

# **INXUBA YETHEMBA**

## **LOCAL MUNICIPALITY**



### **FINAL CASH MANAGEMENT AND INVESTMENT POLICY**

**2020/21**

## **PREAMBLE**

**WHEREAS** section 13 of the Local Government: Municipal Finance Management Act, Act 56 of 2003 (hereinafter referred to as “the MFMA”) determines that the Inxuba Yethemba Local Municipality (hereafter “the Municipality”) must within the prescribed legislative framework:

- (a) conduct their cash management and investments; and
- (b) invest money not immediately required.

**AND WHEREAS** in terms of section 13(2) of the MFMA, the Municipality must establish an appropriate and effective Cash Management and Investment Policy in accordance with the prescribed framework.

**AND WHEREAS** Councillors and officials as trustees of public funds, have an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible.

**AND WHEREAS** all investments made by the Municipality must be in accordance with the Local Government: Municipal Finance Management Act, Municipal Investment Regulations (hereafter “the Regulations”) promulgated in terms of the MFMA and in accordance with the Cash Management and Investment Policy of the Municipality.

**NOW THEREFORE** the Municipality adopts the following Cash Management and Investment Policy in compliance with the provisions of the MFMA and Regulations and to be known as the Cash Management and Investment Policy (hereafter “this policy”).

# THE INXUBA YETHEMBA LOCAL MUNICIPALITY

## CASH MANAGEMENT & INVESTMENT POLICY

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## 1. DEFINITIONS

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- (1) In this policy, except where the context otherwise indicates, or it is expressly stipulated otherwise, the following words and expressions shall have the respective meanings assigned to them hereunder, and words and expressions to which a meaning has been assigned in terms of the provisions of the MFMA, Systems Act and Regulations, will have a corresponding meaning assigned thereto in terms of the said act. All headings are included for convenience only and shall not be used in the interpretation of any of the provisions of this policy.

NO.	WORD/EXPRESSION	DEFINITION
<b>“A”</b>		
1.1	<b>“Accounting Officer”</b>	Means the Municipal Manager appointed in terms of section 60 of the MFMA. Also referred to the definition of “Municipal Manager”.
1.2	<b>“accrued interest”</b>	Means interest income that has been earned but not yet paid in cash.
<b>“C”</b>		
1.3	<b>“Chief Financial Officer”</b>	Means a person designated in terms of section 80(2)(a) of the MFMA.
1.4	<b>“Council”</b>	Means the municipal council of the Municipality as referred to and constituted in terms of the provisions of section 157 of the Constitution of the Republic of South Africa.
1.5	<b>“credit rating”</b>	Means a financial indicator to determine credit worthiness to be considered potential lender or investor.
<b>“I”</b>		
1.6	<b>“investee”</b>	Means an institution with which an investment is placed, or its agent.

1.7	<b>“investment”</b>	Means in relation to funds of the Municipality: (a) the placing on deposit of funds of a municipality with a financial institution; or (b) the acquisition of assets with funds of a municipality not immediately required with the primary aim of preserving those funds.
1.8	<b>“investment manager”</b>	Means a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, Act 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 management investments on its behalf.
<b>“L”</b>		
1.9	<b>“liquidity”</b>	Means the ease with which an asset can be turned into cash and the certainty of the value it will fetch.
1.10	<b>“long term investment”</b>	Means an investment that matures in more than 1 (one) year, generally made over a period of 5 (five) years or more.
<b>“M”</b>		
1.11	<b>“market value”</b>	Means the amount of consideration agreed upon in an arm’s length transaction between knowledgeable, willing parties who are under no compulsion to act.
1.12	<b>“Mayor”</b>	Means, in terms of the provisions of section 1 of the MFMA, in relation to a municipality with an executive committee, the councillor elected as the mayor of the municipality in terms of section 48 of the Structures Act.
1.13	<b>“Municipal Finance</b>	Means the Local Government: Municipal Finance

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	<b>Management Act” or “MFMA”</b>	Management Act, Act 56 of 2003.
1.14	<b>“Municipality”</b>	<p>Means the INXUBA YETHEMBA LOCAL MUNICIPALITY, a local government and legal entity with full legal capacity as contemplated in section 2 of the Systems Act, read with the provisions of Chapter 7 of the Constitution of the Republic of South Africa and sections 12 and 14 of the Local Government: Municipal Structures Act, Act 117 of 1998, with its main place of business and the offices of the Municipal Manager, as envisaged in terms of the provisions of section 115(3) of the Systems Act, at the c/o of President &amp; Coetzee Street, ZEERUST, NORTH WEST PROVINCE and includes:</p> <ul style="list-style-type: none"> <li>(a) its successor in title; or</li> <li>(b) a functionary exercising a delegated power or carrying out an instruction, in the event of any power being delegated as contemplated in terms of the provisions of section 59 of the Systems Act; or</li> <li>(c) an authorised service provider fulfilling a responsibility assigned to it by the Municipality through a service delivery agreement.</li> </ul>
1.15	<b>“Municipal Manager”</b>	<p>Means the Municipal Manager and Accounting Officer of the Municipality appointed in terms of the provisions of section 54A of the Systems Act and as referred to in the definition of “Accounting Officer” in section 1 of the MFMA, and also referred to in section 60 of the MFMA, and includes a person acting as an Accounting Officer, or the person to whom the Accounting Officer has delegated his/her authority to act.</p>

