MAKHADO

LOCAL MUNICIPALITY

INVESTMENT OF FUNDS POLICY & PRINCIPLES, 2018/2019

(COUNCIL RESOLUTION: A.57.31.05.18)

MAKHADO MUNICIPALITY – PRINCIPLES AND POLICY ON INVESTMENT OF FUNDS

1. INTRODUCTION

1.1 As custodians of public funds, the Council has an obligation to see to it that cash resources are managed as effectively as possible. Council has a responsibility to invest public funds with great care and are liable to the community in that regard.

1.2 The investment policy should be aimed at gaining the highest possible return without undue risk during those periods when funds are not needed. To bring this about, it is essential to have an effective cashflow management program.

1.3 This policy has been compiled in accordance with the Local Government: Municipal Finance Management Act (MFMA), Act no 56 of 2003 and the Investment and PPP Regulations for the MFMA published in Government Gazette 27431 dated 1 April 2005. Where this policy is contrary to other legislation, such legislation will override this policy. It is an explicit responsibility of the Municipal Manager to bring such conflicts immediately to the attention of the Council once he/ she becomes aware of such conflicts and to propose changes to this Policy to eliminate such conflicts.

2. DELEGATION OF POWERS

2.1 This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Municipal Manager and other responsible officials as well as between the Council and the Executive Committee and the Council and the Municipal Manager. All delegations in terms of this policy must be recorded in writing.

2.2 According to the Municipal Finance Management Act, the Municipal Manager is the accounting officer of the Municipality and therefore all designated officials are accountable to him/ her. The Municipal Manager is therefore accountable for all transactions entered into by his/ her designates.

2.3 The overall responsibility of investments lies with the Municipal Manager. However, the day to day handling of investments should be the responsibility of the Director Finance or his/her delegate.

2.4 All investment documents will require two signatories, namely the Municipal Manager and the Director Finance or their delegated signatories. In this regard, specimen signatures must be signed with all financial institutions with which the Municipality deals.

3. PURPOSE OF THE POLICY

The purpose of this policy is to ensure that investment of surplus funds forms part of the financial management procedures of the Makhado Local Municipality and to ensure that prudent investment procedures are applied consistently.

4. EFFECTIVE CASH MANAGEMENT

4.1 Cash Management Plan

4.1.1 Adequate and efficient cash management is one of the main functions of the Director Finance. It is therefore imperative that a cash management plan be established and adhered to at all times. Sound cash management includes the following: -

- Collecting revenue when it is due and banking it promptly;
- Making payments, including transfers to other levels of government and non-government entities, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the government's normal terms for account payments as well as within legislative requirements;
- Avoiding pre-payments for goods or services (i.e. payments in advance of the receipt of goods or services), unless required in terms of contractual arrangements with the supplier;
- Accepting discounts to effect early payment only when the payment has been included in the monthly cashflow estimates prepared by the Municipality;
- Pursuing debtors with appropriate sensitivity and rigour to ensure that amounts receivable by the Municipality are collected and banked promptly;
- Accurately forecasting the Municipality's cashflow requirements;
- Timing the inflow and outflow of cash to ensure that significant cash outflows only occur when there is sufficient cash in the Municipality's bank account; and
- Taking any action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery and selling surplus or under utilised assets.

Efficient Cash Collection Procedures

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

4.2.2 It is essential that all amounts owed to the Municipality be levied by way of a debit in the applicable debtors system. A well managed debtor and banking control system is the proper measure for ensuring that monies owed to the Municipality are timeously received and banked. It is also important to review the debt collection performance by regularly comparing monies presently owed to the Municipality in relation to the total income as well as to the situation in previous financial years, in order to determine whether the debt collection is deteriorating or improving.

4.3 Payment to Creditors

4.3.1 Another aspect of effective cash management is adequate control over the timing and payment of creditors accounts. To reduce bank costs with regard to cheque payments it is essential to limit the payment of creditors to one payment per creditor per month, if possible, and to consider making use of electronic transfer facilities if these are available, subject to strict control measures.

4.3.2 When considering the time to pay a creditor, proper consideration must be given to the conditions of credit/ terms of payment offered. In cases where a cash discount is offered for early settlement the discount, if the relevant time scale is taken into account, will in most cases be more than any investment return from temporarily investing the funds and if offered, they should be properly considered and utilised.

