

# **WATERBERG DISTRICT MUNICIPALITY**



*on the Go for Growth*

# **INVESTMENT POLICY**

**Reviewed 28 May 2015**

## WATERBERG DISTRICT MUNICIPALITY APPROVED BY COUNCIL ON 28 MAY 2015

### INVESTMENT POLICY

#### 1. Preamble

Management of cash can be ascribed as the performance of various activities, including the handling, safeguarding and banking of cash, processing and reconciliation of transactions, adhering to procedures and policies, recording and maintaining of information whether manually or electronically, and the prudent investment of cash, consistent with the Investment regulations and council policies, etc.

The purpose of the policy is to ensure that all investments made by WDM or its municipal entity comply with the Investment Regulations issued by National Treasury in terms of the Municipal Finance Management Act No 56 of 2003.

Council needs to ensure that monies not immediately required are investment to obtain fair returns without compromising the safety of the surplus cash invested and liquidity.

#### 2. Objective

The objectives of the policy are as follows

- Ensuring that cash resources are managed effectively and efficiently.
- Ensuring that investments are placed with reputable institutions, for the purpose of capital investments and diversification of the Investment Portfolio.
- Ensuring that adequate liquidity is maintained at all times, for management of cash flows.
- Ensuring that WDM receives optimal interest on its investments with financial institutions, at minimal risk.

#### 3. Scope of Application

This policy is applicable to the Council, Accounting Officer, Chief Financial Officer and employees of WDM who have been delegated the authority by the Accounting Officer to invest the funds of WDM.

This policy will also be applicable to any investment manager who acts on behalf of, or assists WDM or municipal entity in managing its investments.

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## 4. Definitions

|                                                       |   |                                                                                                                                                                                                                                                                                  |
|-------------------------------------------------------|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Accounting Officer                                    | - | Municipal Manager of WDM                                                                                                                                                                                                                                                         |
| Chief Financial Officer                               | - | A person designated in terms of section 80(2)(a) of the MFMA                                                                                                                                                                                                                     |
| Councillor                                            | - | Member of WDM Municipal Council;                                                                                                                                                                                                                                                 |
| Delegation                                            | - | In relation to a duty, includes an instruction or request to perform or to assist in performing the duty;                                                                                                                                                                        |
| Investment                                            | - | In relation to funds of a municipality, means—<br>(a) the placing on deposit of funds of a municipality with a financial institution; or<br>(b) the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds; |
| Investment manager                                    | - | A natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, No 55 of 1989, and Stock Exchanges Control Act, No 1 of 1985, contracted by WDM to:<br>- advise on investments; or<br>- manage investments on its behalf. |
| Investment Regulations                                | - | The Regulations as prescribed under the MFMA through Government Gazette No 27431 dated 1 April 2005                                                                                                                                                                              |
| Liquidity                                             | - | The financial ability of WDM to service its debts when falling due.                                                                                                                                                                                                              |
| Long-term investment                                  | - | Any cash or liquid securities owned by WDM which have a maturity date that is greater than one year.                                                                                                                                                                             |
| MFMA                                                  | - | The Municipal Finance Management Act, No 56 of 2003                                                                                                                                                                                                                              |
| Municipal Manager                                     | - | A person appointed by the Municipality in terms of Section 82 of the Municipal Structures Act, and who is the Head of Administration and also the Accounting Officer for the Municipality.                                                                                       |
| Primary bank account                                  | - | A bank account referred to in section 8(1) of the MFMA;                                                                                                                                                                                                                          |
| Short-term investment                                 | - | Any cash or liquid securities owned by WDM which have a maturity date that is equal to or less than one year.                                                                                                                                                                    |
| Standards of Generally Recognised Accounting Practice | - | —<br>An accounting practice complying with standards applicable to municipalities or municipal entities and issued in terms of Chapter 11 of the Public Finance Management Act;                                                                                                  |
| WDM                                                   | - | Waterberg District Municipality as established in terms of the Municipal Structures Act 117 of 1998.                                                                                                                                                                             |

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## 5. Legislative requirements

In terms of MFMA section 7 (3) A municipality may not open a bank account—

- (a) abroad;
- (b) with an institution not registered as a bank in terms of the Banks Act, 1990 (Act No. 94 of 1990); or
- (c) otherwise than in the name of the municipality.

In terms of MFMA Section 13:

- (1) The Minister, acting with the concurrence of the Cabinet member responsible for local government, may prescribe a framework within which municipalities must—
  - (a) conduct their cash management and investments; and
  - (b) invest money not immediately required.
- (2) A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed in terms of subsection (1).

