

MOPANI DISTRICT MUNICIPALITY

INVESTMENT POLICY



INDEX

1. Definitions
2. Introduction and background
3. Adoption of investment policy
4. Purpose
5. Scope and Application
6. Objectives
7. Standards of ethics, judgment and care
8. Permitted investments
9. Prohibited investments
10. Investee limits
11. Competitive selection process
12. Internal control
13. Cash management
14. Investment reporting
15. Use of investment managers
16. Accounting for investments
17. Annual review of policy
18. Effective date

1. Definition

In this policy, unless the context indicates otherwise-

“Act” – means the local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

“District” – means the Mopani District Municipality;

“Council” – means the Municipal Council of Mopani District Municipality referred to in section 18 of the Municipal Structures Act;

“Gazette” – means the Government Gazette;

“Investee” – means: an institution with which an investment is placed, or its agent;

“Investment” – means

(a) The placing on deposit of funds with a financial institution or

(b) The acquisition of monetary assets with funds not immediately required, with the primary aim of preserving those funds.

2. Introduction and Background

2.1 Section 13(1) and (2) of the Local Government Municipality Finance Management Act 2003 (Act No. 56. Of 2003) requires that a municipality establish an appropriate and effective cash management and management and investment, and (b) invest money not immediately required in accordance with any framework which may be prescribed. 2.2 National Treasury has issued municipal investment regulation dated 1st April 2005 (Gazette no. 27431) which set out a framework within which all municipalities shall conduct their cash management and investments. 2.3 This policy is consistent with the Act and the gazette framework.

3. Adoption of Investment Policy

3.1 The Mopani District Municipality must formally adopt an investment policy which shall be consistent with the Act and its regulations.

3.2 All investments made by Mopani District Municipality, or by an investment manager on behalf of the Mopani District Municipality, must be in accordance with this investment policy, and with any investment regulations promulgated by national government.

3.3 The effective date of this policy shall be the date of its adoption by Council.

4. Purpose

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

5. Scope and Application

5.1 The policy governs the investment of money not immediately required by the Mopani District Municipality for the defrayment of expenditure.

5.2 The policy applies to all new and existing investments made by –

- (a) Mopani District Municipality; and
- (b) All investment managers acting on behalf of Mopani District Municipality in making or managing investments.

6. Objectives

The objectives of the policy are –

- (a) to ensure compliance with the relevant legal and statutory requirements relating to cash management and investments;
- (b) to ensure the preservation and safety of Mopani District Municipality's investments;
- (c) to ensure diversification of the Mopani District Municipality's investment portfolio across acceptable investees, permitted types of investments and investment maturities; and
- (d) To ensure timeous reporting of the investment portfolio as required by the Act in accordance with generally recognized accounting practice.
- (e) To ensure that the liquidity needs of Municipality are properly addressed.

7. Standards of ethics, judgment and care

7.1 Investments made by or on behalf of Mopani District Municipality

- (a) must be made whilst maintaining a strict code of ethics and standards;
- (b) must be a genuine investment and not an investment made for speculation;
- (c) must be made with primary regard to the security of the investment, secondly to the liquidity needs of the Municipality, and lastly to the income or return from the investment
- (d) must be made without internal or external interference whether such interference comes from individual officials, councillors, agents, investees or any other external body.

7.2 No fee, commission or other reward may be paid to a councillor or official of

Mopani District 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.

7.3 All investments made by or on behalf of Mopani District Municipality must be in the name of the Municipality.

7.4 The Municipality shall take reasonable steps to diversify its investment portfolio across investees, type of investment and investment maturities.

7.5 Confidentiality

- (a) Although alternative rates on offer need to be disclosed when negotiating a rate on an investment, the disclosure of a specific rate from a specific named investee to another investee shall be strictly prohibited.
- (b) The municipality current cash position and its projected future cash flows shall not be discussed with or disclosed to investees.

