



Reference: T12/2/1

TREASURY CIRCULAR MUN 10 OF 2013

THE MAYOR, CITY OF CAPE TOWN: MS P DE LILLE
THE MAYOR, WEST COAST DISTRICT MUNICIPALITY: MR JH CLEOPHAS
THE MAYOR, MATZIKAMA MUNICIPALITY: MS D GOEDEMAN
THE MAYOR, CEDERBERG MUNICIPALITY: MR J WHITE
THE MAYOR, BERGRIVIER MUNICIPALITY: MR EB MANUEL
THE MAYOR, SALDANHA BAY MUNICIPALITY: MR FJ SCHIPPERS
THE MAYOR, SWARTLAND MUNICIPALITY: MR T VAN ESSEN
THE MAYOR, CAPE WINELANDS DISTRICT MUNICIPALITY: MR N DE BRUYN
THE MAYOR, WITZENBERG MUNICIPALITY: MR S LOUW
THE MAYOR, DRAKENSTEIN MUNICIPALITY: MS G VAN DEVENTER
THE MAYOR, STELLENBOSCH MUNICIPALITY: MR CJ SIDEGO
THE MAYOR, BREEDE VALLEY MUNICIPALITY: MR BD KIVEDO
THE MAYOR, LANGEBERG MUNICIPALITY: MS D GAGIANO
THE MAYOR, OVERBERG DISTRICT MUNICIPALITY: MR L DE BRUYN
THE MAYOR, THEEWATERSKLOOF MUNICIPALITY: MR CB PUNT
THE MAYOR, OVERSTRAND MUNICIPALITY: MS N BOTHA-GUTHRIE
THE MAYOR, CAPE AGULHAS MUNICIPALITY: MR R MITCHELL
THE MAYOR, SWELLEN DAM MUNICIPALITY: COUNCILLOR N MYBURGH
THE MAYOR, EDEN DISTRICT MUNICIPALITY: MR V VAN DER WESTHUISEN
THE MAYOR, KANNALAND MUNICIPALITY: MR J DONSON
THE MAYOR, HESSEQUA MUNICIPALITY: MS E NEL
THE MAYOR, MOSSEL BAY MUNICIPALITY: MS M FERREIRA
THE MAYOR, GEORGE MUNICIPALITY: MR C STANDERS
THE MAYOR, OUDTSHOORN MUNICIPALITY: MR G APRIL
THE MAYOR, BITOU MUNICIPALITY: MR M BOOYSEN
THE MAYOR, KNYSNA MUNICIPALITY: MS G WOLMARANS
THE MAYOR, CENTRAL KAROO DISTRICT MUNICIPALITY: MR E NJADU
THE MAYOR, LAINGSBURG MUNICIPALITY: MR W THERON
THE MAYOR, PRINCE ALBERT MUNICIPALITY: MR G LOTTERING
THE MAYOR, BEAUFORT WEST MUNICIPALITY: MR HD PRINCE

THE MUNICIPAL MANAGER, CITY OF CAPE TOWN: MR A EBRAHIM
THE MUNICIPAL MANAGER, WEST COAST DISTRICT MUNICIPALITY: MR H PRINS
THE MUNICIPAL MANAGER, MATZIKAMA MUNICIPALITY: MR DG O'NEILL
THE MUNICIPAL MANAGER, CEDERBERG MUNICIPALITY: MR I KENNEDY
THE MUNICIPAL MANAGER, BERGRIVIER MUNICIPALITY: ADV H LINDE
THE MUNICIPAL MANAGER, SALDANHA BAY MUNICIPALITY: MR LA SCHEEPERS
THE MUNICIPAL MANAGER, SWARTLAND MUNICIPALITY: MR J SCHOLTZ
THE MUNICIPAL MANAGER, CAPE WINELANDS DISTRICT MUNICIPALITY: MR M MGAJO
THE MUNICIPAL MANAGER, WITZENBERG MUNICIPALITY: MR D NASSON
THE MUNICIPAL MANAGER, DRAKENSTEIN MUNICIPALITY: MR J METTLER
THE MUNICIPAL MANAGER, STELLENBOSCH MUNICIPALITY: MS C LIEBENBERG
THE MUNICIPAL MANAGER, BREEDE VALLEY MUNICIPALITY: MR G MATTHYSE
THE MUNICIPAL MANAGER, LANGEBERG MUNICIPALITY: MR SA MOKWENI
THE MUNICIPAL MANAGER, OVERBERG DISTRICT MUNICIPALITY: MR MP DU PLESSIS
THE MUNICIPAL MANAGER, THEEWATERSKLOOF MUNICIPALITY: MR HD WALLACE
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THE MUNICIPAL MANAGER, HESSEQUA MUNICIPALITY: MR J JACOBS

