

**UBUNTU MUNICIPALITY  
INVESTMENT  
MANAGEMENT  
POLICY**

*P* *elsh*

**Finance Management Act** refers to the Local Government: Municipal Finance Management Act, Act 56 of 2003.

**Regulations** refer to the draft Municipal Investment Regulations as published in April 2004 in terms of the Municipal Finance Management Act.

**Structures Act** refers to the Local Government: Municipal Structures Act, Act 117 of 1998, as amended.

**Systems Act** refers to the Local Government: Municipal Systems Act, Act 32 of 2000, as amended.

## **FRAMING AN INVESTMENT POLICY**

### **Legislative Requirement**

In terms of the draft Regulations as published in April 2004, each municipal council shall adopt by resolution an investment policy regarding the investment of its money not immediately required. The investment policy must –

- (a) be written;
- (b) emphasise primarily safety of the principal and liquidity; and
- (c) include –
  - (i) delegation of authority;
  - (ii) details of the scope of the policy;
  - (iii) investment principles and ethics;
  - (iv) a list of approved investments;
  - (v) a list of qualified institutions;
  - (vi) investment diversification;
  - (vii) competitive selection of institutions;
  - (viii) internal control procedures;
  - (ix) reporting and monitoring requirements; and
  - (x) review of the policy.

### **Standard of Care**

Investments must be made with such judgement and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of his or her own affairs, not for speculation, but for investment. The primary regard in making an investment must be the probable safety of the capital; in the second instance due cognisance taken of liquidity needs and finally the probable income to be derived.

Investments of money not immediately required must be governed by the following objectives, in order of priority:

- (a) Preservation and safety of the principle amount invested;
- (b) Liquidity; and
- (c) Yield

The standard of care to be applied therefore prioritises the needs to ensure that the Municipality is not exposed to any capital losses; therefore no investments must be



- (b) Funds allocated for specific reserve funds such as the asset replacement reserve are to be underwritten by an investment to ensure that the funds are available when required; and
- (c) Any other surpluses, generated by the Municipality as part of its normal activities that have not been earmarked for a specific purpose.

The interest earned from the investments undertaken for a specific purpose of project or to underwrite a specific reserve fund accrues to the funding source concerned; in the other two cases any interest earned forms part of operational revenue that can be used to defray operational expenditure.

The investment policy of the Municipality is therefore aimed at getting the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purpose. The effectiveness of the investment policy is dependent on the accuracy of the municipality's cash management programme, which must identify the amounts surplus to the municipality's needs, as well as the time when and period for which such revenues are surplus.

The scope of the investment policy therefore covers all situations where the Municipality has funds available which are not needed immediately and could be invested. Depending on the circumstances some funds could be invested in the long term while others would only be short-term investments. Surplus funds in the current of the Municipality can be invested for short periods (as short as a single day if that is appropriate).

#### **Investment Principles and Ethics**

- o Before an investment decision is made, the Council must consider the Municipality's cash needs. The Municipality must align its investment portfolio with its cash flow requirements. It is unacceptable for the Municipality to have funds tied up in an investment and then have to raise an overdraft in order to effect payment of known expenditure.
- o When funds are kept in current accounts, it is possible to bargain for more beneficial rates with financial institutions with regard to deposits, for instance a call deposit. Fixed deposits have the effect of further increasing these rates of return. The most important factor is that the amount of cash held in the current account/s of the Municipality must be kept to an absolute minimum.
- o The Council of the Municipality will only place investments with locally based financial institutions.
- o Council may at its discretion make use of specialist advisors to provide advice on investments from time to time. Specialist advisors are not entitled to earn commission from the Municipality. Furthermore, specialist advisors may not directly invest funds on behalf of the Council; the administration of all investment transactions is the responsibility of the Chief Financial Officer.



