

# SOL PLAATJE LOCAL MUNICIPALITY



## CASH MANAGEMENT AND INVESTMENT POLICY

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## **1. Legal compliance**

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 prescribed.

The municipality shall at all times manage its banking arrangements and investments and conduct its cash management and investment 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 and the Municipal Investment Regulations (MIR).

In this policy, unless the context indicated otherwise, a word or expression to which a meaning has been assigned in the MFMA, has the same meaning as in the Act.

## **2. Objective of the policy**

The primary aim is to ensure the preservation and safety of investments. The need for investment diversification and the liquidity needs of the municipality.

The council of the municipality 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. The council 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.

The cash management and investment policy of the municipality is therefore aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes. The effectiveness of the cash management and investment policy is dependent on the accuracy of the municipality's cash management programme, which must identify the amounts surplus to the municipality's needs, as well as the time when and period for which such revenues are surplus and available to be invested.

## **3. Effective cash management**

### **3.1 Cash Collection**

All monies due to the municipality must be collected and paid into the municipality's primary bank account, as soon as possible, either on or before the due date or immediately after the due date. All cash receipts must be reconciled and banked on a daily basis. Receipts or allocations received via Electronic Funds Transfers must be investigated, reconciled and allocated timeously.

The accounting officer of a municipality must administer all the municipality's bank accounts, including a bank account referred to in section 12 or 48(2)(d) of the MFMA; is accountable to the municipal council for the municipality's bank accounts; and must enforce compliance with sections 7, 8 and 11 of the MFMA.

The accounting officer may delegate the duties referred to in subsection (1) (c) to the municipality's Chief financial officer only.

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.

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.

### **3.2 Payments to Creditors**

The Chief Financial Officer shall ensure as per section 65(2)(e) of the MFMA, that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. 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.

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.

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.

The accounting officer of the municipality is responsible for the management of the expenditure of the municipality and 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.

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.

### **3.3 Cash Management Programme**

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 daily 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. Executive Directors 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 finance committee on a monthly basis and/or to a council meeting when required. Such a report shall indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned.

## **4. Investment ethics**

The Chief Financial Officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in consultation with the Accounting officer and in compliance with any policy directives formulated by the council and prescriptions made by the Minister of Finance.

Investments by the municipality:

- (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 and exposing the municipality to undue risk 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 and lastly to the probable income derived from the investment.

## **5. Investment principles**

### **5.1 Portfolio diversification and limiting exposure**

Where large sums of money are available for investment, the Chief Financial Officer shall ensure that the municipality takes all reasonable and prudent steps consistent with its cash management and investment policy and according to the standard of care prescribed in regulation 5 of the MIR to diversify its investment portfolio across institutions, types of investment and investment maturities in order to limit the risk exposure of the municipality. The municipality shall ensure that as far as practically possible that twenty five percent or more of its investments is not held by one financial institution, however this threshold excludes the municipality's primary banking institution.

### **5.2 Credit requirements and risk and return**

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. 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.

The municipality must take all reasonable and prudent steps consistent with its cash management and investment policy and according to the standard of care set out in regulation 5 of the MIR, to ensure that it places its investments with credit-worthy institutions. Therefore, the municipality must regularly monitor its investment portfolio; and when appropriate liquidate an investment that no longer has the minimum acceptable credit rating as specified in its cash management and investment policy. Prescribe notice periods as per the investment schedule must be adhered to, to avoid the municipality incurring unnecessary fees/penalties that could have been avoided if reasonable care has been exercised.

### **5.3 Miscellaneous provisions**

The responsibility and risk arising from any investment transaction vests in the municipality. All investments made by the municipality must be in the name of the municipality. The municipality may not borrow money for the purpose of investment.

## **6. Payment of Commission**

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

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

## **7. Reporting requirements**

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 a report describing in accordance with generally recognised accounting practice the investment portfolio of the municipality as at the end of the month. Supporting table SC (5) of the monthly C-schedule will be utilized for this purpose as per the Municipal Budget and Reporting Regulations (MBRR)

The report must set out at least -

- The market value of each investment as at the beginning of the reporting period;
- any changes to the investment portfolio during the reporting period;
- the market value of each investment as at the end of the reporting period; and
- fully accrued interest and yield for the reporting period.

