



**PROVINCIAL TREASURY**

Ref: 12/1

Enq: SE Tema

Tel: 015 291 8563

Date: 27 February 2018

**TO: AII MUNICIPAL MANAGERS  
ALL S56 MANAGERS  
ALL CHIEF EXECUTIVE OFFICERS: MUNICIPAL ENTITIES**

Dear Sir/Madam

**PROVINCIAL TREASURY MFMA CIRCULAR NO.4: BANKING AND INVESTMENTS**

**PURPOSE**

This circular has been prepared to provide guidance to municipalities/municipal entities regarding opening of bank accounts and investments with financial institutions in line with the Municipal Finance Management Act , 2003 (Act 56 of 2003 (MFMA)).

**LEGAL FRAMEWORK**

In terms of Section 7(3) of the MFMA a municipality may not open a bank account –

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

## OPENING OF BANK ACCOUNTS

National Treasury sent a correspondence during August 2017 to individual municipalities advising them not to invest municipal funds with a mutual bank as it is in contravention of the MFMA and the Municipal Investment Regulations. It has come to Provincial Treasury's attention during the mid-year sessions held with municipalities during February 2018 that there are municipalities that are investing municipal funds into a mutual bank. A mutual bank is a bank registered in accordance with the Mutual Banks Act of 1993 and not the Banks Act of 1990.

Regulation 5 (c) of the Municipal Investment regulation provides that investments by a municipality or municipal entity, or by an investment manager on behalf of a municipality or entity 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 or municipal entity and lastly to the probable income derived from the investment.

Regulation 10 further states that a municipality or municipal entity must take all reasonable and prudent steps consistent with its investment policy and according to the standard of care as set out in regulation 5, to ensure that it places its investments with credit worthy institutions.

Provincial Treasury would like to draw the accounting officers' attention to section 7(3)(b) of the MFMA which states that a municipality may not open a bank account with an institution not registered as a bank in terms of the Banks Act 94 of 1990. The accounting officers are also referred to the MFMA Investment Regulations, which specifically provides the instruments within which municipalities can invest municipal funds. Municipalities are allowed to, amongst others, make deposits with banks registered in terms of the Banks Act, 1990. Accounting officers are advised to specifically refer to regulation 6 of the Municipal Investment Regulations that deals with permitted investments.

## CONCLUSION


Investments with Mutual Banks are not permitted in terms of regulation of the Municipal Investment Regulations. Municipalities need to review investments to ensure compliance with the Banks Act, the MFMA and its regulations. Kindly also refer to the definition of "irregular expenditure" in the MFMA and address this matter urgently.

It is important that the accounting officer ensure that this Circular is brought to the attention of the Municipal Council, Board of Directors of municipal entities, the members of the audit committee, and all other relevant officials.

All comments on this Circular must be forwarded to Provincial Treasury on email: [luulats@treasury.limpopo.gov.za](mailto:luulats@treasury.limpopo.gov.za) and [madukand@treasury.limpopo.gov.za](mailto:madukand@treasury.limpopo.gov.za)

MFMA, Regulations, MFMA Circulars and guides are available and can be downloaded from National Treasury's website <http://mfma.treasury.gov.za/Pages/Default.aspx>

Kind regards,

  
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G Pratt CA (SA)  
Head of Department

27/2/2018  
DATE