



BUFFALO CITY METROPOLITAN MUNICIPALITY

INVESTMENT AND CASH MANAGEMENT POLICY

<u>TABLE OF CONTENTS</u>	<u>PAGE</u>
1. Definitions.....	3
2. Introduction and Background.....	4
3. Adoption.....	5
4. Purpose.....	5
5. Scope and Application.....	5
6. Objectives of the Policy.....	6
7. Investment Ethics.....	7
8. Cash Management.....	9
9. Permitted Investments.....	11
10. Prohibited Investments.....	12
11. Diversification of Investments.....	13
12. Competitive Selection Process.....	14
13. Investment Issues Pertaining to Council Approval.....	14
14. Internal Control over Investment Function.....	15
15. Reporting and Monitoring Procedures.....	18
16. Use of Independent Investment Managers.....	20
17. Accounting for Investments.....	20
18. Annual Review of Policy.....	21
19. Conclusion.....	21
20. Effective Date.....	21

1. DEFINITIONS

In this Policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and other related legislation / regulations, has the same meaning as in that Act.

- **“Accounting Officer”** – means the Municipal Manager and *vice versa*;
- **“Act”** – means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);
- **“Assignee”** – means a person with a delegated authority;
- **“Bank”** – means an institution recognized by the Registrar of Banks;
- **“Cash”** – means money, such as bank notes, coins, or cash equivalents;
- **“Chief Financial Officer”** – means an officer of the Municipality, designated by the Municipal Manger to be administratively in charge of the financial affairs of the municipality;
- **“Council” or “Municipality”** – means the Municipal Council of Buffalo City Municipality as referred to in Section 18 of the Municipal Structures Act;
- **“Delegatee”** – means an official / person delegated to perform tasks on behalf of another person;
- **“Delegated Authority”** – means any person / persons / committee delegated with the authority to act on behalf of Buffalo City Municipality;
- **“Diversification of Investments”** – means investing in more than one or more than one type of financial instrument;
- **“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;

- **“Investment Ethics”** – means the ethical framework within which investments must take place;
- **“Investment Manager”** – means a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, 1989 (Act No. 55 of 1989) and / or the Stock Exchange Control Act, 1985 (Act No. 1 of 1985), contracted by the Municipality or Municipal Entity to:
 - (a) advise it on investments;
 - (b) manage investments on its behalf; or
 - (c) advise it on investments and manage investments on its behalf;
- **“Liquidity”** – means the ease with which financial instruments can be converted to cash or cash equivalents;
- **“Long Term Investment”** – means a financial instrument with a lifespan or maturity of greater than 12 months;
- **“Municipal Entity”** – means the developmental arm of the Municipality established in terms of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);
- **“Short Term Investment”** – means a financial instrument with a lifespan or maturity of less than 12 months;
- **“Trust Money”** – means money held in trust on behalf of third parties in a trust contemplated in terms of Section 12 of the Act.

2. INTRODUCTION AND BACKGROUND

Section 13(1) and (2) of the Act requires that a municipality establish an appropriate and effective cash management and investment policy within which the municipality must (a) conduct its cash management and investments; and (b) invest money not immediately required, in accordance with any framework which may be prescribed.

National Treasury issued municipal investment regulations on 1 April 2005 (Gazette No. 27431) which sets out a framework within which all municipalities must conduct their cash management and investments.

An obligation rests with the Accounting Officer to ensure that cash resources are managed as effectively, efficiently and economically as possible. Competitive investment and effective cash management ensures both short term and long term viability and sustainability of the municipality.

This policy is consistent with both the Act and the gazetted framework.

3. ADOPTION

The Council must formally adopt an investment policy which shall be consistent with the Act and its regulations.

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

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 the Municipality's surplus cash and investments.

5. SCOPE AND APPLICATION

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

The policy applies to all new and existing investments made by:

- the Municipality; and
- all Investment Managers acting on behalf of the Municipality in making or managing investments.

The policy does not apply to trust money administered by the Municipality where the trust deed prescribes how the trust money is to be invested.

The Board of Directors of all Municipal Entities must adopt this policy. Further, the same Municipal Entities must submit reports, as detailed in the Reporting and Monitoring Procedures, in the same manner as the Municipality, to the Executive Mayor.

