

OVERSTRAND MUNICIPALITY



INVESTMENT & CASH MANAGEMENT POLICY

*Approved by Council
31 May 2017
Implementation date:
1 July 2017*

PREAMBLE

Whereas section 13 of the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003) determines that a municipality must introduce appropriate and effective investment arrangements;

And whereas a municipality must disclose its investment details;

And whereas councillors and officials as trustees of public funds, have an obligation to ensure that cash resources are managed as effectively, efficiently and economically as possible;

Now therefore the Overstrand Municipality adopts the following Investment & Cash Management Policy:

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1. DEFINITIONS

For the purpose of this policy, unless the context indicates otherwise, any word or expression to which a meaning has been attached in the Act shall bear the same meaning and means:-

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| “Accounting Officer” | a person appointed by the Municipality in terms of Section 82 of the Local Government: Municipal Structure Act. 1998 (Act No. 117 of 1998) and who is the head of administration and also the Municipal Manager for the Municipality. |
| “Chief Financial Officer” | an officer of the municipality appointed as the Head of the Finance Department and includes any person:- a) acting in such position; and b) to whom the Chief Financial Officer has delegated a power, function or duty in respective of such a delegated power, function or duty. |
| “Council” or “municipal council” | a municipal council referred to in section 18 of the Local Government: Municipal Structures Act, 1998 (Act No 117 of 1998) and for purposes of this policy, the municipal council of the Municipality of Overstrand. |
| “Councillor” | a member of the Municipal Council |
| “Investments” | funds not immediately required for the defraying of expenses and invested at approved financial institutions. |
| “Municipal Manager” | the accounting officer appointed in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act No 117 of 1998) and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000) and includes any person:- a) acting in such position; and b) to whom the Municipal Manager has delegated a power, function or duty in respective of such a delegated power, function or duty. |
| “municipality” | the institution that is responsible for the collection of funds and the provision of services to the customers of Overstrand. |
| “public funds” | all monies received by the municipality to perform the functions allocated to them. |

2. OBJECTIVE OF POLICY

The objectives of the Investment Policy are:-

- 2.1 to manage the investments of the municipality in such a manner that it will not tie up the municipality’s scarce resources required to improve the quality of life of the citizens;
- 2.2 to manage the investments of the municipality in such a manner that sufficient cash resources are available to finance the capital and operating budgets of the municipality; and

- 2.3 to gain the highest possible return on investments during periods when excess funds are not being used, without unnecessary risk.

3. SCOPE OF POLICY

- 3.1 The Policy deals with:-
- 3.2 Responsibility / accountability;
- 3.3 Investment instruments;
- 3.4 Cash flow estimates;
- 3.5 Investment ethics and principles;
- 3.6 Investment procedures;
- 3.7 Other external deposits; and
- 3.8 Control over investments.

4. RESPONSIBILITY / ACCOUNTABILITY

- 4.1 The Municipal Manager as the Accounting Officer of the municipality is accountable for investment management.
- 4.2 The municipal council must approve a policy directing procedures, processes and systems required to ensure efficient and effective management of investments.
- 4.3 Efficient and effective investment management include:-
- a. Accurately forecasting the institution's cash flow requirements.
 - b. Timing of the in- and outflow of cash.
 - c. Recognising the time value of money.
 - d. Taking any other action that avoids locking up money unnecessarily and inefficiently.
 - e. Avoiding bank overdrafts.

5. INVESTMENT INSTRUMENTS

- 5.1 The Minister of Provincial and Local Government may with the concurrence of the Minister of Finance by notice in the Gazette determine instruments or investments other than those referred to below in which Municipality may invest:-
- a. Deposits with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);
 - b. Securities issued by the National Government;

- c. Investments with the Public Investment Commissioners as contemplated by the Public Deposits Act, 1984 (Act No 46 of 1984);
- d. A municipality's own stock or similar type of debt; internal funds of a municipality which have been established in terms of a law to pool money available to the municipality and to employ such money for the granting of loans or advances to departments within a municipality, to finance capital expenditure;
- e. Bankers' acceptance certificates, negotiable certificates or deposits of banks;
- f. Long-term securities offered by insurance companies in order to meet the redemption fund requirements of municipalities; and
- g. Any other instruments or investments in which a municipality was under a law permitted to invest before the commencement of the Local Government Transition Act, 1996: provided that such instruments shall not extend beyond the date of maturity or redemption thereof.

6. CASH FLOW ESTIMATES

- 6.1 Before money can be invested, the Municipal Manager must determine whether there will be surplus funds available for the term of the investment.
- 6.2 In order to be able to make investments for any fixed term, it is essential that cash flow estimates be drawn up.
- 6.3 Provision must be made in the cash flow estimates for the operating and capital requirements of the municipality:-
 - a. The operating requirements must include provisions for:-
 - i. Payment of monthly salaries.
 - ii. Payment for bulk purchases of electricity and water.
 - iii. Interest on long-term loans.
 - iv. Maintenance of assets.
 - v. General expenditure.
 - vi. Expected daily and monthly income.
 - b. Capital requirement must provide for:-
 - i. The anticipated cash flow requirements for each capital project.

7. INVESTMENT ETHICS AND PRINCIPLES

- 7.1 The Municipal Manager will be responsible for the investment of funds, and he/she has to steer clear of outside interference, regardless of whether such interference comes from individual councillors, agents or any other institution.
- 7.2 Under no circumstances may he/she be forced or bribed into making an investment.