<b>“R”</b>		
1.16	<b>“Regulation”</b>	Means the Local Government: Municipal Finance Management Act, Municipal Investment Regulations, promulgated in terms of the MFMA and published in Government Gazette No 27431 of 1 April 2005 under Government Notice R.308.
<b>“S”</b>		
1.17	<b>“Short term Investment”</b>	Means an investment with a maturity date of less than 1 (one) year.
1.18	<b>“Structures Act”</b>	Means the Local Government: Municipal Structures Act, Act 117 of 1998.
1.19	<b>“Systems Act”</b>	Means the Local Government: Municipal Systems Act, Act 32 of 2000.
<b>“T”</b>		
1.20	<b>“the/this policy”</b>	Means the Cash Management and Investment Policy of the Municipality as adopted by the Municipality in terms of section 13(2) of the MFMA.
1.21	<b>“Trust money”</b>	Means money held in trust on behalf of third parties in a trust contemplated in terms of section 12 of the MFMA.

## **2. INTRODUCTION**

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- (1) As trustee of public funds, the Council has an obligation to ensure that all investments are made by the Municipality in the most efficient and effective manner.
- (2) Money invested must be for the benefit of the whole of the community and must be governed by the principle objective to maximise returns from



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authorised investments, consistent with the secondary objective of minimising risk.

### **3. LEGISLATIVE CONTEXT**

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- (1) This policy is established in terms of section 13(1) and section 13(2) of the MFMA which requires that the Municipality establish an appropriate and effective Cash Management and Investment Policy within which the Municipality must:
  - (a) conduct its cash management and investments; and
  - (b) invest money not immediately required in accordance with any framework which may be prescribed by law.
- (2) In addition, the Regulations set out the framework within which all municipalities shall conduct their cash management and investment. The said regulations are annexed to this policy as **Annexure "A"**.
- (3) This policy is consistent with the MFMA, the aforementioned gazetted framework and section 60(2) of the Systems Act.
- (4) The Municipality shall at all times manage its banking accounts and investments, as well as implement this policy in compliance with the provisions of and the prescriptions made by the Minister of Finance in terms of the MFMA.

### **4. ADOPTION AND COMMENCEMENT OF THIS POLICY**

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- (1) The Municipality shall adopt this policy which is consistent with the provisions of paragraph 3 above.

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- (2) All investments made by the Municipality or an investment manager on behalf of the Municipality must be in accordance with this policy and with any investment regulations promulgated by National Government.
- (3) The effective date of this policy or any amendments thereto shall be the date of its adoption by Council.

### **5. PURPOSE OF THIS POLICY**

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

### **6. SCOPE OF THIS POLICY**

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- (1) This policy prescribes the manner in which the Municipality must conduct its cash management and investments. This policy further prescribes the obligations and the accountability of the Municipality as a trustee of public funds, and that cash resources are managed as effectively as possible by ensuring that such funds are invested with great care.
- (2) This policy aims through effective cash flow management, having regard to legislative provisions, at gaining the highest possible return without undue risk to the investment during those periods when funds are not required.
- (3) The policy governs the investment of money not immediately required by the Municipality for the defrayment of expenditure.
- (4) This policy applies to all new and existing investments made by:

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- (a) the Municipality;
  - (b) all investment managers acting on behalf of the Municipality in making or managing investments.
- (5) This policy does not apply to trust moneys administered by the Municipality where it is prescribed in the trust deed how the trust money is to be invested.

### **7. OBJECTIVES OF THIS POLICY**

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- (1) To ensure compliance with the relevant legal and statutory requirements relating to cash management and investments.
- (2) To ensure that investment of surplus funds of the Municipality forms part of the financial system of the Municipality.
- (3) To create consistency in that the same procedure is followed in respect of each investment so as to conform to the requirements of transparency, equitability and fairness. In each case the preservation and safety of investments is a primary aim.
- (4) To promote and ensure the need for investment diversification of the Municipality's investment portfolio across acceptable investees permitted types of investments and investment maturities.
- (5) To ensure the liquidity needs of the Municipality are duly discounted and provided for.

