

METSIMAHOLO LOCAL MUNICIPALITY

INVESTMENT POLICY



2023/2024

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PART 1: LEGAL COMPLIANCE

Section 13 (1) and (2) of the Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003) requires that a municipality establish an appropriate and effective cash management and investments, which the municipality must:

- Conduct its cash management and investments, and
- Invest money not immediately required, in accordance with any framework which may be prescribed.

National Treasury issued a municipal investment regulation dated 1st April 2005 (Gazette no. 27431) which sets out a framework within which all municipalities shall conduct their cash management and investments.

This policy is consistent with the Act and the gazetted framework.

PART 2: PURPOSE AND OBJECTIVES OF INVESTMENT POLICY

2.1 Purpose

The purpose of this policy is to secure the sound and sustainable management of the Municipality's investments.

The investment policy of the Municipality is aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes. The effectiveness of the investment policy is dependent on the accuracy of the municipality's cash management programme, which must identify the amounts that are surplus to the municipality's needs, as well as the time when and period for which such revenues may be invested.

2.2 Objectives

The objectives of the policy are -

- to ensure compliance with the relevant legal and statutory requirements relating to investment:
- to ensure the preservation and safety of the Municipality's investment
- to ensure diversification of the Municipality's investment portfolio across acceptable investees, permitted types of investments and investment maturities; and
- to ensure timeous reporting of the investment portfolio as required by the Act in accordance with generally recognised accounting practice.
- to ensure that the liquidity needs of the Municipality are properly addressed.

2.3 Scope and Application

The policy governs the investment of money not immediately required by Municipality for the defrayment of expenditure

The policy applies to all new and existing investment made by the Municipality

The policy does not apply to trust monies administered by the Municipality, the trust deed prescribes how the trust money is to be invested.

PART 3: INVESTMENT ETHICS

The Chief Financial Officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in consultation with the Municipal Manager, and in compliance with any policy directives formulated by the Council and prescriptions made by the Minister of Finance.

In making such investments the Chief Financial Officer, shall at all times have only the best consideration of the municipality in mind, and, except for the outcome of the consultation process with the Mayor, or Chairperson of the Finance Committee, as the case may be, shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties.

Neither the Chief Financial Officer nor the Municipal Manager, may accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than 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.

Investments made by or on behalf of the Municipality –

- must be made whilst maintaining a strict code of ethics and standards;
- must be a genuine investment and not an investment made for speculation;
- must be made with primary regard to the security of the investment, secondly to the liquidity needs of the Municipality, and lastly to the income or return from the investment;
- must be made without internal or external interference whether such interference comes from individual officials, councillors, agents, investees or any other external body
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No employee or councillor of the Municipality or their family may under any circumstances whatsoever on his/her own behalf of any other person whether directly/indirectly, stipulate, claim or receive any consideration of whatever nature in connection with an investment.

This shall be confirmed annually by all investees to the Auditor General.

All investments made by or on behalf of the Municipality must be in the name of the Municipality.

The Municipality shall take all reasonable steps to diversify its investment portfolio across investees, type of investment and investment maturities

Confidentiality

- a) Although alternative rates on offer need to be disclosed when negotiating a rate on an investment, the disclosure of a specific rate from a specific named investee to another investee shall strictly be prohibited.
- b) The Municipality's current cash position and its projected future cash flows shall not be discussed with or disclosed to investees.

PART 4: PERMITTED INVESTMENTS

The Municipality shall only invest in the following instruments or investments:

- a) Securities issued by the National government
- b) Listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit ratings 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 Act, (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) Guaranteed endowment policies with the intention of establishing a sinking fund;
- g) Repurchase agreements with banks registered in terms of the Banks Act 1990;
- h) Municipal bonds issued by a municipality;
- i) 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.

PART 5: PROHIBITED INVESTMENTS

5.1 The Municipality shall not be permitted to make the following investments:

- a) Investments in listed or unlisted shares, or unit trusts
- b) Investments in stand-alone derivative instruments;
- c) Investments denominated in, or linked to, foreign currencies;
- d) Investments in market linked endowment policies

5.2 The Municipality shall not borrow for the sake of investing

5.3 Any investment in capital or money market instruments shall be held until maturity. The Municipality shall not buy and sell these instruments, to speculate with a view to make capital profits.

