

LEKWA-TEEMANE LOCAL MUNICIPALITY



INVESTMENT OF SURPLUS FUNDS POLICY 2025/26

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1. DEFINITIONS

In terms of Government Gazette R301 dated 1 April 2005 all definitions as applied in this regard will be as stated in the Municipal Finance Management Act, 2003 (Act 56 of 2003) ("MFMA").

Unless otherwise stated the following definitions shall mean:

"Accounting Officer" or "municipal manager" means the person appointed by the Council as Municipal Manager in terms of section 82 of the Municipal Structures Act, 1998 (Act 117 of 1998) and as defined in the MFMA, including any person acting in that position or to whom authority is delegated;

"Act" means the Local Government Municipal Finance Management Act, 2003 (Act 56 of 2003)

"Accounting principles" means the guidelines to be observed

"Acquisition" means acquiring goods and services through procurement policies

"Agent" means professional bodies appointed to execute a specific task on behalf of the municipality

"Assignee" means a person with a delegated authority

"Bank" means an institution recognized by register of bank

"Cash" means monies such as bank notes, coins or cash equivalents

"Chief financial officer" means a responsible official for financial affairs of the municipality

"Constitution of the Republic of South Africa, 1996: "means the supreme law of South Africa

"Cash management" means efficient and effective management of funds

"Delegated authority" means any person/persons committee delegated with the authority to act for on behalf of municipality

"Diversification of investments" means investing in more, or more than one type of financial instruments

"Investment ethics" means ethical framework within which investment must take place
Liquidity means the ease with which financial instrument can be converted to cash or cash equivalents

“Municipality” means the agent of the central government at local level

“Ownership” means all investment must be made in the name of municipality

“Short-term investments” means a financial instrument with a lifespan or maturity of less than 1 year

“Long term” means financial instrument with a lifespan or maturity of greater than a year

“investee” An institution with which an investment is placed

“investment manager” A natural person or legal entity that is a portfolio manager registered in terms of the Stock Exchange Control Act, Act 1 of 1985 and the Financial Markets Control Act, Act 55 of 1989, contracted by the municipality to –

- advise it on investments; - manage investments on its behalf; or - advise it on investment and manage investments on its behalf.

“public-private partnership” A commercial transaction between the municipality and a private party.

“trust money” Money held in trust on behalf of third parties in a trust contemplated in terms of section 12 of the act.

2. INTRODUCTION AND PURPOSE

2.1 In terms of section 13(2) of the MFMA, a municipality must establish an appropriate and effective cash management and investments policy in accordance with any framework that may be described in terms of subsection (1).

2.2 To enable the council and its chief financial officer as trustees of public funds to exercise their obligation to ensure that cash resources are managed in the most efficient and effective manner possible.

2.3 To institute an investment committee to be responsible and accountable to the community to exercise due care in the investment of public funds.

2.4 To lay down broad investment parameters for use by those responsible for the placing of investments.

2.5 To have instituted a policy geared to obtain the best return without risk within periods for which funds are not required.

2.6 To provide for an effective cash flow management programme.

3. RESPONSIBILITY / ACCOUNTABILITY

According to the Municipal Finance Management Act, Act 2000, section 60, the municipal manager is the accounting officer of the municipality. However, he/she may delegate certain duties/tasks to designated officials, who would be accountable to him. The municipal manager is therefore accountable for all transactions entered into by his/her designates. One of the main functions of the municipal manager is that of adequate and effective cash management.

The chief financial officer is ultimately responsible for the investment of funds in accordance with the recommendations from the investment committee.