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- (6) To ensure timeous reporting of the investment portfolio as required by the MFMA and in accordance with the General Recognised Accounting Practices (GRAP).
- (7) To establish a minimum acceptable credit rating and requirements for investments including:
  - (a) a list of approved investment types that may be made, subject to the provisions of this policy; and
  - (b) a list of approved institutions where or through which investments may be made, subject to the provision of this policy.
- (8) To provide measures for ensuring implementation of this policy and internal control over, investment made as well as procedures for reporting on and monitoring of all investments made procedure for benchmarking and performance evaluation.
- (9) To provide the assignment of roles and functions, any delegation of decision-making powers including the conditions for the use of investment managers, and their liability in the event of non-compliance with the provisions of this policy.
- (10) To provide the procedures for the annual review of this policy.

### **8. PERMITTED INVESTMENT TYPES**

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- (1) The Municipality shall only invest funds in any of the following investment types as set out and referred to in regulation 6 of the Regulations, being:
  - (a) securities issued by the National Government;

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- (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, Act 94 of 1990;
- (d) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, Act 45 of 1984;
- (e) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, Act 46 of 1984;
- (f) banker's acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, Act 94 of 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, Act 94 of 1990;
- (i) municipal bonds issued by another municipality; and
- (j) any other investment type as the Minister of Finance may identify by regulation in terms of section 168 of the MFMA, in consultation with the Financial Services Board.

### **9. PROHIBITED INVESTMENTS**

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- (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 or derivative instruments;
  - (c) investments denominated in, or linked to, foreign currencies;
  - (d) investments in market linked endowment policies.
  
- (2) The Municipality shall not borrow funds for the purposes of investing, as stated in terms of the Borrowing Policy of the Municipality.

- (3) Any investment in capital or money market instruments shall be held until maturity. The Municipality shall not buy or sell these instruments, to speculate with a view to making capital profits.

## **10. STANDARD OF CARE**

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- (1) The Municipality must take all reasonable and prudent steps consistent with, and according to the provisions of this policy to ensure that it places its investments with credit-worthy institutions. The international rating given should be used to evaluate the creditworthiness of financial institutions.
- (2) The investment shall be made with the judgement and care, under the prevailing circumstances, which a person of prudence, discretion and intelligence would exercise in the management of his/her own affairs, not for speculation, but for investment, and with primary regard to:
  - (a) the safety of its capital;
  - (b) the liquidity needs of the Municipality; and
  - (c) the probable income or return derived from the investment.

## **11. DELEGATION OF INVESTMENT PORTFOLIO MANAGEMENT**

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- (1) The authority to make investments and fulfil all functions related herein is in terms of section 59 of the Systems Act delegated by the Council to the Chief Financial Officer who will exercise his/her power, function and duty to make investments on behalf of the Municipality within a policy framework determined by the Minister of Finance and in accordance with the provisions contained within this policy. This power may not be sub-delegated.

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- (2) The Chief Financial Officer shall make invitation and selection of competitive bids or offers from a list of approved institutions to make short-term investments as and when necessary.
- (3) The Chief Financial Officer shall invite bids or offers from a list of approved institutions, in accordance with the applicable provisions of the Supply Chain Management Policy of the Municipality, and make investments in consultation with the Municipal Manager in respect of the long-term investment of funds.

### **12. REPORTING AND MONITORING**

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- (1) The Accounting Officer, assisted by the Chief Financial Officer, shall in terms of section 71 of MFMA submit, on a monthly basis, a report describing in accordance with Generally Recognised Accounting Practice (GRAP) the investment portfolio of the Municipality as at the end of the month and such report shall contain at least the following particulars:
  - (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;
  - (c) the market value of each investment as at the end of the reporting period;
  - (d) applicable interest rates; and
  - (e) fully accrued interest or yield for the reporting period.
- (2) There shall at all times be transparency, equitability, fairness and accountability in respect of every investment made and of the Municipality's investment portfolio. In this regard, details of all investment must form part of the monthly financial report by the Accounting Officer to the Mayor and the provincial treasury.

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- (3) There shall at all times be regular reporting mechanisms in place in order to assess the performance of the investment portfolio and to ensure that the investments comply with policy objectives, guidelines, applicable laws and regulations.
- (4) The following investment reports shall be prepared:
- (a) For the Chief Financial Officer:
- (i) a daily summary of current investments for all Investees;
  - (ii) a detailed schedule of investment capital and interest maturing on the current day;
  - (iii) a daily summarised schedule of future maturities for all investments;
  - (iv) a monthly reconciliation of all interest accrued and interest received;
  - (v) each month, the weighted average actual return earned on investments for the month, together with a comparison to the previous 3, 6, 9 and 12 months, shall be calculated on a nominal annual compounded monthly basis and benchmarked against rates of return offered by other institutions.
- (b) For the Mayor:
- A monthly investment portfolio report (in accordance with the General Recognised Accounting Practices) to be submitted to the Mayor by the Accounting Officer, within 10 (ten) working days of the end of each month, as part of the section 71 report required in terms of the MFMA, detailing:
- (i) the market value of each investment as at the beginning of the reporting period;