6. OBJECTIVES OF THE POLICY

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 the Municipality's investments;
- (c) to ensure the diversification of the Municipality's investment portfolio across acceptable investees, permitted types of investments and investment maturities;
- (d) to ensure that the liquidity requirements of the Municipality are properly addressed;
- (e) to ensure the highest return on investment at minimum risk, within the parameters of authorized instruments as per the Act; and
- (f) to ensure timeous reporting of the investment portfolio as required by the Act in accordance with Generally Recognised Accounting Practice.

7. INVESTMENT ETHICS

7.1 Investments made by or on behalf of the Municipality:

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

7.2 Fees, commission, other rewards or gifts

- (a) No fee, commission or other reward may be paid to a councilor or official of the Municipality, or to a spouse or close family member of such councilor or official, in respect of any investment made by the Municipality. This shall be confirmed annually by all investees to the Auditor General;
- (b) No councilor or official of the Municipality may accept any gift from an investee or its agent, unless that gift can be deemed so small that it would not have an influence on his / her relationship with the said institution. Such gifts must be dealt with in accordance with Council's Gifts and Benefits Policy.

7.3 Risk Management

The preservation and safety of investments is the foremost objective of the investment policy. To attain this objective, diversification is required to ensure that the Municipal Manager or his / her delegatee prudently manages risk exposure. Risk profiles should be minimized by only placing investments with institutions and instruments approved by the Public

Investment Commission or the National Minister of Finance of the Republic of South Africa.

7.4 Prudence

Investments shall be made with care, skill, prudence and diligence. The approach must be that which a prudent person, acting in a like capacity and familiar with investment matters, would use in the investment of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Municipality. Investment officials are required to:

- (a) Adhere to written procedures and policy guidelines;
- (b) Exercise due diligence;
- (c) Prepare all reports timeously;
- (d) Exercise strict compliance with all legislation.

7.5 Ownership

All investments made by or on behalf of the Municipality must be made in the name of Buffalo City Municipality.

7.6 Confidentiality

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

8. CASH MANAGEMENT

The Accounting Officer, *inter-alia*, has to ensure financial viability and sustainability of the Municipality. In order to achieve this in a sustainable manner, the Chief Financial Officer must ensure that internal financial systems and controls are in place that will enable the Municipality to detect the mismanagement of funds.

8.1 Cash Collections

The 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.

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 the Municipality's bank account by electronic means.

8.2 Payment of suppliers / creditors

Due to the high bank charges with regard to cheque payments, it is essential to limit the payment of creditors to one payment per creditor per month. Should the facility be available, payments should be done by electronic transfer (subject to strict controls).

When considering the time to pay a creditor, proper consideration must be given to the conditions of credit terms of payment offered, i.e:

- In cases where a cash discount is given for early settlement, the discount, if the relevant time scale is taken into account, must in most

cases be more than any investment benefit that could be received from temporarily investing the funds;

- If discounts are offered for early settlement they must be properly considered and utilized;
- Besides this, the normal conditions of credit terms of payment offered by suppliers must also be considered and utilized to the full by paying on the due date and not earlier, provided that no worthwhile discount is available or offered.

8.3 Current bank account balance

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

8.4 Cash Flow Estimates

Effective cash flow forecasting is essential for determining the timing and size of cash surpluses and deficits affecting investment decisions. The Accounting Officer or his / her delegatee shall prepare forecasts of cash receipts and payments on a regular basis to determine the availability of funds after meeting the necessary obligations.

8.5 Cash Flow Reporting

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

(a) Daily

- A summary of the preceding day, and month to date, closing bank account and investment balances, cash receipts, payments and inter-bank transfers;
- 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, actual against forecast, for month to date; and
- A daily projection of cash receipts and payments through to the end of the current month.

(b) Monthly

- A comparison of actual cash flow against 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 reserve 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.

9. PERMITTED INVESTMENTS

The National Minister of Finance, in consultation with the Financial Services Board, may in terms of Section 168 of the Act, by regulation identify instruments or investments other than those referred to below in which the Municipality may invest:

- Securities issued by the National Government;

- Listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- Deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- Investments with the Public Investment Commissioners as contemplated by the Public Investment Commissions 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 46 of 1984);
- Banker's acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
- Guaranteed endowment policies with the intention of establishing a sinking fund;
- Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990); and
- Municipal Bonds issued by a Municipality.

