

INVESTMENT POLICY



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1. Statutory framework

1.1 Section 8(2)(b) of the Local Government: Municipal Finance Management Act 2003 (Act No 56 of 2003) (MFMA) stipulates that all income that the Municipality may received on its investments must be paid into its primary bank account. Section 13(2) of the MFMA requires that the Municipality must establish an appropriate and effective cash management and investment policy in accordance with a framework that may be prescribed by the Minister of Finance.

1.2 The Municipal Investment Regulations (Government Notice No R308 of 1 April 2005) determines that the Municipality's investment policy must set out –

- ⇒ the scope of the Municipality's investment policy ;
- ⇒ the objectives of the policy, with due regard to the provisions of the regulations relating to the preservation and safety of investments as the primary aim, the need for investment diversification and the liquidity needs of the municipality;
- ⇒ a minimum acceptable credit rating for investments, including a list of approved investment types that may be made and a list of approved institutions where or through which investments may be made;
- ⇒ procedures for the invitation and selection of competitive bids or offers in accordance with Part 1 of Chapter 11 of the MFMA;
- ⇒ measures for ensuring implementation of the policy and internal control over investments made;
- ⇒ procedures for reporting on and monitoring of all investments;
- ⇒ procedures for benchmarking and performance evaluation;

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- ⇒ the assignment of roles and functions, including any delegation of decision-making powers;
 - ⇒ if investment managers are to be used, conditions for their use, including their liability in the event of non-compliance with the policy or these regulations; and
 - ⇒ procedures for the annual review of the policy.

2. Scope of the policy

This policy deals with the investment of the Municipality's money not needed for the immediate purposes of the Municipality.

3. Objectives

3.1 The primary object of this policy is to –

gain the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes.

3.2 In order to achieve the objective set out in paragraph 3.1 the Municipality shall aim to –

- (a) preserve and safeguard its investments;
- (b) invest in a diversity of instruments and at a diversity of institutions in order to spread and minimise risk; and
- (c) take into account the Municipality's liquidity needs.

4. Investment principles

4.1 Limiting exposure

4.1.1 Where significant amounts of money are available for investment the Chief Financial Officer shall ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the Municipality: Provided that preference shall be given to institutions with local offices when investment decisions are made.

4.1.1 The Chief Financial Officer shall further ensure that, as far as it is practically and legally possible, the Municipality's investments are so distributed that more than one investment category is covered, i.e. call accounts, money market and fixed deposits.

4.2 Risk and return

4.2.1 Although the objective in making investments on behalf of the Municipality is 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.

4.2.2 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.

4.2.3 Deposits shall be made only with registered deposit-taking institutions.

4.3 Payment of commission

Every financial institution with which the Municipality makes an investment shall issue a certificate to the Accounting Officer in regard to such investment, stating that such institution has not paid and will not pay any commission and has not and will not grant any other benefit to any party for obtaining such investment.

4.4 Call deposits and fixed deposits

4.4.1 Any monies paid over to the investee in terms of the agreed investment shall be paid over only to such institution itself and not to any agent or third party.

4.4.2 Once an 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 investee in the name of the Municipality.

4.5 When an investment is called up or matures, the capital and interest must be paid out and deposited in Municipality's primary bank account.

4.6 Restriction on tenure of investments

No investment with a tenure exceeding twelve months shall be made without the prior approval of the councillor responsible for financial matters.

5. Minimum acceptable rating for investments

5.1 Cash revenues not immediately required for the Municipality's needs may be invested in any investment type listed in regulation 6 of the Municipal Investment Regulations 2005.

5.2 The Municipal Manager may, subject to the Municipality's supply chain management policy, appoint an investment manager to advise her/him on investments. The Municipal Manager may not appoint an investment manager to manage investments on behalf of the Municipality.

6. Competitive bidding

- 6.1 Before making any call or fixed deposits, the Chief Financial Officer, shall obtain quotations from at least three financial institutions.
- 6.2 Given the volatility of the money market, the Chief Financial Officer, shall, whenever necessary, request at least three quotations telephonically, e-mail or fax and shall record in an appropriate register –
- (a) the name of the institution;
 - (b) the name of the person contacted;
 - (c) the relevant terms and rates offered by such institution;
 - (d) whether the interest is payable monthly or only on maturity; and
 - (e) any other relevant information.
- 6.3 Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, e-mail or any other expedient means).

