

CITY OF MBOMBELA



INVESTMENT POLICY

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1 DEFINITIONS

- **Accounting Standards Board** is a legislative entity established by chapter 11 of the Public Finance Management Act No.1 of 1999 to set standards of generally recognized accounting practice as required by section 216 (1) (a) of the Constitution.
- **Cash** comprises cash on hand and demand deposits.
- **Cash equivalents** are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
- **Cash flows** are inflows and outflows of cash and cash equivalents.
- **Fair value** is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.
- **Financial investment register** is the controlled register recording the financial and other key details for all municipality investments recognized in according with the policy.
- **GAMAP-** general accepted municipal accounting practice. This is being phased out and replaced by general recognized accounting practice.
- **GRAP-** general recognized accounting practice as required by section 216 (1) (a) of the Constitution to ensure transparency and expenditure control.
- **Interest** money born from investment, which is expressed in a form of percentage rate over a certain period and reflects the rate of exchange of present consumption for future consumption.
- **Investment** means the placing the funds of the municipality on deposit with a financial institution in order to obtain interest or the equivalent.
- **Investment Officer** is the municipal official with the delegated responsibility of administering the investment and investment processes.

- **Investment Manager** is a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, 1989.
- **Investment properties** are properties that are acquired for economic and capital gains.
- **Liquidity** means the ability to make funds available to meet all anticipated obligations and maintaining a prudent reserve to meet unanticipated cash requirements. It is also the ability to change an investment into its cash equivalent on short notice.
- **Long-term investments** are funds not immediately required and deposited for a period exceeding one year, either as security to loans obligations or as an interest earning investments.
- **Maturity** is the date upon which the principal or stated value of an investment becomes due and payable.
- **Municipal Manager** means a person appointed in terms of section 82 of the Municipal Structures Act.
- **Risk Analysis** means that the overall value of funds shall not be diminished in the process of securing and investing those funds or over the duration of the investment.
- **Short-term investments** are funds not immediately required and deposited for a period not exceeding one year.
- **Trust money** is the money held in trust on behalf of third parties in a trust contemplated in terms of section 12 of the Municipal Financial Management Act.
- **The Act** means the Municipal Financial Management Act
- **The Regulation** means is the Municipal Investment Regulation No. R 308 Gazetted on 1 April 2005 in Gazette number 27431.

2 OBJECTIVES

2.1 Primary Objective

This policy gives effect to the requirements to implement an investment policy as stated in the Municipal Financial Management Act section 13(2) being;

“A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed in terms of subsection (1).”

The relevant framework is the Municipal Investment Regulation No. R 308 in in Gazette number 27431 of 1 April 2005.

2.2 Specific objectives

- To ensure City of Mbombela and its Chief Financial Officer, as trustee of public funds, exercise their obligation to ensure that cash resources are preserved and safe guarded against loss.
- To ensure the investments of City of Mbombela are managed in the most efficient, effective and economical manner possible.
- To ensure that an appropriate level of investment diversification is implemented to achieve the above objectives.
- To ensure the liquidity needs of City of Mbombela are appropriately planned and provided for through the investment process.
- To clearly lay down broad investment parameters to ensure a reasonable return on surplus cash without incurring an unacceptable risk of capital loss.
- To ensure compliance and transparency in all processes.

3 SCOPE

- This policy covers all investment of surplus cash or cash-equivalents by City of Mbombela.
- This policy covers all investment of surplus cash or cash-equivalents by all municipal entities of City of Mbombela.
- This policy covers all investment of surplus cash or cash-equivalents by all bodies holding surplus funds belonging to City of Mbombela.

This policy does not cover;

- General Cash Management and Banking outside of the above scope.
- The management of non-cash investments.
- The management of investment properties.

