



**Greater Taung**  
*Local Municipality*

**GREATER TAUNG**

**LOCAL MUNICIPALITY**

**INVESTMENT**

**POLICY**

**30 JUNE 2018**

# **INVESTMENT POLICY**

## **INTRODUCTION**

The Chief Financial Officer in terms of Section 81(1)(c) of the Municipal Finance Management Act no 56 of 2003 and the Municipal Investment Regulations prescribed by the Minister of Finance on 1 April 2005 in Government Gazette No 27431, as the delegated responsible financial official within the Greater Taung Local Municipality, has the responsibility to ensure the timely investment of surplus and dedicated funds for periods that are appropriate. Investments within the Municipality can consist of a number of sources-

- Surplus revenue generated and invested on a basis that is determined by the Municipality's cash flow
- The investment of grant or other types of funding awaiting release to designated beneficiaries
- The investment of project funds made available to or allocated by the Municipality to a particular project and awaiting disbursements
- The investment of monies contained within statutory and other reserve funds. What is important in the investing of funds is that surplus monies should never be allowed to lie idle; however, the primary objective will be based on proper risk analysis before investment is done. The term of investment should never result in monies not being available when required.

## **LEGISLATIVE BASIS FOR INVESTMENT**

Local government in South Africa has undergone a process of transformation, which has been guided by a number of pieces of legislation including the Municipal Structures Act, Act 117 of 1998, and the Municipal Systems Act, Act 33 of 2000, Municipal Finance Management Act, Act 56 of 2003 In terms of Section 13(1) of the Municipal Finance Management Act, 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.

In terms of Section 62(1) of the Municipal Finance Management Act the accounting officer of a municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure-

- (b) that full and proper of the financial affairs of the municipality are kept in accordance with any prescribed norms and standard

In terms of Section (62)(2) of the Municipal Finance Management Act the accounting officer is responsible for and must account for all bank accounts of the municipality. Regulation 1536 which appeared in the Government Gazette of 14 November 1997 specifically requires that the Municipal Manager shall on a quarterly basis provide the Council with a report containing the investment portfolio, including the type of investment, interest rates applicable, the period of investment and a summary of the exposure to particular financial institutions.

In terms of section 60(2) of the Municipal Systems Act, Act 32 of 2000, the Council of a municipality may only delegate to an executive committee or 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. As prescribed in a Municipal Investment Regulation in the Government Gazette No. 27431 the relevant authority shall invest funds which are not required for immediate utilisation in the following investments or instruments:

- (a) Deposits with banks registered in terms of the Bank Act, Act 94 of 1990;
- (b) Securities issued by the National Government;
- (c) Investments with the Public Investment Commissioners as contemplated by the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, Act no 45 of 1984;
- (d) Deposits with the Corporation for Public Deposits as envisaged by the Corporation for Public Deposits Act, Act no 46 of 1984;
- (e) The Municipality's own stock or similar type of debt;- Municipal bonds issued by the municipality
- (f) Bankers acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, Act 94 of 1990;
- (g) Long term securities offered by insurance companies in order to meet the redemption fund requirements of municipalities
- (h) Listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency;
- (i) Repurchase agreements with banks registered in terms of the Banks Act no 94 of 1990;
- (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.

## **INVESTMENT PRINCIPLES**

### **Cash Flow Driven**

Permitted investments as outlined above shall only be made by the relevant authority as determined by the Municipal Systems Act after cognisance has been taken of the municipality's cash flow requirements. In this regard it is imperative that a cash flow projection be developed (for a minimum of six months) and updated on a regular basis to determine the amount and term of surplus funds available for investment.

### **Protection of Capital Invested**

No monies from the municipality shall be invested in any venture capital enterprise that places the capital sum invested at risk. The main purpose for the determination of a list of permitted investments by the legislative authorities to ensure that municipalities are not beguiled by offers of exorbitant returns on investments that place the capital invested at risk. A municipality is the business of rendering services to the communities within its area of jurisdiction hence investment such as the purchase of shares on the Johannesburg Stock Exchange that have an inherent capital risk (the risk of eroding the capital available) are not permitted.

### **Certainty of Return**

Each investment made by the municipality must have a definite rate of return (interest rate) and date of maturity attached to it. Another important aspect to this is the indication, where an investment is made for a period longer than a month, whether interest will be paid monthly or only on maturity of the investment. In the latter case, there is some capitalisation of interest earned; however, the former situation may assist in meeting cash flow requirements.

