



**CAPRICORN DISTRICT MUNICIPALITY
CASH AND INVESTMENT POLICY**

Notwithstanding the date of approval, this policy shall remain effective until approved otherwise by Council and may be reviewed on an earlier date as deemed necessary.

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1. Introduction and background

Section 13(1) and (2) of the Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003) 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 has issued municipal investment regulations dated 1st April 2005 (Gazette no. 27431 - see Annexure A.1 attached) which set out a framework within which all municipalities shall conduct their cash management and investments.

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

2. Adoption of Investment Policy

The Municipality 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 investment policy, and with any investment regulations promulgated by national government.

The effective date of this policy, or any amendments thereto, shall be the date of its adoption by Council.

3. Purpose

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

4. 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 –

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

The policy does not apply to trust funds as defined or any other funds received by the municipality for transfer to other entities or institutions, including other municipalities.

This policy shall also apply to all moneys and/or investments held by any bank or institution registered in terms of the bank act, at the effective date of this policy.

5. Objectives

The objectives of the policy are –

- 5.1 to ensure compliance with the relevant legal and statutory requirements relating to cash management and investments.
- 5.2 to ensure the preservation and safety of the Municipality's investments.
- 5.3 To ensure diversification of the Municipality's investment portfolio across acceptable investees, permitted types of investments and investment maturities; and to ensure timeous reporting of the investment portfolio as required by the Act in accordance with recognised accounting practice.
- 5.4 To ensure that the liquidity needs of the Municipality are properly addressed.

6. Standards of ethics, judgment and care

- 6.1 Investments made by or on behalf of the Municipality –
 - 6.1.1 must be made whilst maintaining a strict code of ethics and standards.
 - 6.1.2 must be a genuine investment and not an investment made for speculation.
 - 6.1.3 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.
 - 6.1.4 Must be made without internal or external interference whether such interference comes from individual officials, councillors, agents, investees or any other external body.
- 6.2 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 councillor or official, in respect of any investment made by the Municipality. This shall be confirmed annually by all investees to the Auditor-General.
- 6.3 All investments made by or on behalf of the Municipality must be made in the name of the Municipality.
- 6.4 The Municipality shall take reasonable steps to diversify its investment portfolio across investees, type of investment and investment maturities.
- 6.5 Confidentiality
 - 6.5.1 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 prohibited.
 - 6.5.2 The Municipality's current cash position and its projected future cash flows shall not be discussed with or disclosed to investees.

7. Permitted investments

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

- 7.1 National government securities
- 7.2 Listed corporate bonds with an *investment grade* rating from a nationally or internationally recognized credit rating agency
- 7.3 Deposits with banks registered in terms of the Banks Act, 1990 (Act No.94 of

- 1990)
- 7.4 Deposits with public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No.45 of 1984)
 - 7.5 Deposits with Corporations for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No.46 of 1984)
 - 7.6 Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990
 - 7.7 Guaranteed endowment policies with the intention of establishing a sinking fund
 - 7.8 Repurchase agreements with banks registered in terms of the Banks Act, 1990
 - 7.9 Municipal bonds issued by the municipality
 - 7.10 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.

8. Prohibited investments

The Municipality shall not be permitted to make the following investments:

- 8.1 investments in listed or unlisted shares, or unit trusts.
- 8.2 investments in stand-alone derivative instruments.
- 8.3 investments denominated in, or linked to, foreign currencies.
- 8.4 investments in market linked endowment policies.
- 8.5 The Municipality shall not borrow for the purpose of investing.
- 8.6 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.

9. Internal control over investment function

9.1 Delegations

In terms of section 59 of the Local Government: Municipal Systems Act (no.32 of 2000), Council has delegated to the Chief Financial Officer (CFO) the power, function and duty to make investments on behalf of the Municipality within a policy framework determined by the Minister of Finance, and the investment of surplus funds in terms of Council policy.

9.2 Obtaining quotations and concluding deals

Written mandates, signed by the Chief Financial Officer and his or her delegate, shall be issued to all investees with whom the Municipality invests funds setting out the following:

- Authorised Dealers: names and particulars of the Municipality officials who are authorised to transact investment deals telephonically with the investees.
- Authorised Signatories: names and particulars of the 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.

CFO, or, in his absence, any of the authorised signatories referred to above, shall be authorised to approve the deal.

An Authorisation of Investments Made form shall be prepared each day detailing the terms of each new investment made on that day. This form shall be signed off by the Chief Financial Officer and his or her delegate.

9.3 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 and the payment authoriser/releaser.

Investment EFT payments shall be authorised/released by the CFO or one of the authorised signatories referred to above.

