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## Banking & Investment Policy

# Centlec (SOC) Ltd - Banking & Investment Policy

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CENTLEC (SOC) LTD	
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## **DEFINITIONS:**

**CFO:** An officer of the entity designated by Chief Executive Officer to be administratively in charge of the budgetary and treasury functions.

**Director:** A member of the Board of Centlec SOC Ltd.

**Current Liabilities:** Current and existing obligations which are due and payable within the subsequent twelve months.

**Investments:** Funds not immediately required for the defraying of expenses and invested at approved financial institutions.

**Chief Executive Officer:** A person appointed in terms of section 93J of the Municipal Systems Act as amended;

**Negotiable Certificate:** A loan certificate that is tradable on the capital market.

**Current asset (inventory-perishable goods, Debtors and Cash):** An asset that would, in the normal course of operations, be consumed or converted to cash within 12 months after the last reporting date.

**Public Funds:** All monies received by the entity to perform the function allocated to it.

**Security:** A lien, pledge, mortgage, cession or other form of collateral intended to secure the interests of the creditor.

**Entity:** means Centlec (SOC) Ltd

## **SECTION 1: OBJECTIVES OF BANKING AND INVESTMENT POLICY**

To ensure:

- a) Prudent investment of surplus cash;
- b) Risk averse cash handling procedures;
- c) Preservation and safety of investments;
- d) Provision of measures for investment diversification;
- e) Timeliness of cash collections and banking;

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- f) Maintaining favorable liquidity status, wherein the entity holds adequate cash or favorable bank balance in order to settle its obligations as and when they become due and payable;
- g) Continuously seek investment opportunities for surplus cash with an authorized financial services provider in a minimum risk investment exposure and
- h) Adherence to prescribed legal requirements for making investments.

## **SECTION 2: LEGISLATIVE CONTEXT**

The entity shall at all times manage its banking arrangements and investments and conduct its cash management policy in compliance with the provisions of and any further prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003 (MFMA).

Regulation 3(2) of Municipal Investment Regulation 2005 provides that the board of directors of a municipal entity must adopt an investment policy for the entity consistent with the Municipal Finance Management Act, 56 of 2003 and these regulations.

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

## **SECTION 3: SCOPE OF THE POLICY**

The policy deals with:

- a) Responsibility accountability;
- b) Management of net current assets;
- c) Investment ethics;
- d) Investment principles;
- e) General investment practice;
- f) Investment Procedures
- g) Other external deposit; and
- h) Control over investment.

## **SECTION 4: RESPONSIBILITY / ACCOUNTABILITY**

- a) Section 99 (1)(h) of MFMA places the responsibility on the Accounting Officer to ensure that the entity's available working capital is managed effectively and economically in terms of any prescribed cash management and investment framework.
  
- b) The Chief Financial Officer shall, in terms of the delegation of powers and in consultation with the Chief Executive Officer, be responsible for establishing:
  - (i) systems,
  - (ii) procedures,
  - (iii) processes and
  - (iv) training and awareness programmes to ensure efficient and effective management of net current assets banking and cash management.

## **SECTION 5: MANAGEMENT OF NET CURRENT ASSETS**

Current assets management shall include the following:

- a) Collecting revenue when it is due and receivable in line with the Credit Control Policy and Debt Collection Policies;
- b) Pay current liabilities as and when they become due and payable, including transfer to other levels of government entities;
- c) Avoiding pre-payments for goods or services (i.e. payments in advanced of the receipts of goods or services), unless required by the contractual arrangement with the supplier;
- d) Accepting discounts to effect early payments only when the payments has been included in the monthly cash flow estimates provided to the relevant treasury;
- e) Pursuing debtors with appropriate sensitivity and rigor to ensure that amounts receivable by the entity are collected and banked promptly;
- f) Timing the inflow and outflow of cash;
- g) Recognizing the time value of money, i.e. economically, efficiently managing cash;
- h) Taking any other action that avoids locking up money unnecessary and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or under utilised assets;
- i) Avoiding bank overdrafts;
- j) Management of net current assets;
- k) Debt collections;