- 7.3 No member of staff may accept any gift unless that gift can be deemed so small that it would not have an influence on his/her work or was not intended to do so, and can merely be seen as goodwill.
- 7.4 A certificate in respect of any gifts received should be furnished to the Municipality.
- 7.5 Interest rates offered should never be divulged to another institution.
- 7.6 Long-term investments should be made with an institution with at least a minimum BBB rating (where BBB refers to low risk institutions).
- 7.7 Short-term investments should be made with an institution with at least a minimum F3 rating (where F3 refers to low risk institutions).
- 7.8 Not more than 50% of the funds that have become available for investing, on any given day, should be placed with a single institution if the available funds exceed R100m.
- 7.9 The maximum amount invested with a financial institution should not exceed 10% of the relevant institution's shareholder's funds (capital and reserves).
- 7.10 The municipality may not borrow money specifically for reinvestment, as this would mean interest rates would have to be estimated in advance, which can be seen as speculation with public funds.
- 7.11 If the Municipal Manager invests with financial institutions, he/she must ensure that such institutions are registered in terms of the Banks Act, 1990 (Act No 94 of 1990) and that they are approved financial institutions, as approved by the Reserve Bank of South Africa from time to time.
- 7.12 When making growth related investments, the Municipal Manager must obtain a guarantee that at least the capital amount invested is safe, and must exercise due diligence in this regard.

8. INVESTMENT PROCEDURES

After determining whether there is cash available for investment and fixing the maximum term of investment, the Municipal Manager must consider the way in which the investment is to be made.

- 8.1 Short-term investments:
 - a. Quotations should be obtained from a minimum of three financial institutions (local banks), for the term of which the funds will be invested.
 - b. Should one of the institutions offer a better rate for a term, other than what the municipality had in mind, the other institutions which were approached, should also be asked to quote a rate for the other term.
 - c. Quotations should be obtained in writing or electronic medium.

- d. Quotations from institutions must include the following:-
 - i Name of institution;
 - ii Name of person quoting rates;
 - iii Period of the investment;
 - iv Relevant conditions; and
 - v Other facts, such as interest payable monthly or on maturation date.
 - e. Once the required number of quotes has been obtained, a decision must be taken regarding the best terms offered and the institution with which funds are going to be invested.
 - f. The best offer must under normal circumstances be accepted, with thorough consideration of investment principles.
 - g. No attempt must be made to make institutions compete with each other as far as their rates and terms are concerned.
 - h. The investment capital must only be paid over to the institution with which it is to be invested and not to an agent or third party.
 - i. The financial institution where the investment is made must issue a confirmation stating the details of the investments.
 - j. The Municipal Manager must make sure that the investment document, if issued, is a genuine document and issued by the approved institution.
 - k. The financial institution, where the investment is made, must issue a certificate for each investment made stating that no commission has, nor will, be paid to any agent or third party, or to any person nominated by the agent or third party.
 - l. The municipality must be given a monthly report on all investments.
 - m. The Municipal Manager must obtain information from which the creditworthiness of financial institutions can be determined. This must be obtained and analysed annually.
- 8.2 Long-term investments:
- a Written quotations must be obtained for all investments made for periods longer than twelve months.
 - b The municipal council must approve all investments made for periods longer than twelve months after considering the cash requirement for the next three years.
 - c The municipality must within 30 days after an investment with a term 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.

8.3. Withdrawals

All investment amounts withdrawn and not to be reinvested at the same institution at the time of withdrawal, shall be paid into the primary bank account.

All interest shall be paid into the primary bank account at the time of withdrawal of an investment, irrespective of the capital being reinvested.

9. OTHER EXTERNAL DEPOSITS

The principles and procedures set out above must apply to other investment possibilities subject to the applicable legislation, which is available to the municipality, including debentures and other securities of the state as well as other municipalities or statutory bodies in the Republic of South Africa, instituted under and in terms of any law.

10. CONTROL OVER INVESTMENTS

10.1 An investment register should be kept of all investments made. The following information must be recorded:-

- a. name of institution;
- b. capital invested;
- c. date invested;
- d. interest rate;
- e. maturation date;
- f. interest received;
- g. capital repaid; and
- h. balance invested.

10.2 The investment register and accounting records must be reconciled on a monthly basis.

10.3 The investment register must be examined on a weekly basis to identify investments falling due within the next week.

10.4 Interest, correctly calculated, must be received timeously, together with any distributable capital.

10.5 Investment certificates, if issued, must be kept in a safe place with dual custody.

10.6 The following documents must be safeguarded:-

- a. Fixed deposit letter or investment certificate;
- b. Receipt confirmation for capital invested;
- c. Copy of electronic transfer or cheque requisition;
- d. Schedule of comparative investment figures;
- e. Commission certificate indicating no commission was paid on the investment; and
- f. Interest rate quoted.

11. IMPLEMENTATION AND REVIEW OF POLICY

This policy shall be implemented on 1 July 2017 and shall be reviewed on an annual basis to ensure that it is in line with the municipality's strategic objectives

and with legislation.

12. SHORT TITLE

This Policy shall be called the **Investment & Cash Management Policy of the Overstrand Municipality**.

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| POLICY SECTION: | SENIOR MANAGER: FINANCIAL SERVICES |
| CURRENT UPDATE: | 31 May 2017 |
| PREVIOUS REVIEW: | 25 MAY 2016 |
| PREVIOUS REVIEW: | 28 MAY 2015 |
| PREVIOUS REVIEW: | 28 MAY 2014 |
| PREVIOUS REVIEW: | 29 MAY 2013 |
| PREVIOUS REVIEW: | 30 MAY 2012 |
| PREVIOUS REVIEW: | 4 MAY 2011 |
| PREVIOUS REVIEW: | 26 MAY 2010 |
| APPROVAL BY COUNCIL: | 27 MAY 2009 |