BANKING, CASH MANAGEMENT AND INVESTMENT POLICY

MARCH 2013

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PRINCE ALBERT MUNICIPALITY

BANKING, CASH MANAGEMENT AND INVESTMENT POLICY

1. OBJECTIVE AND SCOPE OF THE POLICY

1.1 The council and staff of the municipality, as trustees of public revenues, have an obligation to the community to ensure that the municipality's cash resources are managed effectively and efficiently.

1.2 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.

1.3 This policy is intended to provide a framework for ensuring the proper management and investment of its cash resources so as to ensure:

(1) that the net current asset requirements of the municipality are effectively managed;

(2) that sufficient cash resources are available to finance the capital and operating budgets of the municipality;

(3) that the highest possible return on investments is gained without unnecessary risk, during periods when excess funds are not immediately required;

(4) that in so doing, the primary aim of preserving and ensuring the safety of deposits is promoted;

(5) that there is effective control over the management of bank accounts; and

(6) that investments are diversified.

1.4 This policy shall apply to the management of all of the cash resources of the municipality and to all investments made by it.

2. ADOPTION AND AMENDMENT OF THE BANKING, CASH MANAGEMENT AND INVESTMENT POLICY

2.1 The municipal manager, through the chief financial officer or duly authorized person, must annually review the implementation of the Policy.

2.2 The municipal manager must submit a draft policy or subsequent amendments to the council for approval and take all reasonable steps to ensure that Prince Albert Municipality implements this policy, once council approval has been obtained.

3. LEGAL COMPLIANCE

3.1 The municipality shall at all times manage its banking arrangements and investments and conduct its cash and investments management policy in compliance with the provisions of:

(1) the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) ("the MFMA"); and

(2) any Regulations made there under, including, in particular, the Municipal Investment Regulations, published under GN R 308 in Government Gazette 27431 of 1 April 2005 ("the Investment Regulations").

4. EFFECTIVE CASH MANAGEMENT

4.1 Principles of Sound Cash Management

In order to promote sound cash management, the municipality shall adhere to the following principles:

(1) It shall collect revenue when it is due and bank it promptly;

(2) It shall make payments, including transfers to other levels of government and non-government entities, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the creditor's normal terms for account payments;

(3) It shall avoid pre-payment for goods or services (i.e. payments in advance of the receipt of goods or services), unless required by the contractual arrangements with the supplier;

(4) It shall accept discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the relevant treasury;

(5) It shall pursue and apply its debt collection policy to ensure that amounts receivable by the municipality are collected and banked promptly;

(6) It shall accurately forecast its cash flow requirements;

(7) It shall synchronise the inflow and outflow of cash;

(8) It shall recognise the time value of money by economically, efficiently and effectively managing cash;

(9) It shall take any other action as may promote the efficient utilisation of cash resources, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or under utilised assets; and

(10) It shall avoid bank overdrafts.

4.2 Cash Collection

(1) 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.

(2) The municipality shall endeavour to apply its Credit Control and Debt Collection Policy rigorously in order to promote the collection of moneys due to it. This includes charging interest and recovering other costs when appropriate and setting target dates when these are payable.

4.3 Receipt of Payments

(1) The receipt of all monies collected by the council shall be acknowledged forthwith by the issue of a numbered official receipt, as provided in this section.

(2) When money is received over the counter:

(a) Every amount of payment received by a cashier or other officer responsible for the receipt of money shall be acknowledged at once by the issue of a numbered official receipt or cash ticket; and

(b) Every receipt form which is cancelled will be reattached in the correct place, in the receipt book. Where computer generated receipts are used, the original receipt must be filed for audit purposes.

(3) When money is received by post:

(a) The registry clerk shall record all payment remittances as and when received in the cheque register in the presence of a witness;

(b) Post-dated cheques received in the council's mail must also be recorded in the cheque register, which shall be regarded as the register of remittances received by post;

(c) The cheque register together with all remittances received must be sent to the cashier;

(d) The cashier will receipt all remittances and issue official receipts;

(e) The cashier will record all receipts in the cheque register.

