

MSUNDUZI MUNICIPALITY

Policy Name:	CASH MANAGEMENT AND INVESTMENT POLICY
Policy Number:	
Status:	Final
Date:	31 March 2024
Approved By:	
Date Approved:	
Date Last Amended:	19 March 2023
Date for Next Review:	March 2025
Date Published on Intranet:	July 2024



The Msunduzi Municipality

Cash Management and Investment Policy

CASH MANAGEMENT AND INVESTMENT POLICY

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1. Introduction

This policy applies to Msunduzi Municipality, its municipal entities and its investment managers acting on behalf of or assisting it or a municipal entity in making or managing investments (Sec. 2: Gazette No. 308: 2005 Municipal Investment Regulations)

The municipality shall at all times manage its banking arrangements and investments and conduct its cash management activities 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

2. Objectives of the 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 objectives of the policy are:

- Chiefly to ensure the preservation and safety of Msunduzi City's investments.
- To ensure compliance with the relevant legal and statutory requirements relating to cash management and investments.
- To ensure diversification of the Municipality's investment portfolio across acceptable financial institutions permitted investment types and investment maturities.
- To ensure that the liquidity needs of the Municipality are properly and adequately addressed.

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. Consequently, the policy aims amongst other things, to reduce risk through investment diversification and effective treasury function management.

This investment policy is therefore aimed at gaining the highest possible 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.

3. Scope Of Policy

The Policy deals with:-

- Responsibility / Accountability;
- Investment instruments;
- Cash Management;
- Cash Management Principles;
- Investment ethics and principles;
- Investment procedures;
- Other external deposits; and
- Control over investments.

4. Responsibility / Accountability

- 4.1. The Municipal Manager as the Accounting Officer of the municipality is accountable for investment management.
- 4.2. The municipal council must approve a policy directing procedures, processes and systems required to ensure efficient and effective management of investments.
- 4.3. Efficient and effective investment management include:-
 - a) Accurately forecasting the institution's cash flow requirements.
 - b) Timing of the in- and outflow of cash.
 - c) Recognizing the time value of money.
 - d) Taking any other action that avoids locking up money unnecessarily and inefficiently.
 - e) Avoiding bank overdrafts.

5. Cash Management

- 5.1. To collect all monies as soon as possible after they become payable and deposit them into a bank account.
- 5.2. Effective control over expenditure and proper planning of payments.
- 5.3. Administer effectively and control available cash through the proper management of one or more bank accounts.
- 5.4. Before money can be invested, the Chief Financial Officer must determine whether there will be surplus funds available for the term of the investment.
- 5.5. In order to be able to make investments for any fixed term, it is essential that cash flow projections can be drawn up.
- 5.6. Provision must be made in the cash flow projections for the operating and capital requirements of the municipality:-
 - a) The cash flow projections operating requirements must include provisions for:-
 - (i) Payment of monthly salaries.
 - (ii) Payment for bulk purchases of electricity and water.
 - (iii) Interest on long-term loans.
 - (iv) Maintenance of assets.

- (v) General expenditure.
 - (vi) Expected daily and monthly income./cash inflows
- b) The cash flow projections capital requirement must provide for:-
- (i) The anticipated cash flow requirements for each capital project.

6. Cash Management Principles

The respective responsibilities of the Chief Financial Officer and other senior managers are articulated in the delegations framework of the Municipality. 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

The Chief Financial Officer/Delegate shall 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/Senior Managers shall in this regard furnish the Chief Financial Officer with all such information as is required, timeously and in the format indicated.

The Chief Financial Officer shall report to the Finance 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/Delegate 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.

The Chief Financial Officer shall monitor cash flows on a daily basis to ensure that Council is able to meet its financial commitments and that the operating bank account does not carry unduly high balances. Any surplus funds shall be transferred on a daily basis to a call account attracting the highest possible interest provided that those funds can be retrieved at short notice.

7. Investment ethics and principles

7.1. Standard of Care

- 1) Investments made by The Msunduzi Municipality and its municipal entities 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 that persons own affairs and in accordance with the standard of care set out in regulation 5; Gazette No. 308:2005 to ensure that it placed its investments with credit-worthy institutions.
- 2) All investments must be genuine investments that are, not made for speculation.
- 3) Investments must in the first instance be made with the primary regard being to the probable safety of the investments. In the second instance, to the liquidity needs of the municipality and lastly to the probable income derived from the investment.
- 4) Msunduzi Municipality or municipal entity must regularly monitor its investment portfolio; and when appropriate, liquidate an investment that no longer has the minimum acceptable credit rating as specified in this policy,
- 5) Msunduzi 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.
- 6) The Municipal Manager or delegated official will be responsible for the investment of funds, and he / she has to steer clear of outside interference, regardless of whether such interference comes from individual councillors, agents or any other institution.
- 7) Under no circumstances may he / she be forced or bribed into making an investment.
- 8) No member of staff may accept any gift unless that gift can be deemed so small that it would not have an influence on his / her work or was not intended to do so, and can merely be seen as goodwill.
- 9) No fee, commission or other reward may be paid to a Councillor or official of Msunduzi Municipality, or to a spouse or close family member of such Councillor or Official in respect of any investment made or referred by Msunduzi Municipality.
- 10) A certificate in respect of any gifts received should be furnished to the Municipality.