10. PROHIBITED INVESTMENTS

- 10.1 The 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, and
 - (d) Investments in market linked endowment policies.
- 10.2 The Municipality shall not borrow for the purpose of investing;
- 10.3 Any investment in capital or money market instruments shall be held until maturity. The Municipality shall not buy or sell these instruments to speculate with a view to making capital profits.

11. DIVERSIFICATION OF INVESTMENTS

11.1 Investee Limits

- (a) The Chief Financial Officer must ensure that the available funds are not invested with one institution;
- (b) Maximum investment levels shall be set for each approved investee and these limits shall not be exceeded at the time of making the investment (*currently capped at a maximum of 30% per institution*);
- (c) Investee limits shall be reviewed annually, or as required upon the addition or deletion of an institution to or from the list of approved deposit taking investees;
- (d) The maximum term for any investment, other than ceded investments, may not exceed 24 months.

11.2 Credit Ratings

- (a) The Municipality shall invest only with investees having an investment grade rating of [AA] or better;
- (b) Should the investee's credit rating be downgraded as a result of the sovereign rating being downgraded and fall below the grades specified in (a) above, the municipality shall still be allowed to invest with those investees.
- (c) The municipality shall not invest with an investee whose credit rating was downgraded as result of such investee's own financial operations.
- (d) The municipality must liquidate an investment where the credit rating falls below the acceptable rate.

11.3 Credit Worthiness

- (a) The Municipality must ensure that it places its investments only with credit-worthy investees;
- (b) The credit worthiness of every investee shall be monitored throughout the year on an ongoing basis;

12. 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. As a general rule, subject to 7.1.(c) and 11.1 above, the best rate offered shall secure the investment.

13. INVESTMENT ISSUES PERTAINING TO MUNICIPAL COUNCIL APPROVAL

When obtaining telephonic quotations, the following information is required:

- 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 a compounded basis upon maturation.

Where payments to financial institutions in respect of investments are to be effected, the following procedures must apply:

- The delegated Treasury Official must complete a requisition form and submit it to the Chief Financial Officer together with the supporting quotations and other relevant documentation;
- The Chief Financial Officer must either authorise the requisition or submit it to the Municipal Manager for authorization depending on the value of the investment;
- After the requisition has been authorized, the Municipal Manager and the Chief Financial Officer, or their delegated signatories are required to sign

the cheque / transfer letter and submit it to the financial institution concerned; and

- All investment documents must be signed by two authorised cheque signatories.

The Chief Financial Officer must ensure that a bank, insurance company or other financial instrument, which at the end of the financial year holds, or at any time during a financial year held, an investment of the Municipality must:

- 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;
- Promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor General; and
- Promptly disclose information of any possible or actual change in the investment portfolio that could or will have a material adverse effect.

14. INTERNAL CONTROL OVER INVESTMENT FUNCTION

14.1 Delegation of Authority

The delegation to authorise investments must distinguish between short term and long term investments. The authority to make long term investments as provision of security, is vested with the Municipal Council in terms of Section 48 of the Act and with reference to Section 11 (1) (h) of the Act, dealing with cash management, the responsibility to make short term investments lies with the Municipal Manager or the Chief Financial Officer or any other senior financial official authorised by either the Municipal Manager or the Chief Financial Officer.

The Local Government Municipal Systems Act of 2000 Section 3 (60) (2), states that the Municipal Council may only delegate to an Accounting Officer, Executive Committee, 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 Chief Financial Officer is responsible for the investment of the municipality's funds that are made under Section 13 of the Act.

14.2 Approved Investees

Any additions to or deletions from the list of approved investees, or any changes to the investment limits assigned to each investee, shall be approved jointly by the Municipal Manager and the Chief Financial Officer or their assignees.

14.3 Investments made

The following supporting documents must be attached for each investment:

- Signed copy of authority to invest funds;
- Signed copy of transfer of funds letter;
- Signed copy of cheque requisition;
- Signed copy of verification of investment banking details;
- Signed copy of confirmation to invest;
- Confirmation by Municipality's bank that funds were invested;
- Printout by Municipality's bank of electronic internet payment receipt;
- Confirmation from investee that investment was made;
- Printout by Municipality's bank reflecting the investment amount;
- For own funds, the most recent cash on hand calculation indicating the availability of funds to be invested; and
- For Grants and Trust Funds, a copy of the payment advice as proof of funds received.