In terms of S13(4) of the MFMA, a bank, insurance company or other financial institution which at the end of a financial year holds, or at any time during a financial year held, an investment for a 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; and promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General.

## **8. Permitted investments**

A municipality may invest funds only in any of the following investment 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.

## **9. Procedures for the invitation and selection of competitive offers**

In accordance of section 110(1)(d) of the MFMA, before making any investments, the Chief Financial Officer, shall obtain quotations from at least three or more credit-worthy financial institutions.

Given the volatility of the money market, the Chief Financial Officer shall, whenever necessary, request quotations telephonically, and shall record in an appropriate register the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be relevant (for example, whether the interest is payable monthly or only on maturity, and so forth).

Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, email or any other expedient means).

Any monies paid over to the investing institution in terms of the agreed, 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 municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the municipality.

## **10. Restriction on Tenure of Investments**

No investment with a tenure exceeding twelve months shall be made without the approval of the executive mayor or the executive committee, as the case may be.

## **11. Control over investments**

The Chief Financial Officer shall ensure that proper records are kept of all investments made by the municipality. Such records shall indicate the date on which the investment is made, the institution with which the monies are invested, the amount of the investment, the interest rate applicable, and the maturity date. If the investment is liquidated at a date other than the maturity date, such date shall be indicated.

All movements in investment accounts must be reflected in the general ledger of the municipality.

The Chief Financial Officer shall ensure that all 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.

The Chief Financial Officer shall ensure that all investment documents and certificates are properly secured in a fireproof safe with segregated control over the access to such safe, or are otherwise lodged for safekeeping with the municipality's bankers or attorneys.

## **12. Investments denominated in foreign currencies**

Investments denominated in foreign currencies are prohibited and the municipality 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.



### **13. Banking arrangements**

The Accounting officer is responsible for the management of the municipality's bank accounts, but may delegate this function to the Chief Financial Officer. The Chief Financial Officer is authorised at all times to release funds and any other documentation associated with the management of such accounts. The Accounting officer, in consultation with the Chief Financial Officer, is authorised to appoint two or more additional signatories or releasers in respect of such accounts, and to amend such appointments from time to time. The list of new signatories or releasers shall be approved by the Council as and when the case may be.

Unless there are compelling reasons to do otherwise, all the municipality's bank accounts shall be maintained with the same banking institution to ensure pooling of balances for purposes of determining the best interest payable to the municipality.

### **14. Raising of short-term and long-term debt**

The Accounting officer 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 accounting officer. 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.

#### **14.1 Conditions applicable to both short and long-term debt**

Conditions applying to both short-term and long-term debt as per section 47 of the MFMA, 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; and section 48(3) of the Act has been complied with, if security is to be provided by the municipality.

#### **14.2 Short-term debt**

As per section 45(1) of the MFMA, short-term debt may be incurred, only when necessary to bridge shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year; or 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 pay off short-term debt within the financial year in which it is 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.

### **14.3 Long-term debt**

A municipality may incur long-term debt only in accordance with and subject to any applicable provisions of the MFMA, and only for the purpose of capital expenditure on property, plant or equipment of the approved annual budget or adjustments budget, 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).

## **15. Interest on investments**

The interest accrued on all the municipality's investments shall, in compliance with the requirements of Generally Recognised Accounting Practice, be recorded in the first instance in the municipality's primary bank account and recognised as Interest Earned - External Investments in the Statement of Financial Performance as Revenue from exchange transactions.

## **16. 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 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 MFMA.

## **17. 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 effecting such change.

## **18. Submission of bank account details**

The accounting officer of the municipality must submit to the national treasury, relevant 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.

## **19. Control of 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 MFMA. The accounting officer may delegate the duties referred to above only to the municipality's Chief Financial Officer.

