

INVESTMENT POLICY

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1. SCOPE

As trustees of public funds, the Council has an obligation to see to it that **cash resources** are managed as effectively and as efficiently as possible and in accordance with the municipal investment regulations published in **Government Gazette 27431 of 1 April 2005**.

The Council of Midvaal Local Municipality has a responsibility to invest public funds according to the standards of care to be exercised when making investments as set out in the Municipal Investment Regulations ("Regulations") 5 (a) – (c).

All investments made by the municipality, or by an investment manager on behalf of the municipality must be in accordance with the investment policy of the municipality and the Regulations.

2. OBJECTIVES

2.1 Preservation and safety of investments as the primary aim

- (i) The Council has a responsibility to invest these public revenues knowledgeably and judiciously, and must be able to account to the community in regard to such investments.
- (ii) The investment policy of the Council must therefore be aimed at gaining the highest possible return on investments, without incurring undue risks, during those periods when such revenues are not needed for capital or operational purposes.
- (iii) The effectiveness of the investment policy is dependant on the accuracy of the municipality's cash management programme, which must identify the amounts surplus to the municipality's needs, as well as the time when and period for which such revenues are surplus.
- (iv) The municipality will take all reasonable and prudent steps consistent with its investment portfolio and according to the standard of care set out in Regulation 5, to ensure that it places its investments with credit-worthy institutions.

2.2 Investment diversification

- (i) The municipality will take all reasonable and prudent steps, consistent with this investment policy and according to the standard of care to be exercised when

making investments as prescribed in Regulation 5, to diversify its investment portfolio across institutions, types of investments and investment maturities.

2.3 Cash Flow Estimates

- (i) Before money can be invested the Chief Financial Officer has to determine whether there will be surplus funds available, he also has to fix the term in which such money should be invested.
- (ii) In order to be able to make investments for any fixed term, it is essential that cash flow estimates be drawn up.

3. LEGAL REQUIREMENTS

The way in which surplus funds and other monies of local authorities can be invested, is controlled in terms of the various parliamentary laws, regulations and Municipal Investment Regulations of 1 April 2005.

Local governments are limited in terms of present legislation, to invest funds only with registered deposit-taking institutions such as commercial banks, securities issued by the National Government, merchant banks, etc. according to Regulation 6.

4. INVESTMENT ETHICS

- (i) The Chief Financial Officer is responsible in the final instance for the investment of funds, and he has to steer clear of outside interference, regardless of whether such interference comes from individual councillors, agents or any institution.
- (ii) Under no circumstances may he be susceptible to coercive measures of any description. No member of staff may accept any gift other than something which is so small that it cannot possibly be seen as anything but a sign of goodwill, regardless of whether such gift influences him in his work or is intended to do so.
- (iii) The Chief Financial Officer must act according to his own discretion and should report any serious cases, such as for instance offers of a personal commission or payment in kind, et cetera, to his council. Discretion should be the order of the day, and excessive gifts and hospitality should be refused and avoided.
- (iv) Interest rates offered should never be divulged to another institution.

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- (v) In making such investments the Chief Financial Officer shall at all times have only the best considerations of the municipality in mind, and shall not accede to any influence by or interference from councillors, investment agents or institutions or any other outside parties.
 - (vi) The Chief Financial Officer or Municipal Manager may not accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than a sign of goodwill by the donor, from any investment agent or institution or any party with which the Council has made any investment.

5. INVESTMENT PRINCIPLES AND PRACTISES

5.1 Limiting exposure and diversification

- (i) Particularly large sums of money available for investment should be invested with more than one institution, wherever practicable, in order to limit the risk exposure of the municipality.
- (ii) The Chief Financial Officer must ensure that, as far as it is legally possible, the municipality's investments should be so distributed that more than one investment category is covered. If such funds available for investment are not pooled, this also applies to the level of individual funds.
- (iii) Investments will be diversified across institutions, types of investment and investment maturities.

5.2 Risk and return

- (i) It should be accepted as general principle that the larger the return, the greater the risk will be.
- (ii) Although the objective of the Chief Financial Officer in making investments on behalf of the municipality should always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved. No investment should 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 5.4 below*)
- (iii) The municipality will:
 - Regularly monitor its investment portfolio; and

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- When appropriate liquidate an investment that no longer has the minimum acceptable credit rating as specified in this investment policy.

(iv) Responsibilities and risk arising from any investment transaction vests in the municipality.

5.3 Borrowing money for reinvestment

The municipality will not borrow money for the purpose of investment as set out in Regulation 12(3).

5.4 Registered financial institutions

If Chief Financial Officer invests with Financial Institutions, he should make certain that such institutions are registered in terms of the Deposit-taking institutions Act 94/1990 and that they are approved financial institutions as approved by the Minister of Finance according to Act No. 56 of 2003 and Municipal Investment Regulations, 1 April 2005 (*Clause 6(a) to (j)*).