8. Permitted investments

8.1 Mopani District Municipality shall invest only in the following instruments or investments:

- (a) securities issued by the national government;
- (b) listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- (c) deposits with the banks registered in terms of the Banks Act, 1990 (Act no. 94 of 1990);
- (d) deposits with the Public investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act no. 45 of 1984);
- (e) deposits with the Corporate for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act no. 46 of 1984)
- (f) bankers acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 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, 1990;
- (i) municipal bonds issued by a municipality;
- (j) 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.

9. Prohibited investments

9.1 Mopani District 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 derivative instruments;
- (c) investments denominated in, or linked to, foreign currencies;
- (d) investments in market linked endowment policies.

9.2 Mopani District Municipality shall not borrow for the purpose of investing.

9.3 any investment in capital or money market instruments shall be held until maturity. The municipality shall not buy and sell these instruments, to speculate with a view to making capital profits.

10. Investee limits

10.1 Calculation of limits

Maximum investment limits shall be set for each approved investee and these limits shall not be exceeded at the time of making the investment. 7

10.2 credit ratings

Mopani District Municipality shall invest only with investees having, as applicable, an investment grade rating of A.1- or better, short term, and A or better, long term, from a nationally or internationally recognized credit rating agency.

10.3 Credit worthiness

Mopani District Municipality ensures that it places its investments only with credit – worthy investees. The credit worthiness of every investee shall be monitored throughout the year on an on – going basis. Mopani District Municipality must liquidate an investment where the credit rating falls below the acceptance rate.

11. Competitive selection process

The selection of an investee for any investment shall be a competitive process. Where applicable, quotations shall be invited telephonically from at least three eligible investees for the terms for which the investment is to be placed. In the event of one of the investees offering a more beneficial rate for an alternative term, the other investees initially invited to quote should be approached for their rates on the alternative term. Quotations shall be recorded in writing and the recommended investee identified for signed approval by the authorized officials. As a general rule, subject to paragraphs 7.1.(c) and 10.1 above, the best rate offered shall secure the investment. Written confirmation of the terms of the investment shall be prepared and exchanged with the investee in all cases.

12. Internal control over investment function

12.1 Delegations

In terms of section 79 of the Act, Municipal Manager has delegated the Chief Financial Officer (CFO), in writing, his duty under section 65(2) (h) to manage the municipality's available working capital effectively and economically in terms of the prescribed cash management and investment framework. The CFO has sub – delegated this duty to the Assistant Director: Revenue. 8

12.2 Obtaining quotations and concluding deals

Written mandates, signed by the Assistant Director: Revenue and the Chief Financial Officer shall be issued to all investees with whom Mopani District Municipality invests funds setting out the following:

☒☒ Authorised Dealers: names and particulars of Mopani District Municipality officials who are authorized to transact investment deals telephonically with the investees;

☒☒ Authorised Signatories: names and particulars of Mopani District Municipality officials who are authorised to sign written confirmations or any other correspondence in respect of investment deals.

A dealing sheet, signed by an authorised dealer, shall be prepared in all instances for each individual investment, detailing the quotations received and the recommended investee.

Assistant Director: Revenue, or, in his absence, may of the authorised signatories referred to above, shall be authorised to approve the deal.

A written confirmation of the terms of each investment deal shall be prepared, and signed off by the CFO and one other authorised signatory.

12.3 Approved investees

Any additions to or delegations from the list of approved investees, or any changes to the investment limits assigned to each investee, shall be approved jointly by the CFO and MM or any other authorised signatory.

12.4 Electronic Funds Transfer (EFT)

Investments shall be made electronically by EFT. Strict segregation of duties shall be maintained between the creator of a payment file, the initial authoriser and the final releaser of the payment.

Investment EFT payments shall be authorised/released by authorised signatories referred to above.

12.5 Controls over Investment Portfolio

A proper record shall be maintained of all investments made indicating, at a minimum, the investee, capital amount, interest rate and maturity date.

Interest must be correctly calculated and receipted timeously together with any capital which matures.

Investment papers and certificates must be kept in locked, fireproof safe.

Investments must be recorded in the name of Mopani District Municipality by the investee.

