Department of Higher Education and Training

Recommended
Cash Management Policy for Public TVET Colleges

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AMENDMENT AND APPROVAL RECORD

Amendment No.	Amendment description	Originator	Approved By	Date

Name of TVETC: Nkangala		
Cash Resource and Cash Flow Policy		
Department: Corporate **Responsibility : Accounting Officer**		
Prepared and submitted by the Accounting Officer to Council **Date:** 08/12/2015	**Adopted by Council (Signed by Chairperson obo Council)** **Date:** 09/02/2016	**Implementation Date:** 01/01/2016

1. Legislative framework and best practice regulations

Key principles contained in the following legislation and best practices were applied to develop this policy:

a) CET Colleges Act No.16 of 2006, (as amended) (the "Act") (formerly the FET Act);
b) Public Finance Management Act, 1999 (Act No 1 of 1999 as amended by Act 29 of 1999) (PFMA);
c) National Treasury Regulations of March 2005;
d) Draft National Treasury Regulations dated 30 November 2012; and

The following DHET recommended policies have a bearing on this policy:

a) Delegation of Authority Framework – Finance and Governance;

2. Purpose

The purpose of this policy is to ensure that the College manages, controls and safeguards its cash resources effectively and is able to fund its operations from the income that it receives.

3. Objective

The objective of this policy is to ensure that the College implements the controls and processes necessary to ensure that its cash resources are effectively managed and utilised in terms of its strategic objectives; and the College is able to account for its cash resources accordingly.

The College must ensure that its investment (treasury management) strategies are sound and that effective working capital management processes are implemented to optimise its cash resources.

4. Definitions, acronyms, abbreviations

For the purpose of this policy, unless the context indicates otherwise, the following definitions, acronyms and abbreviations are set out for the terms indicated:

4.1 ***"Accounting Officer"*** – is the College Principal.

4.2 ***"Assistant Director: Finance"*** – is a senior Finance post as recommended on a Standard College organogram by DHET, reporting directly to the Deputy Principal - Finance.

4.3 ***"Act"*** – means the CET Colleges Act No.16 of 2006, as amended.

4.4 ***"Budget"*** – is the annual income, operating and capital expenditure projection approved by the Council for the College

4.5 ***"Campus Manager"*** – is the College campus head who provides leadership and support to all students, faculty, and staff at the designated campus.

4.6 ***"College"*** – is the Public TVET College formerly known as a FET College.

4.7 ***"Council"*** – is the governing body of the College as defined by the Act;

4.8 ***"Current Account"*** - the main bank account through which the College conducts its transactional banking.

4.9 ***"Current Assets"*** - are typically non-fixed assets of the College that are realisable within a period of 12 (twelve) months from a particular reporting date. The status of such assets (current or non-current) should be reviewed at the end of each month during a financial year.

4.10 ***"Current Liabilities"*** – are typically liabilities of the College that are payable within a period of 12 (twelve) months from a particular reporting date. The status of such liabilities (current or non-current) should be reviewed at the end of each month during a financial year.

4.11 ***"DAF"*** – is the DHET recommended Delegation of Authority Framework – Finance and Governance.

4.12 ***"Department"***; ***"DHET"*** – is the Department of Higher Education and Training.

4.13 ***"Employee"*** – is any official, employed by the College, irrespective of grade, full-time or part-time, Council or Departmental appointed, or paid on a salaried or an hourly/daily individual basis.

4.14 ***"Exco"*** – is the Executive Committee of Council established in terms of Section 12 of the Act.

4.15 ***"Financial Year"*** – is the College accounting period from 1 January to 31 December of each year.

4.16 ***"Finco"*** – is the Finance Committee of Council established in terms of Section 12 of the Act.

4.17 ***"Investment"*** – is the funds placed with a recognised financial institution for investment purposes.

4.18 ***"Minister"*** – is the Minister of the Department of Higher Education and Training.

4.19 ***"NSFAS"*** – National Student Financial Aid Scheme.

4.20 ***"NSF"*** – National Skills Fund.

4.21 ***"Non-Current Assets"*** – Assets of the College which has a life span greater than 12 months.

4.22 ***"Person"*** – is an individual, agency, association, branch, corporation, estate, group, partnership, or other entity or organization having legal rights.