7. Monitoring and reporting

- 7.1 The Chief Financial Officer shall ensure that proper records are kept of all investments made by the Municipality. Such records shall indicate –
- (a) the date on which the investment is made;
 - (b) the institution with which the monies are invested;
 - (c) the amount of the investment;

(d) the interest rate applicable; and

(e) the maturity date.

7.2 If any investment is liquidated at a date other than the maturity date, such date shall be indicated in the investment register.

7.3 The Chief Financial Officer shall –

(a) ensure that all interest and capital properly due to the Municipality are timely received; and

(b) take appropriate steps or cause such appropriate steps to be taken if interest or capital is not fully or timely received;

(c) ensure that all investment documents and certificates are –

(i) properly secured in a fireproof safe with segregated control over the access to such safe, as determined by the Municipality's records manager;

(ii) or are otherwise lodged for safekeeping with the Municipality's bankers or attorneys.

8. Institutional arrangements

8.1 Power to invest money of the Municipality

8.1.1 In terms of section 60(2) of the Local Government: Municipal Systems Act 2000, the power to invest cash revenues not immediately required for the Municipality's needs are delegated to the Chief Financial Officer, provided that the Chief Financial Officer -

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- (a) shall make investments for period longer than 12 months only in consultation with the Councillor responsible for financial matters;
 - (b) shall at all times comply with this policy and applicable legislation regarding investments; and
 - (c) may consult the Municipal Manager or an investment manager appointed in terms of par 5.2 before making an investment.

8.1.2 The power delegated to the Chief Financial Officer in terms of par 8.1.1 shall include all the powers reasonably necessary for, or incidental to, the effective exercise of that power, including the power to sign, execute and authenticate any documents in that regard.

8.2 Policy review and amendment

The Municipal Manager shall annually, together with the preparation of the annual budget, review this policy and submit a report and recommendations to the Mayor. The Mayor shall consider the Municipal Manager's report and recommendations and table it, together with her/his report and recommendation, with the annual budget in the Council.

8.3 Powers of the councillor responsible for financial matters and Municipal Manager regarding investments

The Chief Financial Officer shall submit such reports regarding the Municipality's investments as the Mayor and the Municipal Manager may determine.

9. **Investment ethics**

9.1 In making investments the Chief Financial Officer shall -

- (a) at all times have only the best considerations of the Municipality in mind; and

(b) not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties except for the outcome of any consultation with the Councillor responsible for financial matters.

9.2 Neither the Chief Financial Officer nor any councillor may accept any gift, reward or favour other than an item having such negligible value that it can only be construed as a token of goodwill by the donor, from any investment agent or institution or any party with which the Municipality has made or may potentially make an investment.

10. Investments for the redemption of long-term liabilities

10.1 In managing the Municipality's investments, the Chief Financial Officer shall ensure that, whenever a long-term (non-annuity) loan is raised by the Municipality, an amount is invested at least annually equal to the principal sum divided by the period of the loan. Such investment shall be made against the bank account maintained for the external finance fund and shall be accumulated and used only for the redemption of such loan on due date. The making of such investment shall be approved by the Council at the time that the loan itself is approved.

10.2 If the loan raised is not a fixed term loan, but an annuity loan, the Chief Financial Officer shall ensure that sufficient resources are available in the account maintained for the external finance fund to repay the principal amounts due in respect of such loan on the respective due dates.

11. Interest on investments

11.1 The interest accrued on all the Municipality's investments shall, in compliance with the requirements of generally accepted municipal accounting practice (GAMAP)/generally recognised accounting practice (GRAP), be recorded in the Municipality's operating account as ordinary operating revenues in accordance with the Municipality's accounting policy.

11.2 In the case of the external loans fund, the Chief Financial Officer may reduce the amount which must be annually invested to redeem any particular loan by the amount of interest so accrued.

11.3 If the accrual of interest to the external loans fund, unutilised capital receipts and trust funds results in a surplus standing to the account of any such funds, i.e. an amount surplus to the resources required in respect of such funds or accounts, the Chief Financial Officer shall credit such surplus amount to the appropriation account and reappropriated to the asset financing reserve.

Mr. E.N. Maseko
Municipal Manager

Date

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