MATJHABENG LOCAL MUNICIPALITY

LIABILITY, INVESTMENT AND CASH MANAGEMENT POLICY

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LIABILITY, INVESTMENT AND CASH MANAGEMENT POLICY

1. INTRODUCTION

1.1 As a trustee of public funds Council is exposed to risks that may arise from debt raising, investments and associated interest rate management activity.

1.2 The purpose of this policy is to ensure that public funds are safeguarded and risk is reduced to an acceptable level within a regulatory framework.

1.3 This policy is guided by the provisions of the Municipal Finance Management Act (MFMA) (Act 56 of 2003).

2. REGULATORY FRAMEWORK

- Legislation – MFMA
- Treasury regulations in terms of Section 13(1) of the Act.

3. OBJECTIVES

- To comply within the regulatory framework in terms of the relevant legislation.
- To manage Council's investments within its strategic objectives and invest surplus cash in liquid and creditworthy approved institutions.
- To raise appropriate finance, in terms of both maturity and interest rate.
- To manage the overall cash position of Council's operations.

In meeting the above objectives, Council is, above all, a risk adverse entity and seeks to minimise risk within its financial management activities. Interest rate risk, liquidity risk and credit risk are risks that Council needs to manage. Accordingly any activity which may be construed as speculative in nature is expressly forbidden.

4. RESPONSIBILITY AND ACCOUNTABILITY

The key responsibilities in terms of the MFMA are:

Council

- Approve borrowing during Annual Planning process.
- Approve additional new borrowing not determined during the annual planning process.
- Approve Cash Management Policy.

Accounting Officer (Municipal Manager)

- Opening and closing bank accounts

- Formally review the treasury policy at least once every 2 years.
- Delegate authority to the Chief Financial Officer (Manager : Finance)

Manager: Finance

- Negotiate borrowing facilities with approved lending institutions.
- Review monthly reports to monitor compliance with policy, procedures and risk limits.
- Recommend amendments to the policy and procedures to Council for approval.
- Overall responsibility for all activities relating to implementation of approved policy.
- Manage Council's relationship with financial institutions.
- Determine most appropriate source and terms and conditions of borrowing and recommend to Council for approval.

Head: Budget Office (HBO)

- Management responsibility for policy relating to borrowing, investment and risk management activity.
- Report treasury activities to Council on a monthly basis.

Chief Officer: Finance (COF)

- Responsible for keeping Head: Budget Office informed of significant policy activity and market trends.
- Review Bank reconciliations.
- Execute daily cash management, investment, borrowing and risk management activities.
- Compile daily cash position.
- Arrange all borrowing documentation and prepare authorization resolutions.
- Produce monthly reports on investment, borrowing and risk management activity.
- Complete reconciliation of treasury spreadsheet to general ledger (monthly).
- Six monthly reviews of credit ratings of banks.
- Manage Council's relationship with financial institutions.
- Ensure all borrowing has been approved by Council.

5. BORROWING POLICY

5.1 General Policy

Council borrows money by raising loans as it considers appropriate. Council approves borrowing by resolution. Projected debt levels are ascertained from detailed cashflow forecasts prepared during the Strategic and Annual Planning process.

Council raises money for the primary purpose of capital investment in assets, ie. property, plant or equipment to be used for the purpose of achieving the objectives of local government as set out in section 152 of the Constitution of South Africa.

In evaluating new borrowings (in relation to source, term, size and pricing) the Manager: Finance will take into account the following:

5.1.1 The size of the loan in relation to the economic life of the project.

5.1.2 Revenue, if any, flowing from the project.

5.1.3 The impact of the new debt on total debt and therefore on the borrowing limits.

5.1.4 Relevant margins under terms and conditions of each borrowing source.

5.1.5 Council's overall debt maturity profile, to avoid concentration of debt at re-issue/rollover time.

5.1.6 Prevailing interest rates relative to term for both stock issuance and bank borrowing and management's view of future interest rate movements.

