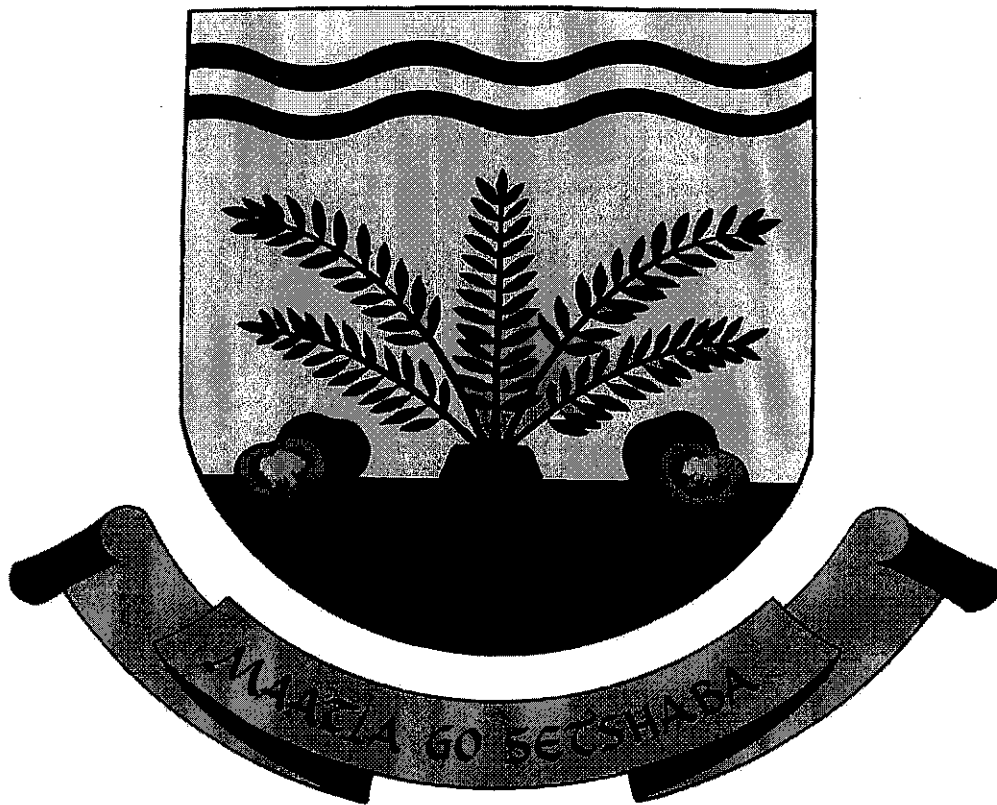


GREATER LETABA MUNICIPALITY



FUNDING AND RESERVES POLICY

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GREATER LETABA MUNICIPALITY
PRINCIPLES AND POLICY ON INVESTMENT OF FUNDS

1. INTRODUCTION AND PURPOSE

- 1.1 As custodians of public funds, Council has an obligation to see to it that cash resources are managed in an effective and responsible manner. Council has a responsibility to invest public funds with great care and are liable to the community in that regard.
- 1.2 This policy has been compiled in accordance with the Local Government: Municipal Finance Management Act (MFMA), Act no 56 of 2003 and the Investment and PPP Regulations for the MFMA published in Government Gazette 27431 dated 1 April 2005. Where this policy is contrary to other legislation, such legislation will override this policy. It is an explicit responsibility of the Municipal Manager to bring such conflicts immediately to the attention of the Council once he/ she becomes aware of such conflicts and to propose changes to this Policy to eliminate such conflicts.
- 1.3 The primary aim of the investment policy should be the preservation and safety of the investments. To bring this about, it is essential to have an effective cash flow management program.
- 1.4 In order to ensure that the Municipality receives the best return on surplus funds all such funds not required to fund operations or capital projects should be invested in interest bearing investment products that will yield higher returns on investment as that of the Municipality's current bank accounts.
- 1.5 The purpose of this policy is to ensure that investment of surplus funds forms part of the financial management procedures of the Greater Letaba Municipality and to ensure that prudent investment procedures are applied consistently.