4.5 Investment of Surplus Cash

4.5.1 Before any money can be invested, an investment committee formed with the approval of the Accounting officer shall review the cashflow analysis report submitted by the Chief financial officer and determine investment options available in line with Section 7 of the Municipal Finance Management Act. The term of investment should also be investigated in relation to projected cash outflows. Prior to making investments for any fixed term, it is essential that cashflow estimates be compiled for at least the next 6 to 12 months.

Investment committee

4.5.2 A submission must be made to the investment committee of the proposed amount to b invested supported by a cashflow analysis for Investment Committee for review approval.

4.5.3 The municipal's investments administered by them are safeguarded appropriately and invested judiciously.

4.5.4 Their investment management systems must the municipality's strategic objectives.

4.5.5 The Accounting officer or as delegated 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

4.5.6 The investment committee may not delegate or assign the responsibility for performing these functions. Any delegation or reallocation of duties or responsibilities must be referred Municipal Manager for approval.

4.5.7 When compiling monthly cashflow estimates it is essential that the Director Finance is aware of all expected cashflow and when it is to take place, as well as the timing with regard to cash outflows as far as both the operational and the capital budgets are concerned.

4.5.8 By utilising the available information and expertise, the investment committee can assess the timing with regard to the applicable investment policy accordingly. Daily cashflow estimates will provide for daily call investments and investment withdrawals, whereas long-term investments need to be based on projections further into the future.

5. LEGAL REQUIREMENTS

5.1 The way in which surplus funds and other monies of local authorities can be invested, is regulated in terms of the Municipal Finance Management Act, and the National Framework to be determined by the Minister of Finance with the concurrence of the Cabinet member responsible for Local Government (see paragraph 1.3).

5.2 The Municipal Finance Management Act requires the Municipality to establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed by the Minister, with the concurrence of the Cabinet member responsible for Local Government.

5.3 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 the Municipality must:

5.3 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.

5.4 A bank where the Municipality at the end of the financial year holds 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.
- Promptly disclose information regarding the account when so requested by the National Treasury or the Auditor-General.

6. INVESTMENT ETHICS

The following ethics apply when dealing with financial institutions and interested parties:

6.1 The Municipal Manager and in the final instance the Director Finance is responsible for the investment of funds, and have to steer clear from outside interference, regardless of whether such interference comes from individual councillors, agents or any institution.

6.2 Under no circumstances may he/ she be held susceptible to coercive measures of any description. No member of staff may accept any gift other than something that is so small that it cannot possibly be seen as anything but a sign of goodwill, regardless of whether such gift influences him or her in his or her work or is intended to do so.

6.3 The Director Finance or his/her delegate must act according to their own discretion and should report any serious cases, i.e. offers of a personal commission or payment in kind, etc, to the Council. Discretion should be the order of the day, and excessive gifts and hospitality must be refused and avoided.

6.4 Interest rates offered should never be divulged to another institution.

7. CALL FOR QUOTATIONS

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

7.1.1 Authority is delegated to the Municipal Manager of which a sub delegation is granted to the Chief financial officer for quotations

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

7.1.3 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.

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

7.1.5 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.

7.1.6 Only banks registered in terms of the Municipal investment Regulations may be approached for purposes of obtaining quotations

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

8. No investment without proper cash flow forecast

8.1 The placement of any investment is subjected 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 signed off by the investment committee.

9. INVESTMENT PRINCIPLES

Limited Exposure to a Single Institution

9.1 Money, especially large sums of money, must be invested with more than one institution in order to limit the risk exposure of the Municipality.

9.2 Not more than 50% of the available funds should be placed with a single institution. In this case, it should be noted that a group of financial institutions would be treated as individual institutions.Where legislation allows, the Municipality must try to plan the distribution of its investments to cover more than one investment category.

Risk and Return

9.3 It should be accepted as general principle that the larger the return, the greater the risk will be. Investments may not be undertaken with a view to speculation and must be governed by the following investment objectives, in order of priority: -

- Preservation and safety of principal;
- Liquidity; and
- Yield.

Borrowing Money for Reinvestment

9.4 The Municipality shall not borrow any money for investment purposes as this is considered as speculation with public funds. Furthermore, investments should not be made where Council is utilising an overdraft facility unless in accordance with applicable legislation.

