



MANTSOPA LOCAL MUNICIPALITY
FS 196
MANTSOPA MUNICIPALITY
INVESTMENT POLICY

1. INTRODUCTION

- 1.1 As trustee of public funds, the Council has an obligation to see to it that cash resources are managed as effectively and as efficiently as possible.
- 1.2 Council has a responsibility to invest public funds with great care and has to answer to the community in that regard.
- 1.3 The investment policy aims at gaining the highest possible return without undue risk during those periods when funds are not needed. To bring this about, it is essential to have an effective cash flow management program.

2. EFFECTIVE CASH MANAGEMENT

Adequate and efficient cash management is one of the main functions of the Lead Treasurer.

2.1 Cash collections

- 2.1.1 All funds due to the Council must be collected as soon as possible and banked on a daily basis. Cash left in the safe can pose a security risk and could necessitate additional insurance coverage and does not earn any interest. Special deposits for the larger amounts received, must be banked on the same day on which it is received.
- 2.1.2 It is essential that all amounts owing to the Council are levied by way of a debit in the applicable debtors system. A well managed debtors and banking control system is the proper measure for ensuring that funds owed to the Council are timeously received and banked. It is also important to review debt collection performance by comparing funds presently owed to the Council in relation to the total income as well as to the situation in previous financial years, in order to determine whether the debt collection process is deteriorating or improving.

2.2 Payment of Creditors

- 2.2.1 Another aspect of effective cash management will be adequate control over the timing and payment of creditors accounts
- 2.2.2 With the bank costs with regard to cheque payments getting more expensive, it is essential to limit the payment of creditors to one payment

per creditor per month, if possible, and to consider making use of electronic transfer facilities-if these are available-subject to strict control measures.

2.2.3 When considering the time to pay a creditor, proper consideration must be given to the conditions of the credit terms of payment offered. In cases where a cash discount is offered for early settlement, the discount-if the relevant time scale is taken into account-will in most cases be more than any investment benefit that could be got from temporarily investing the funds. If discounts are offered for early settlement, therefore, they must be properly considered and utilised.

2.2.4 Besides this, the normal conditions of credit terms of payment offered by suppliers, must also be considered and utilised to the full by paying on the due date and not earlier.

2.3 Management of Stocks

Cash management must be improved by seeing that adequate stock control is exerted over all goods kept in stock.

2.4 Cash Flow Estimates

2.4.1 Before money can be invested, the Lead Treasurer must determine whether there will be surplus funds available; he/she also has to fix the term for which such money should be invested.

2.4.2 In order to be able to make investments for any fixed term, it is essential that cash flow estimates be drawn up.

2.4.3 When drawing up cash flow estimates, it is essential that the Lead Treasurer be aware of the expected cash flow and when it is to take place, as well as the timing with regard to cash outflow, as far as both the operating and the capital budgets are concerned. By utilising the available information and expertise, the Lead Treasurer must assess the timing with regard to when, for how long and the amount to be invested. Daily cash flow estimates must provide for daily call investments and investment withdrawals, whereas long term investments must be based on projections further into the future.

3. **LEGAL REQUIREMENTS**

- 3.1 The way in which surplus funds and other municipal funds can be invested, is controlled in terms of the various parliamentary laws, regulations and ordinances.
- 3.2 Generally speaking, the municipality is limited in terms of present legislation, to investing funds only with registered deposit-taking institutions such as commercial banks, building societies and merchant banks.

4. **INVESTMENT ETHICS**

The following ethics must apply when dealing with financial institutions and other interested parties.

- 4.1 The Lead Treasurer will be responsible in the final instance for the investment of funds, and he/she has to steer clear of outside interference, regardless of whether such interference comes from individual Councilors, agents or any institution.
- 4.2 Under no circumstances may he/she be susceptible to coercive measures of any description. No member of staff may accept any gift other than something which is so small that it cannot possibly be seen as anything but a sign of goodwill, regardless of whether such gift influences him/her in his/her work or is intended to do so.

The Lead Treasurer must act according to his/her own discretion and should report any serious cases, such as for instance offers of a personal commission or payment in kind, to the Council. Discretion should be the order of the day, and excessive gifts and hospitality should be refused and avoided.

- 4.3 Interest rates offered should never be divulged to another institution.

5. **INVESTMENT PRINCIPLES**

- 5.1 Limit exposure to a single institution:

Money, especially large sums of money, must be invested with more than one institution, in order to limit the risk exposure of the Council. If legislation allows, the Council must try to plan the distribution of its investments to cover more than one investment category.

- 5.2 Risk and Return

It should be accepted as a general principle that the larger the return, the greater the risk will be.

5.3 Borrowing money for reinvestment

The Council will only borrow money for reinvestment purposes in exceptional cases, as this means that interest rates have to be estimated in advance, which can be seen as speculation with public funds.