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- (ii) any changes in the investment portfolio during the reporting period;
  - (iii) the market value of each investment as at the end of the reporting period; and
  - (iv) fully accrued interest and yield for the reporting period.
- (c) For Council:
- (i) the Accounting Officer must table a quarterly report to Council within 30 (thirty) days after the end of each quarter on the cash withdrawals from the Municipality's bank account for investment purposes.
- (d) For the Auditor-General:
- (i) all investees shall, within 30 (thirty) days after the end of the financial year, notify the Auditor-General of all investments held by them for and on behalf of the Municipality during that year;
  - (ii) within 90 (ninety) days after opening up any new bank account, the Municipality shall notify the Auditor-General and the provincial treasury of the name, type and number of any new bank account opened by the Municipality.

### **13. DIVERSIFICATION**

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No more than 50% of the total investment portfolio may be invested with a single institution, except with the prior authorisation of Council.

### **14. COMPETITIVE SELECTION PROCESS AND INVITATION FOR QUOTATION**

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- (1) No investments may be made without obtaining quotations from at least 3 (three) institutions or investees permitted in terms of this policy, for the terms for which the investment is to be placed.
- (2) The selection of an investee for any investment shall be a competitive process in terms of the Supply Chain Management Policy of the Municipality.
- (3) In the event of one or more of the investees offering a more beneficial rate for an alternative term, the other investees who previously quoted or invited to quote should be approached for their rates on the alternative term.
- (4) Written confirmation of the terms of the investments shall be prepared and signed with the investee in all cases.
- (5) Save where other considerations or factors as provided in this policy apply the best rate offered shall secure the investment.

### **15. CONTROL OVER INVESTMENT(S)**

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- (1) Proper records should be kept of all investment made. At the very least the following facts should be indicated regarding the institution, the funds, the interest rate and the maturity date.
- (2) Interest correctly calculated should be received timeously together with any distributable capital.
- (3) Investment documents and certificates shall be kept in a locked and fire-resistant safe.

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- (4) The Chief Financial Officer is responsible for ensuring that the invested funds are quite secure and should there be a measure of risk, such risk must be rated realistically.
- (5) All investment made must be in the name of the Municipality and recorded as such by the investee.
- (6) The responsibility and the risk arising from any investment vests in the Municipality.

### **16. INVESTEE LIMITS**

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- (1) Maximum investment levels shall be set for each approved investee and these limits shall not be exceeded at the time of making the investment.
- (2) The investment limit per deposit taking institution shall be calculated using the balance sheet figures obtained from the individual investee's Reserve Bank DI900 return and taking into account:
  - (a) 5% of total equity divided by total assets multiplied by total deposits;
  - (b) the ratio of the individual limits per Investee, calculated above, as a percentage of the total limits, shall then be applied daily to the actual funds invested and available for investment. In this way a daily investment limit, as per the calculated ratio, shall be determined per Investee for any given level of total actual investments.
- (3) Investee limits and ratios based on the above formulae shall be revised annually or as required upon the addition or deletion of an institution to or from the list of approved deposit taking investees.

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- (4) The Municipality shall only invest with investees having, as applicable, an investment grade rating of A.1 or better for short term investments and an A or better rating for long term investments from a nationally or internally recognised credit rating agency.
- (5) The Municipality shall 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.
- (6) Any additions to or deletions from the list of approved investees or any changes to the investment limits assigned to each investee shall be approved by the Chief Financial Officer in consultation with the Accounting Officer.

### **17. ELECTRONIC FUNDS TRANSFER**

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- (1) Investments shall be made by electronic transfer.
- (2) Strict segregation of duties shall be maintained in respect of the creator of the payment and the payment authoriser.
- (3) Investment payments shall be authorised by the Chief Financial Officer.

### **18. EFFECTIVE CASH MANAGEMENT**

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- (1) In order to ensure adequate and efficient cash management of the Municipality, the Chief Financial Officer must establish and implement at all times a cash management plan and reports which entails at least the following:

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- (a) daily cash flow reporting shall be prepared as follows:
  - (i) a summary of the preceding day, and month date, closing bank account and investment balances, cash receipts, payments and inter-bank transfers;
  - (ii) a detailed schedule of investment capital and interest maturing on the current day;
  - (iii) a summarised schedule of daily investment maturities for all existing investments;
  - (iv) a summary of daily cash receipts and payments, actual against forecast for the month to date; and
  - (v) a daily projection of cash receipts and payments through to the end of the current month;
- (b) monthly reporting showing:
  - (i) comparisons of actual cash flow with forecast, current month and year to date;
  - (ii) an explanation of any variances in sub-paragraph (i) above;
  - (iii) updating the estimates on a monthly basis and in reporting provides comments or explanations regarding any significant cash flow deviation in any calendar month;
  - (iv) a summarised monthly projected cash flow over the next 12 (twelve) months;
  - (v) an analysis of actual year to date cash receipts and payments and projected cash flows for the remaining months of the current financial year to be submitted to National Treasury; and
  - (vi) the cash backing of statutory funds and reserves balances at the end of the month;
- (c) every quarter preparing a revised detailed cash flow projection for the next 12 (twelve) months;