Cash in the Bank

9.5 Where money is kept in current accounts, it is 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 but always taking into account the cash management plan and monthly cashflow estimates.

Employees and Councilors Benefiting from Investments

9.6 No employee or Councillor of the Municipality or their family may under any circumstances whatsoever on his or her own behalf or on behalf of any other person whether directly or indirectly, stipulate, claim or receive any consideration of whatever nature in connection with an investment made.

Reporting Requirements

9.7 There shall at all times be transparency and accountability in respect of every investment made and of the Municipality's investment portfolio. In this regard, the Municipal Manager must within 10 days of the end of each month, as part of the section 71 report required by the MFMA, submit to the Mayor a report describing in accordance with generally recognised accounting practise the investment portfolio of the municipality as at the end of the month. The report must set out at least: -

- The market value of each investment as at the beginning of the reporting period;
- Additions and 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 or yield for the reporting period.

10 GENERAL INVESTMENT PRACTICE

10.1 General Principles

10.1.1 After determining whether cash is available for investment and fixing the maximum term of investment, the Director Finance has to consider the way in which the investment is to be made. 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.

10.1.2 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 any re-investment is made with the same institution.

10.1.3 Where a fixed deposit is made at an institution at a lower rate than other quotations, reasons must be recorded by the Director Finance and reported to Council as part of the monthly financial report by the Director Finance.

Payment of Commission

10.1.4 The financial institution where a fixed deposit is made must issue a certificate with regard to each investment 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 Councillor of the Municipality or their family or an agent or go-between, or to any person nominated by such agent or go-between, except where the Council has decided to appoint a go-between/ agent/ consultant and the fee/ commission has been decided and approved by the Council before any investment is made.

10.1.5 In the case of long-term securities at Insurance Companies any payment of fees/ commission to any go-between/ agent/ consultant must be clearly stated on the application form and approved by Council before any investment is made.

11. REGISTERED FINANCIAL INSTITUTIONS

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

11.1 Securities issued by the National Government;

11.2 Listed corporate bonds with an investment grading rating from a nationally or internationally recognized credit rating agency;

11.3 Deposits with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);

11.4 Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No 45 of 1984);

11.5 Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No 46 of 1984);

11.6 Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);

11.7 Guaranteed endowment policies with the intention of establishing a sinking fund in order to meet the redemption fund requirements of the Municipality;

Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);

11.8 Municipal bonds issued by the Municipality;

11.9 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; and

11.10 Any other instruments or investments in which the Municipality was under a law permitted to invest before the commencement of this policy, provided that such investments shall not extend beyond the date of maturity or redemption thereof.

11.11 An investment may only be made 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.

Advertisements

11.12 To ensure transparency the Municipality must within 30 days after an investment with currency of 12 months or longer has been made; publish in a local newspaper in circulation within its area of jurisdiction full details of any investments so made.

Growth Related Investments and Long-Term Investments

11.13 Only the Council can approve such investments or the disposal thereof. The institution with which the investment is made must guarantee at least the capital portion of long-term investments.

11.14 Any fees payable to a broker, agent, or consultant must be clearly stated on the application form and approved by Council before any investment is made.

Credit Worthiness (Short-Term Investments)

11.15 The investment committee should seek professional advice whenever there is a degree of uncertainty regarding investment opportunities that he/ she evaluate.

12 CONTROL OVER INVESTMENTS

12.1 Proper records should be kept of all investments made. At the very least the following facts should be indicated:-

- Institution.
- Principle investment.
- Interest rate.

- ❑ Maturity date.
- ❑ Details of growth of the investment, calculated annually at 30 June, including interest capitalised.

12.2 The investment register must be examined on a fortnightly basis to identify investments falling due within the next two weeks. It must then be established as what to do with the funds bearing in mind the cashflow requirements.

12.3 Interest, correctly calculated, should be received timeously, together with any distributable capital.

12.4 Investment documents and certificates should be safeguarded by the responsible official.

12.5 The Director of Finance or delegated otherwise is responsible for ensuring that the invested funds are secure and should there be a measure of risk, such risk must be rated realistically.

13 The municipal manger or delegated otherwise should approve all investment withdrawals on or before date of maturity

14 IMPLEMENTATION AND REVIEW OF THIS POLICY

14.1 This policy shall be implemented once approved by Council. All future investments must be made in accordance with this policy.

14.2 In terms of section 17(1)(e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.