4 RESPONSIBILITIES AND ACCOUNTABILITIES

4.1 *Statutory Delegations*

- According to the Municipal Systems Act 60 (2), “The council may only delegate to an executive committee or executive mayor or Chief Financial Officer decisions to make investments on behalf of the municipality within a policy framework determined by the Minister of Finance”.
- The Municipal Finance Management Act, 2003, paragraph 82 (1) “The Chief Financial Officer of a municipality may sub-delegate any of the duties referred to in section 81(1)(b), (d) and (e)—
 - (a) to an official in the budget and treasury office;
 - (b) to the holder of a specific post in that office; or
 - (c) with the concurrence of the Municipal Manager, to—
 - (i) any other official of the municipality; or
 - (ii) any person contracted by the municipality for the work of the office.
- The Municipal Finance Management Act, 2003, paragraph 81 (1) “The Chief Financial Officer of a municipality - (e) must perform such budgeting, accounting, analysis, financial reporting, cash management, debt management, supply chain management, financial management, review and other duties as may in terms of section 79 be delegated by the Municipal Manager to the chief financial officer.

The Municipal Council determines policies and has an oversight role to see these policies are implemented.

4.2 *Municipal Council oversight role includes:*

- Council retains the responsibility to determine and approve this policy and to monitor its application.

- Council may delegate this to the Executive Mayor and the Executive Mayor may sub-delegate this to one of the committees of Council.
- Council may not delegate this oversight role to any official of the Municipality or person not being part of Council.

The Municipal Manager is responsible to Council for the implementation and administration of Council policies.

4.3 The Municipal Manager must ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for the investments of the municipality;
- The municipality's investments are valued in accordance with standards of generally recognized accounting practice;
- The municipality has and maintains a system of internal control of investment, including a financial investment register; and
- The senior manager's and their teams comply with this policy.
- Must administer the City of Mbombela bank accounts, accountable to the municipal council for the municipality's bank accounts and must enforce compliance with section 7, 8 and 11 of the Act.

The Chief Financial Officer is responsible to the Municipal Manager to assist in the implementation of the policy and to ensure that the financial investments in the municipality are safeguarded.

4.4 The Chief Financial Officer must ensure that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;

- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- The systems, processes and registers required to substantiate the financial values of the municipalities' investments are maintained to standards sufficient to satisfy the requirements of the auditor-general.
- Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate investment planning and budgeting.
- The municipal manager is appropriately advised on the exercise of delegated powers and duties pertaining to the financial administration of investment.
- All investment certificates and related documents are appropriately secured.
- The senior managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of the investments.
- This policy and any supporting procedures or guidelines pertaining investments are established and effectively communicated.
- The Chief Financial Officer may delegate or otherwise assign responsibility for performing these functions, but s/he will remain accountable for ensuring these activities are performed.

The Investment Committee determines the implementation and application of this policy.

4.5 Investment Committee must ensure that

- The Committee comprises the Chief Finance Officer, The Municipal Manager, The Investment Officer and anyone else administratively accountable for investments.

- The Investment Committee may call upon the technical advice of an external financial experts or the political guidance of the executive Mayor in deciding how to apply this policy provided these people have no personal financial interest in the decision being made.
- The Investment Committee will decide on the appropriate parameter and procedures to be applied to implement this policy. These parameters may include maximum percentages to be invested with any one institution.
- The Investment Committee shall, through the required Supply Chain Management Policies and Procedures, select the institutions to which funds may be invested as required by this policy.

The Investment Officer is the official delegated by the Chief Financial Officer to directly administer the investments.

4.6 Investment Officer must ensure that

- Appropriate procedures and internal controls are established and implemented for investments. This will be submitted to the Investment Committee for approval.
- The municipal's investments administered by them are safeguarded appropriately and invested judiciously.
- Any unauthorized, irregular or fruitless or wasteful utilization, and losses resulting from criminal or negligent conduct, are prevented and reported to the Chief Financial Officer;

- Their investment management systems and controls can provide an accurate, reliable and up to date account of investments under their control.
- They are able to justify that their investment plans and budgets achieve the municipality's strategic objectives.
- The Investment Officer may, for the purposes of investing surplus Municipal Funds, transfer funds to institutions determined by the Investment Committee in accordance with the parameters and constraints determined by the Investment Committee. All investments must be in the name of City of Mbombela.
- The investment officer may not delegate or assign responsibility for performing these functions. Any delegation or reallocation of duties or responsibilities must be referred to the Chief Finance Officer for approval.