THE MUNICIPAL MANAGER, MOSSEL BAY MUNICIPALITY: DR M GRATZ
THE MUNICIPAL MANAGER, GEORGE MUNICIPALITY: MR T BOTHA
THE MUNICIPAL MANAGER, OUDTSHOORN MUNICIPALITY: MR F HUMAN (Acting)
THE MUNICIPAL MANAGER, BITOU MUNICIPALITY: MR A PAULSE
THE MUNICIPAL MANAGER, KNYSNA MUNICIPALITY: MS L WARING
THE MUNICIPAL MANAGER, CENTRAL KAROO DISTRICT MUNICIPALITY: MR S JOOSTE
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THE MUNICIPAL MANAGER, PRINCE ALBERT MUNICIPALITY: MR H METTLER
THE MUNICIPAL MANAGER, BEAUFORT WEST MUNICIPALITY: MR J BOOYSEN

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THE CHIEF FINANCIAL OFFICER, CEDERBERG MUNICIPALITY: MR E ALFRED
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THE CHIEF FINANCIAL OFFICER, OVERSTRAND MUNICIPALITY: MR H KLEINLOOG
THE CHIEF FINANCIAL OFFICER, CAPE AGULHAS MUNICIPALITY: MR H SCHLEBUSCH
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THE CHIEF FINANCIAL OFFICER, MOSSEL BAY MUNICIPALITY: MR HF BOTHA
THE CHIEF FINANCIAL OFFICER, GEORGE MUNICIPALITY: MR K JORDAAN
THE CHIEF FINANCIAL OFFICER, OUDTSHOORN MUNICIPALITY: MR D LOTT
THE CHIEF FINANCIAL OFFICER, BITOU MUNICIPALITY: MR F LÖTTER
THE CHIEF FINANCIAL OFFICER, KNYSNA MUNICIPALITY: MR G EASTON
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THE CHIEF FINANCIAL OFFICER, LAINGSBURG MUNICIPALITY: MS A GROENEWALD
THE CHIEF FINANCIAL OFFICER, PRINCE ALBERT MUNICIPALITY: MR J NEETHLING
THE CHIEF FINANCIAL OFFICER, BEAUFORT WEST MUNICIPALITY: MR A STRUMPHER (Acting)

THE HEAD OFFICIAL: PROVINCIAL TREASURY (DR JC STEGMANN)
THE HEAD: BRANCH FISCAL AND ECONOMIC SERVICES (MR H MALILA)
THE HEAD: BRANCH GOVERNANCE AND ASSET MANAGEMENT (MR Z HOOSAIN)
THE HEAD: PUBLIC POLICY SERVICES (MR A PHILLIPS)
THE HEAD: PROVINCIAL GOVERNMENT PUBLIC FINANCE (MS JD GANTANA)
THE HEAD: LOCAL GOVERNMENT PUBLIC FINANCE (MR TC ARENDSE)
THE HEAD: ASSET MANAGEMENT (MR IG SMITH)
THE HEAD: FINANCIAL GOVERNANCE AND ACCOUNTING (MR A HARDIEN)
THE CHIEF FINANCIAL OFFICER (MR A GILDENHUYS)
THE HEAD: OFFICE OF THE FINANCE MINISTRY (MS T EVANS)
THE SENIOR MANAGER: BUSINESS INFORMATION AND DATA MANAGEMENT (MR PP PIENAAR)
THE SENIOR MANAGER: FINANCIAL GOVERNANCE (MR B VINK)
THE SENIOR MANAGER: FISCAL POLICY (MS C HORTON)
THE SENIOR MANAGER: INFRASTRUCTURE (MR R DANIELS) (ACTING)
THE SENIOR MANAGER: LOCAL GOVERNMENT ACCOUNTING (MS N OLIPHANT)
THE SENIOR MANAGER: LOCAL GOVERNMENT BUDGET OFFICE (MR ML BOOYSEN)
THE SENIOR MANAGER: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP ONE) (MR F SABBAT)
THE SENIOR MANAGER: LOCAL GOVERNMENT REVENUE AND EXPENDITURE (GROUP TWO) (MR M SIGABI)
THE SENIOR MANAGER: LOCAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (MR R MOOLMAN) (ACTING)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT ACCOUNTING (MR A REDDY)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT BUDGET OFFICE (MS M KORSTEN)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT FINANCE (EXPENDITURE MANAGEMENT) (MS A PICK)
THE SENIOR MANAGER: PROVINCIAL GOVERNMENT SUPPLY CHAIN MANAGEMENT (MS N EBRAHIM)
THE SENIOR MANAGER: STRATEGIC AND OPERATIONAL MANAGEMENT SUPPORT (MS A SMIT)
THE SENIOR MANAGER: SUPPORTING AND INTERLINKED FINANCIAL SYSTEMS (MR A BASTIAANSE)