(f) All documents relating to remittances received in the mail must be filed for audit purposes;

(g) A separate register for post dated cheques will be maintained by the Cashier and all post-dated cheques must be stored safely in the registry strong room; and

(h) The cashier will ensure that all post-dated cheques, which become due, are promptly receipted and recorded in the postdated cheque register.

(4) When money is received by electronic transfer, such transfers must be immediately recorded and receipts must be issued.

4.4 Payments to Creditors

(1) The chief financial officer shall ensure that all tenders and quotations invited by and contracts entered into by the municipality stipulate payment terms favourable to the municipality, that is, payment to fall due not sooner than the conclusion of the month following the month in which a particular service *is* rendered to or goods are received by the municipality. This rule shall be departed from only where there are financial incentives for the municipality to effect earlier payment, and any such departure shall be approved by the chief financial officer before any payment is made.

(2) 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.

(3) 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.

(4) 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.

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

4.5 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 chief financial officer for sale at a public auction or by other means of disposal, as provided for in the municipality's supply chain management policy.

4.6 Cash Flow Estimates

(1) The chief financial officer shall prepare an annual estimate of the municipality's cash flows divided into calendar months, and shall update this estimate on a monthly basis.

(2) The estimate shall indicate:

- (a) when and for what periods and amounts surplus revenues may be invested;
- (b) when and for what amounts investments will have to be liquidated; and
- (c) when, if applicable, either long-term or short-term debt must be incurred.

(3) 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.

4.7 Reporting Requirements

(1) The chief financial officer shall report to the executive mayor, on a monthly basis and to every finance committee meeting -

- (a) the cash flow estimate or revised estimate for such month or reporting period respectively,
- (b) together with the actual cash flows for the month or period concerned, and cumulatively to date,
- (c) 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.

(2) 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) Such report shall also indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned.

(4) The chief financial officer shall report above to council on a quarterly basis.

5. INVESTMENT ETHICS

5.1 The chief financial officer 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, including, in particular, the Investment Regulations.

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

5.3 The municipality may appoint an investment manager/s to advise it on investments, manage investments on its behalf or advise it on investments and manage investments on its behalf.

5.4 An investment manager means a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, 1985(Act no.1 of 1985).

5.5 No councilor or official may accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than a token of 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.

5.6 Interest rates offered should never be divulged to another institution.

6. INVESTMENT PRINCIPLES

6.1 Limiting Exposure

(1) The chief financial officer shall 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 and fixed deposits).

6.2 Risk and Return

(1) Although the objective of the chief financial officer in making investments on behalf of the municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution and the investment instrument concerned.

(2) 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 5.4 below).

(3) Investment denominated in foreign currencies is prohibited. The municipality may only make an investment if it is denominated in Rand and is not indexed to, or affected by, fluctuations in the value of the Rand against any foreign currency.

6.3 Payment of Commission

(1) 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 pay any commission and has not and will not grant any other benefit to any party for obtaining such investment.

(2) If an investee pays any fee, commission or other reward to an investment manager in respect of any investment made by the municipality or one of it's entities, both the investee and the investment manager must declare such payment to the council or the board if directors of the entity by way of a certificate disclosing full details of the payment.

6.4 Call Deposits and Fixed Deposits

(1) Before making any call or fixed deposits, the chief financial officer, shall obtain quotations from at least three financial institutions with the best B rating or one grade less.

(2) Given the volatility of the money market, the chief financial officer shall, whenever necessary, request written quotations, and shall record in an appropriate register the following:

- (a) name of the institution;
- (b) name of the person contacted;
- (c) the relevant terms and rates offered by such institution; and
- (d) any other information which may be relevant (for example, whether the interest is payable monthly or only on maturity, and so forth).

(3) Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of paragraph 8 below) shall be paid over only to such institution itself and not to any agent or third party.

(4) Once the investment has been made, the chief financial officer shall ensure that the municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the municipality.

6.5 Restriction on Tenure of Investments

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

7. CONTROL OVER INVESTMENTS

7.1 The chief financial officer shall ensure that proper records are kept of all investments made by the municipality.

7.2 Such records shall indicate the following:

(a) the date on which the investment is made,

(b) the institution with which the monies are invested,

(c) the amount of the investment,

(d) the interest rate applicable, and

(e) the maturity date.

(If the investment is liquidated at a date other than the maturity date, such date shall be indicated).