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- (d) regular reports indicating, when and for what periods and amounts surplus revenues may be invested, when and for what amounts investments will have to be liquidated, and when, if applicable, either long-term or short-term debt must be incurred; and
  - (e) preparing annually
    - (i) the annual estimates for the budget year of the municipality's cash flows per revenue sources divided into calendar months;
    - (ii) the annual cash flow budget for the new financial year.
- (2) The Chief Financial Officer shall ensure regular and effective cash flow monitoring and forecasting which is essential for determining the timing and size of cash surpluses and deficits affecting investment decisions.
- (3) The balance on the Municipality's current account shall be maintained at the minimum required level taking into account the day to day cash and expenditure requirements of the Municipality. Surplus cash shall be immediately invested in order to maximise interest earnings.

### **19. CASH COLLECTIONS**

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- (1) All monies due to the Municipality must be collected as soon as possible and banked in a controlled and secure manner, on a daily basis as cash left in the safe can pose a security risk, necessitate additional insurance coverage and does not earn any interest.
- (2) Special deposits should be arranged for the larger amounts received to make sure that these are banked on the same day that they are received.

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- (3) It is essential that all amounts owed to the Municipality be levied by way of a debit and be dealt with in accordance with the Credit Control & Debt Collection Policy of the Municipality.
- (4) Adequate cash receipting points shall be made available to the public in all areas to facilitate prompt payment of accounts. Every effort should be made to encourage consumers to pay directly, or via third party agents, into the Municipality's bank account by electronic means.
- (5) The Municipality shall review the debt collection performance regularly comparing monies presently owed to the Municipality in relation to the total income as well as a comparison to previous financial years in order to determine whether the debt collection is deteriorating or improving. Debt collection and credit control must be executed in terms of the provisions of the Credit Control & Debt Collection Policy of the Municipality
- (6) The Chief Financial Officer shall regularly assess the daily available cash in the main bank account in order to determine the need for making daily call investments or making investment payments or withdrawals, whereas long-term investments need to be based on projections further into the future.

### **20. PETTY CASH**

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- (1) The Chief Financial Officer will determine by way of written petty cash procedures the maximum amount and the nature of the petty cash disbursements, as well as managing the allocation of all petty cash floats.
- (2) Payments by means of petty cash will be used internally, by officials of the Municipality for the purpose of acquiring goods and services that are small in nature and amount and may be required on an urgent basis.

- (3) The provisions of the Supply Chain Management Policy of the Municipality concerning the acquiring of goods and services by way of petty cash, must be adhered to at all times.

## **21. PAYMENT TO SUPPLIERS**

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- (1) The Accounting Officer, assisted by the Chief Financial Officer, shall establish written creditors' payment procedures in terms section 65(2) of the MFMA in order to ensure that the Municipality maintains an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds.
- (2) The Chief Financial Officer shall ensure that all tenders and quotations invited by and contracts entered into by the Municipality stipulate payment terms favourable to the Municipality, that is, payment to fall due not sooner than the conclusion of the month following the month in which a particular service is rendered to or goods are received by the Municipality.
- (3) Suppliers shall be paid in accordance with the services level agreements concluded with such suppliers and the provisions of the Supply Chain Management Policy of the Municipality. The number of electronic batch payment runs shall be minimised and shall be done in a structured scheduled manner in order to facilitate efficient cash flow management.
- (4) The Chief Financial Officer shall ensure that the Municipality optimises financial incentive opportunities arising from effecting earlier payments.
- (5) In order to ensure continuous effective control of cash any special payments to creditors shall only be made with the express approval of the Chief



Financial Officer, who shall be satisfied that there are compelling reasons for making such payments prior to the normal month end processing.

## **22. INVESTMENTS ETHICS AND PRINCIPLES**

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- (1) The Chief Financial Officer shall be responsible for investing the surplus revenues of the Municipality, and shall manage such investments in consultation with the Accounting Officer, as the case may be, and in compliance with any policy directives formulated by Council and the prescriptions made by the Minister of Finance.
- (2) Under no circumstances may any staff member be held susceptible to coercive measures of any description.
- (3) No member of staff may accept any gift other than something that is so small (monetary value not exceeding R100.00) that it cannot possibly be seen as anything but a sign of goodwill, regardless of whether such gift influences such staff member in his/her work or is intended to do so. Excessive gifts and hospitality must be refused and avoided.
- (4) The Chief Financial Officer must record and report all cases to the Accounting Officer where there is a contravention of this policy.
- (5) 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.
- (6) No employee or councillor of the Municipality or their family may under any circumstances whatsoever on his/her own behalf or on behalf of any other person whether directly or indirectly, stipulate, claim or receive any

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consideration of whatever nature in connection with an investment made. This shall be confirmed annually by all investees to the Auditor General.