THE PROVINCIAL AUDITOR

MASTER RECORDS OFFICIAL: BUSINESS INFORMATION AND DATA MANAGEMENT

THE HEAD OF DEPARTMENT: LOCAL GOVERNMENT

THE CHIEF DIRECTOR: LOCAL GOVERNMENT BUDGET ANALYSIS – NATIONAL TREASURY (MR J HATTINGH)

THE CHIEF DIRECTOR: MFMA IMPLEMENTATION – NATIONAL TREASURY (MR TV PILLAY)

REPORTING ON CASH AND CASH EQUIVALENTS; INVESTMENTS AND LONG TERM BORROWING IN MUNICIPALITIES

PURPOSE

1. The purpose of this circular is to communicate to the municipalities in the Western Cape the importance of full compliance with the reporting requirements as stipulated in the Municipal Finance Management Act (MFMA) and provide consistency in the recording and reporting on cash and cash equivalents; investments and long term borrowing in municipalities in terms of section 71 and 74 of the MFMA.

BACKGROUND

2. The Municipal Budget and Reporting Regulations issued by the National Treasury during the 2010/11 financial year aim to provide for uniformity and consistency in the presentation and reporting of budget documentation.
3. Compliance requirements with presenting Budget information, in line with the Municipal Budget and Reporting Regulations, were incrementally implemented across municipalities across South Africa and in the Western Cape in particular.
4. Assessments of the draft budgets as part of the Local Government Medium Term Expenditure Committee (LGMTEC 3), focussed on the responsiveness of municipal plans and budgets; and the credibility and sustainability of these budgets.
5. The credibility and sustainability assessments of budgets in the main attempt to provide assurance that the budgets that municipalities have put together are realistic, the assumptions on which they were formulated are credible and whether the municipality has adequate cash to fund its day-to-day, medium term and longer term operations.
6. Broad observations made as part of the 2010/11 and 2011/12 Local Government MTEC 3 processes include amongst others the following:
 - Some of the municipalities were able to implement the Municipal Budget and Reporting Regulations in the 2010/11;
 - All of the Municipalities for the 2011/12 have presented their budgets, in line with the Municipal Budget and Reporting Regulations;
 - Despite the fact that all of the municipalities have now implemented the Municipal Budget and Reporting Regulations, a number of inconsistencies across the various schedules, are still noted;

- Consistent interpretation from an outsider's view, could lead to different deductions and conclusions;
 - The varied interpretation and conclusions could be attributed to how information is presented; and lastly
 - Inaccuracy in numbers due to not applying the necessary circumspection and review.
7. A number of observations, which may not be specific to any municipality, however illustrate the need for greater consistency and provide some level assurance so that municipalities in the Western Cape are sustainable from a cash management perspective.
8. This Circular focuses on cash management practices and in particular ensuring consistency and reporting across municipalities.

8.1 **Opening balances of cash and cash equivalents**

Observations:

Some of the municipalities are reporting the opening balances of the cash & cash equivalents based on the cash book balances whilst the cash and cash equivalents consists of all their cash in the primary bank account and sub-accounts as well as all short, medium and long term investments.

Other municipalities have however been able to align the IYM and the reporting in the financial statements (audited cash flow statement) annually.