4.23 ***"Surplus funds"*** – means all money in excess of projected cash flow requirements, including a liquidity buffer equal to three months of operating cash flows.

4.24 ***"TVET"*** – is Technical and Vocational Education and Training.

4.25 ***"VCET"*** – is Vocational and Continuing Education and Training.

4.26 ***"Working Capital"*** – current assets less current liabilities.

5. Scope

This policy applies to the management of working capital generated from government conditional grants (State Funding) and externally generated/revenue.

6. Sources of funding

6.1 As articulated in Section 24 of the Continuing Education and Training Act, the funds of a Public TVET College consist of :

6.1.1 state funding –

a) formula funding: recurrent funding relating to the cost of the programmes delivered;
b) earmarked capital funding: capital/replacement funding associated with the programmes delivered;
c) earmarked recurrent funding; funding earmarked for items of a recurrent nature which are developmental in nature typically related to;

- staff development ;
- development and implementation of computerised systems;
- funding to compensate rural campuses for such aspects as distance between programme delivery sites;
- transport incentives to attract and retain College lecturers and management;
- College-level research;

d) in addition, the earmarked recurrent funding stream covers inputs that are considered part of a basic minimum package of recurrent inputs required more or less equally by all Colleges.

- any donations or contributions received by the College;
- money raised independently from private sources by the College;
- money raised by means of loans subject to the approval of the Minister;
- income derived from Investments;
- money received for services rendered to any other College or person;
- money payable by students for further education and training programmes provided by the College;
- money received from students or employees of the College for accommodation or other services provided by the College; and
- funds from any other source.

6.1.2 Surplus funds should, after meeting the College's budgeted, operational and capital expenditure requirements, be invested in interest bearing instruments as defined in the College's investment policy.

6.1.3 The College Council must approve the College's investment strategy with regards to its investible cash surplus. (Refer recommended DHET developed Investment Policy).

6.1.4 The Finance Committee is tasked to oversee the compliance to this policy.

7. Responsibility

The Accounting Officer may delegate the management of the cash resources to the Deputy Principal - Finance who must ensure that the appropriate internal controls are implemented to safeguard the financial resources of the College. As such the system of internal controls implemented should include the following;

7.1 All employees entrusted with the administration and control of cash collected and/ or received, are familiar with the relevant policies, procedures, roles and responsibilities.

7.2 The establishment of a single bank account for all College operations.

7.3 Where required, in writing, by the institution providing the funds, for specific reasons, separate bank accounts are to be established. It is essential that such accounts are included in the College's general ledger and accounted for appropriately. Examples may include:

a) NSFAS;
b) NSF; and
c) International or Local Donor organisations;

7.4 The College must implement an effective accounting system to ensure that it is able to account accurately and timeously for all funds received and disbursed and must adhere to the policy regarding bank reconciliations and controls.

7.5 Cash transactions should be minimised. The College must clearly advertise to all stakeholders that only direct deposits into the Colleges' bank account will be accepted and that all payments will be conducted via electronic funds transfer.

8. Working capital and liquidity management

8.1 Working capital is the relationship between the College's short-term assets and its short-term liabilities. The goal of working capital management is to ensure that the College is able to continue its operations and that it has sufficient ability to satisfy both maturing short-term debt and upcoming operational expenses.

8.2 The management of working capital involves managing inventories, accounts receivables and payables, and cash.

8.3 Liquidity management is an important aspect of working capital management and is the ability of the College to generate cash when and where needed.

a) Liquidity management requires addressing drags and pulls on liquidity, being:
   - drags on liquidity are forces that delay the collection of cash, such as slow payments by debtors and obsolete inventory; and
   - pulls on liquidity are decisions that result in paying cash too soon, such as paying trade creditors early.

8.4 The College must ensure that the following key principles are applied to manage its liquidity.

a) Invoicing students and customers timeously.
b) When revenue is collected in cash it should be minimised and banked promptly.
c) Making payments no earlier than necessary, with due regard for efficient, effective and economical programme delivery and within the College's normal terms for account payments.
d) Prohibiting pre-payments for goods and services, i.e. refraining from making payments in advance of the receipt of goods or services, unless such pre-payment is provided for in terms of the contractual arrangements with the supplier in accordance with the institutions supply chain management procedures.
e) Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the Finance Committee.
f) Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable are collected and banked promptly.
g) Ensure effective cash flow forecasting processes are in place which would then optimise cash flow management.
h) Conducting variance analyses of actual cash flow with the approved budget and cash forecasts.
i) Proper budget management should be implemented based on the results of the cash flow forecast for the remainder of the year.