14.4 Investments withdrawn

The following supporting documents must be attached for each withdrawal:

- Signed copy of transfer of monies letter;
- Reconciliation between bank statement balance and general ledger balance;
- Copy of bank statement reflecting the amount available;
- General ledger reconciliation reflecting the balance;
- Confirmation from bank that withdrawal was made;
- Copy of payment advice;
- Copy of receipt;
- Printout from Municipality's bank reflecting withdrawal amount; and
- For own funds, most recent cash on hand calculation indicating the need to withdraw funds and the availability of funds to withdraw.

14.5 Control over Investment Portfolio

A proper investment register shall be maintained of all investments made, indicating at a minimum the following:

- Name of the investee;
- Capital amount invested;
- Date invested;
- Interest rate;
- Maturity date; and
- Interest amount earned on investment

The investment register, reconciled to the accounting records on a monthly basis, must be examined by a senior official under the direction of the Chief Financial Officer or his / her delegatee on a fortnightly basis to identify investments falling due in the next two weeks. An investment plan must then be established for the next calendar month, bearing in mind the cash flow requirements.

Interest must be correctly calculated and receipted timeously together with any capital which matures or any other distributable capital. The Chief Financial Officer or his / her delegatee must check that the interest is calculated correctly, in terms of sound universally accepted financial management practices.

The following investment documents and certificates, at a minimum, must be safeguarded at all times:

- Fixed deposit letter or investment certificate;
- Receipt for capital invested;
- Copy of electronic transfer or cheque requisition;
- Schedule of comparative investment figures;
- Commission certificate, indicating that no commission was paid on the investment; and
- Interest rate quoted.

Investees must record all investments in the name of the Municipality.

15. REPORTING AND MONITORING PROCEDURES

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

As a minimum, the following reports shall be prepared:

15.1 For Internal Treasury management

- A daily summary of current investments per investee;
- A detailed schedule of investment capital and interest maturing on the current day;

- A daily summarized schedule of future maturities for all investments; and
- A monthly reconciliation of all interest accrued with interest already received.

15.2 For the Executive Mayor and Council

- A monthly report, within 10 working days of each month, on the investment portfolio to be submitted to the Executive Mayor, and thereafter the Finance Portfolio Committee for information, 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.
- A quarterly report, within 30 days after the end of each quarter, to Council, in accordance with Section 11 (4) (a) of the Act, on the quarter's cash withdrawals from the Municipality's bank account for investment purposes.

15.3 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 the Municipality during that year;
- Notification to the Auditor General and the Provincial Treasury, within 90 days, of the name, type and account number of any new bank account opened by the Municipality.

16. USE OF INDEPENDENT INVESTMENT MANAGERS

The Municipality shall be permitted to employ investment managers to:

- (a) advise it on its investments; and / or
- (b) manage specific investments on its behalf.

Appointment of an investment manager shall be made in accordance with the Municipality's Supply Chain Management Policy.

All investments made by an investment manager on behalf of the Municipality must be in accordance of this policy and with National Treasury regulations.

If an investee pays any fee or commission to an investment manager in respect of the Municipality's investments, both the investee and the investment manager must declare such payment to the Municipality by way of a certificate disclosing full details of the payment.

Investment managers found guilty of non-compliance with this policy, or the National Treasury investment regulations, shall be held liable for any loss or penalty suffered by the Municipality.

17. ACCOUNTING FOR INVESTMENTS

The Municipality's investments shall be accounted for in accordance with the Municipality's approved accounting policies and will be treated either as available-for-sale financial assets (AFSFA) or held-to-maturity (HTM) investments.

Current and non-current investments, as well as cash and cash equivalents, are stated at cost as available-for-sale financial assets (AFSFS). Held-to-

maturity (HTM) investments are investments purposely held until maturity and must be quoted on the financial markets, i.e. JSE.

18. ANNUAL REVIEW OF POLICY

This policy will be reviewed regularly or when so required by changes to legislation. Any changes to this policy must be adopted by Council and be consistent with the Act and any National Treasury regulations.

19. CONCLUSION

The Municipal Manager, in particular, and the Chief Financial Officer must ensure that the operationalisation of this policy is done according to the prescripts. Any deviations due to unforeseen circumstances must be brought to the attention of the Municipal Council in a written form together with the recommended remedial solutions thereof.

20. EFFECTIVE DATE

The effective date of this policy shall be 1 July 2015.