INVESTMENT OF SURPLUS FUNDS POLICY

1 JULY 2014

STEVE TSHWETE LOCAL MUNICIPALITY MP 313

Approved – May 2014

1. DEFINITIONS

In terms of Government Gazette R301 dated 1 April 2005 all definitions as applied in this regard will be as stated in the Municipal Finance Management Act, 2003.

Unless otherwise stated the following definitions shall mean:

"*Act*"	The Local Government Municipal Finance Management Act, 2003 (Act 56 of 2003)
"*Investee*"	An institution with which an investment is placed
"*Investment Manager*"	A natural person or legal entity that is a portfolio manager registered in terms of the Stock Exchange Control Act, 1985 (Act 1 of 1985) and the Financial Markets Control Act, 1989 (Act 55 of 1989.), contracted by the municipality to – - advise it on investments; - manage investments on its behalf; or - advise it on investment and manage investments on its behalf.
"*Trust money*"	Money held in trust on behalf of third parties in a trust contemplated in terms of section 12 of the Act.
"*Public-private partnership*"	A commercial transaction between the municipality and a private party.

2. VISION

- to enable the Council and its chief financial officer as trustees of public funds to exercise their obligation to ensure that cash resources are managed in the most efficient and effective manner possible.
- to institute an investment committee to be responsible and accountable to the community to exercise due care in the investment of public funds.
- to lay down broad investment parameters for use by those responsible for the placing of investments.
- to have instituted a policy geared to obtain the best return without risk within periods for which funds are not required.
- to provide for an effective cash flow management programme.

3. STATEMENT

In dealing with financial institutions and related interested parties the following ethics should be observed:

- the chief financial officer is ultimately responsible for the investment of funds and he must avoid outside interference whether such interference comes from individual councillors, agents or any institution.
- under no circumstances should inducements to invest be accepted. While reasonable entertainment by investment institutions is accepted as business practice, the acceptance of gifts other than mere tokens, is not proper for a public official whether or not such gifts influence or are intended to influence him/her in his/her work.
- interest rates quoted by one institution must never be disclosed to another.

4. OBJECTIVES OF THE POLICY

The objectives of this policy, with due regard to the provisions of the regulations, are:

- the preservation and safety of investments as a primary aim;
- the need of investment diversification;
- to specify minimum acceptable credit rating for investments including:
    - a list of approved investment types;
    - a list of approved institutions;

- guidelines for the invitation and selection of competitive bids or offers in accordance with part 1 of chapter 11 of the Act for investments in excess of six (6) months or the appointment of an investments manager;
- measures for ensuring implementation of the policy and internal controls over investments made;
- guidelines for reporting on and monitoring of all investments made, subject to Regulation 9;
- guidelines for benchmarking and performance evaluation;
- the assignment of roles and functions, including any delegation of decision making powers; and
- to provide for the necessity of the annual review of the policy.

5. LEGISLATIVE COMPLIANCE

The legislative framework governing investment decisions are:

5.1 Local Government Municipal Finance Management Act, Act 56 of 2003

(a) Section 8(2)(d)

"*all income received by a municipality on its investments must be paid into a municipality's primary bank account*".

(b) Section 13(1) to (4)

- the National Treasury may prescribe a framework within which municipalities must conduct their cash management and investments and invest money not immediately required.
- the municipality must establish an appropriate and effective cash management and investment policy in accordance with such framework.
- a bank where a municipality holds at the end of a financial year a bank account or held a bank account at any time during a financial year, must:
  - within thirty (30) days after the end of that financial year notify the Auditor-General in writing of such bank account, including the type and number of the account and the opening and closing balances of that bank account in that financial year.

- disclose information regarding the account when so requested by the National Treasury or the Auditor-General.

- 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 thirty (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.

(c) Section 17(3)(f)

When an annual budget is tabled by the executive mayor, it must be accompanied by an information statement on the particulars of the municipality's investments.

5.2 Municipal Investment Regulations published under Government Gazette R308 dated 1 April 2005

Read with section 13 and 99(2)(g) of the Local Government : Municipal Finance Management Act, 2003 (Act No. 56 of 2003) these regulations have been promulgated to regulate municipal investments. Various regulations and provisions have been set out in this section to regulate the investment of surplus cash of a municipality.

6. STANDARD OF CARE

Investments made by the municipality, or by an investment manager on behalf of the municipality:

- 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 affairs;

- may not be made for speculation but must be a genuine investment; and

- must in the first instance be made with primary regard being to the probable safety of the investment, and in the second instance to the liquidity needs of the municipality and lastly to the probable income derived from the investment.

7. PERMITTED INVESTMENTS

The municipality may invest funds only in any of the following investment types and institutions:

- securities issued by the national government;
- listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- deposits with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
- deposits with the Public Investment Commissioner as contemplated by the Public Investment Commissioners Act, 1984 (Act 45 of 1984);
- deposits with the Corporation for Public Deposits as contemplated by the Corporation of Public Deposits Act, 1984 (Act No. 46 of 1984);
- banker's acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, 1990;
- guaranteed endowment policies with the intention of establishing a sinking fund,
- repurchase agreements with registered banks in terms of the Banks Act, 1990;
- deposits with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
- municipal bonds issued by a municipality; and
- any other investment type as the Minister of Finance may identify by regulation in terms of Section 168 of the Act, in consultation with the Financial Services Board.

8. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES PROHIBITED

The municipality may make an investment only if the investment is denominated in rand currency and is not indexed to, or affected by, fluctuations in the value of the rand against any other currency.

9. PAYMENT OF COMMISSION

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

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

10. REPORTING REQUIREMENTS

The accounting officer of the municipality must within ten (10) working days of the end of each month, as part of the section 71 report required by the Act, submit to the executive mayor of the municipality a report describing in accordance with the generally recognized accepted accounting practice (GRAP) the investment portfolio of the municipality as at the end of the month.

The report must set out at least:

- the market value of the 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.

11. RATING OF PERMITTED INVESTMENT INSTITUTIONS

The municipality shall rely on the credit rating analysis from external credit rating agencies as submitted by the financial institutions from time to time. When an investment institution no longer has the minimum acceptable credit rating, all investments when appropriated must be liquidated.

12. PORTFOLIO DIVERSIFICATION

The municipality must take all reasonable and prudent steps, consistent with its investment policy and according to the standard of care prescribed to diversify its investments across institutions, types of investments and investment maturities.

A good rule is not to invest with banks with investments of more than 15% of its capital and reserves and to examine such in conjunction with a bank rating by an independent agency.

As a general principle it must be accepted that the greater the return, the greater the risk.

13. BORROWING AND RE-INVESTMENT

There may not be borrowings for re-investment as this is tantamount to taking a view on interest rate movements and could be construed as speculating with public funds.

14. MATCH THE INVESTMENT TYPE TO THE FUND

Should investments in growth related instruments be considered, only funds which are unlikely to necessitate a forced sale should be used, to ensure that the funds used for the investment are of such nature that the investment can be realized when market conditions are most favourable.

15. REGISTERED FINANCIAL INSTITUTIONS

Investments must only be made in accordance of the regulations as in **section 6** of the Government Gazette Notice No. R308 dated 1 April 2005. (Refer Chapter E : Permitted Investments). The municipality must ensure that it places investments only with credit worthy institutions and regularly monitors its investment portfolio.

16. GROWTH-LINKED INVESTMENTS

When legislation permits investments in growth linked instruments, extreme care must be exercised as in most cases market conditions will determine the value of the investment at any given time, and it should be ensured that the return of the capital invested is guaranteed.

17. CASH AT BANK

The "*overnight*" interest rate regularly negotiated with the Council's bankers for money kept in the current bank account must continuously be compared to that of call deposits. These rates can be improved by fixed term investments and the overriding principle is that funds in the current account must be kept to the absolute minimum as required by cash flow projections.

18. CONTROL AND REGISTERING OF INVESTMENTS

The CFO must establish and maintain proper internal control structure to ensure the management of investments is protected from loss, theft or misuse. These controls include amongst others:

- a proper register of all investments made indicating the institution, fund, interest rate and maturity date. Interest must be correctly calculated and received timeously together with any capital which matures.
- investment papers and confirmation must be kept in a secured place.
- delegation of authority to subordinate officials.
- separation of functions through segregation of duties.

19. INVESTMENT MANAGERS

An investment manager may only be used to facilitate investments if such an appointment has been authorized by the Council in terms of its supply chain management policy of the municipality and all conditions of services and fees payable have been disclosed to the Council.

20. INVESTMENT LIMITATIONS

In order to ensure safe investment with the minimum risk exposure, investments are not to be made with financial institutions with ratings lower than A1/F1 as defined in the national rating definitions.

21. PROCESS OF INVESTMENT OF FUNDS

21.1 Short term investments (6 months)

- authority is delegated to the Executive Director Financial Services for the placement and control of such deposits.
- quotations must be invited from at least three (3) financial institutions for the term for which the investment is to be placed.
- it is acceptable to obtain telephonic quotations, confirmed by a facsimile, when placing funds.
- when obtaining quotations, note should be taken of the name of the institution, the person who gave the telephonic quotation, and the terms and interest applicable.
- in considering the investment of funds, intermediaries must not be employed to make investments on behalf of the Council.

- only banks with an A1/F1 or similar rating for safe investment purposes by an independent bank rating institution may be approached for quotations.

- quotations must only be obtained and investments placed at the capital market sections or the corporate investment divisions of the qualifying banks.

- investment confirmation on must immediately be issued by the related financial institution and be forwarded to the Executive Director Financial Services for safekeeping.

21.2 **LONG-TERM INVESTMENTS**

- In terms of the Municipal Systems Act, Act 32 of 2000 authority is delegated to the Executive Mayor to in conjunction with the Executive Director Financial Services make investments on behalf of the municipality within a policy framework determined by the Minister of Finance.

- The placement of any investment in excess of six (6) months is subjected to surplus funds being identified in a proper cash flow forecast covering at least the period over which the investment is envisaged and must be certified by the Executive Director Financial Services.

- Fully detailed bids in compliance with Supply Chain Management Regulations must be obtained and must be considered together with a report by the Executive Director Financial Services to the bid adjudication committee.

22. REVIEW

The policy must be reviewed annually to ensure that it complies with changes in legislation and regulations that applies.

23. SHORT TITLE

This policy shall be called the Investment of Surplus Funds Policy of the Steve Tshwete Local Municipality.