## **20. Withdrawals from municipal bank accounts**

Only the accounting officer or the Chief Financial Officer of the municipality (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) of the MFMA, 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.

## **21. 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.

## **22. Contents of annual budgets and supporting documents**

As per section 17(1)(a) of the MFMA, an annual budget of a municipality must be a schedule in the prescribed format as per the MBRR and must be accompanied by the following documents:

A projection of cash flows for the budget year by revenue source, broken down per month, and particulars of the municipality's investments.

## **23. Publication of annual budgets**

As per section 22(a) of the MFMA , 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.

## **24. 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.

## **25. 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.

## **26. 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 executive director, such executive director shall be similarly responsible for the proper administration of such sub-store, and in doing so shall comply with the any legislative requirement and policies as determined from time to time by the Chief

Financial Officer. No sub-store may be established without the prior written consent of the Chief Financial Officer. All users must submit authorised requisitions in the prescribed format as determined from time to time by the Chief Financial Officer prior to the issue of any such goods or store items.

## **27. Contract 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 executive mayor or the finance committee, as the case may be:

- all buying contracts shall be administered by the Chief Financial Officer, and all payments relating to such contracts shall be authorised by the Chief Financial Officer or the executive director or a departmental head designated by him or her; and
- all other contracts, including building, engineering and other civil contracts shall be administered by the executive director or a departmental head designated by him or her, and all payments relating to such contracts shall be authorised by such an executive director in accordance with the provisions of Section 28 below. The executive director (or a departmental head) 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.

## **28. Payments**

All payments, other than petty cash disbursements, shall be made through the municipality's primary bank account. Petty cash reimbursements or replenishments must be made through the municipality's primary bank account.

The Chief Financial Officer shall release funds on this account, and shall, in consultation with the accounting officer and with due regard to the council's policy on banking and investments, determine the rules and procedures relating to the releasing of funds, and from time to time jointly with the accounting officer decide on appropriate signatories or releasers.

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 authorised in terms of such rules and procedures as are determined from time to time by the Chief Financial Officer.

The sourcing of quotations be centralised to Supply chain management. All users must submit authorised requisitions in the prescribed format as determined from time to time by the Chief Financial Officer for procurement of goods and services from external service providers. One quotation may be attached to such authorised requisitions, as necessary to ensure that Demand management obtain additional quotations for the correct goods and services. Orders must be issued to the successful service provider prior to goods being delivered or services being rendered.

The maximum amount and nature of petty disbursements, where not covered by the general buying procedures, shall be in line with the municipality's Supply chain management policy. 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.

The Executive Director: Corporate service shall be responsible for the determination of all salaries and remuneration benefits to employees as prescribed by the Basic conditions of employment act and applicable collective agreement, whilst the Chief Financial Officer shall be responsible for making payments in accordance with the instructions so received from Human Resources and loaded onto the current Payroll system being utilised by the municipality. Councillor's allowances shall be determined and paid in accordance with the Upper Limits Gazette on the remuneration of public office bearers and municipal councillors. Payments shall be made upon approval for the implementation of the upper limits gazette by the MEC for Local Government in the province.

## **29. Revenue and cash collection**

Every Executive Director responsible for revenue collection, shall be responsible for the collection of all moneys falling within the ambit and area of his or her designated functions.

The Chief Financial Officer shall ensure that all revenues are properly accounted for.

The collection of all arrear revenues and the control of arrear accounts shall be co-ordinated by the Chief Financial Officer in terms of any policies determined by the council. If it is clear that any revenues are not recovered or likely to be recovered after the necessary steps have been taken, the Chief Financial Officer shall report the matter adequately and timeously to the finance committee.

The Chief Financial Officer shall ensure that adequate provision is maintained to cover the writing off of irrecoverable revenues, having due regard to the council's policy on rates and tariffs.

## **30. Scope of application**

This policy is applicable to Sol Plaatje Local Municipality and all its officials and councillors

## **31. Approval**

The cash management and investment policy has been approved by Council.