## List of Approved Investments

The Regulations outlined what are described as permitted investments. The following investments, as may be appropriate to the future needs for funds, may be undertaken in accordance with the provisions of the Regulations:

- (a) Securities issued by the National Government;
- (b) Listed corporate bonds with an investment grade rating from an internationally recognised credit rating agency;
- (c) Deposits with banks registered in terms of the Banks Act, Act 94 of 1990;
- (d) Deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, Act 45 of 1984;
- (e) Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, Act 46 of 1984;
- (f) Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, Act 94 of 1990;
- (g) Guaranteed endowment policies entered into with the intention of establishing a sinking fund; and
- (h) Repurchase agreements with banks registered in terms of the Banks Act, Act 94 of 1990.

The Minister of Finance may by notice in the *Government Gazette* determine investments other than those listed in the Regulations in which a municipality may invest, after the suitability of the investment(s) for use by municipalities has been approved by the Financial Services Board.

## List of Qualified Institutions

The list of approved investments reflected above also indicates the nature and type of institutions where municipalities can place surplus funds or funds not immediately required on investment. Notwithstanding the list of permitted investments, the Regulations require that the Municipality take all reasonable and prudent steps, consistent with this investment policy and in accordance with the standard of care stipulated above, to ensure that it places its investments with credit-worthy institutions.

When investments are placed with smaller registered financial institutions, the Chief Financial Officer is responsible to ensure that the Municipality is not exposed to too much risk. The Chief Financial Officer has to ensure that the creditworthiness and the performance of the institution has remained stable, thereby limiting the risk attached to the investment made by the Council of the Municipality within acceptable norms. In order to achieve this objective, the Chief Financial Officer is entitling to information from financial institutions from which the creditworthiness can be



Once the required number of quotations has been obtained, the Chief Financial Officer must review the quotation register and prioritise the quotations received. The Chief Financial Officer is required to review only those quotations as received and no attempt must be made to influence institutions to further compete with each other as far as their rates and terms are concerned. The interest rates quoted by a financial institution for a proposed investment are not to be divulged to competitive institutions.

A recommendation is then prepared for Council to make a decision with regard to the proposed investment; once the decision has been made the institution concerned will be informed. Where the investment decision is not in accordance with the most favourable quotation received, the Chief Financial Officer shall endorse on the most favourable quotation the reason/s for not taking up the investment. An endorsement shall also be made in the quotation register indicating which quotation has been accepted for a particular investment. All quotations received are to be retained and filed for audit purposes.

The Auditor General requires that the financial institution where the investment is placed provide the Municipality with a certificate for each investment. The Chief Financial Officer must ensure that the investment certificate received is a genuine document, issued by the financial institution concerned, and the investment capital must only be paid over to the institution with which it is invested.

#### **Internal Control Procedures**

The Municipality is required to maintain an investments register, reflecting the details of all investments made by the Council of the Municipality – the control and updating of the investment register is the responsibility of the Chief Financial Officer. The investment register must reflect at least the following pertinent information –

- Name of the financial institution where an investment has been placed;
- The capital amount invested;
- The date on which the investment was made;
- The interest rate applicable on the investment;
- The date of maturity of the investment;
- The amount of interest earned on the investment;
- The capital amount received from the financial institution;
- Details of the reinvestment of funds, where applicable; and
- Any other relevant remarks or comments on the investment.

It is the responsibility of the Chief Financial Officer to ensure that the investment register and the accounting records of the Municipality are reconciled on at least a monthly basis.

Interest, corrected calculated, must be received timeously from the financial institution concerned, and together with any capital redeemed, if applicable. The Chief Financial Officer or his/her delegate must ensure that the interest received on investments made is calculated correctly by the financial institution/s concerned.

The investment register must be reviewed by the Chief Financial Officer at least twice every calendar month to determine any investment made by the Municipality that



will accrue to any member of Council or municipal official as a result of investments made by the Municipality.

### **Review of the Policy**

This investment policy must be reviewed when changes in legislation impact on the prescriptions contained within the policy; nevertheless, the investment policy should be reviewed and updated, if required, at least on an annual basis.

### **NOTE:**

1. *It is important to ensure that the application of this discount incentive does not result in a loss in income for the municipality.*
2. *If a discount of utility services is offered by the Municipality it must be reviewed periodically to evaluate the financial and administrative the impact of this incentive in real terms.*
3. *Discounts on utility services should only come into effect after the emerging business is in full operation.*



28/05/2021



29/05/2021