

THEMBISILE HANI LOCAL MUNICIPALITY



INVESTMENT POLICY
2017/2018

1. Definition

In this cash and investment management policy, unless the context indicated otherwise, a word of expression to which a meaning has been assigned in the local government MFMA act no56 of 2003 and other related legislations/regulations, norms, by-laws, having the same meaning with the act

Accounting officer; is the municipal manager

Act: means the local government MFMA act 56 of 2003 MSMA act 32 2000

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

Accounts means statements of monies received

Assignee means a person with a delegated authority

Bank means an institution recognized by register of bank

Bank accounts are the recognized statement of financial holdings on behalf of the municipality

Cash means monies such as bank notes and coins or cash equivalents

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

Constitution of the republic of South Africa act 108 of 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

2. Introduction

In terms of MFMA section 13(2), 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)

3. Objectives of the policy

The primary and the ultimate goal of the investment of funds is to earn the safety of returns on investment principal, an amount invested whilst managing liquidity requirements and providing

the municipal council in terms of section 48 of the MFMA and with reference to section 11 (1) (h) of the MFMA dealing with cash management, the responsibility to make short investments lies with the municipal manager or chief financial officer or any other senior financial officer authorized by either the municipal manager or chief financial officer/ relevant assignee.

The local government municipal system act of 2000 section 2 (60) (2) states that the municipal council may only delegate to an accounting officer, executive committee or executive mayor or chief financial officer decision 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 MFMA

10. Investments issue pertaining to municipal council approval

In the event that an investment that need to be made, quotation is required from the various financial institutions. In the case scenario of telephonic quotation, the following information is required:

- > The name of the person who gave the quotation
- > The relevant terms and rates
- > Other facts such as if interest is payable on a monthly basis or on a compound basis upon maturation.

Where payments to financial institution in respect of investment are to be effected by cheque,

The following procedures must be observed

The senior accountant must complete a cheque requisition form and submit it to the municipal manager or the chief financial officer together with the supporting quotations

The municipal manager and the chief financial officer must either authorize the requisition or submit it to municipal council for authorization depending on the value of such an investments.

When the municipal manager have authorized the requisition, the chief financial officer or their delegate signatories are required to sign the cheque and submit it to the financial institution concerned.

All investment documents must be signed by two authorized cheque signatories.

The chief financial officer must ensure that a bank, insurance company or other financial institution, which at end of a financial year holds, or at any time during a financial year held, an investment for the municipality must;

Within 30 days after the end of that financial year, inform the Auditor-general, in written form about all investment , including the opening and closing balances of such an investment(s) in that particular financial period.

Promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-general.

Promptly disclose information of any possible or actual change in the investment portfolio that could or will have adverse effect.

- > Any investment locked into a time period with an institution that has a rating that is not acceptable according to Fitch, Naspers or CA-ratings.

13. Permitted investments

The republic of South Africa national minister of finance may identify by regulation in terms of section 168 of the municipal finance management act instrument or investment other than those referred to below in which municipality may invest:

- > Deposit with banks registered in terms of banks act 1990 (act 94 of 1990)
- > Securities issued by the national government
- > Investment with the public investment commissioners as contemplated by the public investment commission act (act no 5 1984)
- > Listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency
- > Deposits with the corporation for public deposits as contemplate by the corporation for public deposits act, 1984(act 46 1984)
- > Banker's accepted certificates or negotiation certificates of deposits of banks registered in terms of the banks act 1990 (act no 94 of 1990)
- > Municipal bonds issued by municipal
- > Guaranteed endowment policies with the intention of establishing a sinking fund
- > Repurchase agreements with banks registered in terms of the banks act 1990(act no 94 1990)

14. Existing investment

Current investments that were not permitted investment at the time of purchase do not have to be liquidated.

15. Investment diversification

The chief financial officer must ensure that available money is not invested with one institution. Investment will be restricted to institution with a minimum credit rating of [AA].

The maximum term for any investment may be 1 year, other than ceded investments.

16. Performance evaluation

Performance of the investment portfolio must be evaluated quarterly. The time weighted yield attributable to the investment portfolio must be calculated each quarter and compared with the prevailing returns available on securities issued by the national government. A report discussing the performance of the investment portfolio must be submitted to the chief financial officer within 10 days of the end of each quarter.

17. Use of independent investment managers

Should the need arise to use an investment manager at any time; one will be appointed using supply chain management and practice.

- Shortfalls within a financial year during which the debt is incurred, in expectation of specific and realistic anticipated income to be received within that financial year or
- Capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocation or long-term debt commitments.