4. OBJECTIVES OF THE POLICY

The objectives of this policy, with due regard to the provisions of the regulations, are:

- the objective of the investment policy is to gain the highest possible return, without unnecessary risk, during periods when excess funds are not being used.
- the need of investment diversification;
- to specify minimum acceptable credit rating for investments including: o a list of approved investment types; o a list of approved institutions;
- guidelines for the invitation and selection of competitive bids or offers in accordance with part 1 of chapter 11 of the act for investments in excess of six (6) months or the appointment of an investment's manager;
- measures for ensuring implementation of the policy and internal controls over investments made;
- guidelines for reporting on and monitoring of all investments made, subject to regulation 9;
- guidelines for benchmarking and performance evaluation;
- the assignment of roles and functions, including any delegation of decision-making powers; and
- to provide for the necessity of the annual review of the policy.

5. LEGISLATIVE COMPLIANCE

The legislative framework governing investment decisions are:

5.1 Local Government Municipal Finance Management Act, Act 56 of 2003

(a) Section 8(2)(d)

“all income received by a municipality on its investments must be paid into a municipality's primary bank account”.

(b) Section 13(1) to (4)

- the National Treasury may prescribe a framework within which municipalities must conduct their cash management and investments and invest money not immediately required.
- the municipality must establish an appropriate and effective cash management and investment policy in accordance with such framework.
- Bank where a municipality holds at the end of a financial year a bank account or held a bank account at any time during a financial year, must:

Within thirty (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. - disclose information regarding the account when so requested by the National Treasury or the Auditor General.

- 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 a municipality must:

Within thirty (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.

(c) Section 17(3)(f)

When an annual budget is tabled by the mayor, it must be accompanied by an information statement on the particulars of the municipality's investments.

5.2 Municipal Investment Regulations published under Government Gazette R308 dated 1 April 2005 Read with section 13 and 99(2)(g) of the Local Government: Municipal Finance Management Act, Act No. 56 of 2003 these regulations have been promulgated to regulate municipal investments. Various regulations and provisions have been set out in this section to regulate the investment of surplus cash of a municipality.

6. RESPONSIBILITY/ACCOUNTABILITY

6.1 The Municipal Manager as the Accounting Officer of the Municipality is accountable for investment management.

6.2 The municipal council is responsible for approving a policy directing procedures, processes and systems required to ensure efficient and effective management of investments.

6.3 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) recognizing the time value of money; (d) taking any other action that avoids locking up money unnecessarily and inefficiently; and (e) voiding bank overdrafts.

7. INVESTMENT ETHICS

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

7.1 The municipal manager and chief financial officer 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. 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. A certificate of respect of the gift should be furnished to the council. The gift should not be in lieu of a commission.

The chief financial officer or his/her delegate must act according to their discretion and must report any serious cases of payment in kind or gifts, to the council. Excessive gifts and hospitality should however be avoided.

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

7.4 Investments made by the municipality, or by an investment manager on behalf of the municipality:

must be made with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that person's affairs;

7.5 Investments must be made with primary regard being to the probable safety of the investment, and according to the liquidity needs of the municipality.

8. PERMITTED INVESTMENTS

The municipality may invest funds only in any of the following investment types and institutions:

- 8.1 deposits with banks registered in terms of the Banks Act, Act 94 of 1990;
- 8.2 deposits with the Public Investment Commissioner as contemplated by the Public Investment Commissioners Act, Act 45 of 1984;
- 8.3 banker's acceptance certificates or negotiable certificates of deposits of banks registered in terms of the Banks Act, Act 94 of 1990;
- 8.4 deposits with banks registered in terms of the Banks Act, Act 94 of 1990;
- 8.5 municipal bonds issued by a municipality; and
- 8.6 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. INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES PROHIBITED

The municipality may make an investment only if the investment is denominated in rand currency and is not indexed to, or affected by, fluctuations in the value of the rand against any other currency.

10. PAYMENT OF COMMISSION

No fee, commission or other reward may be paid to a councillor or official of the municipality or to a spouse or close family member of such a councillor or official in respect of any investment made or referred by the municipality.

If an investee pays any fee, commission or other reward, to an investment manager in respect of any investment made by the municipality, both the investment manager and

the investee must declare payment to the council of the municipality by way of a certificate disclosing full details of the payment as per section 6.