2 DELEGATION OF AUTHORITY

- 2.1 This policy should be applied with due observance of the Municipality's policy regarding delegation of Authority. Such delegations refer to delegations between the Municipal Manager and other responsible officials as well as between the Council and the Executive Committee and the Council and the Municipal Manager.
- 2.2 All delegations in terms of this policy must be recorded in writing.
- 2.3 According to the Municipal Finance Management Act, the Municipal Manager is the Accounting Officer of the Municipality and therefore all designated officials are accountable to him/her. The Municipal Manager is therefore accountable for all transactions entered into by his/her designates.
- 2.4 The overall responsibility of investments lies with the Municipal Manager. However, the day to day handling of cash resources and investments should be the responsibility of the Chief Financial Officer or his/her delegate.
- 2.5 All investment documents will require two signatories, namely the Municipal Manager and the Chief Financial Officer or their delegated signatories. In this regard, specimen signatures must be signed with all financial institutions with which the Municipality deals.

3 EFFECTIVE CASH MANAGEMENT AND CONTROL OVER INVESTMENTS

3.1 Investment of Surplus Cash

- 3.1.1 Before any money can be invested, the Chief Financial Officer, or his/her delegate, has to determine whether there are surplus funds available that can be invested to yield better returns than leaving such funds on the Municipality's current account.
- 3.1.2 The Chief Financial Officer must submit a detailed report regarding the investing of surplus cash resources and submit it to the Municipal Manager for approval.
- 3.1.3 The Municipality may only invest surplus funds at registered financial institutions or asset managers.
- 3.1.4 The term of investment should also be investigated in relation to projected future cash outflows.
- 3.1.5 Prior to making investments for any fixed term, it is essential that cash flow estimates be compiled for at least the next twelve months.
- 3.1.6 When compiling monthly cash flow estimates it is essential that the Chief Financial Officer is aware of all expected cash flow and when it is to take place, as well as the timing with regard to cash outflows as far as both the operational and the capital budgets are concerned.
- 3.1.7 By utilising the available information and expertise, the Chief Financial Officer can assess the timing with regard to the applicable investment policy accordingly. Daily cash flow estimates will provide for daily call investments and investment withdrawals, whereas long-term investments need to be based on projections further into the future.
- 3.1.8 Council must approve by separate resolution the investment of surplus cash funds.

3.2 Withdrawal of investments

- 3.2.1 Investments may only be withdrawn before such investments reach the investment maturity date if such withdrawal is approved by Council. Detailed reasons together with substantiating documentation must support the request to withdraw such investments.

- 3.2.2 The Chief Financial Officer must ensure that investments that are withdrawn or paid back when they reach the maturity date are deposited into the Municipality's current bank account or new investment account on the same date that the investments are withdrawn.

3.3 Investment control and reporting

- 3.3.1 Investments must be controlled through a detailed investment register that is maintained and updated on a monthly basis and reconciled to external confirmations and the relevant investment and interest general ledger accounts

- 3.3.2 The following information and detail must inter alia be documented and form part of the investment register:

- General ledger account number;
- Name of financial institution;
- Investment account number;
- Type of investment (short or long-term);
- Interest rate;
- Opening balance;
- Interest earned;
- Additional deposit made / withdrawn;
- Closing balance.

- 3.3.3 The investment register together with supporting documentation must be reviewed on a monthly basis for completeness and accuracy

- 3.3.4 The Chief Financial Officer must report to the Municipal Manager on the stance of the Municipality's investment portfolio

- 3.3.5 The Municipal Manager must report to the Council's Finance Committee on the stance of the Municipality's investment portfolio.

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- 3.3.6 Investments must be disclosed in the quarterly and annual financial statements in the format as required by General Recognised Accounting Practice (GRAP).
 - 3.3.7 Original investment certificates or contracts must be kept in a fireproof lockable safe and the Chief Financial Officer is responsible for the safekeeping of such documents;
 - 3.3.8 The monthly reviewed investment register together with supporting documentation must be filed in the month-end audit file by the Manager: Budget and Reporting.

4. LEGAL REQUIREMENTS

- 4.1 The way in which surplus funds and other monies of the Municipality can be invested, is regulated in terms of the Municipal Finance Management Act, and the National Framework to be determined by the Minister of Finance with the concurrence of the Cabinet member responsible for Local Government.
- 4.2 The Municipal Finance Management Act requires the Municipality to establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed by the Minister, with the concurrence of the Cabinet member responsible for Local Government.
- 4.3 A financial institution, insurance company or other asset management institution which, at the 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, notify the Auditor-General, in writing, of that investment, including the opening and closing balances of that investment, in that financial year; and
 - Promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General.

