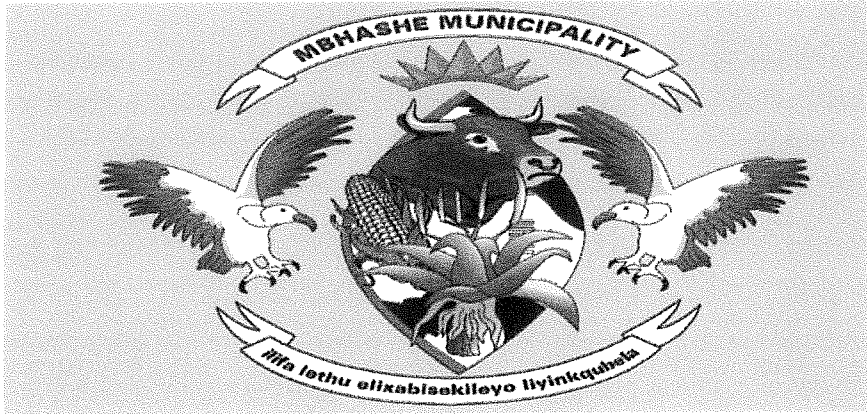


# MBHASHE MUNICIPALITY MUNICIPAL INVESTMENT POLICY



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## **1. The purpose of this policy**

- [1]** This policy is intended to give effect to section 13[2] of the Local Government: Municipal Finance Management Act, 2003 [Act No. 32 of 2003], obliging a Municipality to establish an appropriate and effective cash management and investment policy in accordance with the prescribed regulatory framework which is contained in the Municipal Investment Regulations published under Government Notice R308 published on 1 April 2005.
- [2]** All investments made by a Municipality or by an investment manager on behalf of a Municipality must be in accordance with this policy.

## **2. Policy objectives**

- [1]** The objectives of this policy are to ensure –
- [a]** that the Municipality and its duly delegated officials, as trustees of public funds, effectively exercise their obligation to ensure that the cash resources of the Municipality are preserved and safeguarded against loss;
  - [b]** that the investments of the Municipality are managed in the most efficient, effective and economical manner possible;
  - [c]** that the liquidity needs of the Municipality are appropriately

planned and provided for through the investment process;

[d] that an appropriate level of investment diversification is implemented to achieve the above objectives.

[e] that investments result in a reasonable return on surplus cash of the Municipality without the incurring of an unacceptable risk of capital loss.

### 3. Definitions

In this policy, a reference to the masculine gender includes the feminine, the singular includes the plural and vice versa and unless the context indicates otherwise –

**“Act”** means the Local Government: Municipal Finance Management Act, 2003 [Act No. 56 of 2003];

**“Council”** means the Council of the Mbhashe Municipality or a duly authorised committee of the Council;

**“investee”** means an institution with which an investment is placed, or its agent;

**“Investment”** in relation to funds of the Municipality means –

[a] the placing on deposit of funds of a Municipality with a financial institution;

[b] the acquisition of assets with funds of a Municipality not immediately required, with the primary aim of preserving those funds.

**“Investment manager”** means a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, 1989 [Act No. 55 of 1989], and Stock Exchanges Control Act, 1985 [Act No. 1

of 1985], contracted by a Municipality or municipal entity to -

- [a] advise it on investments;
- [b] manage investments on its behalf; or
- [c] advise it on investments and manage investments on its behalf.

**"Municipality"** means Mbhashe Municipality.

#### **4. Accountabilities in respect of implementation of this policy**

This policy recognises that –

- [a]** the Municipal Manager in his capacity as accounting officer of the Municipality is responsible for the implementation of this policy;
- [b]** the accounting officer may, in terms of Section 79 of the Act and subject to such terms and conditions as he or she may determine, delegate his or her responsibilities in terms of this policy to the Chief Financial Officer of the Municipality;
- [c]** the Chief Financial Officer of the Municipality may subdelegate any responsibility delegated to him or her by the accounting officer under subsection [b] to an official in the budget and treasury office of the Municipality or to the holder of a specific post in that office and, with the concurrence of the accounting officer, to any other official of the Municipality or to any person contracted by the Municipality for the work of that office;
- [d]** any delegation or subdelegation of any responsibility placed on the accounting officer or the Chief Financial Officer of the Municipality in

terms of this policy must comply with the regulatory framework contained in the Act.