5.5 Growth related investments

When making investments, the Chief Financial Officer should try to ensure that at least the capital amount invested, is safe.

5.6 Payment of commission

- (i) No fee, commission or reward will be paid to a councillor or official of the municipality, or to a spouse or close family members of such councillor in respect of any investment made or referred by the municipality.
- (ii) If an investee pays any fee, commission or other reward to an investment manager in respect of any investment made by the municipality, both the investee and the investment manager must declare such payment to the council of the municipality by way of a certificate disclosing full details of the payment.

5.7 Reports

- (i) The Accounting Officer must within 10 working days after 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 generally recognised accounting practice the investment portfolio of that municipality at the end of that month.

(ii) The report in (1) above will set out at least the following:

- The market value of each 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.

5.8 Cash in the bank

Where money is kept in current accounts, it would be possible, as well as being an expedient practice, to bargain for more beneficial rates with regard to deposits, for instance call deposits. These rates can be increased by fixed term investments. The overriding principle is to limit the cash in the current account to the absolute minimum.

5.9 Creditworthiness

- (i) When investments are placed with smaller registered institutions, the Chief Financial Officer has to see to it that the local authority is not exposed to too much risk, he has to ensure that the creditworthiness and previous performance of the institution are to his satisfaction, before investing money with such an institution. The Chief Financial Officer is entitled to information from which the creditworthiness of financial institutions can be determined.
- (ii) No investments are placed with banks with a rating lower than B+.
- (iii) Investments will only be made according to the list of types of investments prescribed in the regulations published in Government Gazette 27431 of 1 April 2005 (*Article 6*).

5.10 Records

- (i) The Chief Financial Officer shall ensure that proper records be 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.
- (ii) The Chief Financial Officer shall ensure that all interest properly due to the municipality is timeously received, and shall take appropriate steps or cause such appropriate steps to be taken if interest is not fully or timeously received.

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- (iii) The Chief Financial Officer shall ensure that all investment documents and certificates are properly secured.

5.11 Call deposits and fixed deposits

- (i) Before making any call or fixed deposits, the Chief Financial Officer shall obtain quotations from at least two to three financial institutions, and it shall be accepted that the Chief Financial Officer in seeking such quotations may bargain between the institutions concerned.
- (ii) Given the volatility of the money market, 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*)
- (iii) Any monies paid over to the investing institution in terms of the agreed investment 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.

5.12 Other external deposits

- (i) Other investment possibilities, which, subject to the applicable legislation, are available to the local authority, include debentures and other securities of the State as well as other local authorities or statutory bodies in the Republic instituted under and in terms of any law. With regard to such investments, the principles and practices, as set out in the code, will apply.
- (ii) From time to time it may be in the best interest of the municipality to make longer-term investments in the stock issued by the national government, Eskom or any other parastatal or institution, or by another 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 requires, and to the best instrument available at the time.

5.13 Control over investments

- (i) Proper records should be kept of all investments made. At the very least, the following facts should be indicated; the institution, the funds, the interest rate and the maturity date.
- (ii) Interest, correctly calculated, should be received timeously, together with any distributable capital.
- (iii) All investments should be confirmed quarterly by statements and a certificate at year end.
- (iv) Investment documents and certificates should be kept in a fire-resistant safe.
- (v) The Chief Financial Officer is responsible for ensuring that the invested funds are quite secure and, should there be a measure of risk, that such risk be rated realistically.

5.14 Delegated powers

The policy should be applied with due observance of the Council's policy with regard to delegated powers.

5.15 The interest on investments

- (i) The interest that accrued on all the municipality's investments shall, in compliance with the requirements of generally recognised accounting practice, be recorded in the first instance in the municipality's operating account as ordinary operating revenues, and shall thereafter be annually appropriated, at the end of each financial year, to the funds or accounts in respect of which such investment was made.
- (ii) 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.
- (iii) If the accrual of interest to the external finance fund, unutilised capital receipts and trust funds results in a surplus standing to the account of any of such funds, that is, an amount surplus to the resources required in respect of such funds or accounts, such surplus amount shall be credited to the appropriation account and reappropriated to the asset financing fund.

6. MEASURES FOR IMPLEMENTATION OF POLICY

- (i) An investment register will be implemented and all investments will be monthly reviewed and balanced.
- (ii) Monthly reconciliations of all investments must be prepared and signed off by an independent official.
- (iii) All interest received on investments must be reconciled monthly and signed off by an independent official.
- (iv) All investments must be confirmed by the institution in writing.

7. BENCHMARKING AND PERFORMANCE EVALUATION

The service of the institution will be evaluated quarterly. The timeous payment of the interest on investments will be measured monthly.

8. ANNUAL REVIEW OF POLICY

The investment policy is subject to annual review by the council.