20.5 A MUNICIPALITY

Must pay off short-term debt within a financial year and May not renew or refinance its short terms debt.

20.6 LONG TERM DEBT

A municipality may incur long-term debt for purpose of financing its long-term strategic object, as outlined in the constitution of republic of South Africa act no 108 of 1996 and chapter 7 on the local formation (government)

- To provide democratic and accountable government for local inhabitants
- To ensure the provision of services to inhabitants in a sustainable manner
- To promote social and economic development, which is gear at the general welfare of the local inhabitants?

To promote a safe and healthy environment

To encourage the engagement of communities and community organizations in the manner of local Governance.

21. Conclusion

The municipal manager in particular and chief financial officer must ensure that the operationalization of the policy is done in accordance to the prescripts. Any deviations due to unforeseen circumstances must be brought to the attention of the municipal council in a written form and recommendation remedial solutions thereof.

22. Policy review

The investment policy must be reviewed annually and be tabled to the municipal council for approval.

In an attempt to ensure that the cash resources of the municipality are handled effectively and efficiently, as required by section 13(2) of the Municipal Finance Management Act (Act 56 of 2003), Thembisile Hani Local Municipality hereby approves the Cash Management Policy.

DEFINITION OF THE KEY WORDS

In this policy the following words shall have the meaning assigned as follows:-

1. "Act" means the Local Government: Municipal Finance Management Act no 56 of 2003.
2. "Accounting Officer" refers to the Municipal Manager of the municipality.
3. "Financial Department" refers to the municipal department dealing with the financial affairs of the municipality.
4. "Chief Financial Officer" refers to the head of the Finance Department.
5. "Liquidity" refers to a financial ability of the municipality.
6. "MFMA" refers to the Municipal Finance Management Act, (Act 56 of 2003).
7. "THLM" refers to Thembisile Hani Local Municipality.
8. "Minister" refers to a cabinet member responsible for finance.
9. "Policy" refers to the Cash Management Policy of the municipality.
10. "Municipality" refers to Thembisile Hani Local Municipality.

1. LEGAL COMPLIANCE

In terms of Section 13(2) of the Municipal Finance Management Act (Act no. 56 of 2003), municipalities are required to establish an appropriate and effective Cash Management Policy in accordance with any framework that may be prescribed by the Minister acting with the concurrence of the Cabinet member responsible for local government and consistent with the municipal cash management and investment regulation.

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

2. SCOPE OF THE POLICY

This policy applies to THLM and any municipal entity established under its area of jurisdiction in terms of the Act.

3. OBJECTIVES OF THE POLICY

The objective of the Cash Management Policy of THLM are as follows:

- Ensuring that cash resources are managed efficiently and effectively.
- Ensuring that adequate liquidity is maintained at all times for management or cash flows.
- Ensuring that all moneys due to Council are collected and banked promptly as soon as they are received.
- Ensuring that all payments to creditors are made by the de dates.

4. EFFECTIVE CASH MANAGEMENT

All efforts must be made to ensure that:-

- (i) Collection of Cash/Revenue
- (ii) Payment of Creditors
- (iii) Management of proper cash flows

dates of payments as well as any possible inflow of cash from other sources of finance arranged by the departments themselves.

4(iv) Administration of Banking Accounts

The opening/closing of municipal accounts, deposits/withdrawals into or from the municipal bank accounts signing of cheques/appointment of cheque signatories and signing of other payment documents are the responsibilities of the accounting officer must be delegated in writing to the Chief Financial Officer.

4(v) Petty Cash Procedures

All petty cash procedures relating to the following must be handled in terms of the Petty Cash Policy as determined by the Chief Financial Officer:

- Petty cash limits
- Petty cash custodians per department or directorate.
- Balancing or reconciliation of cash floats
- Petty cash requisitions and authorisations
- Petty cash registers
- Supporting documents etc...

5. REPORTING REQUIREMENTS

In complying with Section 70(2) of the MFMA, the Chief Financial Officer must report to the National Treasury/Provincial Treasury and Council whenever the consolidated bank balances shows a net overdrawn balance for a period exceeding 14 working days (two weeks).

Such reporting must at a minimum provide:-

- The amount by which the accounts are overdrawn,
- Reasons for the overdrawn accounts and
- Steps taken or to be taken to correct the situation.

10. REFERENCES

- Local Government: Municipal Finance Management Act (Act 56 of 2003),
- Local Government: Municipal Systems Act (Act 32 of 2000),
- Municipal Supply Chain Management Policy and
- SALGA and IMFO: Local Government Finance Best Practice Manual.