5.1.7 Available terms from banks as well as stock issuance or annuity loans.

5.1.8 Legal documentation and financial covenants.

5.2 **Borrowing Limits**

In managing borrowing Council will adhere to the following limits (based on Council's latest core financial statements):

5.2.1 The maximum level of all long term external debt will not exceed 35% of total assets.

5.2.2 The gross interest and redemption expense of all external long term borrowing will not exceed 20% of total operating expenditure.

5.3 **Liquidity and Credit Risk Management**

Council's ability to readily raise cost effective borrowing depends on its ability to maintain a strong balance sheet as well as its ability to generate property rates and tariff income, manage its image in the money and capital market and its relationships with bankers.

To ensure funds are available on repayment of debt, maturities of investments and debt are matched through rolling cashflow forecasts, investments are maintained in liquid assets and funds are available through committed and/or uncommitted bank facilities.

5.4 **Security**

As a general principle, Council does not offer assets or special rates as security for general borrowing programmes, however:-

In the event of the lending institutions stipulating a requirement, Council may approve security by way of:

5.4.1 Charging a deemed rate or percentage of rates revenue; or

5.4.2 In special circumstances levy charge over one or more of the Council's assets; or

5.4.3 Offer the project to be funded by the loan(s) as security for the loan(s).

5.5 **Repayment**

The Council repays the capital and interest of each loan from the budget allocated to that particular loan.

5.6 Contingent Liabilities

Council may from time to time, provide financial guarantees within its legal capacity. Management ensures that the business plan of the guaranteed party furthers the strategic objectives of Council and that financial statements are received on a regular basis. Should the guarantee be called up, Council will take immediate steps to recover the money. Before granting the guarantee Council can seek to secure collateral guarantees from the organization members.

These actions will be guided by S50 of the MFMA.

5.7 Foreign Currency Borrowing

Council may not raise loans in a foreign currency.

6. INVESTMENT POLICY

6.1 General Policy

Generally Council will invest surplus funds just with deposit taking institutions registered in terms of the Bank's Act, 1990 (Act 94 of 1990), for terms not exceeding one year in anticipation of cashflow expectations.

From time to time, with prior Council approval, investments can exceed 1 [one] year and be made at other institutions/instruments as approved in the treasury regulations from time to time.

6.2 Diversification

Council will only make investments with approved institutions which has an A rating as per Appendix B.

Not more than 20% of available funds will be placed with a single institution except at the discretion of the CFO because of improved returns and excluding any investments made per Council resolution.

6.3 Quotations

At least three [3] written quotations must be obtained.

Acceptance of the above must be governed in order of priority by:

6.3.1 Preservation and safety of principal;
6.3.2 Liquidity; and
6.3.3 Yield
6.3.4 Where appropriate, match dates of repayment of maturing loans.

6.4 **Ownership**

All investments must be made in the name of the Council.

6.5 **Investment Managers**

These services can be utilised only with the prior approval of Council.

7. CASH MANAGEMENT POLICY

7.1 General Policy

It is recognised that from time to time, Council has cashflow surpluses and borrowing requirements due to daily receipts and payments.

Council maintains a daily cash position summary and a yearly cashflow projection is prepared during the annual planning process and is updated monthly. This determines Council's borrowing requirements and surpluses for investment. Cash invested "outside" the bank account is covered by section 6 of this policy.

7.2 Bank account

Council operates one primary bank and a secondary "cash" account for its day to day operational activity requirements.

All monies due to Council and due by Council emanating from Council activities must pass through this primary account.

7.3 Bank overdraft

7.3.1 Notwithstanding the fact that Council has a R10 000 000 approved overdraft facility with its primary banker, for possible unanticipated short-term debt, the general policy is to avoid going into overdraft.

Short-term debt is only incurred based on expected income and must be repaid within the same financial year.

7.3.2 Any short term facility requiring review must first be submitted to Council for approval.

8. PERFORMANCE MEASUREMENT

Measuring the effectiveness of Council's treasury activities is achieved through a mixture of subjective measures. The predominant subjective measure is the **overall quality of treasury management information**. The Manager: Finance has primary responsibility for determining this overall quality. Objective measures include:-

8.1 Borrowing:

8.1.1 Adherence to policy.
8.1.2 Unplanned overdraft costs.
8.1.3 Comparison of actual monthly and year to date costs vs. budget borrowing rate.