Recommendations:

To ensure uniformity and alignment in reporting the IYM and the financial statements (audited cash flow statement) annually, it is required that all municipalities report cash & cash equivalents as the sum of cash and investments.

It is recommended that municipalities immediately (as of 1 July 2012) adjust and align the opening balance of cash & cash equivalents on the cash flow actual (CFA) and cash flow revised budget (CFR) with the audited closing balance of the cash flow statement of the preceding financial year.

The process would require the municipality to re-submit the previously submitted monthly cash flow actual reports for the current year up to and including the last monthly cash flow actual (CFA) submission. This would ensure that all the actual opening and closing cash & cash equivalents balances carried forward is accurately reflected.

Furthermore, it is required by the Municipality to also re-submit the adjusted CFR. It should be noted that municipalities should submit the above mentioned reports to both National Treasury (LG-Database) and Provincial Treasury. This would ensure that all the actual opening and closing cash & cash equivalents balances carried forward is accurately reflected.

8.2 **Bank reconciliations**

Observation:

Municipalities are currently not submitting their monthly bank reconciliation statements to Provincial Treasury.

Recommendations:

It is therefore required that the municipality submit an approved (preferably by the CFO) monthly bank reconciliation statement together with all the required returns in terms of section 71 of the Municipal Finance Management Act.

As a verification it is also expected that a copy of the first (stamped) and last page of the bank statement for the month reflecting the closing balance.

Resolutions at the CFO Forum, held in June 2011 were that municipalities were to complete and finalise bank reconciliations on a monthly basis to supplement the monthly Cash Flow report (CFA) and that these reports are submitted to the Provincial Treasury.

8.3 **Investment Reporting**

Observations:

All municipalities are currently reporting on the movement of cash and investments (cash in the primary bank/sub-accounts & investments over the short, medium & long-term).

In some cases these reports include a detailed investment report of all the cash and investments with counterparties (banks registered in terms of the Banks Act, (Act No 94 of 1990) and funds invested with Fund Managers in compliance with an approved Cash Management & Investment Policy and Supply Chain Management Policy.

There are however municipalities where the detailed reports on the above are not submitted.

Recommendations:

It is recommended that all municipalities submit a detailed investment report of all the cash and investments with counterparties (banks registered in terms of the Banks Act, (Act No 94 of 1990). This report should also include detail on funds invested with Fund Managers, in compliance with an approved Cash Management & Investment Policy and Supply Chain Management Policy.

The frequency of such a report should be monthly and include all the outstanding commitments against cash & cash equivalents and should be submitted by no later than the 10th working day of each month. Table 1 depicts a summary of commitments against cash & cash equivalents. Furthermore, an example of the movements on investments and the detailed portfolio report is reflected in Annexure A and B.

Table 1 Commitments against Cash & Cash Equivalents

Commitments against Cash & Cash Equivalents		
Item	Previous Month R'000	Current Month R'000
Cash & Cash Equivalents	116 540	89 327
Commitments:	112 932	97 049
Ceded investment (to DBSA)	20 225	20 225
Investment in associate	542	542
Unspent Loans	17 779	15 494
Unspent Grants	26 230	18 869
Capital funding requirement 2010/11 (cash resources)	4 234	3 406
Capital Replacement Reserve by 30 June	2 320	2 320
Loan repayment due June 2011	15 000	15 000
Sinking Funds	5 000	4 843
EFF Roll-overs	602	550
Trusts Funds	1 000	800
Year-end creditor payments (partly funded)	20 000	15 000
Surplus/(Deficit)	3 608	-7 722

8.4 Section 52(d) Report by the Mayor

As per section 52(d) of the Municipal Finance Management Act (56 of 2003), Municipal Budget Reporting Regulation 5, all mayors are required to table in council a quarterly report on the implementation of the annual budget. These reports are also subsequently submitted to the Provincial Treasury.

Municipal Budget and Reporting Regulation 5 further requires the Accounting Officer (MM) of each municipality to submit a quality certificate with the monthly

budget statements to ensure that the Accounting Officer or his or her surrogate reviewed the reports before submission to the Provincial Treasury.

Observations:

Observations in this regard are that some of these reports are tabled and submitted with errors and the content is often questionable. Further conclusions are that these reports were also not reviewed before submission to the Provincial Treasury.