National Treasury, through Government Gazette No 27431, published Municipal Investment Regulations, which municipalities are required to apply as guidelines when preparing a Cash Management and Investment Policy with effect from 1 April 2005.

In terms of MFMA Circular 55 municipalities are required to ensure that account names on all municipal bank accounts (including the primary bank account) are consistent with the municipal name that was gazetted during its establishment or as amended from time to time. Form A of MFMA Circular 61 is provided for this purpose.

## 6. Authority

In terms of MFMA section 10. (1) The accounting officer of a municipality—

- (a) must administer all the municipality's bank accounts, including a bank account referred to in section 12 or 48(2)(d);
- (b) is accountable to the municipal council for the municipality's bank accounts;
- (2) The accounting officer may delegate the duties referred to in subsection (1)(c) to the municipality's chief financial officer only.

In terms of MFMA section 11. (1) only the accounting officer or the chief financial officer of a municipality, or any other senior financial official of the municipality acting on the written authority of the accounting officer, may withdraw money or authorise the withdrawal of money from any of the municipality's bank accounts, .....(h) for cash management and investment purposes in accordance with section 13;

The delegation to the Chief Financial officer or any other senior financial officials of the municipality will be in terms of Section 79 of the MFMA.

The Municipal Council is vested with the authority to make long-term investments in terms of Section 48 of the MFMA.

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## **7. Standard of care to be exercised**

Investments –

- 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 (yield) derived from the investment.
- d) Investments must be placed with credit-worthy institutions.

## **8. Permitted investments**

The following are permitted 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 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 MFMA, in consultation with the Financial Services Board.

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## **9. Investments denominated in foreign currencies prohibited**

An investment can only be made 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.

## **10. Payment of commission**

- i. No fee, commission or other reward may be paid to a councillor or official or to a spouse or close family member of such councillor or official in respect of any investment made.
- ii. If Council pays any fee, commission or other reward to an investment manager in respect of any investment made, both Council and the investment manager must declare such payment to council by way of a certificate disclosing full details of the payment.

## **11. Procedures for investing funds**

- a) Quotations should be obtained from at least 3 financial institutions for the term for which the investment is placed. In the event of one of the financial institutions offering a more beneficial rate for an alternative term, the other institutions should be invited to quote on the alternative term as well.
- b) Upon maturity of an investment, the bank balance is obtained. Future commitments are determined and any money in excess of R 5 million that is not required immediately should be invested.
- c) Investments should be reinvested within 24 hours after maturing.
- d) Written quotations must be obtained from the list of qualified institutions. Interest rates from one institution may not be disclosed to another institution.
- e) The period of investment should be determined in accordance with the liquidity needs and maturity dates of other investments.
- f) The investments of WDM should be spread over multiple qualified institutions as a method of decreasing exposure risk.
- g) The factors taken into account when deciding on an investment thus is the liquidity needs of WDM ensuring that the investment maturity dates are spread over time, the interest rates of various institutions and the total amount invested with the various qualified institutions.
- h) The quotation sheet must be authorized by the Chief Financial Officer or Municipal Manager or other signatories as authorized by Council.
- i) Once an investment is made a certificate or written confirmation must be obtained from the financial institution.

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## 12. Reporting requirements

12.1 The Municipal Manager must within 10 working days of the end of each month, as part of the section 71 report required by the MFMA Act, submit to the Executive Mayor a report describing in accordance with generally recognized accounting practice the investment portfolio as at the end of the month and this must be submitted to Provincial Treasury on a quarterly basis.

12.2 The report referred to in sub-paragraph 12.1 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) the fully accrued interest and yield for the reporting period.

12.3 A register of investments is to be kept in the Budget & Treasury Office reflecting the following information:

- (a) Date of investment
- (b) Amount of investment
- (c) Institution invested with
- (d) Rate of interest
- (e) Period of investment
- (f) Amount of return/interest
- (g) Maturity Date

This register is to be reconciled monthly by Divisional Manager Budget & Reporting and reported on to the Municipal Manager in terms of above sections 12.1 and 12.2.

12.4 The following reconciliations must be carried out by Divisional Manager Budget & Reporting on a monthly basis and as the investment matures:

- (a) Obtain statements on a monthly basis regarding the investments from the relevant financial institutions;
- (b) Interest must be recalculated so as to ensure that it agrees to the rates per the statements;
- (c) In terms of fluctuating interest rates, the interest must be reviewed to ensure that it is reasonable in comparison to reported returns;
- (d) Interest received must be captured on the financial system and reconciled to the investment register and general ledger;
- (e) The investment register must be updated on a monthly basis; and
- (f) The monthly investment register must be submitted to the Chief Financial Officer by the 20<sup>th</sup> working day of the following month.