PART 6: INVESTMENT PRINCIPLES

6.1 Limiting Exposure

- a) Where large sums of money are available for investment the Municipal Manager, in consultation with 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 (that is, call, money market and fixed deposits.)
- b) In order to limit the risk exposure of the municipality, maximum investments limits shall be set for each approved investee and these limits shall not be exceeded at the time of making the investment.
- c) Not more than 50% of available funds may be invested with one investee
- d) Prior to making investments for any fixed term, longer than six months, it is essential that cash flow estimates be compiled for at least the next twelve months.

6.2 Risk and Return

Although the objective of the Chief Financial Officer in making investments on behalf of the municipality shall always be 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. 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. Deposits shall be made only with registered deposit-taking institutions. (See 5 Above)

6.3 Payment of Commission

Every financial institution with which the municipality makes an investment must issue a certificate to the Chief Financial Officer in regard to such investment, stating that such financial 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.

6.4 Call Deposits and Fixed Deposits

Before making any call or fixed deposits, the Chief Financial Officer, shall, whenever necessary, request quotations telephonically, and shall record in an appropriate register the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be relevant (for example, whether the interest is payable monthly or only on maturity, and so forth.)

Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained or sent to the financial institution (by facsimile, e-mail or any other expedient means).

Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in term of part 7 below) shall be paid over only to such institution itself and not to any agent or third party. Once the 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 institution concerned in the name of the municipality.

6.5 Restriction on the Tenure Investment

No investment with a tenure exceeding twelve months shall be made without the prior approval of the Municipal Manager, in consultation with the Chief Financial Officer.

6.6 Credit Ratings

The municipality shall place its investment only with the investees that have an applicable grade rating and it shall rely on the credit analysis of Financial institutions as obtained by external Credit Rating Agencies.

6.7 Credit Worthiness

The Municipality must ensure that it places its investments only with credit-worthy investees. The credit worthiness of every investee shall be monitored throughout the year on an ongoing basis. The Municipality must liquidate an investment where the credit rating falls below the acceptable rate.

6.8 Competitive Selection Process

The selection of an investee for any investment shall be a competitive process. Quotations shall be invited telephonically from at least three eligible investees for the terms for which the investment is to be placed. In the event of one of the investees offering a more beneficial rate for an alternative term, the other investees initially invited to quote should be approached for their rates on their alternative term. Quotations shall be recorded in writing and the recommended investee identified for signed approval by the authorised officials. As a general rule, subject to paragraphs 6.1(c) above, the best rate offered shall secure the investment. Written confirmation of the terms of the investment shall be prepared and exchanged with the investee in all cases.

PART 7: CONTROLS OVER INVESTMENTS

7.1 Documentation

The Chief Financial Officer shall ensure that proper records are kept of all investments made by the municipality. Such records shall indicate the date on which the investment is made, the institution with which the monies are invested, the amount of the investment, the interest rate applicable, and the maturity date. If the investment is liquidated at a date other than the maturity date, such date shall be indicated.

The Chief Financial Officer shall ensure that all interest and capital properly due to the municipality are timeously received, and shall take appropriate steps or cause such appropriate steps to be taken if interest or capital is not fully or timeously received.

The Chief Financial Officer shall ensure that all investment documents and certificates are properly secured in a fire-proof safe with segregated control over the access to such safe, or are otherwise lodged for safekeeping with the municipality's bankers or attorneys.

7.2 Delegations

In terms of Section 59 of the Local Government: Municipal Systems Act (no. 32 of 2000), Council has delegated to the Chief Financial Officer (CFO) the power, function and duty to make investments on behalf of the Municipality within a policy framework determined by the Minister of Finance, and the of surplus funds in terms of Council policy.

7.3 Use of investment managers

The Municipality shall not employ investment managers to:

- Advise it on investments; and/or
- Manage specific investments on its behalf.

