

METSIMAHOLO LOCAL MUNICIPALITY

CASH MANAGEMENT POLICY



2021/2022

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CASH MANAGEMENT POLICY

PART 1: LEGAL COMPLIANCE

The Municipality shall at all times manage its banking arrangements 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 Management Finance Act, Act No 56 of 2003.

A paraphrase of the provisions of this Act is attached as Annexure A to this policy.

PART 2: OBJECTIVE OF POLICY

The Council 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.

PART 3: EFFECTIVE CASH MANAGEMENT

3.1 Cash Collection

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 where practical.

The respective responsibilities of the Chief Finance Officer and other Heads of Departments in this regard is defined in a code of financial practice approved by the Municipal Manager and the Chief Finance Officer, and this code of practice is attached as Annexure A to this policy.

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

The Chief Finance Officer shall ensure that all tenders and quotations invited by and contracts entered into by the municipality stipulates 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 Finance Officer before any payment is made.

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 Finance Officer before any payment is made.

Notwithstanding the foregoing directives, the Chief Finance 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.

All payments shall be effected by means of electronic transfers.

Special payments to creditors shall only be made with the express approval of the Chief Financial Officer, who shall be satisfied that there are compelling reasons for making such payments prior to the normal month end processing.

3.3 Management of Inventory

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.

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.

3.4 Cash Management Programme

The Chief Financial Officer shall prepare an annual estimate of the municipality's cash flow divided into calendar months, and shall update this estimate on a monthly basis, or more frequently should the circumstances warrant. 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.

The Chief Financial Officer shall report to the Mayor on a monthly basis and to every ordinary Council Meeting the cash flow estimate or revised estimate for such month or reporting period respectively, together with the actual cash flow for the month or period concerned, and cumulatively to date, as well as the estimates or revised estimates of the cash flow 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.

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

PART 4: 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 authorized at all times to authorize electronic payments and any other documentation associated with the management of such accounts. The Municipal Manager, in consultation with the Chief Financial Officer, is authorized to appoint two or more additional signatories in respect of such accounts and to amend such appointments from time to time.

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: the administration of the external finance fund and of the asset financing reserve (if these accounts are legally permissible).

One or more separate accounts shall also be maintained for the following: capital receipts in the form of grants, donations or contributions from whatever source; trust funds; and the municipality's self-insurance reserve (if legally permissible).

In determining the number of additional accounts to be maintained, the Municipal Manager, in consultation with the Chief Financial Officer, shall have regard to the likely number of transactions affecting each of the accounts referred to.

The Municipal Manager shall invite tenders for the placing of the municipality's bank accounts every five years. However, such tenders may be invited at any earlier stage if the Municipal Manager, in consultation with the Chief Financial Officer, is of the opinion that the services offered by the municipality's current bankers are

materially defective, or not cost-effective, and the Finance Committee agrees to the invitation of such tenders.

**PART 5: ANNEXURE A: PARAPHRASE OF REQUIREMENTS OF
MUNICIPAL FINANCE MANAGEMENT ACT, ACT NO 56 OF 2003.**

Note: The forgoing policy is based on the assumption that such authority has been delegated to the Municipal Manager / 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 Treasury 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 the Municipal Bank Accounts

The Accounting Officer of the municipality must administer the entire 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 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 authorize 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 authorized 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 authorized 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 authorize the withdrawal of money from a bank account must be in accordance with the framework as may be prescribed. The Accounting Officer may not authorize any official other than the Chief Financial Officer to withdraw money or to authorize 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 of 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

- 1.1. Section 13 (1) and (2) of the Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003) requires that a municipality establish an appropriate and effective cash management and investments, which the municipality must
 - a. Conduct its cash management and investments, and
 - b. Invest money not immediately required, in accordance with any framework which may be prescribed.
- 1.2. National Treasury issued a municipal investment regulation dated 1st April 2005 (Gazette no. 27431) which sets out a framework within which all municipalities shall conduct their 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 year holds a bank account, or held a bank account at a 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 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 Documentation

The following documents must, *inter alia*, accompany each tabled draft annual budget:

- 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 64: Revenue 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.

**PART 6: ANNEXURE B: CODE OF PRACTICE IN REGARD TO PAYMENTS,
REVENUE COLLECTION AND STORES.**

1. 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.

2. Contracts Management

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, and all payments relating to such contracts shall be authorized by the Chief Financial Officer or the Head of Department concerned: 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 authorized 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.

3. PAYMENTS

- 3.1 All payments, including petty cash disbursements, shall be made through the municipality's bank account.
- 3.2 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 or the person delegated to do so.
- 3.3 The maximum amount and nature of petty disbursements, where not covered by the general buying procedures, 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 may prescribe such procedures relevant to the management of such float as are considered necessary.
- 3.4 The Chief Financial Officer shall be responsible for the payment of all salaries and remuneration benefits to employees and councillors, and for the determination of the payment system to be used.

4 IMPLEMENTATION AND REVIEW OF THIS POLICY

- 4.1 This policy shall be implemented once approved by Council.
- 4.2 The policy shall be reviewed annually