- (7) 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 by the Municipality. This shall be confirmed annually by all investees to the Auditor General.
- (8) All investments must be made without internal or external interference whether such interference comes from individual officials, councillors, agents, investees or any other external body.
- (9) The Municipality shall review its investments regularly and liquidate any investment that no longer has the minimum acceptable rating as specified.
- (10) The Municipality must take all reasonable and prudent steps, consistent with the standard of care provided for in this policy to diversify its investment portfolio across institutions, types of investment and investment maturities. In this case it should be noted that a group of financial institutions would be treated as individual institutions.
- (11) Investments made by or on behalf of the Municipality must:
  - (a) be made while maintaining a strict code of ethics and standards;
  - (b) be a genuine investment and not an investment made for speculation.

### **23. CONFIDENTIALITY**

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## IYLM CASH MANAGEMENT AND INVESTMENT POLICY

- (1) Interest or investment rates shall not be divulged or disclosed to another institution or investee.
- (2) The Municipality's cash position and its future projected cash flows shall not be discussed with or disclosed to any investee.

### **24. GENERAL INVESTMENT PRACTICE**

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- (1) General principles:
  - (a) after determining whether cash is available for investment and fixing the maximum term of investment, the Chief Financial Officer has to consider the way in which the investment is to be made in conjunction with the Accounting Officer. Because rates can vary according to money market perceptions with regard to the term of investment, quotations for fixed deposits should be requested telephonically for a period within the limitations of the maximum term. All telephonic quotations must be recorded on a schedule and the accepted quotation must be confirmed in writing before the actual investment is made. The same procedure must be followed before re-investment is made with the same institution;
  - (b) where fixed deposit is made at an institution at a lower rate than the other quotations, reasons must be recorded by the Chief Financial Officer and reported to the Mayor as part of monthly financial report by the Accounting Officer.
- (2) Payment of commission:
  - (a) the financial institution where a fixed deposit is made must issue a certificate with regard to each investment at the time when the investment is made, in which it states that the financial institution has not or will not pay any commission and has not or will not grant any other benefit for obtaining such investment to any employee or

## IYLM CASH MANAGEMENT AND INVESTMENT POLICY

councillor of the Municipality or their family or an agent or any other such person, or to any person nominated by such agent or such other person, except where the Municipality has decided, in terms of duly authorising legislation, to appoint an agent, consultant or such other person, and the fee commission has been decided and approved by the Mayor before any investment is made with such a firm;

- (b) in case of long-term securities at insurance companies, any payment of commission to any agent, consultant or any other person, must be clearly stated on the application form and approved by the Mayor in terms of duly authorising legislation, before any investment is made;
  - (c) if any fee, commission or other reward is paid to an Investment Manager in respect of an investment made by the Municipality, both the investee and the investment manager must declare such payment to the Council by way of certificate disclosing full details of the payment.
- (3) “Call Deposits” and “Fixed Deposits” shorter than 12 (twelve) months:
- (a) quotations shall be solicited from a minimum of 3 (three) financial institutions bearing in mind the limits of the term for which it is intended to invest the funds. Should one of the institutions offer a better rate for a term, other than the term initially requested by the Municipality, the other institutions that were approached shall also be asked for quote a rate for the same term;
  - (b) it is acceptable to ask for quotations telephonically, as rates can generally change on a regular daily basis and time is a determining factor when an investment is made;
  - (c) the person responsible for requesting quotations from institutions should record the name of the institution, the name of the person who gave telephonic quotation and the relevant terms and rates, and other facts such as whether the interest is payable on a monthly

## IYLM CASH MANAGEMENT AND INVESTMENT POLICY

basis or on a maturity date. Written confirmation of the telephonic quotation accepted is essential before the investment, is made;

- (d) once the required number of quotations has been obtained, a decision shall be taken regarding the best terms offered and the institution with which the funds are going to be invested. The best offer is normally accepted, with thorough consideration of investment principles. No attempts may be made to make institutions complete with each other as far as their rates and terms are concerned. If institutions have been asked for a quotation with regard to a specific package, the institution has to be told to offer their best rate in their quotation. The institution shall be informed that, once the quotation has been given, no further bargaining or discussions would be entered into in that regard;
- (e) the above mentioned procedure should be followed regardless of whether the money is to be invested in a fixed deposit or on a call basis;
- (f) it is essential to make sure that the investment document received is the genuine document, issued by an approved institution. The investment capital should be paid over only to the institution with which it is to be invested, and not to any agent;
- (g) the Chief Financial Officer should seek professional advice whenever there is a degree of uncertainty regarding investment opportunities that are required to be evaluated.