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- l) Cash collected should be banked daily. Cash collected after the daily banking has been executed but during office hours should be restricted to authorized persons only, until the next business day when such cash should be banked;
- m) The level of cash on hand at any particular day should not exceed the amount comprehensively insured to be on site at any given time;
- n) In the event that such amount of money as may be insured has been reached prior end of business day, the Chief Financial Officer shall apply his discretion on a risk adverse approach whether to keep the excess not covered within the premises or to bank the excess;
- o) All monies owing to the entity must be collectively reflected in the debtors system;
- p) Any deferment of payment by an existing debtor should be allowed within the prescription of the Credit Control and Debt Collection policy; and
- q) Where the entity has entered into an agency relationship for collection of money, such collected money should be deposited in the bank account of the entity in the manner prescribed by the Accounting Officer, preferably within seven days after receipt.

## **5.1 Opening of bank accounts:**

The entity must open and maintain at least one bank account in the name of the entity and all money received by entity must be paid into its bank account or accounts, and this must be done promptly.

The entity may not open a bank account:

- a) abroad;
- b) with an institution not registered as bank in terms of Bank Act; 1990 (Act No. 94 of 1990); or
- c) otherwise than in the name of the entity

An entity must have a primary bank account. If an entity has only one bank account that account is its primary bank account; or has more than one bank account, it must designate one of those accounts as its primary bank account.

Money may be withdrawn from entity's bank account in terms of section 11(1) of the Municipal Finance Management Act.

The following moneys must be paid into or transferred to the entity's primary bank account:

- a) All allocations to the entity;
- b) All monies received by the entity on its investments;
- c) All money received by the entity in connection with its interest and dividends;

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- d) All money collected by entity or external mechanism on behalf of the municipality;
- e) Any other money as may be prescribed.

The Accounting Officer must submit to the Parent Municipality and the Auditor General, in writing, the name of the bank where the primary bank account of the entity is held, as well as the type and number of the account. If the entity wants to change its primary bank account, it may do so only after the Accounting Officer has informed the Parent Municipality and the Auditor General, in writing, at least 30 days before effecting the change.

The Accounting Officer must submit to the Parent Municipality and the Auditor General, in writing:

- a) within 90 days after the entity has opened a new bank account, the name of the bank where the account has been opened, as well as the type- and the number of account.
- b) annually before the start of a financial year, the name of each bank where the entity holds a bank account, as well as the type and the number of each account.

## 5.2 Management of Inventory (Stock)

- a) Cash management must be improved by ensuring that adequate stock control is exerted over all goods kept in stock.
- b) Minimum and maximum stock levels, reordering procedures, turnover rate of stock items must be reviewed quarterly to ensure that funds are not unnecessarily tied up in stock.
- c) A stock registers, reflecting the under mentioned detail must be kept and updated daily; amongst others it shall include:
  - (i) Item description;
  - (ii) Stores code number;
  - (iii) Transaction date;
  - (iv) Goods received;
  - (v) Delivery note number;
  - (vi) Number of items received;
  - (vii) Value of item received;
  - (viii) Goods issued;
  - (ix) Requisition number;
  - (x) Number of item issued;



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- (xi) Stock item number; and
  - (xii) Balance of items in stock.
- d) Stock count must be executed monthly and an annual report reflecting stock shortage and surpluses must be submitted to the board of directors as at 30 June of each financial year. All surpluses and shortage must be explained by the responsible Executive Manager.