11. REPORTING REQUIREMENTS

The accounting officer of the municipality must within ten (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 of the municipality a report describing in accordance with the generally recognized accepted accounting practice (GRAP) the investment portfolio of the municipality as at the end of the month.

The report must set out at least:

- 11.1 the market value of the investment as at the beginning of the reporting period;
- 11.2 any changes to the investment portfolio during the reporting period;
- 11.3 the market value of each investment as at the end of the reporting period: and
- 11.4 fully accrued interest and yield for the reporting period.

12. RATING OF PERMITTED INVESTMENT INSTITUTIONS

The municipality shall rely on the credit rating analysis from external credit rating agencies as submitted by the financial institutions from time to time.

When an investment institution no longer has the minimum acceptable credit rating, all investments when appropriated must be liquidated.

13. PORTFOLIO DIVERSIFICATION

The municipality must take all reasonable and prudent steps, consistent with its investment policy and according to the standard of care prescribed to diversify its investments across institutions, types of investments and investment maturities.

Money, especially large sums of money, must be invested with more than one institution, in order to limit risk exposure of the council. Not more than 80% of the available funds should be placed with a single institution.

As a general principle it must be accepted that the greater the return, the greater the risk.

14. BORROWING AND RE-INVESTMENT

There may not be borrowings for re-investment as this is tantamount to taking a view on interest rate movements and could be construed as speculating with public funds.

15. MATCH THE INVESTMENT TYPE TO THE FUND

Should investments in growth related instruments be considered, only funds which are unlikely to necessitate a forced sale should be used, to ensure that the funds used for the investment are of such nature that the investment can be realized when market conditions are most favourable.

16. REGISTERED FINANCIAL INSTITUTIONS

Investments must only be made in accordance of the regulations as in section 6 of the Government Gazette Notice No. R308 dated 1 April 2005. (Refer Chapter E: Permitted Investments). The municipality must ensure that it places investments only with credit worthy institutions and regularly monitors its investment portfolio.

17. GROWTH-LINKED INVESTMENTS

When legislation permits investments in growth linked instruments, extreme care must be exercised as in most cases market conditions will determine the value of the investment at any given time, and it should be ensured that the return of the capital invested is guaranteed.

18. CASH FLOW ESTIMATES

- 18.1 Before money can be invested, the Municipal Manager must determine whether there will be surplus funds available for the term of the investment.
- 18.2 In order to be able to make investments for any fixed term, it is essential that cash flow estimates can be drawn up.
- 18.3 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.

19. CASH AT BANK

The "overnight" interest rate regularly negotiated with the council's bankers for money kept in the current bank account must continuously be compared to that of call deposits. These rates can be improved by fixed term investments and the overriding principle is that funds in the current account must be kept to the absolute minimum as required by cash flow projections.

20. CONTROL AND REGISTERING OF INVESTMENTS

The CFO must establish and maintain proper internal control structure to ensure the management of investments is protected from loss, theft or misuse. These controls include amongst others:

- 20.1 An investment register should be kept of all investments made. The following facts must be indicated:

- (a) name of institution;
- (b) capital invested;
- (c) date invested;
- (d) interest rate; and
- (e) maturity date

20.2 The investment register and accounting records must be reconciled on an annual basis.

20.3 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 cash flow requirements.

20.4 Interest, correctly calculated, must be received timeously, together with any distributable capital. The chief financial officer or his/her delegate must check that the interest is calculated correctly.

20.5 Investment papers and confirmation must be kept in a secured place.

- (a) investment certificate;
- (b) copy of electronic transfer;
- (c) excel schedule of comparative investment figures and approval of investment committee; and
- (d) interest rate quoted.

20.6 delegation of authority to subordinate officials.

20.7 separation of functions through segregation of duties.