4.7 Process of Delegation

- The process of delegation must conform to appropriate legislation and Municipal policies on delegations. These guidelines will include:
 - The need for delegations to be in writing,
 - The need for delegations to be recording in a delegations register.
 - The need for the delegated person to report back on how they have acted on this delegation.

5 INTERNAL CONTROLS

Controls around the investment registers should be sufficient to provide an accurate, reliable and up to date account of assets under their control to the standards specified by the Chief Financial Officer and as required by the auditor- general. The internal controls should also safeguard investments from loss.

5.1 *Development of Investment Procedures*

- The Investment Officer will prepare and maintain an Investment Procedure Manual to detail operating procedures to be practiced by the Treasury in investing the City of Mbombela funds.
- The Investment Committee will approve and annually review this Procedure Manual.
- The manual will explicitly include a current listing of all financial institutions with which the City of Mbombela is authorized to conduct investment transactions as determined through the supply chain management processes.

5.2 *Bank Account to be Used for Investments*

- All Investments redeemed and interest on investments held must be paid into the City of Mbombela primary bank account.
- All investments made must be in the name of City of Mbombela.
- An institution where City of Mbombela at the end of the financial year holds a bank account, or held a bank account at any time during such financial year, must within 30 days after the end of such financial year, notify the Auditor-General in writing, of such bank account, indicating the type and number of the account, and the opening and

closing balances of that account in the financial year. The Chief Financial Officer will advise each relevant institution of this requirement at the end of the year.

- The bank must also promptly disclose any information regarding the account when so requested by the national treasury or Auditor-General.

5.3 *Establishment and Management of the Financial Investment Register*

- The Chief Financial Officer will establish and maintain the Investment Register containing key financial data on each investment.
- Investment Officer is responsible for establishing and maintaining any additional register or database required demonstrating the investment management.
- The Investment Officer is also responsible to ensure that sufficient control exist to substantiate the value of the investments that are in their registers.

5.4 *Managing Investment and Borrowing*

Before placing funds externally, consideration must be given to whether the funds cannot be more efficiently utilized to substitute for external borrowing. This decision will be based upon relative net financial returns for the various options, the security of the funds concerned and the future liquidity needs of City of Mbombela.

5.5 *External Investments*

No investment with a tenure exceeding twelve months shall be made without the prior approval of the executive mayor and without guidance

having been sought from an appropriate independent financial advisor on the security and financial implications of the investment concerned.

5.6 Investments Denominated In Foreign Currency Prohibited

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

5.7 Control and Registering Of Investments

- A proper record must be maintained of all investments made indicating the institution, capital amount, interest rate and maturity date.
- Interest must be correctly calculated and received timeously together with any capital, which matures.
- All communications on investments and investment paper or certificates must be appropriately safeguarded from loss.

6 PRUDENCE

6.1 Standards of Care

City of Mbombela must take all reasonable and prudent steps to ensure the preservation and safety of investments.

- All investments should be made with such judgment and care, as a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs.
- Investments may not be made for speculation but must be a genuine investment.
- All investments must be made with primary regard being to the probable safety of the investment, in the second instance to the liquidity needs of the Municipality, and lastly to the probable income derived from the investment.
- The City of Mbombela Investment Officer should avoid any transcriptions that might impair public confidence in the City of Mbombela.
- The City of Mbombela may not borrow money for the purpose of investment.
- All investments must be made in the name of City of Mbombela.