9. Cash flow forecasting

9.1 To achieve the objective of liquidity management, the College must assess its liquidity and perform a cash flow forecast to ensure its continued liquidity.

a) The operating cycle is the length of time it takes the College's investment in programme delivery to be collected in cash from its debtors.
b) The cash conversion cycle is the length of time it takes for the College's investment in programme delivery to generate cash, considering that some or all of its purchases are done on credit.

c) The length of the College's operating and cash conversion cycles is a factor that determines how much liquidity the College needs.

9.2 Once the College has assessed its liquidity it needs to project its future cash flow requirements taking into consideration the liquidity requirements arising out of the annual budget and operational plan, inclusive of capital requirements within the budget and any capital carried forward from the previous year(s).

9.3 The College prepares its annual budget based on its strategic and operational plan and submits it to the Department in November each year. The Budget is developed based on departmental guidelines and approved revenue targets and is prepared according to the prescribed format of the Department. Council may further approve any capital expenditure to be carried over from one year to the next. The carry over will then form part of the forthcoming years expected cash expenditure out flow.

9.4 Once approved, the budget forms the basis of the forecast which details the monthly cash flows of its operations.

9.5 The Accounting Officer is responsible to ensure that internal financial targets and budgets are fully consistent with the strategic plan and any associated agreement with the Council and the Department.

9.6 The Deputy Principal - Finance should prepare the forecast using the same or similar format as used for the annual budget to ensure comparability.

9.7 When compiling monthly cash flow estimates it is essential that the Deputy Principal - Finance is aware of all expected cash inflows and outflows and when they are to take place, as far as both the operational budget and the capital budget are concerned.

9.8 The forecast must demonstrate how the College plans to fund its monthly cash outflows. This is especially important where timing of the actual cash inflows or outflows differ from the original forecast.

9.9 The forecast must be amended monthly with the actual results and compared to the approved budget Material deviations must be elevated to the Accounting Officer and Council.

9.10 The Deputy Principal - Finance must ensure that any uncertainty regarding state funding especially during the first quarter of the year is appropriately addressed in his / her cash flow forecast.

9.11 The Deputy Principal - Finance must apply his / her expertise, knowledge of the College's operations and all other factors in regular updating the forecast so that it remains relevant at all times.

9.12 As a further control, Deputy Principal : Finance or a delegated official, should further split out the monthly forecast into a weekly cash management plan to ensure that all unforeseen events such as unplanned expenditure or the delay in receipt of funds is adequately considered and communicated to the Finco, Exco and Council.

10. Investment of surplus funds

10.1 The Colleges investment strategy must be aimed at gaining optimal return on investments without limiting the cash flow requirements of the College.

10.2 The effectiveness of the College Investment strategy is dependent on the accuracy of the College's cash flow forecasting process. The Deputy Principal - Finance is responsible for the investment of surplus funds as per the approved Investment strategy of the College.

10.3 Refer DHET recommended Investment policy for further guidance regarding the investment of surplus funds.

11. Reporting

11.1 The Deputy Principal - Finance must report to each of Finco, Exco and Council on a quarterly basis regarding the status of the cash resources and the cash flow forecast for the remaining financial year.

11.2 In addition the Deputy Principal – Finance should report on compliance with this policy and any material breakdowns in the internal controls around management of the College's cash resources.

11.3 Any forecasted cash shortages should be brought to the attention of the Finance Committee and the Council as soon as such cash shortages are identified.

12. Adoption of policy

This policy is effective from the date on which it is adopted by the Council.

13. Availability of the cash management policy

A copy of this policy and other relevant documentation should be made available on the College website.

14. Annual revision of policy

This policy will be subject to an annual review by College management to ensure its relevance. Colleges should forward any inputs and recommendations to the VCET Branch of DHET for possible consideration during the annual review process.

Any recommended changes agreed by the VCET Branch of DHET to the Cash Management Policy should be presented to the College Council for adoption.

CHAIRPERSON OF COUNCIL
MR MI TIBANE

ACTING PRINCIPAL
MR C MAIMELA

02\02\2016
DATE

DATE