7.2. Limiting Exposure

- 1.1. The municipality must take all reasonable and prudent steps, consistent with its Investment Policy and according to the standard of care in section mentioned in 5.1 above:-
- 1.2. In terms of Gazette No. 308; 2005 S 4 (c) (ii) (bb) the policy must have due regard for the need for investment diversification. In terms regulation 10

(Gazette No. 308:2005) of Municipal Investment Regulations this investment may include the placing of investment portfolio across institutions, types of investments and investment maturities in order to limit the risk exposure of the municipality.

- 1.3. The municipality shall further ensure that investments are spread across more than one investment category or type, for example call, money market and fixed deposits and that the investment maturities are not all the same.
- 1.4. Interest rates offered should never be divulged to another financial institution.
- 1.5. Long-term investments should be made with an institution with at least a minimum F rating (where F refers to low risk institutions) however institutions without a credit rating should be considered in line with sec 217 subsection (1) a and b of the constitution.
- 1.6.
- 1.7. The maximum amount invested with a financial institution should not exceed 10% of the relevant institution's shareholder's funds (capital and reserves).
- 1.8. The municipality may not borrow money specifically for re-investment, as this would mean interest rates would have to be estimated in advance, which can be seen as speculation with public funds.
- 1.9. If the Municipal Manager invests with financial institutions, he/she must ensure that such institutions are registered in terms of the Banks Act, 1990 (Act No. 94 of 1990) and that they are approved financial institutions, as approved by the Reserve Bank of South Africa from time to time.
- 1.10. When making growth related investments, the Municipal Manager must obtain a guarantee that at least the capital amount invested is safe, and must exercise due diligence in this regard.

7.3. Risk and Return

Subject to section 4 (c) (ii) of the Municipal Cash Management and Investment Regulations, the Chief Financial Officer in making investments on behalf of the municipality shall always strive 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

8. Permitted Investments

In terms of Regulation 6 of the Municipal Investment regulations, the following investments are permitted:

- a) Securities issues by National Government
- b) Listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency.
- c) Deposits with bank banks registered in terms of the Banks Act, 1990(Act No. 94 of 1990)
- d) Deposits with Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984)
- e) Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984)
- f) Banker's acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, 1990
- g) Guaranteed endowment policies with the intention of a sinking fund
- h) Repurchase agreements with banks registered in terms of the Banks Act, 1990
- i) Municipal bonds issued by a municipality
- j) Any other investment type as the Minister may identify by regulation in terms of section 168 of the MFMA Act No. 56 of 2003

9. Prohibited Investments

The Municipality is prohibited from making the following investments:

- a) In listed or unlisted shares
- b) Derivative instruments
- c) Denominated in, or linked to, foreign currencies.
- d) In credit linked notes.
- e) The Municipality may not borrow for the purpose of investing
- f) Speculative money market instruments trading for profit.

10. Investment procedures

After determining whether there is cash available for investment and fixing the maximum term of investment, the Municipal Manager must consider the way in which the investment is to be made.

10.1. Short-term Investments:

- a) Quotations should be obtained from a minimum of three financial institutions (local banks), for the term of which the funds will be invested.
- b) Should one of the institutions offer a better rate for a term, other than what the municipality had in mind, the other institutions which were approached, should also be asked to quote a rate for the other term.
- c) Quotations should be obtained in writing.

- d) Quotations from institutions must include the following: -
 - (i) Name of institution;
 - (ii) Name of person quoting rates;
 - (iii) Period of the investment;
 - (iv) Relevant conditions; and
 - (v) Other facts, such as interest payable monthly or on maturation date.
- e) Once the required number of quotes has been obtained, a decision must be taken regarding the best terms offered and the institution with which funds are going to be invested.
- f) The best offer must under normal circumstances be accepted, with thorough consideration of investment principles.
- g) No attempt must be made to make institutions compete with each other as far as their rates and terms are concerned.
- h) The investment capital must only be paid over to the institution with which it is to be invested and not to an agent or third party.
- i) The financial institution where the investment is made must issue a confirmation stating the details of the investments.
- j) The Municipal Manager document, if issued, is an approved institution. must make sure that the investment genuine document and issued by the institution.
- k) The municipality must be given a monthly report on all investments.
- l)

10.2. Long-term investments:

- a) Written quotations must be obtained for all investments made for periods longer than twelve months.
- b) The municipal council must approve all investments made for periods longer than twelve months after considering the cash requirement for the next three years.

10.3. Withdrawals

All investment amounts withdrawn and not re-invested at the same institution at the time of withdrawal, shall be paid into the primary bank account.

All interest shall be paid into the primary bank account at the time of withdrawal of an investment, irrespective of the capital being re-invested.

11. Other external deposits

The principles and procedures set out above must apply to other investment possibilities subject to the applicable legislation, which is available to the municipality, including

debentures and other securities of the state as well as other municipalities or statutory bodies in the Republic of South Africa, instituted under and in terms of any law.

12. Control over investments

12.1. An investment register should be kept of all investments made. The following information must be recorded: -

- a) Name of institution;
- b) capital invested;
- c) date invested;
- d) interest rate;
- e) maturation date;
- f) interest received;
- g) capital repaid; and
- h) balance invested

13. Competitive selection process

- a) The selection of investee for any investment shall be a competitive process.
- b) Quotations shall be invited in the manner specified above, from at least three eligible investees for the terms for which the investment is to be made.
- c) In the event of one of the investees offering a more beneficial rate for an alternative term, the other investees initially invited to quote should be approached for their rates on the alternative term as indicated in the preceding paragraphs.
- d) Credit worthiness should form part of the evaluation of investees.
- e) Msunduzi Municipality may not invest with an investee whose credit rating was downgraded as a result of such investee's own financial operations.

14. Commencement

This policy and amendments shall be effective as from **1 July 2023**.