6.2 *Relationship with Financial Institutions*

All financial institutions with which the City of Mbombela conducts investment activities must agree in writing to undertake reasonable efforts to prevent illegal and/or imprudent transactions involving the City of Mbombela funds. Should it come to the attention of the Chief Financial Officer that funds have been involved in illegal and/or

imprudent transaction, this will be reported to the Council along with the options for dealing with the institution.

6.3 *Payment of Commission*

No fee, commission or other rewards may be paid to a councilor or official of City of Mbombela or to a director or official of a municipal entity or to a spouse or close family member of such councilor, director or official in respect of any investment made or referred by a municipality of municipal entity.

6.4 *Use of Investment Managers*

Investment Managers will not be used due to the limited volume of investment activity. This situation will be reviewed as part of the annual review.

7 MINIMUM ACCEPTABLE CREDIT RATING FOR INVESTMENT

7.1 Credit Rating Requirements

- The City of Mbombela must regularly monitor its investment portfolio and when appropriate liquidate an investment that no longer has the minimum acceptable credit rating as specified in this policy.
- The minimum acceptable credit rating for an institution with which City of Mbombela should invest are:
 - For Short Term Investments (0 to 12 Months) F1
 - For Long term Investments (greater than 12 Months) AAA.
- The F1 rating is defined by the International Short-Term Credit Ratings.
 - F1 - Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
- The AAA rating is defined by the International Long-Term Credit Ratings.
 - AAA - Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
- Council will obtain specialist Advice before entering special investments like Zero Bonds and Promissory Notes.

7.2 Diversification of Investments

- The City of Mbombela must regularly monitor the diversification of its investment portfolio and take appropriate action to ensure the levels

of diversification required by this policy and supporting procedures are reached and maintained.

- Investments must be spread across different type of investments and maturities according to liquidity requirements.
- Investments must be spread across at least three different institutions as selected by the Investment Committee.
- The Chief Financial Officer must work with the Investment Officer to develop cost effective and efficient methods to achieve the appropriate level of diversification without sacrificing investment returns.
- List of approved financial institution is to be up dated quarterly based on information supplied by the rating agency and signed off by the Chief Financial Officer.

7.3 Permitted Investments

City of Mbombela or its entity may invest funds only in any of the following investment types –

- Securities issued by the national government;
- Listed corporate bonds with an investment grade rating from a nationality recognized credit rating agency;
- Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990)
- Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984)
- Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984)
- Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990;

- Guaranteed endowment policies with the intention of establishing a sinking fund;
- Repurchase agreements with banks registered in terms of the Banks Act, 1990;
- Municipality bonds issued by a municipality; and
- 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.

7.4 *The List of Approved Institutions*

The List of Approved Institutions will be determined through the Supply Chain Management process as required by Mbombela Local Municipalities Supply Chain Management Policy and in accordance with sub-regulation 10 of Regulation No.308. This will be tabled as an annexure once these Institutions have been selected.

8 DAILY MANAGEMENT OF INVESTMENTS

The overall responsibility of investments lies with the Chief Financial Officer as delegated by the Municipal Manager. The day to day administration of investments rests with the Investment Officer.

8.1 Daily Investment Management

The choice of institutions to invest with and the parameters for allocating investments would have been determined by the Investment Committee. The Chief Financial Officer must sign off each investment to certify it has complied with the Investment Committees guidelines. The Investment Officer will administer the daily investment activities.

- The Investment Officer will compile a daily cashflow to identify current and future cash surpluses.
- The Investment Officer will determine how much surplus cash can be invested and for what time periods. The investment decision will comply with the parameters set by the Investment Committee.
- Quotations will be invited from at least three financial institutions from the List of Approved Institutions.
 - 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.
 - The quotes may need to be adjusted for any differences in transactional costs.
- The Investment Officer will select the best quote in accordance with the parameters set by the Investment Committee.
- The Investment Officer will prepare the transfer documents and obtain authorization of two cheque signatories.