7.3 The investment register and accounting records must be reconciled on an annual basis.

7.4 The investment register must be examined on a fortnightly basis to identify investments falling due within the next two weeks.

7.5 The chief financial officer shall ensure that any 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.

7.6 The chief financial officer shall ensure that investment documents and certificates are properly secured in a fireproof safe.

7.7 The following documents must be safeguarded:

(a) Fixed deposit letter or investment certificate;

(b) Receipt for capital invested;

(c) Copy of electronic transfer or cheque requisition;

(d) Excel schedule of comparative investment figures;

(e) Commission certificate, indicating no commission was paid on the investment; and

(f) Interest rate quoted.

8. OTHER EXTERNAL INVESTMENTS

8.1 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.

8.2 In such cases the chief financial officer, must be guided by the best rates of interest pertaining to the specific type of investment, which the municipality requires, and to the best and most secure instrument available at the time.

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

9. BANKING ARRANGEMENTS

9.1 The municipal manager is responsible for the management of the municipality's bank accounts, but may delegate this function to the chief financial officer.

9.2 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.

9.3 The municipal manager, in consultation with the chief financial officer, is authorised to appoint two or more additional signatories in respect of such accounts, and to amend such appointments from time to time.

9.4 The list of current signatories shall be reported to the finance committee at least once a year, as part of the report dealing with the municipality's investments and whenever there is a change in signatories.

9.5 In compliance with the requirements of good governance, the municipal manager shall open a bank account for ordinary operating purposes.

9.6 Separate accounts shall also be maintained whenever legislation requires separate accounts for specific purposes.

9.7 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.

10. RAISING OF DEBT

10.1 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.

10.2 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.

10.3 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.

10.4 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.

10.5 Short-term debt shall be raised only to anticipate a certain long-term debt agreement or a certain inflow of operating revenues.

11. INTEREST ON INVESTMENTS

11.1 The interest accrued on all the municipality's investments shall, in compliance with the requirements of generally recognized 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.

11.2 If the accrual of interest to unutilised capital receipts and trust funds results in a surplus standing to the account of any such funds, that is, an amount surplus to the resources required in respect of such funds or accounts, such surplus amount shall be credited by the chief financial officer to the appropriation account and re-appropriated to the asset financing reserve.

12. COMMENCEMENT

This Policy takes effect on 1 July 2013.

ANNEXURE A: PARAPHRASE OF REQUIREMENTS OF MUNICIPAL FINANCE MANAGEMENT ACT NO 56 OF 2003

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, executive committee 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 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 draft 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 draft 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 overdraft 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 payoff 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 B

GOVERNMENT GAZETTE N0. 27431, 1 APRIL 2005

Government Notices

NATIONAL TREASURY

No. R. 308 **1 April 2005**

LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT 2003 MUNICIPAL INVESTMENT REGULATIONS

The Minister of Finance, acting with the concurrence of the Minister for Provincial and Local Government, has in terms of section 168, read with section 13 and 99 (2) (g), of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), made the regulations as set out in the schedule.

SCHEDULE

Definitions

1. In these regulations, unless the context indicates otherwise, a word or expression to which a meaning has been assigned in the Act, has the same meaning, and –

"Act" means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

"investee" means an institution with which an investment is placed, or its agent;

"investment manager" means a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, 1989 (Act No. 1 of 1985), contracted by a municipality or municipal entity to -

(a) advise it on investments;

(b) manage investments on its behalf; or

(c) advise it on investments and manage investments on its behalf

"trust money" means money held in trust on behalf of third parties in a trust contemplated in terms of section 12 of the Act.

Application

2. (1) These regulations apply to -

(a) all municipalities;

(b) all municipal entities; and

(c) all investment managers acting on behalf of, or assisting, a municipality or municipal entity in making or managing investments.

(2) These regulations do not apply –

(a) to a pension or provident fund registered in terms of the Pension Funds Act, 1956 (Act No. 24 of 1956), or any subsequent legislation; or

(b) in respect of trust money administered by a municipality or municipal entity where a trust deed prescribes how the trust money is to be invested.

(3) Municipal pension or provident funds which do not comply with sub-regulation (2)(a) are exempted from these regulations until 30 June 2005.

