

# THEMBISILE HANI LOCAL MUNICIPALITY



## CASH MANAGEMENT POLICY

2015/2016

## **PREAMBLE**

In an attempt to ensure that the cash resources of the municipality are handled effectively and efficiently, as required by section 13(2) of the Municipal Finance Management Act (Act 56 of 2003), Thembisile Hani Local Municipality hereby approves the Cash Management Policy.

## **DEFINITION OF THE KEY WORDS**

In this policy the following words shall have the meaning assigned as follows:-

1. “**Act**” means the Local Government: Municipal Finance Management Act no 56 of 2003.
2. “**Accounting Officer**” refers to the Municipal Manager of the municipality.
3. “**Financial Department**” refers to the municipal department dealing with the financial affairs of the municipality.
4. “**Chief Financial Officer**” refers to the head of the Finance Department.
5. “**Liquidity**” refers to a financial ability of the municipality.
6. “**MFMA**” refers to the Municipal Finance Management Act, (Act 56 of 2003).
7. “**THLM**” refers to Thembisile Hani Local Municipality.
8. “**Minister**” refers to a cabinet member responsible for finance.
9. “**Policy**” refers to the Cash Management Policy of the municipality.
10. “**Municipality**” refers to Thembisile Hani Local Municipality.

## **TABLE OF CONTENTS**

1. Legal Compliance
2. Scope of the Policy
3. Objectives of the Policy
4. Effective Cash Management
5. Reporting Requirements
6. Accounting for Trusts
7. Raising of Debt
8. Accounting treatment of interest earned on Municipal Bank Accounts
9. Authority, Control and Review of the Policy
10. References

## **1. LEGAL COMPLIANCE**

In terms of Section 13(2) of the Municipal Finance Management Act (Act no. 56 of 2003), municipalities are required to establish an appropriate and effective Cash Management Policy in accordance with any framework that may be prescribed by the Minister acting with the concurrence of the Cabinet member responsible for local government and consistent with the municipal cash management and investment regulation.

National Treasury, through Government Gazette no: 27431, published Municipal Investment Regulations, which municipalities are required to apply as guideline when preparing a Cash Management and Investment Policy with effect from 1 April 2005.

## **2. SCOPE OF THE POLICY**

This policy applies to THLM and any municipal entity established under its area of jurisdiction in terms of the Act.

## **3. OBJECTIVES OF THE POLICY**

The objective of the Cash Management Policy of THLM are as follows:

- Ensuring that cash resources are managed efficiently and effectively.
- Ensuring that adequate liquidity is maintained at all times for management or cash flows.
- Ensuring that all moneys due to Council are collected and banked promptly as soon as they are received.
- Ensuring that all payments to creditors are made by the de dates.

## **4. EFFECTIVE CASH MANAGEMENT**

All efforts must be made to ensure that:-

- (i) Collection of Cash/Revenue
- (ii) Payment of Creditors

- (iii) Management of proper cash flows
- (iv) Administration of Banking Account and
- (v) Petty cash procedures are properly maintained.

#### **4 (i) Collection of Cash/Revenue**

The cash collection process is determined by Chapter 9 of the Local Government: Municipal Systems Act (Act 32 of 2000), the Credit Control of THLM and all other legislative requirements should at all times be adhered to. All joint efforts must at all times be made to ensure that all stakeholders (e.g. Councillor, Ward Committee Members, Employees of Council, Business Community, the Church Fraternity, all ratepayers etc..) of the municipality are encouraged on paying for municipal services through various means (e.g. radio stations, newspapers, Imbizos etc...) be informed about the implications of non-payment of services. The Debt Collection and Credit Control Policy of the municipality and other related pieces of legislation are quite pivotal documents in this regard.

#### **4(ii) Payment of Creditors**

The payment cycle of all trade creditors must be strictly maintained as required by the Supply Chain Management Policy, or as per the payment terms stipulated on individual contract. If there are incentives such as trade discounts favourable to Council when payments are made before due dates, such incentives, where appropriate must be applied with the agreement of the Accounting Officer or the Chief Financial Officer. Wherever possible, payments must be effected by means of electronic transfers rather than by cheques in an attempt of saving in bank charges.

Urgent payments to creditors outside standard process 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, and also in line with THLM Supply Chain Management Policy.

#### **4(iii) Management of Cash Flows**

The Chief Financial Officer shall maintain a cash flow system and ensure that funds not immediately required are invested on a daily basis. All departments or directorates shall in this regard furnish the Chief Financial Officer with the respective cash flow needs on a monthly basis, clearly indicating possible future

dates of payments as well as any possible inflow of cash from other sources of finance arranged by the departments themselves.

#### **4(iv) Administration of Banking Accounts**

The opening/closing of municipal accounts, deposits/withdrawals into or from the municipal bank accounts signing of cheques/appointment of cheque signatories and signing of other payment documents are the responsibilities of the accounting officer must be delegated in writing to the Chief Financial Officer.

#### **4(v) Petty Cash Procedures**

All petty cash procedures relating to the following must be handled in terms of the Petty Cash Policy as determined by the Chief Financial Officer:

- Petty cash limits
- Petty cash custodians per department or directorate.
- Balancing or reconciliation of cash floats
- Petty cash requisitions and authorisations
- Petty cash registers
- Supporting documents etc...

### **5. REPORTING REQUIREMENTS**

In complying with Section 70(2) of the MFMA, the Chief Financial Officer must report to the National Treasury/Provincial Treasury and Council whenever the consolidated bank balances shows a net overdrawn balance for a period exceeding 14 working days (two weeks).

Such reporting must at a minimum provide:-

- The amount by which the accounts are overdrawn,
- Reasons for the overdrawn accounts and
- Steps taken or to be taken to correct the situation.

## **6. ACCOUNTING FOR TRUST FUNDS**

Unless required otherwise by trust deeds, trust funds will be invested within the terms of this policy but be recorded separately in the THLM's accounting system. If pooled with the municipality's investments, trust funds will earn the average interest rate applicable to the municipality. The requirements as stipulated by Trust Deeds will take priority.

## **7. RAISING OF DEBT**

Municipal debt (short and long) shall be raised in strict compliance with the requirements of Section 46 of the Municipal Finance Management Act (Act 56 of 2003) and the Accounting Officer responsible for the raising of debt with full approval of Council.

## **8. ACCOUNTING TREATMENT OF INTEREST EARNED ON MUNICIPAL BANK ACCOUNTS**

The interest accrued on all municipal bank accounts shall, in compliance with the requirements of Generally Recognized Accounting Practice (GRAP) be budgeted for and recorded in the first instance in the municipality's operating account (income statement) as ordinary operating revenues and may thereafter on the conditions which apply to the funds or account. Interest earned on municipal bank accounts can also be appropriated through council resolutions to any priorities of Council such as funding the Asset Finance Fund etc...

## **9. AUTHORITY, CONTROL AND REVIEW OF THE POLICY**

This Cash Management Policy is the sole policy governing cash management of THLM and shall be reviewed annually or whenever the Accounting Officer and the Chief Financial Officer deem it necessary for this policy to be reviewed.

The Accounting Officer will develop and implement procedures for the benchmarking and evaluation of the performance of this policy to meet the objectives as stated within this policy.

## **10. REFERENCES**

- Local Government: Municipal Finance Management Act (Act 56 of 2003),
- Local Government: Municipal Systems Act (Act 32 of 2000),
- Municipal Supply Chain Management Policy and
- SALGA and IMFO: Local Government Finance Best Practice Manual.