5 INVESTMENT ETHICS

The following ethics apply when dealing with financial institutions and asset management entities:

- 5.1 The Municipal Manager and in the final instance the Chief Financial Officer is responsible for the investment of funds.
- 5.2 They should therefore be independent and should not let any undue influence or bias affect their objectivity, regardless of whether such influence or bias comes from individual Councillors, agents or any institution.
- 5.3 Under no circumstances may he / she be held susceptible to coercive measures of any description.
- 5.4 No member of staff may accept any gift other than something that is so small that it cannot possibly be seen as anything but a sign of goodwill, regardless of whether such gift influences him or her in his or her work or is intended to do so regarding the investment of surplus funds at an institution.
- 5.5 The Chief Financial Officer or his / her delegate must act according to their own discretion and should report any serious cases, i.e. offers of a personal commission or payment in kind, or any incident that seems to influence them to act in contraventions of this policy, to the Council.
- 5.6 Interest rates offered should never be divulged to another institution.

6. INVESTMENT PRINCIPLES

6.1 Limited Exposure to a Single Institution

6.1.1 Large sums of money must be invested with more than one institution in order to limit the risk exposure of the Municipality. Not more than 50% of the available funds should be placed with a single institution where such funds amounts to R 2 000 000 or more. In this case, it should be noted that a group of financial institutions would be treated as individual institutions.

6.1.2 Where legislation allows, the Municipality must try to plan the distribution of its investments to cover more than one investment category.

6.2 Risk and Return

6.2.1 It should be accepted as general principle that the larger the return, the greater the risk will be. Investments may not be undertaken with a view to speculation and must be governed by the following investment objectives, in order of priority:

- Preservation and safety of principal;
- Liquidity; and
- Return on investment.

6.3 Borrowing Money for Reinvestment

6.3.1 The Municipality shall not borrow any money for investment purposes as this is considered as speculation with public funds. Furthermore, investments should not be made where Council is utilising an overdraft facility unless in accordance with applicable legislation.

6.4 Employees and Councillors Benefiting from Investments

6.4.1 No employee or Councillor of the Municipality or their family may under any circumstances whatsoever on his or her own behalf or on behalf of any other person whether directly or indirectly, stipulate, claim or receive any consideration of whatever nature in connection with an investment made.

6.5 Reporting Requirements

6.5.1 There shall at all times be transparency and accountability in respect of every investment made and of the Municipality's investment portfolio. In this regard, the Municipal Manager must within 10 days of the end of each month, as part of the section 71 report required by the MFMA, submit to the Executive Committee a report describing in accordance with generally recognised accounting practise the investment portfolio of the municipality as at the end of the month. The report must set out at least:-

- The market value of each investment as at the beginning of the reporting period;
- Additions and changes to the investment portfolio during the reporting period;
- The market value of each investment as at the end of the reporting period; and
- Fully accrued interest or yield for the reporting period.

7 GENERAL INVESTMENT PRACTICE

7.1 General Principles

- 7.1.1 After determining whether cash is available for investment and fixing the maximum term of investment, the Chief Financial Officer has to consider the way in which the investment is to be made. Because rates can vary according to money market perceptions with regard to the term of investment, quotations for fixed deposits should be requested telephonically for a period within the limitations of the maximum term.
- 7.1.2 All telephonic quotations must be recorded on a schedule and the accepted quotation must be confirmed in writing before the actual investment is made. The same procedure must be followed before any re-investment is made with the same institution.
- 7.1.3 Where a fixed deposit is made at an institution at a lower rate than other quotations, reasons must be recorded by the Chief Financial Officer and reported to Council's Finance Committee as part of the monthly financial report by the Chief Financial Officer.

7.2 Payment of Commission

- 7.2.1 The financial institution where a fixed deposit is made must issue a certificate with regard to each investment when the investment is made, in which it states that the financial institution has not or will not pay any commission and has not or will not grant any other benefit for obtaining such investment to any employee or Councillor of the Municipality or their family or an agent or go-between, or to any person nominated by such agent or go-between, except where the Council has decided to appoint a go-between/ agent/ consultant and the fee/ commission has been decided and approved by the Council before any investment is made.
- 7.2.2 In the case of long-term securities at insurance companies or asset managers any payment of fees/ commission to any go-between/ agent/ consultant must be clearly stated on the application form and approved by Council before any investment is made.