21. INVESTMENT MANAGERS

An investment manager may only be used to facilitate investments if such an appointment has been authorized by the council in terms of its supply chain management policy of the municipality and all conditions of services and fees payable have been disclosed to the council.

22. INVESTMENT LIMITATIONS

22.1 In order to ensure safe investment with the minimum risk exposure, investments are not to be made with financial institutions with ratings lower than A1/F1 as defined in the national rating definitions.

22.2 The principles and procedures set out 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.

23. PROCESS OF INVESTMENT OF FUNDS

23.1 Short term investments

Short term investments are defined as any cash not immediately required for operations which have a maturity date that is less than six (6) months.

The accounting officer is delegated to invest any amount of the short-term funds in terms of the provisions of the investment policy.

The accounting officer may appoint a committee to advise him/her on the liquidity requirements and short-term investments to be made. The advisory committee may consist out of a minimum of three (3) members, namely:

- Chief financial officer or delegate
- Any Manager in Finance Department
- Any director or delegate

Once the investments are approved by the municipal manager on recommendations by the advisory committee, the chief financial officer is delegated to administrate the placement and control of such investments.

Once the investments are approved by the investment committee, the chief financial officer is delegated for the placement and control of such deposits.

Before money can be invested, the chief financial officer or his/her delegate must determine whether there will be surplus funds available during the term of the investment. He/she must fix the term of the investment.

In order to be able to make investments for any fixed term, it is essential that cash flow estimates be drawn up.

When drawing up cash flow estimates, it is essential that the chief financial officer or his/her delegate take note of the following:

- be aware of the expected cash flow and when it is likely to take place, as well as the timing with regard to cash outflow, as far as both the operating and the capital budgets are concerned;
- by utilizing the available information and expertise, the chief financial officer or his/her delegate must assess the timing with regard to when, for how long and the amount to be invested; and
- daily cash flow estimates must provide for daily call investments and investment withdrawals, whereas long-term investments must be based on projections further into the future.

Generally, investments are done every three (3) months when prior investments mature and funds are available for re-investment.

- Quotations must be invited from at least three (3) financial institutions for the term for which the investment is to be placed.
- It is acceptable to obtain telephonic quotations, confirmed by email or facsimile, when placing funds.

- 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.
- Based on the result of the quotations received and the value of the prospective investment, the chief financial officer or his/her authorized designate should make an investment recommendation to the investment committee. The spreadsheet must be filed together with the investment documentation.
- No attempt must be made to make institutions compete with each other as far as their rates and terms are concerned.
- Once the investment committee approves the investment(s) to be made, the necessary EFT requests should be completed and approved by the chief financial officer and be presented for payment to the expenditure section.
- A letter should also be prepared and sent to the respective financial institution indicating the funds that have been invested.
- All investment documents will require two (2) signatories, namely the municipal manager and the chief financial officer or their delegated signatories. Specimen signatures must be signed by all financial institutions that the municipality deals with.
- In considering the investment of funds, intermediaries must not be employed to make investments on behalf of the council.
- Only banks with an A1/F1 or similar rating for safe investment purposes by an independent bank rating institution may be approached for quotations.
- Quotations must only be obtained and investments placed at the capital market sections or the corporate investment divisions of the qualifying banks.
- Investment confirmation letters on must immediately be issued by the related financial institution and be forwarded to the executive director financial services for safekeeping.

23.2 LONG-TERM INVESTMENTS

Long term investments are defined as any cash which is not needed in the short term with a maturity date of greater than six (6) months.

- The placement of any investment in excess of six (6) months 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 certified by the Chief Financial Officer.

- The bid adjudication committee or municipal manager to approve the long-term funds in terms of the provision of the investment policy and municipal supply chain management policy in accordance with the process stipulated in the supply chain management policy.

24. REVIEW

The policy must be reviewed annually to ensure that it complies with changes in legislation and regulations that applies.

25. SHORT TITLE

This policy shall be called the Investment of Surplus Funds Policy of Lekwa Teemane Local Municipality