### **Competitive investments**

Wherever possible, the opportunity must be afforded financial institutions to offer rates of return on prospective investments on a competitive basis. In these instances, quotations must be called from bidding institutions to gauge the rate of return available under the prevailing market conditions. A register of all quotations shall be maintained by the office of the Chief Financial Officer as they are received where after a decision on what quotation will be accepted is made. The accepted quotation as well as all other quotations received for the particular investment must be filed for audit purposes. Where the choice of institution is not in accordance with the most favourable quotations received, the Municipal Manager shall endorse on the most favourable quotation the reason/s for non investment. An endorsement shall also be made in the quotations register indicating which quotation has been accepted for a particular investment.

### **Proof of investment**

The municipality must ensure that written confirmation of each investment made is obtained from the financial institution where the investment has been placed. This normally takes the form of an investment certificate and reflects the financial institution concerned (it will be on their letterhead), the amount invested, the rate of return and other interest related confirmations as well as the term of the investment (the date of maturity). All monies must be invested directly with the relevant financial institution and under no circumstance shall monies be placed in nominee accounts.

### **Capitalisation of Interest Earned**

Interest generated from investments should be allocated/ capitalised to the revenue source from which the investment was generated. In this regard the only interest earned that will be available to defray general operational expenditure is that which was generated from investing surplus cash flow in accordance with the projections developed. Where monies from dedicated funds/ projects funds etc are invested, the interest generated from these investments is to be capitalised to the dedicated fund/ project fund concerned.

### **Limitation of exposure**

The following limitations are to be observed regarding the distribution of investments among the various financial institutions:

- (a) Not more than 25% of available funds at any particular time should be placed with a single financial institution
- (b) The total capital invested by the municipality should not exceed 10% of the relevant institution's shareholders equity (share capital, share premium and distributable reserves).

### **RECORDING AND REPORTING**

All investments made by the relevant authority (Executive Committee, Executive Mayor or Chief Financial Officer shall be recorded in an investments register which is balanced with the control accounts in the general ledger on a monthly basis. Each individual investment must be reflected indicating the following information – the investment account/ reference number; the institution at which the investment has been placed; the amount of the investment and the interest rate applicable; and the interest earned for the month under review (even if such interest has been capitalised). Where the appropriate authority makes an investment of municipal funds for a period of 12 months or longer, the Municipal Manager must, within 30 days from the date of investment, publish in a newspaper circulating in the municipal area the full detail of such investment.

At the end of each financial year, as part of the preparation of the annual financial statements of the Municipality, the Chief Financial Officer obtain a certificate from every institution with which funds are invested, indicating the amount invested and the date of maturity. At the same time it is a requirement that each institution with whom an investment has been placed during the course of the financial year (whether it still holds an investment as at 30 June, the end of the financial year, or not) certifies that no monetary consideration of whatever nature was paid in respect of investments and that no advantage accrued or will accrue to any Councillor or employee, his or her representative or nominee, as a result of the investments made.

In terms of Regulation 1536 which appeared in the Government Gazette of 14 November 1997, the Municipal Manager shall on a quarterly basis provide the Council with a report containing

the investment portfolio as at the end of the month. The investment portfolio must reflect the type of investment held, interest rates applicable to each investment, the tenure of each investment and a summary of the exposure to particular financial institutions. As part of the monthly management report pack, a Schedule of Investments that reflects the requirements of Regulation 1536 has been prepared – it is included as Annexure A. In addition to the mandatory information required by legislation, the schedule provides Council with an indication of the movement in the investment portfolio during the previous month.

It is recommended that investments be grouped either by type (call deposit, 32 day, fixed deposit etc) or in accordance with their reason for existence; e.g. general revenue reserve funds, statutory funds, project funds, grant funds etc. In these regard investments made must be appropriate when the source and purpose are considered (it will not be appropriate to invest project funds on a long term basis when regular disbursement is anticipated throughout the financial year). A total of all investments, per category and as a whole, should be reflected in the schedule. Council should ensure that investments are neither liquidated nor encumbered as security for any purpose other than that for which the investment was intended.

The Accounting Officer must within 10 working days of the end of each month, submit to the Mayor a report describing in accordance with Generally Recognized Accounting Practice the portfolio as at the end of the month.

#### MISCELLANEOUS PROVISIONS

- The responsibility and risk arising from any investment transactions vests in the Accounting Officer and the Chief Financial Officer.
- All investments made by the municipality must be in the name of the Council.
- No money may be borrowed for the purpose of investment.