

THABAZIMBI LOCAL MUNICIPALITY



INVESTMENT OF SURPLUS FUNDS POLICY 2026/27

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INVESTMENT OF SURPLUS FUNDS

POLICY NUMBER XXXXXX

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CHAPTER 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: The Local Government Municipal Finance Act. 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 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.

CHAPTER 2

PRE-AMBLE

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.

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 councilors, 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 in his work.
- Interest rates quoted by one institution must never be disclosed to another.

Objectives of the Policy

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

- 1.1 The preservation and safety of investments as a primary aim;
- 1.2 The need of investment diversification;
- 1.3 To specify minimum acceptable credit rating for investments including:
 - 1.3.1 A list of approved investment types;
 - 1.3.2 A list of approved institutions;
- 1.4 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;
- 1.5 Measures for ensuring implementation of the policy and internal controls over investments made;
- 1.6 Guidelines for reporting on and monitoring of all investments made, subject to regulation 9;
- 1.7 Guidelines for benchmarking and performance evaluation;

1.8 The assignment of roles and functions, including any delegation of decision making powers; and

1.9 To provide for the necessity of the annual review of the policy.

Standard of care to be exercised when making investments

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.

Legislative Compliance

The following pieces of legislation makes mention of the investment of surplus funds:

Section 8(2) (d) of the Municipal Finance Management Act

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

Section 13(1) to (4) of the Municipal Finance Management Act

- 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 a 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 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 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.

Section 17(3) (f) of the Municipal Finance Management Act

- 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.

The Audit Act, 1990.

- as well as the Code for Financial Conduct specifies that no investment of a municipality shall be subjected to the payment of commission or any form of administration fee and will have to be certified as such on each investment certificate of the bank, insurance company or financial institution.

Government Gazette R308 dated 1 April 2005 states as follow:

- Read with Section 13 and 99 (2) (g) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) 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.

Local Government Municipal Finance Management Act 2003: Municipal Public– Private Partnerships Regulations

- These regulations regulate the actions in the case where the municipality wishes to

engage in a public-private enterprise. All these regulations must be adhered to before entering into such an agreement.

CHAPTER 3

GENERAL INVESTMENT PRACTICE

3.1 Limit exposure to a single institution

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.

3.2 Risk and return

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

3.3 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.

3.4 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 favorable.

3.5 Registered financial institutions

Investments must only be made in accordance with 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.

3.6 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.

3.7 Payment of commission

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

3.8 Reporting

The accounting officer of the municipality must within 10 working days of the end of each month, as part of the Section 71 report required by the Act, submit to the mayor of the municipality a report describing in accordance with the generally accepted accounting practice 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.

3.9 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.

3.10 Control and registering of investments

A proper register must be maintained 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 paper and certificates must be kept in a secured place.

3.11 The use of 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.

3.12 Annual review of Policy

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

CHAPTER 4

CALL FOR QUOTATIONS

4.1 Call deposits and short term deposits up to six (6) months

4.1.1. Authority is delegated to the Manager: Finance for the placement and control of such deposits.

4.1.2. Quotations must be invited from at least three (3) financial institutions for the term for which the investment is to be placed.

4.1.3. In the event of one of the financial institutions offering a more beneficial rate for an alternative term, the other institutions invited to quote should be approached for their rates on the alternative term.

4.1.4. It is acceptable to obtain telephonic quotations, confirmed by a facsimile, when placing funds.

4.1.5. 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.

4.1.6. In considering the investment of funds, intermediaries must not be employed to make investments on behalf of the Council.

4.1.7. Only banks with an A1 or similar rating for safe investment purposes by an independent bank rating institution may be approached for quotations.

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

4.1.9. Investment certificates must immediately be issued by the related financial institution and be forwarded to the Manager: Finance for safekeeping.

4.2 Long-term investments or purchasing of market instruments

4.2.1 Delegation of authority

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

4.2.2 No long-term investment without proper cash flow forecast

The placement of any investment in excess of six (6) months is subject 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 Manager: Finance.

4.2.3 Written quotations

Fully detailed bids in compliance with Supply Chain Management Regulations must be obtained and must be considered together with a report by the Manager: Finance to the Bid Adjudication Committee. The investment must only be made in approved instruments with the financial institutions as listed under Chapter 5: Permitted Investments and Institutions.

CHAPTER 5

INVESTMENTS

5.1 Permitted investments

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

- 5.1.1 Securities issued by the national government;
- 5.1.2 Listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- 5.1.3 Deposits with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
- 5.1.4 Deposits with the Public Investment Commissioner as contemplated by the Public Investment Commissioners Act, 1984 (Act 45 of 1984);

- 5.1.5 Deposits with the Corporation for Public Deposits as contemplated by the Corporation of Public Deposits Act, 1984 (Act No. 46 of 1984);
- 5.1.6 Banker's acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, 1990;
- 5.1.7 Guaranteed endowment policies with the intention of establishing a sinking fund,
- 5.1.8 Repurchase agreements with registered banks in terms of the Banks Act, 1990;
- 5.1.9 Deposits with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
- 5.1.10 municipal bonds issued by a municipality; and
- 5.1.11 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.

5.2 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.