9.4 Control 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.

Investments shall only be made with institutions with a BBB or higher rating investment grade. Investment grade refers to the quality of an institution's credit. To be considered an investment grade issue, the institution must be rated at 'BBB' or higher by Standard and Poor's or Moody's. Anything below this 'BBB' rating is considered non-investment grade. If the company or bond is rated 'BB' or lower it is known as junk grade, in which case the probability that the company will repay its issued debt is deemed to be speculative.

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

Depending on the situation where the bank is having maturity of funds at a particular time, the municipality can either reinvest with the same bank or withdraw the funds.

9.5 Investment maturity extension and Utilisation of call account

Exceptions should be made wherein the Municipality is unable to reinvest or Invest surplus funds due to situations beyond the Municipality's control such as:

Systems being down or the unavailability of signatories to authorise the investments on time.

In such instances the Municipality has an option to request the bank currently in position of the Municipality's investment to either extend the maturity date or place the funds on call account ,which ever places the Municipality in a better position in terms of the return on investments.

10. Portfolio Diversification

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

~~Any investment with a bank will be limited to 50% of the total investments at the time of making the investment.~~

11. Cash management

11.1 Cash collections

The Municipality shall insure that all cash received via the cash offices is collected and banked as early as possible in a controlled and secure manner.

11.2 Payments to suppliers

The number of monthly electronic batch payment runs shall be done in a structured and scheduled manner to facilitate efficient cash flow management.

11.3 Bank current account balance

The balance on the Municipality's primary bank account shall be maintained at the minimum level possible considering daily cash requirements. Surplus cash shall be immediately invested to maximize interest earnings.

11.4 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.

11.5 Cash flow reporting

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

Monthly:

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

11.5.2 An explanation of variances in the above.

11.5.3 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.

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

Annually:

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

12. Investment reporting

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

The following reports shall be prepared:

12.1 for internal Treasury management:

12.1.1 A monthly reconciliation of all interest accrued with interest received.

12.2 for external parties

12.2.1 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.

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

13. Accounting for investments

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

14. 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.

15. Effective date

The effective date of this policy, or any amendments thereto, shall be the date of its adoption by Council.

16. Definitions

“**Act**” means the Local Government Municipal Finance Management Act, (Act No.56 of 2003)

“Investee” means an institution with which an investment is placed or its agent

“Investment Manager” means a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, (Act No.55 of 1989), and Stock Exchange Control Act, (Act No. 1 of 1985), contracted by the municipality.

“Trust money” means money held in trust on behalf of the third parties in a trust contemplated in terms of section 12 of the Act.

“CDM” means Capricorn District Municipality

“NT” means National Treasury

17. Annexure A.1

STAATSKOERANT, 1 APRIL 2005

GOVERNMENT NOTICES

NATIONAL TREASURY

No. R. 308

1 April 2005

LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT 2003 MUNICIPAL INVESTMENT REGULATIONS

The Minister of Finance, acting with the concurrence of the Minister for Provincial and Local Government, has in terms of Section 168, read with Section 13 and 99 (2)(g), of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003), made the regulations as set out in the Schedule.

SCHEDULE

Definitions

1. In these regulations, unless the context indicates otherwise, a word or expression to which a meaning has been assigned in the Act, has the same meaning, and-

“**Act**” means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

“**investee**” means an institution with which an investment is placed, or its agent.

“**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 Stock Exchanges Control Act, 1985 (Act No. 1 of 1985), contracted by a 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.

“**Trust money**” means money held in trust on behalf of third parties in a trust contemplated in terms of Section 12 of the Act.

Application

2. (1) These regulations apply to: -
- (a) all municipalities
 - (b) all municipal entities; and

(c) all investment managers acting on behalf of, or assisting, a municipality or municipal entity in making or managing investments.

(2) These regulations do not apply: -

(a) to a pension or provident fund registered in terms of the Pension Funds Act, 1956 (Act No. 24 of 1956), or any subsequent legislation; or

(b) in respect of trust money administered by a municipality or municipal entity where a trust deed prescribes how the trust money is to be invested.

(3) Municipal pension or provident funds which do not comply with sub regulation

(2) are exempted from these regulations until 30 June 2005.

(4) The accounting officer of a municipality and municipal entity must provide the National Treasury with details of all pension or provident funds that do not comply with sub regulation (2)(a) within 30 days of promulgation of these regulations.

Adoption of Investment Policies

3. (1) The investment policy to be established by a municipality in terms of Section 13(2) of the Act, must be: -

(a) adopted by the Council of the municipality; and

(b) consistent with the Act and these regulations.

(2) The board of Directors of a municipal entity must adopt an investment policy for the entity consistent with the Act and these regulations.

(3) All investments made by a municipality or municipal entity, or by an investment manager on behalf of a municipality or municipal entity, must be in accordance with the investment policy of the municipality or entity and these regulations.