### 5.3 Management of Cash

- a) In order to establish and maintain effective cash management programme, the Chief Financial Officer shall prepare an annual estimate of the entity'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.
- b) Cash float allocation to cashiers shall vary between R 500 and R 1,500 at different pay point / receipting points based on the operational needs as determined by the Chief Financial Officer.
- c) All payment shall be done by electronic transfer-subject to strict control measures.
- d) Proper consideration must be given to the conditions credit terms of payment offered; if discounts are offered by early settlement they must be properly considered and utilized.
- e) Payment must only occur on receipt of an official order, certified goods received note and official supplier tax invoice, receipt or cash slip.
- f) Supplier's tax invoices should be date stamped and signed by the relevant Executive Manager or Manager on receipt after confirming that the goods or services have been delivered.
- g) All invoices should be paid within 30 days in terms of Section 99(1)(b) of MFMA from the date the invoice is received and accepted as in order to avoid interest being charged.

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## **5.4 Cash Collection**

- a) All monies due to the entity must be collected as soon as possible, either on or immediately after due date, and banked on a daily basis.
- b) The procurement of banking services should follow the normal procurement processes as stipulated in the entity's supply chain management policy.
- c) The administration of bank account of the entity should be consistent with Section 85 and 86 of Municipal Finance Management Act, 56 of 2003.
- d) The unremitting support of and commitment to the municipal entity's Credit Control and Debt Collection policy, both by the board of directors and the entity's officials, is an integral part of proper cash collections, and by approving the present policy the board of directors pledges itself to such support and commitment.

## **5.5 Payments to Creditors**

- a) The Chief Financial Officer shall ensure that all tenders and quotations invited by and contracts entered into by the entity stipulate payment terms favourable to the entity, i.e. 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 entity. This rule shall be departed from only where there are financial incentives for the entity to effect earlier payment, and the Chief Financial Officer shall approve any such departure before any payment is made.
- b) In the case of SMME's, payment may be effected at the conclusion of the month or within (7) seven days of the date of receipt of the invoice for services rendered, whichever is the earlier. The Chief Financial Officer shall approve any such early payment before any payment is effected.
- c) 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 scheduled payment processing periods.

## **5.6 Cash Management Programme**

- a) The Chief Financial Officer shall prepare an annual estimate of the entity's cash flows divided into calendar months, and shall update this estimate on a monthly basis.

## **5.7 Management of Bank Overdraft**

- a) The entity shall apply for a Bank Overdraft facility / increase the current facility for the entity 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.
- b) The entity must pay off bank overdraft or any short-term debt within the financial year that it was incurred; and shall not renew or refinance a bank overdraft or short-term debt, whether its own debt or that of any other entity, where such renewal or refinancing will have the effect of extending the overdraft or short-term debt into a new financial year.
- c) The board of directors can only approve a bank overdraft on the submission of a projected cash flow statement indicating the anticipated income stream or a certificate stating the approved grant or long-term loan.

<b>SECTION 6: INVESTMENT ETHICS</b>
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- a) In making any investments the Accounting Officer, shall at all times have only the best considerations of the entity in mind, and, except for the outcome of the consultation process with the board of directors, shall not accede to any influence by or interference from, individual board members, investment agents or institutions or any other outside parties.
- b) Neither the Accounting Officer (CEO) nor the Chief Financial Officer 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 entity has made or may potentially make an investment.

## **6.1 Payment of Commission**

- a) No fee, commission or other reward may be paid to a board member, councillor of Mangaung Metro Municipality or official of the entity or Mangaung Metro Municipality or to a spouse or close family member of such board member, councillor or official, in respect of any investment made or referred by the entity.
- b) The investee must declare in writing that no fees, commission or other reward was paid or will be paid to persons mentioned above.

## SECTION 7: INVESTMENT PRINCIPLES

### 7.1 Standard of Care

Investments by the entity or by an investment manager on behalf of a municipality or entity:

- a) 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 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 entity and lastly to the probable income derived from the investment.

### 7.2 Limiting Exposure

- a) Where surplus funds are available for investment the Chief Financial Officer shall ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the entity.
- b) The Chief Financial Officer shall further ensure that, as far as it is practically and legally possible, the entity's investments are so distributed that more than one investment category is covered (that is, call account, money market and fixed deposits).
- c) Where appropriate, the Chief Financial Officer shall obtain professional advice on the degree of perceived risk of various institutions where investments may be made in order to limit exposure as far as possible.
- d) Based on professional judgment and any professional advice sourced, the Chief Financial Officer shall prevent any investment with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions.
- e) Under no circumstances shall the board of directors borrow monies for the purpose of re-investment, as this is tantamount to speculation using public funds.