7.3 Registered Financial Institutions

7.3.1 The Municipality may only invest in the following instruments or investments:-

- Securities issued by the National Government;
- Listed corporate bonds with an investment grading rating from a nationally or internationally recognized credit rating agency;
- Deposits with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);
- Deposits with the Public Investment Corporation as contemplated by the Public Investment Commissioners Act, 1984 (Act No 45 of 1984);
- Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No 46 of 1984);
- Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);
- Guaranteed endowment policies with the intention of establishing a sinking fund in order to meet the redemption fund requirements of the Municipality;
- Repurchase agreements with banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990);
- Municipal bonds issued by the Municipality;
- 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; and
- Any other instruments or investments in which the Municipality was under a law permitted to invest before the commencement of this policy, provided that such investments shall not extend beyond the date of maturity or redemption thereof.

7.3.2 An investment may 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.

7.4 Advertisements

- 7.4.1 To ensure transparency the Municipality must within 30 days after an investment with currency of 12 months or longer has been made; publish in a local newspaper in circulation within its area of jurisdiction full details of any investments so made.

7.5 Growth Related Investments and Long-Term Investments

The long-term investments relate to investments that are for a period more than 12 months.

- 7.5.1 Only the Council can approve such investments or the disposal thereof. The institution with which the investment is made must guarantee at least the capital portion of long-term investments.
- 7.5.2 Any fees payable to a broker, agent, or consultant must be clearly stated on the application form and approved by Council before any investment is made.
- 7.5.3 The approval of the investment, the disposal and the fees payable must be in the form of a Council resolution.
- 7.5.4 The resolution upon which the acquisition or disposal is made should not be older than 12 months from the date of the adoption. If the resolution by Council is older than 12 months, then a new resolution must be sought by the Council.

7.6 Credit Worthiness

- 7.6.1 Council must utilize the national (ZAF) credit rating to evaluate the credit worthiness of financial institutions. Investments may be placed within the following criteria (excluding daily call deposits with the Municipality's banker):-
- A1 (Short-term): R10 000 000 (Ten Million Rand) per financial institution.
 - A2 (Short-term): R 2 000 000 (One Million Rand) per financial institution.
- 7.6.2 Council must liquidate any investment that is held at an institution, which no longer has a minimum acceptable rating as specified in this investment policy.

8. ALL DEPOSITS AND FIXED DEPOSITS SHORTER THAN 12 MONTHS

- 8.1 Quotations must be solicited from a minimum of three financial institutions, bearing in mind the limits of the term for which it is intended to invest the funds. It is acceptable to ask for quotations telephonically, as rates can generally change regularly on a daily basis and time is a determining factor when investments are made.
- 8.2 Should one of the institutions offer a better rate for a term, other than what the Municipality had in mind, the other institutions that were approached should also be asked to quote a rate for the same term.
- 8.3 The person responsible (Chief Financial Officer or delegated official) for requesting quotations from institutions should 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 maturity date. Written confirmation of the telephonic quotation accepted is essential.
- 8.4 Once the required number of quotations has been obtained, a decision has to be taken regarding the best terms offered and the institution with which the funds are going to be invested.
- 8.5 No attempts should 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 institution has to be told to offer their best rate in their quotation and that, once the quotation has been given, no further bargaining or discussions would be entered into in that regard.
- 8.6 The abovementioned procedure should be followed regardless of whether the money is to be invested in a fixed deposit or on a call basis. It is essential to make sure that the investment document received is an original document, issued by the approved institution. The investment capital should be paid over only to the institution with which it is to be invested, and not to an agent.
- 8.7 The above procedures are not applicable to daily call deposits held with the Municipality's banker. However, the Chief Financial Officer should always ensure that the Municipality is receiving the best possible interest rates offered by the financial institution for this type of investment.

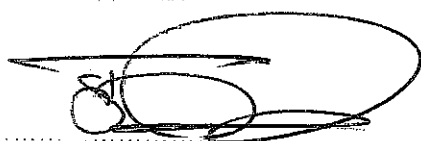
8.8 The Director; Finance should seek professional advice whenever there is a degree of uncertainty regarding investment opportunities that he/ she evaluate.

8.9 Council must approve the investment or withdrawal of surplus funds invested in short-term investments.

9 IMPLEMENTATION AND REVIEW OF THIS POLICY

- 9.1.1 This policy shall be implemented once approved by Council. All future investments must be made in accordance with this policy.
- 9.1.2 In terms of section 17(1) (e) of the MFMA this policy must be reviewed on annual basis and the reviewed policy tabled to Council for approval as part of the budget process.

**Municipal Manager
Mr Sewape MO**

A handwritten signature in black ink, consisting of a large, stylized 'S' followed by a horizontal line and a small circle.