13. Cash management

13.1 Cash collections

Mopani District Municipality shall ensure that all cash received via the cash offices is collected and banked as early as possible in a controlled and secure manner. The cash handling procedures

contained in the Revenue Directorate's "Cash Management Policy", approved by Mopani District Municipality, shall be adhered to in this regard.

Adequate cash receipting points shall be made available to the public in all areas to facilitate prompt payment of accounts. Every effort shall be made to encourage consumers to pay directly, or via third party agents, into Mopani District Municipality's bank account by electronic means.

13.2 Payments to suppliers

Suppliers shall be paid in accordance with the payment clauses in the supply chain management policy. The number of monthly electronic batch payment runs shall be minimized and shall be done in a structured and scheduled manner in order to facilitate efficient cash flow management. 10

13.3 Bank current account balance

The balance on Mopani District Municipality's current account shall be maintained at the minimum level possible taking into account daily cash requirements. Surplus cash shall be immediately invested in order to maximize interest earnings.

13.4 Cash forecasting

Effective cash flow forecasting is essential for determining the timing and size of cash surpluses and deficits affecting investment decisions. Forecasts of cash receipts and payments shall be prepared on a regular basis to facilitate investment decisions.

13.5 Cash flow reporting

In order to ensure effective cash management for investment purposes, the following cash flow reports shall be prepared:

(a) Daily

☐☐A detailed schedule of investment capital and interest maturing on the current day.

☐☐A summarized schedule of daily investment maturities for all existing investments.

☐☐A summary of daily cash receipts and payments through to the end of the current month.

(b) Monthly

☐☐A comparison of actual cash flow with forecast, current month and year to date.

☐☐An explanation of variances in the above.

☐☐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.

☐☐The cash backing of statutory funds and reserves balances at month end.

(c) Quarterly

☐☐A revised detailed cash flow projection for the next 12 months.

(d) Annually

☐☐ Preparation of the annual cash flow budget for the new financial year.

14. Investment reporting

Regular reporting mechanisms shall be in place in order to assess the performance of the investment portfolio and to ensure that the investment comply with policy objectives, guidelines, applicable laws and regulations –

The following reports shall be prepared:

(a) For internal Treasury management

☐☐ A daily summary of current investments by investee, actual against limits.

☐☐ A detailed schedule of investment capital and interest maturing on the current day.

☐☐ A daily summarized schedule of future maturities for all investments.

☐☐ A monthly reconciliation of all interest accrued with interest actually received.

☐☐ Each month, the weighted average actual return earned on investments for the month, and for the previous 3, 6, 9 and 12 months, shall be calculated on a Nominal Annual Compounded Monthly (NACM) basis and benchmarked against other banks.

(b) For the political leadership

☐☐ A monthly report on the investment portfolio, to be submitted to the Executive Mayor, and thereafter to the Finance Portfolio Committee for information, within ten working days of each month, detailing:

i) the market value of each investment as at the beginning of the reporting period;

(ii) any changes in the investment portfolio during the reporting period;

(iii) the market value of each investment at the end of the reporting period; and

(iv) fully accrued interest and yield for the reporting period. 12

☐☐ A quarterly report to Council, in accordance with section 11.4(a) of the Act, within 30 days after the end of each quarter, on the quarter's cash withdrawals from Mopani District Municipality's bank account for investment purposes.

(c) For external parties

☐☐ Notification to the Auditor – General, within 30 days after the end of the financial year, by all investees of any investment held by them for Mopani District Municipality during that year.

Notification to the Auditor – General and Provincial Treasury, within 90 days, of the name, type and number of any new bank account opened by Mopani District Municipality.

15. Accounting for investments

Mopani District Municipality's investments shall be accounted for as held to maturity (HTM) financial investments in accordance with Mopani District Municipality's approved accounting policies. Initially recognized at cost, these investments shall be subsequently measured, at balanced sheet date, at amortised cost, using the effective interest rate method, less any write – down for impairment or uncollectability.

16. Annual review of policy

This policy on investments will be reviewed annually or earlier if so required by legislation.

Any changes to the investment policy must be adopted by Council and be consistent with the Act and any National Treasury regulations.

17. Effective date

The effective date of this policy shall be after Council approval