### **25. USE OF INVESTMENT MANAGERS**

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- (1) The Municipality may employ an investment manager to:
  - (a) advise it on its investments; and/or
  - (b) manage specific investments on its behalf.

## IYLM CASH MANAGEMENT AND INVESTMENT POLICY

- (2) The appointment of an investment manager shall be in accordance with the Municipality's Supply Chain Management Policy.
- (3) All investments made by an investment manager on behalf of the Municipality shall be in accordance with this policy and the Regulations.
- (4) Any investment fee, commission or any other amount paid by the investee to the investment manager in respect of the Municipality's investments, both the investee and the investment manager shall declare such payment to Council by way of a certificate disclosing the full details of the payment.
- (5) Investment managers found guilty of non-compliance with this policy, as well as the Regulations, shall be liable for any loss or penalty suffered by the Municipality.

### **26. ACCOUNTING FOR INVESTMENTS**

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The Municipality's investments shall be accounted for as held to maturity (HTM) financial investments in accordance with the Municipality's approved accounting policies. The investments shall be measured as at balance sheet date at the amortised cost, using the effective interest rate method, less any write off for impairment or non-collectability.

### **27. EXISTING INVESTMENTS**

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Nothing in this policy compels the Municipality to liquidate an investment which existed when the Regulations took effect merely because such investment does not meet the provisions of those regulations.

**28. INVESTMENT DENOMINATED IN FOREIGN CURRENCY PROHIBITED**

The Municipality may make an investment only if the investment is denominated in South African Rand and is not indexed to, or affected by, fluctuations in the value of the rand against any foreign currency.

**29. ANNUAL REVIEW OF THIS POLICY**

- (1) This policy will be reviewed annually or earlier if so required by legislation.
- (2) Any changes to this policy must be adopted by Council and be consistent with the MFMA and the Regulations.

**ANNEXURE “A”**

**GOVERNMENT GAZETTE, 1 APRIL 2005**

**GOVERNMENT NOTICES**

**NATIONAL TREASURY Notice No. R. 308 dated 1 April 2005 in Gazette No.  
27431**

**LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT 2003  
MUNICIPAL INVESTMENT REGULATIONS**

The Minister of Finance, acting with the concurrence of the Minister for Provincial and Local Government, has in terms of Section 168, read with Section 13 and 99 (2)(g), of the Local Government : Municipal Finance Management Act, Act 56 of 2003, made the regulations as set out in the Schedule.

**SCHEDULE**

**1. Definitions**

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In these regulations, unless the context indicates otherwise, a word of expression to which a meaning has been assigned in the Act, has the same meaning, and:

- (1) **“Act”** means the Local Government: Municipal Finance Management Act, Act 56 of 2003;
- (2) **“Investee”** means an institution with which an investment is placed, or its agent;
- (3) **“Investment Manager”** means a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, Act 55 of 1989 and Stock Exchanges Control Act, Act 1 of 1985, contracted by a municipality or municipal entity to:



## IYLM CASH MANAGEMENT AND INVESTMENT POLICY

- (a) advise it on investments;
  - (b) manage investments on its behalf; or
  - (c) advise it on investments and manage investments on its behalf.
- (4) **“trust money”** means money held in trust on behalf of third parties in a trust contemplated in terms of Section 12 of the Act.

### **2. Application**

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- (1) These regulations apply to:
- (a) all municipalities
  - (b) all municipal entities; and
  - (c) all Investment Managers acting on behalf of, or assisting, a municipality or municipal entity in making or managing investments.
- (2) These regulations do not apply:
- (a) to a pension or provident fund registered in terms of the Pension Funds Act, Act 24 of 1956, or any subsequent legislation; or
  - (b) in respect of trust money administered by a municipality or municipal entity where a trust deed prescribes how the trust money is to be invested.
- (3) Municipal pension or provident funds which do not comply with sub-regulation (2)(a) are exempted from these regulations until 30 June 2005.
- (4) The Accounting Officer of a municipality and municipal entity must provide the National Treasury with details of all pension or provident funds that do

not comply with sub-regulation (2)(a) within 30 (thirty) days of promulgation of these regulations.

### **3. Adoption of Investment Policies**

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- (1) The investment policy to be established by a municipality in terms of Section 13(2) of the Act, must be:
  - (a) adopted by the Council of the municipality; and
  - (b) consistent with the Act and these regulations.
- (2) The board of Directors of a municipal entity must adopt an investment policy for the entity consistent with the Act and these regulations.
- (3) All investments made by a municipality or municipal entity, or by an Investment Manager on behalf of a municipality or municipal entity, must be in accordance with the investment policy of the municipality or entity and these regulations.