### 7.3 Risk and Return

- a) Although the objective of the Chief Financial Officer in making investments on behalf of the entity shall always be to obtain the best interest rate on offer, this consideration must be influenced by the degree

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of diversification required by the policy. No investment shall be made with an institution where it does not meet the requirements provided in this policy.

### 7.4 Permitted Investments

- a) From time to time it may be in the best interest of the entity to make longer-term investments. In such cases the CFO, must be guided by the best rates of interest pertaining to the specific type of investment, which the entity requires, and to the best and most secure instrument available at the time.
- b) The entity may invest funds only in any of the following investment types:
  - (i) Securities issued by the national government;
  - (ii) Listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
  - (iii) deposits with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990 as amended), with investment grade rating of not lower than "A" from a nationally or internationally recognized credit rating agency;
  - (iv) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No 45 of 1984);
  - (v) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No 46 of 1984);
  - (vi) banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 as amended; with investment grade rating of not lower than "A" from a nationally or internationally recognized credit rating agency;
  - (vii) Guaranteed endowment policies (with credit worthy institutions), with the intention of establishing a sinking fund;
  - (viii) Municipal bonds issued by a municipality; and
  - (ix) 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.

### 7.5 Investments Denominated in Foreign Currencies Prohibited

- a) The 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.

## **7.6 Credit Requirements**

- a) The 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 of Municipal Investment Regulations, 2005 to ensure that it places its investments with credit-worthy institutions.
- b) The 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.

## **7.7 Condition on Tenure of Investments**

- a) No investment with a tenure exceeding twelve months shall be made without the prior approval of the board of directors.

## **7.8. Growth –related Investment**

- a) When making investment, the Chief Financial Officer or his/her delegate must have a guarantee that at least the capital amount invested will not reduce other than through known service charges and must exercise due diligence in this regard.

<b>SECTION 8: GENERAL INVESTMENT PRACTICE</b>
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## **8.1 General**

- a) In terms of this policy, the Chief Financial Officer shall be responsible for investing the surplus revenues of the entity, in consultation with the Accounting Officer and only with an institution registered as a bank in terms of the Banks Act, 1990 (Act No. 94 of 1990).
- b) Before any investment is made, the Chief Financial Officer or his duly delegated official shall determine and identify the amounts surplus to the entity's needs, as well as the time when and period for which such revenues are surplus.
- c) Prior to making an investment, the Supply Chain Management policy must be complied with in as far as it relates to acquisition of banking services.

## 8.2 Commission certificate

- a) The Auditor-General requires the financial institution, where the investment is made, to issue the certificate for each investment made. This certificate must state that no commission has, nor will, be paid to any agent or third party.

## 8.3 Reporting Requirements

- a) The Accounting Officer must, within **10** working days of the end of each month, as part of the section 87 report required by MFMA, submit to the board of directors a report describing in accordance with generally recognized accounting practice the investment portfolio of the entity as at the end of the month.
- b) The report referred must set out at least:
  - (i) the market value of each investment **as at** the beginning of the reporting period;
  - (ii) any changes to the investment portfolio during the reporting period;
  - (iii) the market value of each investment as at the end of the reporting period; and
  - (iv) fully accrued interest and yield for the reporting period.

## 8.4 Cash in the bank

- a) Where money is kept in current account, it would be possible to bargain for more beneficial rates with regards to deposits, for instance call deposit. Fixed term deposits can increase these rates. The most important factor is that the cash in the current account must be kept to an absolute minimum.

## 8.5 Interest on Investments

- a) The interest accrued on all the municipality's investments shall, in compliance with the requirements of generally recognised accounting practices, be recorded as revenue in accordance with prescribed accounting standards.