8.2 Investments:

8.2.1 Adherence to policy.
8.2.2 Timely receipt of interest income.

8.3 Debtors

8.3.1 Managing debtors in a manner that maintains the high rating achieved in 2003/04.

9. REPORTING

9.1 Reports

The following reports are produced:

Report Name	Frequency	Prepared by	Recipient
Bank Balance report	Daily	Expenditure Accountant	Chief Officer Finance
Investment	Monthly	Chief Officer Finance	Head Budget Office, Finance Manager, Council
Debt Report	Quarterly	Chief Officer Finance	Head Budget Office, Manager Finance, Council

10. DELEGATED AUTHORITIES & KEY INTERNAL CONTROLS

10.1 Delegated Authorities

ACTIVITY	RESPONSIBILITY
Alter policy	Council (after public consultation)
Approve principal banker	Council
Open/close bank accounts	Municipal Manager
Cheque signatories	Municipal Manager
Approve new borrowing	Council
Arrange new loans	Manager: Finance
Manage investments	Manager: Finance
Transfers of stock (selling of investments)	Manager: Finance
Register new debt issues	Manager: Finance

10.2 Key Internal Controls

Sound treasury procedures with appropriate controls are required to minimize risks the Council may experience through unauthorized treasury activity or unintentional error. The following key internal controls are adhered to: (taking cognizance of requirements of Auditor General, Internal Audit and Audit Committee).

10.2.1 Organisational Controls

- Manager: Finance has responsibility for establishing appropriate structures, procedures and controls to support borrowing, investment cash management and risk management activity.

- All borrowing, investment, cash management and risk management activity is undertaken in accordance with approved delegations.

Cheque/Electronic Banking Signatories

- Approved by Municipal Manager.

- Dual signatures are required for all cheques and electronic transfers (at least one primary signature).

- Cheques must be in the name of the counterparty crossed “Not Transferable” via the Council bank account except the “Cash” account which must always be at minimum levels.

- No cash cheques may be issued except with the approval of the CFO.

- Cash floats may be utilized. The level of the float may not exceed R1 000 and will be decided upon by the relevant manager in conjunction with the Manager: Finance

Authorised Personnel

- All counterparties are provided with a list of personnel approved to undertake transactions, standard settlement instructions and details of personnel able to receive confirmations.

10.2.2 **Borrowing**

In addition to the controls listed under Section 10.2.1, the following controls apply to borrowing:

- Borrowing activity is undertaken within the borrowing limits specified in Section 5 of the policy.

10.2.3 **Investments**

In addition to the controls listed under Section 10.2.1, the following controls apply to investments:

- Investment activity is undertaken within limits specified in Section 7 of the policy.

- All deliverable certificates of investments for example, bank bills are to be held in safe custody.

11. **Public Participation**

All borrowing and investments exceeding a term of [1] one year must be advertised in the local press to promote transparency and the public participation process.

12. **Review**

This Policy will be reviewed by the Chief Financial Officer at least once every two years.

APPENDIX A

APPROVED INSTITUTIONS

Bank Ratings

Banking Institution	Long-term
ABSA Bank Ltd	AA
Development Bank of SA	AAA
Firstrand Bank Ltd	AA
Gensec Bank Ltd	A
Imperial Bank Ltd	A+
Investec Bank Ltd	A+
Land and Agricultural Bank of SA	AA-
Nedbank Ltd	AA-
Standard Bank of South Africa Ltd	AA
South African Bank of Athens	A+

1. **Long-term ratings**

AAA- Obligations which have the highest rating assigned by Fitch IBCA on its nation rating scale for that country. This rating is automatically assigned to al obligations issued or guaranteed by the sovereign state. Capacity for timely repayment of principal and interest is extremely strong, relative to other obligors in the same country.

AA- Obligations for which capacity for timely repayment of principal and interest is very strong relative to other obligors in the same country. The risk attached to these obligations differs only slightly from his country’s highest rated debt.

A- Obligations for which capacity for timely repayment of principal and interest is strong relative to other obligors in the same country. However, adverse changes in business economic or financial conditions are more likely to affect the capacity for timely repayment than for obligations in higher rated categories.