5.4 Registered Financial Institutions

If he/she invests with financial institutions, the Lead Treasurer must ensure that such institutions are registered in terms of the Deposit-taking Institutions Act 941 of 1990 and that they are approved financial institutions – as approved by the Provincial Government and the Reserve Bank, from time to time.

5.5 Growth-related Investments

When making investments, the Lead Treasurer must ensure that at least the capital amount invested, is safe.

6. **GENERAL INVESTMENT PRACTICE**

6.1 General

After determining whether there is cash available for investment and fixing the maximum term of investment, the Lead Treasurer must consider the way in which the investment is to be made. As rates can vary according to money market perceptions with regard to the term of investment, quotations must be requested telephonically for periods within the limitations of the maximum term – these must be recorded on a schedule.

6.2 Payment of Commission

The Auditor – General requires the financial institution – where an investment is made – to issue a certificate with regard to each investment. The certificate must state that the financial institution has not, nor will not, pay any commission and has not, nor will not, grant any other benefit for obtaining such investment to an agent or go-between, or to any person nominated by such an agent or go-between.

6.3 Reports

Council must be given a quarterly report on all investments

6.4 Cash in the Bank

Where money is kept in current accounts, it would be possible –as well as being an expedient practice – to bargain for more beneficial rates with regard to deposits, for instance call deposits. These rates can be increased by fixed term investments.

The overriding principle must be to limit the cash in the current account to the absolute minimum.

6.5 Creditworthiness

When investments are placed with smaller registered institutions, the Lead Treasurer has to see to it that the municipality is not exposed to too much risk. He / she has to ensure that the creditworthiness and previous performance of the institution are to his/her satisfaction, before investing money with such an institution. The Lead Treasurer is entitled to information from which the creditworthiness of financial institutions can be determined.

This must be obtained and analysed annually.

7. **CALL DEPOSITS AND FIXED DEPOSITS**

7.1 Quotations ought to be solicited from a minimum of three financial institutions, bearing in mind the limits of the term of which it is intended to invest the funds. Should one of the institutions offer a better rate for a term, other than what the municipality had in mind, the other institutions which were approached, should also be asked to fix a rate for that long a term.

7.2 It is acceptable to ask for quotations telephonically, as rates can generally change on a regular daily basis and time is a determining factor when investments are made.

The person responsible for requesting quotations from institutions must record the name of the institution, the name of the person who gave the telephonic quotation and the relevant terms and rates and other facts such as whether the interest is payable on a monthly basis or on a maturation date. Written confirmation of the telephonic quotation accepted, is essential.

- 7.3 Once the required number of quotations have been obtained, a decision must be taken regarding the best terms offered and the institution with which the funds are going to be invested. The best offer must under normal conditions be accepted, with thorough consideration of investment principles. No attempt must be made to make institutions compete with each other as far as their rates and terms are concerned.

If institutions have been asked for a quotation with regard to a specific package, the institutions have to be told to offer their best rate in their quotation. They must also be informed that, once the quotations have been given, no further bargaining or discussions will be entered into in that regard.

- 7.4 The above-mentioned procedure must be followed, regardless of whether the money is to be invested in a fixed deposit or on a call basis.
- 7.5 The Lead Treasurer must make sure that the investment document received is a genuine document, issued by an approved institution, and the investment capital must be paid over only to the institution with which it is to be invested and not to an agent.

8. **OTHER EXTERNAL DEPOSITS**

Other investment possibilities, which are subject to the applicable legislation and are available to the Council, include debentures and other securities of the state as well as other municipalities or statutory bodies in the Republic, instituted under and in terms of any law. With regard to such investments, the principles and practices, as set out above, must apply.

9. **INTERNAL INVESTMENTS**

Depending on the determining legislation, the Council may utilise, amongst others, the following possibilities of internal investment:

The taking up of all, or any part of the securities, issued by the Council, debentures and other securities, provided that applicable contributions are made to the Loan Redemption Fund, with regard to the redemption, on the due date, of each loan. This also includes any investment in any Loan Fund or any Consolidated Investment Fund established by the Council. The principles and practices as set out above will once again apply.

10. **CONTROL OVER INVESTMENTS**

- 10.1 Proper records should be kept of all investments made. At the very least the following facts must be indicated : the institution, the funds, the interest rate and the maturation date.
- 10.2 Interest, correctly calculated, must be received timeously, together with any distributable capital.
- 10.3 Investment documents and certificates must be kept in a fire resistant safe.
- 10.4 The Lead Treasurer is responsible for ensuring that the invested funds are secure and, should there be a measure of risk, that such risk be rated realistically.

11. **DELEGATED POWERS**

The policy should be applied with due observance of the Council's policy with regard to delegated powers.