## 8.6 Creditworthiness

- a) When investments are placed with smaller registered institutions, the Chief Financial Officer or his/her delegates has to ensure that the creditworthiness and performance of the institution are to his/her satisfaction, before investing money in the institution.

- b) Where appropriate, the Chief Financial Officer or his/her delegates shall be entitled to require any information relating to the creditworthiness of any financial institutions with which the entity has investment, to enable them to analyze it and advise the Accounting Officer accordingly.

### **8.7 Investments for the Redemption of Long-Term Liabilities**

- a) In managing the entity's investments, the Chief Financial Officer shall ensure that, whenever a long-term (non-annuity) loan is raised by the entity, an amount is invested at least annually towards the redemption of that loan on maturity, or in guaranteed endowment policies with the intention of establishing a sinking fund to redeem the loan on maturity.
- b) Such investment may be made against the bank account maintained for the external finance fund, and shall be accumulated and used only for the redemption of such loan on due date. The making of such investment shall be approved by the board of directors at the time that the loan itself is approved.

<b>SECTION 9: INVESTMENT PROCEDURES</b>
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- a) For all types of investment, the Chief Financial Officer or duly delegated official shall obtain written quotations from at least three financial institutions. This is specifically important for the purpose of comparison of the relevant terms and rates offered by such institution, whether the interest is payable monthly or only on maturity, etc.
- b) Once the required number of quotes have been obtained, a decision must be taken regarding the best term offered and the institution with which funds are going to be invested. The best offer must under normal circumstances be accepted, with thorough consideration of investment principles. No attempts must be made to make institutions compete with each other as far as their rates and terms are concerned.
- c) If institutions have been asked for a quotation with regard to a specific package, the institutions must be requested to give the best rate in their quotation. They must also be informed that, once the quotation has been given, no further bargaining or discussions will be entered into in that regard.
- d) The person responsible for requesting quotations from institutions must record the following:
  - (i) Name of institutions;
  - (ii) Name of person quoting return rates;



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- (iii) Period of the investment;
  - (iv) Relevant terms; and
  - (v) Other facts i.e. are interested payable monthly or on maturation date.
- e) Once a quote has been accepted written confirmation of the details must be obtained from the financial institution. The Chief Financial Officer must ensure that the investment documents received are genuine and issued by an approved institution.
- f) Any monies paid over to the investing institution in terms of the agreed investment shall be paid over only to such institution itself and not to any agent or third party. Once the investment has been made, the Chief Financial Officer shall ensure that the entity receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the entity.

### **SECTION 10: CONTROL OVER INVESTMENTS**

- a) An investment register should be kept of all investments made. The following information must be reflected in the register:
- (i) Name of institution,
  - (ii) Capital investment,
  - (iii) Date invested,
  - (iv) Interest rate,
  - (v) Maturation date,
  - (vi) Interest received,
  - (vii) Capital repaid; and
  - (viii) Confirmation numbers.
- b) The investment register and accounting records must be reconciled on monthly basis.
- c) The investment register must be examined on a monthly basis to identify investment falling due within the next two months. It must then be established as what to do with the funds i.e. re-invest or withdraw, bearing in mind the cash flow requirements.
- d) Interest, correctly calculated, must be received timeously, together with any distribution capital. The Chief Financial Officer must verify that the interest is calculated correctly.

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e) Investment documents and certificates must be safeguarded in a fire resistance safe, with dual custody.

The following documents in particular must be safeguarded:

- (i) Fixed deposit letter or investment certificate,
- (ii) Receipt for capital invested,
- (iii) Copy of electronic transfer or cheque requisition,
- (iv) Excel schedule of comparative investment figures,
- (v) Commission certificates indicating no commission was paid on the investment and
- (vi) Interest rate quoted.

f) The Chief Financial Officer is responsible for ensuring that the invested funds are secure and, should there be a measure of risk, such risk must be rated realistically.

### **SECTION 11: REVIEW PROCESS**

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.