Should the CFO and/or those delegated be found guilty of non-compliance with this policy, as well as the National Treasury investment regulations, they shall be held liable for any loss or penalty suffered by the Municipality.

7.4 Obtaining quotations and concluding deals

Written mandates, signed by the Chief Financial Officer shall be issued to all investees with whom the Municipality invest funds setting out the following:

- **Authorised Dealers:** names and particulars of the Municipal officials who are authorised to transact investment deals telephonically with the investee
- **Authorised Signatories:** Those officials authorized to be signatories on the municipality's bank account.
- Quotations shall be obtained from the investees and the quotations shall be assessed by delegated official. The authorised signatories will approve the investment sheet or document.
- In a situation where the funds where invested and upon maturity date the funds mature, these funds may be re-invested in that institution but written confirmation must be provided by that institution confirming what the interest rates were at that point in time. The institution must also send confirmation of the re-investment to the municipality.
- Surplus funds in the current account may be transferred to the call accounts of the same banking institution were the current account is held without obtaining quotations from other banking institutions.

7.5 Electronic Funds Transfer

Investments shall be made electronically by EFT. Strict segregation of duties shall be maintained between the creator of the payment file and the payment releaser/authoriser. Investment EFT payments shall be authorised by the authorised signatories earlier alluded to.

7.6 Control over investment Portfolio

A proper record shall be maintained of all investments made indicating, at a minimum, the investee, capital amount, interest rate and maturity date.

Investment documents must be kept in a locked, fireproof safe.

Investment must be recorded in the name of the Municipality by the investee.

PART 8: INVESTMENT REPORTING

There shall at all times be transparency and accountability in respect of every investment made and of the Municipality's investment portfolio. The following regular reporting mechanisms shall be in place in order to assess the performance of the investment portfolio and to ensure that the investment comply with policy objectives, guidelines, applicable laws and regulations –

The following reports shall be prepared:

8.1 For internal Treasury Management

- A summary of current investments by investee, actual against limits
- A detailed schedule of investment capital and interest maturing on the current day
- A monthly reconciliation of all interest accrued with interest actually received

8.2 For the political leadership

A monthly report on the investment portfolio, to be submitted to the Mayoral Committee via the Finance Committee, within ten working days of each month, detailing:

- A quarterly report to Council, in accordance with Section 11.4. (a) of the Act, within 30 days after the end of each quarter, on the quarter's cash withdrawals from the Municipal's bank account for investment purposes.

8.3 For external parties

- Notification to the Auditor General, within 30 days after the end of the financial year, by all investees of any investment held by them for the Municipality during that year.

- Notification to the Auditor General and the Provincial Treasury, within 90 days, of the name, type and number of any new bank account opened by the Municipality

PART 9: INVESTMENTS MANAGEMENT AND ACCOUNTING

9.1 External Investments

From time to time it may be in the best interests of the municipality to make longer-term investments in secure stock issued by the national government, Eskom or any other reputable parastatal or state owned entity, or by another reputable municipality. In such cases the Chief Financial Officer must be guided by the best rates of interest pertaining to the specific type of investment, which the municipality required, and to the best and most secure instrument available at the time.

No investment with a tenure exceeding twelve months shall be made without the prior approval of the Municipal Manager, and without guidance having been sought from the municipality's bankers or other credible investment advisers on the security and financial implications of the investment concerned.

9.2 Investments for The Redemption of Long-Term Liabilities

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.

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.

9.3 Interest on Investment

The interest accrued on all the municipality's investments shall, in compliance with the requirements of Generally Recognised Accounting Principles, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and shall thereafter where applicable, be appropriated, at the end of each month, to the fund or account in respect of which such investment was made.

In the case of the external finance 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.

If the accrual of interest to the external finance fund, unutilised capital receipt and trust funds results in a surplus standing to the account of any such funds, that is, an amount surplus to the resources required in respect of such funds or accounts, such surplus amount shall be credited by the Chief Financial Officer to the Appropriation Account.

PART 10: REVIEW AND APPROVAL

This policy and underlying strategies will be reviewed at least annually, or as necessary, to ensure its continued application and relevance.