### **4. Core elements of Investment Policies**

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- (1) The investment policy of a municipality or municipal entity must:
  - (a) be in writing;
  - (b) give effect to these regulations; and
  - (c) set out:
    - (i) the scope of the policy;
    - (ii) the objectives of the policy, with due regard to the provisions of these regulations relating to:

## IYLM CASH MANAGEMENT AND INVESTMENT POLICY

- (aa) the preservation and safety of investments as the primary aim;
  - (bb) the need for investment diversification; and
  - (cc) the liquidity needs of the municipality or municipal entity;
- (iii) a minimum acceptable credit rating for investments, including :-
  - (aa) a list of approved investment types that may be made, subject to regulation 6;
  - (bb) a list of approved institutions where or through which investments may be made, subject to regulation 10;
- (iv) procedures for the invitation and selection of competitive bids or offers in accordance with Part 1 of Chapter 11 of the Act;
- (v) measures for ensuring implementation of the policy and internal control over investments made;
- (vi) procedures for reporting on and monitoring of all investments made, subject to regulation 9;
- (vii) procedures for benchmarking and performance evaluation;
- (viii) the assignment of roles and functions, including any delegation of decision making powers;
- (ix) 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
- (x) procedures for the annual review of the policy.

### **5. Standard of Care to be exercised when making Investments**

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## IYLM CASH MANAGEMENT AND INVESTMENT POLICY

Investments by a municipality or municipal entity, or by an Investment Manager on behalf of a municipality or entity:

- (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 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 or municipal entity and lastly to the probable income derived from the investment.

### **6. Permitted Investments**

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A municipality or municipal entity 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, Act 94 of 1990;
- (d) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, Act 45 of 1984;
- (e) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, Act 46 of 1984;
- (f) banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act;
- (g) guaranteed endowment policies with the intention of establishing a sinking fund;

## IYLM CASH MANAGEMENT AND INVESTMENT POLICY

- (h) repurchase agreements with banks registered in terms of the Banks Act;
- (i) municipal bonds issued by a municipality; and
- (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**

A municipality or municipal entity 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**

- (1) No fee, commission or other reward may be paid to a Councillor or Official of a municipality or to a Director or Official of a municipal entity or to a spouse or close family member of such Councillor, Director or Official in respect of any investment made or referred by a municipality or municipal entity.
- (2) If an Investee pays any fee, commission or other reward to an Investment Manager in respect of any investment made by a municipality or municipal entity, both the Investee and the Investment Manager must declare such payment to the Council of the municipality or the board of directors of the municipal entity by way of a certificate disclosing full details of the payment.

### **9. Reporting requirements**

- (1) The accounting officer of a municipality or municipal entity must within 10 working days of the end of each month, as part of the Section 71 report

## IYLM CASH MANAGEMENT AND INVESTMENT POLICY

required by the Act, submit to the Mayor of the municipality or the board of directors of the municipal entity a report describing in accordance with generally recognised accounting practice the investment portfolio of that municipality or municipal entity as at the end of the month.

- (2) The report referred to in sub-regulation (1) above must set out at least:
  - (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;
  - (c) the market value of each investment as at the end of the reporting period; and
  - (d) fully accrued interest and yield for the reporting period.

### **10. Credit Requirements**

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- (1) A municipality or municipal entity must take all reasonable and prudent steps consistent with its investment policy and according to the standard of care set out in regulation 5, to ensure that it places its investments with credit worthy institutions.
- (2) A municipality or municipal entity must :-
  - (a) regularly monitor its investment portfolio; and
  - (b) when appropriate liquidate an investment that no longer has the minimum acceptable credit rating as specified in its investment policy.

### **11. Portfolio Diversification**

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## IYLM CASH MANAGEMENT AND INVESTMENT POLICY

A municipality or municipal entity must take all reasonable and prudent steps, consistent with its investment policy and according to the standard of care prescribed in regulation 5, to diversify its investment portfolio across institutions, types of investment and investment maturities.

### **12. Miscellaneous Provisions**

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- (1) The responsibility and risk arising from any investment transaction vests in the relevant municipality or municipal entity.
- (2) All investments made by a municipality or municipal entity must be in the name of that municipality or municipal entity.
- (3) A municipality or municipal entity may not borrow money for the purpose of investment.

### **13. Existing Investments**

---

Nothing in these regulations compels a municipality or municipal entity to liquidate an investment which existed when these regulations took effect merely because such investment does not comply with a provision of these regulations.

### **14. Commencement**

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These regulations take effect on 1 April 2005.

**ANNEXURE “B”**

**LIST OF CURRENTLY APPROVED INVESTEES**

**A. Deposit taking institutions**

ABSA Bank

FirstRand Bank

Investec Bank

Nedbank

Standard Bank

Public Investment Commissioners

Corporation for Public Deposits

**B. Corporate bond issuers**

None currently approved.

**C. Municipal bond issuers**

None currently approved.

**D. Endowment policy issuers**



**E. National Government / Parastatals**

RSA fixed income stock.

Eskom fixed income stock