of department shall ensure that all revenues are banked daily with the municipality's banker(s), or less frequently if so approved by the chief financial officer.