- [e] the Council must, through its Mayor, monitor and maintain oversight over the implementation of this policy;

## **5. Basic principles pertaining to the making of investments**

Investments by a Municipality –

- [a] 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 own affairs;
- [b] may not be made for speculation purposes but must be a genuine investment; and
- [c] 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 and lastly to the probable income derived from the investment.

## **6. Permitted investments**

The Municipality may invest funds only in any of the following investment types:

- [a] securities issued by the national government;

- [b]** listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency;
- [c]** deposits with banks registered in terms of the Banks Act, 1990 [Act No. 94 of 1990];
- [d]** deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 [Act No. 45 of 1984];
- [e]** deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 [Act No. 46 of 1984];
- [f]** banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990;
- [g]** guaranteed endowment policies with the intention of establishing a sinking fund;
- [h]** repurchase agreements with banks registered in terms of the Banks Act, 1990;
- [j]** any other investment type as the Minister may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.

## **7. Investments denominated in foreign currencies prohibited**

The Municipality may make an investment only if the investment is

denominated in Rand and is not indexed to, or affected by fluctuations in the value of the Rand against any foreign currency.

## **8. Payment of commission**

**[a]** 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 Councillor or official in respect of any investment made or referred by a Municipality.

## **9. The investment process**

**[1]** The accounting officer must, before an investment is made, determine the extent of surplus funds available for investment purposes.

**[2]** All short-term investments may be made after consideration has been given to –

**[a]** The preservation and safety of the capital of the Municipality;

**[b]** Liquidity; and

**[c]** Yield.

**[3]** Long-term investments may be made only after consideration of the factors mentioned in subsection [2], the financial obligations of the Municipality at a future date and the requirements of section 48 of the Act relating to the provision of security;



- [4]** Prior to any investment of a fixed term being made, the accounting officer must prepare a cash flow estimate which must take into account the operating and capital requirements of the Municipality;
- [5]** The operating requirement must include provision for –
- [a]** monthly salary payment and annual leave bonuses;
  - [b]** bulk purchases of electricity and water;
  - [c]** interest on long-term loans;
  - [d]** maintenance of assets;
  - [e]** general expenditure; and
  - [f]** expected daily and monthly incomes;
- [6]** The capital requirement must provide for the anticipated cashflow requirement for each capital project.

## **10. Investment procedures**

Investment of surplus cash must be made in terms of the following procedures:

- [1]** Short-term investments [investments up to 90 days]:
- [a]** Quotations must be invited in a manner provided in the the supply chain management policy of the Municipality, from a minimum of three financial institutions;
  - [b]** All institutions are required to submit quotations for the same term

of investment;

**[c]** The official responsible for the invitation of quotations must record the following information in a register to be specifically maintained for this purpose:

- [i]** the name of the institution submitting the quotation;
- [ii]** the name of person from the institution concerned who submitted the rates contained in the quotation;
- [iii]** the period of the investment;
- [iv]** the terms and conditions of the investment as offered by the institution concerned;
- [v]** other pertinent information including the frequency at which interest will be payable on the contemplated investment;
- [vi]** All quotations received must be considered by a committee to be appointed by the accounting officer for this purpose, provided the Chief Financial Officer must be a member of such committee;
- [vii]** The committee must consider all quotations received and, subject to the relevant provisions of section 12 of this policy, accept the most beneficial quotation received;
- [viii]** The amount to be vested must be paid to the investee;
- [ix]** The accounting officer must ensure that the investee issues an original investment certificate to the Municipality in its name and issues to the Municipality for each investment a certificate stating that no commission on such investment has nor will be paid to any agent or third party or to any person nominated by such agent or third party.

**[2]** Long-term investments [investments exceeding 90 days]:

- [a]** At least three quotations must be obtained in a manner provided in the supply chain management policy of the Municipality for all investments made for periods longer than 90 days;
- [b]** The procedures set out in subsections 1[a] to [e] apply to the procurement of quotations for long-term investments except that the committee referred to in subsection 1[e] must make a recommendation to the Council;
- [c]** All long-term investments must be approved by the Council after consideration of the recommendation of the committee referred to in subsection 2[b].