Core elements of Investment Policies

4. The investment policy of a municipality or municipal entity must: -

(a) be in writing.

(b) give effect to these regulations; and

(c) set out: -

(i) the scope of the policy.

(ii) the objectives of the policy, with due regard to the provisions of these regulations relating to: -

(aa) the preservation and safety of investments as the primary aim.

(bb) the need for investment diversification; and

(cc) the liquidity needs of the municipality or municipal entity.

- (iii) a minimum acceptable credit rating for investments, including: -
 - (aa) a list of approved investment types that may be made, subject to regulation 6.
 - (bb) a list of approved institutions where or through which investments may be made, subject to regulation 10.
- (iv) procedures for the invitation and selection of competitive bids or offers in accordance with Part 1 of Chapter 11 of the Act.
- (v) measures for ensuring implementation of the policy and internal control over investments made.
- (vi) procedures for reporting on and monitoring of all investments made, subject to regulation 9.
- (vii) procedures for benchmarking and performance evaluation.
- (viii) the assignment of roles and functions, including any delegation of decision-making powers.
- (ix) if investment managers are to be used, conditions for their use, including their liability in the event of non-compliance with the policy or these regulations; and
- (x) procedures for the annual review of the policy.

Standard of Care to be exercised when making Investments

5. Investments by a municipality or municipal entity, or by an investment manager on behalf of a municipality or entity: -

- (a) 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 own affairs.
- (b) may not be made for speculation but must be a genuine investment; and
- (c) must in the first instance be made with primary regard being to the probable safety of the investment, in the second instance to the liquidity needs of the municipality or municipal entity and lastly to the probable income derived from the investment.

Permitted Investments

6. A municipality or municipal entity may invest funds only in any of the following investment types: -

- (a) securities issued by the national government.

(b) listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency.

(c) deposits with 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 Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984).

(f) banker's 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; and

(j) 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.

Investments denominated in foreign currencies prohibited

7. A municipality or municipal entity may make an investment only 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.

Payment of Commission

8. (1) No fee, commission or other reward may be paid to a Councillor or Official of a municipality or to a director or Official of a municipal entity or to a spouse or close family member of such Councillor, Director or Official in respect of any investment made or referred by a municipality or municipal entity.

(2) If an investee pays any fee, commission or other reward to an investment manager in respect of any investment made by a municipality or municipal entity, both the investee and the investment manager must declare such payment to the Council of the municipality or the board of directors of the municipal entity by way of a certificate disclosing full details of the payment.

Reporting requirements

9. (1) The accounting officer of a municipality or municipal entity must within 10 working days of the end of each month, as part of the Section 71 report required

by the Act, submit to the mayor of the municipality or the board of directors of the municipal entity a report describing in accordance with recognised accounting practice the investment portfolio of that municipality or municipal entity as at the end of the month.

- (2) The report referred to in sub regulation (1) must set out at least: -
- (a) the market value of each investment as at the beginning of the reporting period.
 - (b) any changes to the investment portfolio during the reporting period.
 - (c) the market value of each investment as at the end of the reporting period; and
 - (d) fully accrued interest and yield for the reporting period.

Credit Requirements

10. (1) A municipality or municipal entity must take all reasonable and prudent steps consistent with its investment policy and according to the standard of care set out in regulation 5, to ensure that it places its investments with credit worthy institutions.
- (2) A municipality or municipal entity must: -
- (a) regularly monitor its investment portfolio; and
 - (b) when appropriate liquidate an investment that no longer has the minimum acceptable credit rating as specified in its investment policy.

Portfolio Diversification

11. A municipality or municipal entity must take all reasonable and prudent steps, consistent with its investment policy and according to the standard of care prescribed in regulation 5, to diversify its investment portfolio across institutions, types of investment and investment maturities.

Miscellaneous Provisions

12. (1) The responsibility and risk arising from any investment transaction vests in the relevant municipality or municipal entity.
- (2) All investments made by a municipality or municipal entity must be in the name of that municipality or municipal entity.
- (3) A municipality or municipal entity may not borrow money for the purpose of investment.

Existing Investments

13. Nothing in these regulations compels a municipality or municipal entity to liquidate an investment which existed when these regulations took effect merely because such investment does not comply with a provision of these regulations.

Commencement

14. These regulations take effect on 1 April 2005.

18. Annexure A.2

List of currently approved Investees

A. Deposit taking institutions

ABSA Bank
FirstRand Bank
Investec Bank
Nedbank
Standard Bank

B. Corporate bond issuers

None currently approved.

C. Municipal bond issuers

None currently approved.

D. Endowment policy issuers

Momentum Life.

E. National Government/ Parastatals

RSA fixed income stock.
Eskom fixed income stock