(4) The accounting officer of a municipality and municipal entity must provide the National Treasury with details of all pension or provident funds that do not comply with sub-regulation (2)(a) within 30 days of promulgation of these regulations.

Adoption of investment policies

3. (1) The investment policy to be established by a municipality in terms of section 13 (2) of the Act, must be -

(a) adopted by the council of the municipality; and

(b) consistent with the Act and these regulations.

(2) The board of directors of a municipal entity must adopt an investment policy for the entity consistent with the Act and these regulations.

(3) All investments made by a municipality or municipal entity, or by an investment manager on behalf of a municipality or municipal entity, must be in accordance with the investment policy of the municipality or municipal entity and these regulations.

Core elements of investment policies

4. The investment policy of a municipality or municipal entity must -

(a) be in writing;

(b) give effect to these regulations; and

(c) set out –

(i) the scope of the policy;

(ii) the objectives of the policy, with due regard to the provisions of these regulations relating to –

(aa) the preservation and safety of investments as the primary aim;

(bb) the need for investment diversification; and

(cc) the liquidity needs of the municipality or municipal entity;

(iii) a minimum acceptable credit rating for investments, including –

(aa) a list of approved investment types that may be made, subject to regulation 6;

(bb) a list of approved institutions where or through which investments may be made, subject to regulation 10

(iv) procedures for the invitation and selection of competitive bids or offers in accordance with Part 1 of Chapter 11 of the Act.

(v) measures for ensuring implementation of the policy and internal control over investments made;

(vi) procedures for reporting on and monitoring of all investments made, subject to regulation 9;

(vii) procedures for benchmarking and performance evaluation;

(viii) the assignment of roles and functions, including any delegation of decision-making powers;

(ix) if investment managers are to be used, conditions for their use, including their liability in the event of non-compliance with the policy or these regulations; and

(x) procedures for the annual review of the policy.

Standard of care to be exercised when making investments

5. Investments by a municipality or municipal entity, or by an investment manager on behalf of a municipality or entity -

(a) must be made with such judgement and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs;

(b) may not be made for speculation but must be a genuine investment; and

(c) 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.

Permitted investments

6. A municipality or municipal entity may invest funds only in any of the following types -

(a) securities issued by the national government;

(b) listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency;

(c) deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);

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

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

(f) banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990;

(g) guaranteed endowment policies with the intention of establishing a sinking fund;

(h) repurchase agreements with banks registered in terms of the Banks Act, 1990;

(i) municipal bonds issued by a municipality; and

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

Investments denominated in foreign currencies prohibited

7. 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.

Payment of commission

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

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

Reporting requirements

9. (1) The accounting officer of a municipality or municipal entity must within 10 working days of the end of each month, as part of the section 71 report required by the Act, submit to the mayor of the municipality or the board of directors of the municipal entity a report describing in accordance with generally recognised accounting practice the investment portfolio of that municipality or municipal entity as at the end of the month.

(2) The report referred to in sub-regulation (1) must set out at least –

(a) the market value of each investment as at the beginning of the reporting period;

(b) any changes to the investment portfolio during the reporting period;

(c) the market value of each investment as at the end of the reporting period; and

(d) fully accrued interest and yield for the reporting period.

Credit requirements

10. (1) A municipality or municipal entity must take all reasonable and prudent steps consistent with its investment policy and according to the standard of care set out in regulation 5, to ensure that it places its investments with credit-worthy institutions.

(2) A municipality or municipal entity must -

(a) regularly monitor its investment portfolio; and

(b) when appropriate liquidate an investment that no longer has the minimum acceptable credit rating as specified in its investment policy.

Portfolio diversification

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

Miscellaneous provisions

12. (1) The responsibility and risk arising from any investment transaction vests in the relevant municipality or municipal entity.

(2) All investments made by a municipality or municipal entity must be in the name of that municipality or municipal entity.

(3) A municipality or municipal entity may not borrow money for the purpose of investment.

Existing investments

13. Nothing in these regulations compels a municipality or municipal entity to liquidate an investment which existed when these regulations took effect merely because such investment does not comply with a provision of these regulations.

Commencement

14. These regulations take effect on 1 April 2005.