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- 12.5 In complying with Section 70(2) of the MFMA, the Chief Financial Officer must report to National/Provincial Treasury and Council whenever the consolidated bank balances shows a net overdrawn balance for a period exceeding 14 working days Form F of MFMA Circular 61 is provided for this purpose.

Such report must provide:

- (a) The amount by which the accounts are overdrawn
- (b) Reasons for the overdrawn accounts, and
- (c) Steps taken or to be taken to correct the situation

- 12.6 In terms of MFMA section 11(4) the Municipal Manager must table a report to council quarterly providing consolidated details of unbudgeted withdrawals, within 30 days after the end of each quarter and a copy submitted to the relevant provincial treasury, National Treasury and the Auditor-General. (Form D of MFMA Circular 61 is provided for this purpose).

- 12.7 Below is the reporting requirement templates as set out in MFMA Circular 61:

| Reporting obligations – Municipal/Municipal Entity Bank Accounts |                                                                                                                    |                                                                      |                                                                                                     |              |
|------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|--------------|
| Action                                                           | Information to report                                                                                              | To whom                                                              | Other                                                                                               | MFMA Section |
| Opening primary account                                          | Name of bank<br>Type of account<br>Account number                                                                  | 1. Auditor-General<br>2. National Treasury<br>3. Provincial Treasury | Must be in writing, original stamp by bank, signed by the AO or CFO<br>(Form A of MFMA Circular 61) | 8 (5)        |
| Changing primary account                                         | Name of bank<br>Type of account<br>Account number                                                                  | 1. Auditor-General<br>2. National Treasury<br>3. Provincial Treasury | Must be in writing, original stamp by bank, signed by the AO or CFO<br>(Form A of MFMA Circular 61) | 8(5);<br>74  |
| Opening "other" account                                          | Name of bank<br>Type of account<br>Account number                                                                  | 1. Auditor-General<br>2. Provincial Treasury<br>3. National Treasury | Must be within 90 days of opening the account and in writing<br>(Form B of MFMA Circular 61)        | 9(a);<br>74  |
| Annually before 01 July each year                                | Listing of all bank accounts (including the primary account):<br>Name of bank<br>Type of account<br>Account number | 1. Auditor-General<br>2. Provincial Treasury<br>3. National Treasury | Must be in writing<br>(Form C of MFMA Circular 61)                                                  | 9(b);<br>74  |
| Annually                                                         | Bank accounts to be disclosed in the municipality's AFS                                                            |                                                                      | Include bank name, account type, purpose, opening and closing balances                              | 125(2)       |

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## 13. Credit requirements

- (1) Council must take all reasonable and prudent steps consistent with its investment policy and according to the standard of care set out in paragraph 7, to ensure that it places its investments with creditworthy institutions.
- (2) Council must -
  - (a) regularly monitor its investment portfolio, and
  - (b) when appropriate liquidate an investment that no longer has the minimum acceptable credit rating.

## 14. Portfolio diversification

Council will take all reasonable and prudent steps to diversify its investment portfolio across institutions, types of investment and investment maturities.

The Chief Financial Officer must ensure that municipal investments are placed equitable amongst the approved financial institutions. No more than 40% of municipal investments must be placed with one institution, **assessed as at the time of making the investment**, and in instances where valid reasons for deviation exist, that must be done with the approval of the Accounting Officer.

## 15. Investment manager/advisor

An investment advisor who is appointed through WDM SCM Policy may be used for investments exceeding R 20 million. However, the institution and type of investments must be approved by Council.

## 16. Miscellaneous provisions

- (1) The responsibility and risk arising from any investment transactions vests in Council.
- (2) All investments made must be in the name of Waterberg District Municipality.
- (3) Council may not borrow money for the purpose of investment.

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## 17. Implementation

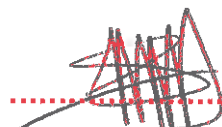
This policy must be implemented by the employees of WDM who have been delegated the authority by the Accounting Officer to invest the funds of WDM and other delegations as stipulated in this policy.

Any employee who breaches this policy shall be liable for disciplinary measures.

Adopted by Council at its meeting held on  
.....2015

per Council Resolution Number .....

Signed at Modimolle on 23 JUNE 2015

  
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Municipal Manager