Recommendations:

It is recommended that all municipalities ensure that the monthly reports are completed accurately and reviewed by the relevant senior managers or officials before it is tabled in Council and subsequently submitted to the Provincial Treasury.

Although these errors could be due to a legitimate oversight or an error by the municipalities, it not only renders the submitted information unreliable but also delays the reporting process as the Provincial Treasury is required to consolidate the reported information for the entire province.

8.5 Other In-Year Reports

National Treasury recently introduced the amended version of the Quarterly Borrowing Monitoring Return (QBMR) reporting requirements.

This format now also makes provision for the submission of borrowing information in respect of bonds issued by especially the metropolitan municipalities.

Municipalities are also reminded of the other In-Year Reports which are listed below:

- Quarterly MFMA Returns (LTC, QBMR, MFMA section 11);
- Bi-Annual Minimum Competency Returns; and
- Annual MFMA Implementation Plans.

8.6 Policy Review and Implementation

The Cash Management and Investment Policy and all other relevant policies need to be amended taking into account the observations and the recommendations made to ensure compliance and accurate reporting on cash flow, investments and long term borrowing. It is therefore imperative that a regular policy review process be implemented to give effect to any changes in legislation.

Recommendation:

It is recommended that the Cash Management & Investment Policy be reviewed and amended accordingly and submitted to Council for approval. This policy coupled with an approved Budget Policy and long term financial plan would go a long way to address the key aspects alluded to in this circular.

9. **CONCLUSION**

The reporting requirements outlined in this circular should be implemented with immediate effect and Accounting Officers are required to ensure the full implementation of the requirements communicated herein.

Thanking you

Yours faithfully

A handwritten signature in dark ink, appearing to read 'A Phillips', written in a cursive style.

MR ANTHONY PHILLIPS
HEAD: PUBLIC POLICY SERVICES
DATE: 19/02/2013

Annexure A

Municipality Name
SUMMARY OF INVESTMENTS AS AT Month 20XX

Investments	Movement for the Month XXXX					Interest		Interest		
	Opening Balance	Investments Matured	Investments Made	Interest Earned / Capitalised	Costs & Fees	Closing Balance	Earned Month	Yield	Earned Year to date	Yield
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	%	R'000	%
Bank Deposits										
Bank deposits										
Funds under Management										
TOTAL CASH INVESTMENTS										
Structured loans investments (Sinking funds)										
Government Stock (COID)										
Municipal Entity										
TOTAL										
GRAND TOTAL										

Annexure B

Municipality Name
BANK DEPOSITS AS AT Month 20XX

Institution	Credit Rating (Fitch)	Movement for the Month 20XX					Closing Balance R'000	Approved Limit R'000	Approved Share %	Current Share %	Interest Earned Month R'000
		Opening Balance R'000	Investments Matured R'000	Investments Made R'000	Interest Capitalised R'000						
ABSA Bank	F1+										
Call Deposits											
Call Deposits											
Fixed Term Deposits											
Firststrand	F1+										
Call Deposits											
Fixed Term Deposits											
Investec Bank	F1+										
Call Deposits											
Fixed Term Deposits											
Nedbank	F1+										
Call Deposits											
Fixed Term Deposits											
Standard Bank	F1+										
Call Deposits											
Fixed Term Deposits											
TOTAL BANK DEPOSITS											
CURRENT ACCOUNT -											
TOTAL CASH AND BANK DEPOSITS											
SINKING FUNDS											
GRAND TOTAL											

FUNDS UNDER MANAGEMENT AS AT Month 20XX

	Movement for the Month 20XX					Closing Balance R'000
	Opening Balance R'000	Investments Matured R'000	Investments Made R'000	Interest Capitalised R'000	Costs & Fees R'000	
FUNDS UNDER MANAGEMENT						

GOVERNMENT STOCK AS AT Month 20XX

	Movement for the Month 20XX					Market Value R
	Maturity Value	Opening Balance R'000	Investments Made / Matured R'000	Interest Capitalised R'000	Interest Amortised R'000	
TOTAL COID INVESTMENTS						

UNLISTED INVESTMENTS AS AT Month 20XX

Unlisted Investment Portfolio	Provision for Impairment R'000	At Cost R'000	Carrying Value R'000
Investments in Municipal Entities			
Municipal Entity			
Investment in Joint Venture Company			