- This document will be transmitted to the relevant financial institution.
- The Chief Finance Officer will sign the transfer document to confirm compliance with the investment policy and parameters.
- Each month, the Chief Finance Officer will submit a signed copy of each transfer document to the Municipal Manager as part of the Monthly Report.

In the case of telephonic quotations, the following information is required:

- Name of the institution, where the quotation was made,
- The name of the person who gave the quotation;
- The relevant terms and rates; and
- Other facts such as if interest is payable on a monthly basis or on maturation date.

8.2 Cash Flow Management

Before money is invested, the Chief Financial Officer or the Investment Officer will determine whether surplus funds will be available and the period over which funds are invested will be aligned to future cash requirements.

The Cash Flow Forecast will be part of the monthly report and it should cover the next 12 months.

The parameters for cash availability shall, in addition to an accurate cash flow forecast, include:

- All capital projects worth more than R1,000,000 shall include a cash flow forecast as part of the Business Plan to be submitted prior to budget approval.

- All operational budgets shall include cash flow forecasts where the expenditure pattern will vary significantly over the year.
- Finance will develop cash flow forecast for all revenue items.

8.3 Treatment of Interest

The interest accrued on all the municipality's investments shall, in compliance with the requirements of Generally Recognized Accounting Standards, be recorded in the first instance in the City of Mbombela operating account as ordinary operating revenues, and shall thereafter be appropriated, at the end of each month to the Asset Financing Fund.

9 REPORTING AND MONITORING

9.1 Monthly Reporting

The Municipal Manager 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 Executive Mayor a report on the investment portfolio of City of Mbombela. This report will comply with generally recognized accounting practice and include the following;

- A schedule of current investments of City of Mbombela showing:
 - The opening market value of each investment,
 - The closing market value of each investment,
 - Received and accrued interest from each investment,
 - Date investment made,
 - Date investment matures,
 - Duration of the investment,
 - Interest Rate.
- A Summary of Monthly Investment Performance showing amounts invested each month and interest received.
- A summary of future investment maturity amounts.
- A cash flow statement required by GRAP 2.
- An analysis showing what investments are reserved for.
- A monthly cash flow forecast for the next 12 months in compliance with generally acceptable accounting standards.
- A daily cash flow forecast for the next month.
- A report on the how this policy was implemented for the month and any issues arising.

9.2 Quarterly Reporting

- In addition to the monthly reporting requirements The Municipal Manager of City of Mbombela or the municipal entity will comply with any quarterly reporting requirements specified by National Treasury.

9.3 Annual Financial Statements

The Annual Financial Statements must comply with the generally recognized accounting practice with particular reference to GRAP 2. Specific requirements include the following;

- Compilations of investment register of all investments controlled by the municipality.
- Accounting treatment for the accumulation of the value of all the investments.
- Standards to which these financial records must be maintained.

9.4 Annual Reporting

Investments must be included in the Annual Financial Statements in accordance with the requirements of standards specified by the Accounting Standards Board.

As a note to the financial statements, the section 71 reports on investments must be included.

The Annual Report must include, as a minimum, an evaluation of the performance of the investment activities against the benchmarks contained in this policy.

9.5 Performance Evaluation

The performance of the investment portfolio must be evaluated each quarter and submitted to the Mayor as part of the section 71 reports.

- The method of benchmarking investment performance will be by calculating the weighted yield attributable to the investment portfolio and comparing that with the returns available on similar securities issued by the National Government.
- In evaluation the performance of the investment function, consideration must be made of the general performance measure of the finance function including the benchmark ratios, like;
 - the current ratio,
 - the liquidity ratio
 - the prescribed ratios of sub-regulation 10g Of regulation NO.22605

10 PROCEDURE FOR THE ANNUAL REVIEW

- The performance of the investment function will be reviewed annually after the end of the financial year and as part of the review of performance that becomes part of the Annual Report.
- The Municipal Manager must submit a report and recommendations on any changes to the existing policy that he may consider necessary to the Executive Mayor.
- Council should consider the recommendations and approve what changes that they deem necessary.