## **11. Other external deposits**

Subject to any prescribed regulatory framework, the principles and procedures contained in this policy also apply to other investment types including debentures and securities issued by the state, other municipalities and statutory bodies.

## **12. Control over investments**

- [1]** The accounting officer must cause an investment register to be kept of all investments made by the Municipality.
- [2]** The following information must be recorded in the investment register:

- [a]** name of institution;
- [b]** capital sum invested;
- [c]** date of investment;
- [d]** applicable interest rate;
- [e]** maturity date of investment;
- [f]** interest received;
- [g]** capital sum repaid; and
- [h]** balance invested.

**[3]** The accounting officer must ensure that –

- [a]** the investment register and the accounting records are reconciled on a monthly basis;
- [b]** the investment register is examined on a fortnightly basis to identify investments which are to mature with a view to the reinvestment of the sums so invested;
- [c]** interest on investments is calculated correctly;
- [d]** all investment documents, certificates and related documents are safeguarded in a fire-proof safe with dual custody;
- [e]** all income received by the Municipality on its investments is paid into its primary bank account;
- [f]** particulars of the Municipality's investments are included in the annual budget tabled in the Municipality in terms of section 162 of the Act;

**[g]** a list is maintained containing details of the approved institutions where or through which investments may be made by the Municipality.

### **13. Investment risk management**

The credit risks associated with investment institutions must be managed through the following mechanisms:

**[1]** Investments can be placed only with institutions as per the following grading confirmed by the rating agency appointed by the accounting officer:

- [a]** Short term investments with A1+ and higher graded institutions;
- [b]** Long term investments with AA- and higher graded institutions; or
- [c]** The equivalent ratings as confirmed by the appointed rating agency.

**[2]** The rating of financial institutions must be reviewed quarterly.

**[3]** The accounting officer must liquidate an investment with an institution that no longer has a minimum acceptable rating as specified in this policy in such a manner and timing that any loss to the Municipality is minimized.

**[4]** All investments made must be in the name of the Municipality.

**[5]** The municipality may not borrow for the purpose of investment.

- [6] Investments must be spread across different type of investments and maturities according to liquidity requirements.
- [7] The following liquidity level must be maintained:
  - [a] Twenty-four hour [24] liquidity must be achieved for at least 30% of any short term funds invested; and
  - [b] At least 20% must be available within 30 days.
- [8] The period of all short term investments may not exceed 90 days.
- [9] The allocations contemplated in this section may be altered at the discretion of the accounting officer depending on the cash-flow requirements of the Municipality and any such alteration must be reported in the next financial report of the accounting officer to the Council;
- [10] Performance of short-term investments must be managed according to an appropriate suitable benchmark and should result in an at least equal return to a minimum risk rate such as SAFEX, JIBAR [Johannesburg interbank agreed rate];
- [11] Short-term investment performance based on an agreed benchmark must be measured on a three [3] monthly basis by the accounting officer.

#### **14. Reporting requirements**

- [1] The accounting officer must within ten [10] working days of the end of each month, as part of the report referred to in section 71 of the Act, submit to the Mayor of the Municipality a report describing in detail the investment portfolio of the Municipality as at the end of such month;
- [2] The aforesaid report must contain at least a statement, prepared in

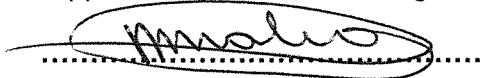
compliance with generally accepted municipal accounting principles, that gives the –

- [a] the market value of each investment as at the beginning of the reporting period;
  - [b] any changes to the investment portfolio during the reporting period; and
  - [c] fully accrued interest and yield for the reporting period;
- [3] At mid-and financial year-end, certificates must be obtained from investees confirming the balances of all investments held by the Municipality.

## 15. Policy review

The Council must review this policy annually or earlier if so required by legislative or investment environment changes.

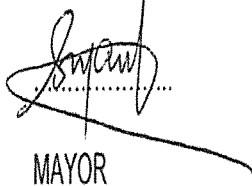
Approved by Council and Signed by:



**Mr NAKO M  
ACTING MUNICIPAL MANAGER**

02/08/17  
DATE

Cllr. Janda S.N



MAYOR

02/08/17