

EMNAMBITHI/LADYSMITH

INVESTMENT POLICY

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1. Purpose

The purpose of this policy is to establish investment guidelines for the Emnambithi/Ladysmith Municipality. This policy is intended to meet the requirements of the Municipal Finance Management Act (MFMA) and to be consistent with the 'Municipal Investment Regulations' issued by National Treasury.

This policy is to be adopted by the Emnambithi/Ladysmith Council.

2. Scope

This policy is applicable to all available cash for the Emnambithi/Ladysmith Municipality.

All investments made by or for the Emnambithi/Ladysmith Municipality must be made in conformance with this policy.

3. Objectives

The objectives of this policy are to provide guidance and direction for the investment of cash within the municipality. Specifically, priorities are established that will direct those concerned in making investment decisions. The priorities of this policy, in their order of importance, are preservation of the investments principle, diversification of investments, liquidity of investments, and lastly income from investments.

The first and foremost priority of any investment made in accordance with this policy is the preservation and safety of that investments principle amount. The preservation and safety of investments is this policies primary aim. The municipality will not assume unreasonable investment risk to obtain current investment income.

A secondary, but related, priority contained within this policy is the need for investment diversification. Diversity of investments across institutions, types of investments, and investment maturities is to be considered to allow the municipality to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.

The liquidity needs of the municipality must be given due consideration when making investment decisions for the municipality. The municipality's investment portfolio must remain sufficiently liquid to enable the municipality to meet all operating, capital, and debt service requirements that might be reasonably anticipated. The need for liquidity will be tempered to the extent that the municipality is able to utilize short-term borrowing to meet its cash flow requirements as allowed within the MFMA.

Only after the safety, diversity, and liquidity priorities of the municipal investment have been addressed will income from the investment be a decision making factor.

4. Investment Maturities

To the extent possible, the municipality will attempt to match its investments to anticipated cash flow requirements. Unless matched to a specific cash flow, the municipality will not directly invest in securities with maturities greater than twelve months. With approval of the Executive Committee, the municipality may invest in securities maturing in not more than three years if the investment is related to a specific cash flow or a particular capital project.

The municipality recognizes that unnecessary liquidity may adversely affect the return earned on its investment portfolio. At the same time, the municipality will maintain access to the short-term market as a liquidity buffer in order to meet unanticipated cash requirements. However, if the rate spread between short-term borrowing and portfolio yield is significant, sale of securities to meet liquidity needs is preferable.

5. Standard of Care for Investments

The standard of care to be exercised when making any investment in accordance with this policy shall be made with such judgment and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs.

No investment is to be made for speculation but only for investment purposes and no funds may be borrowed at any time to be used for investment.

All investments must be made in Rand and no investment may be in a foreign currency or in any way indexed or affected by fluctuations in the Rand.

All investments must be made in the investment types and within the limits as specified within this policy.

Care must be taken that investments are all investments are made in credit worthy institutions, consistent with this policy and based on the priorities set out in this policy.

Investments must be made directly with the permissible institution and not with third parties operating on behalf of the institution. An investment certification will be obtained for each investment.

Any investment of the municipality must be liquidated if it no longer has the minimum acceptable rating as specified in this policy.

6. Investment Limitations

The specific investment types are only those allowable in terms of the Gazetted Investment Regulations which are summarised below.

Investment Type

- a) Securities Issued by the National Government

- b) Listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency

- c) deposits with banks registered in terms of the Bank Act, 1990

- d) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984

- e) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984

- f) banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990

- g) guaranteed endowment policies with the intention of establishing a sinking fund

- h) repurchase agreements with banks registered in terms of the Banks Act, 1990

- i) municipal bonds issued by a municipality

Portfolio Diversification

Within the standard of care in Section 6 all care must be taken to diversify the investment portfolio across institutions, types of investment and investment maturities.

Not more than 10% of the Municipality's operating budget in regard of operational funds may be made with any one investment entity at any given time. This excludes investments matched to identified projects.

7. Competitive Selection

The Accounting Officer shall obtain written quotes before purchasing an investment. The Accounting Officer shall select the quote which provides the highest rate of return within the maturity required and within the perimeters of this policy.

8. Cash Management

The Accounting Officer will maximize the municipality's investment income by monitoring cash balances. Excess cash balances will be invested.

Where necessary, excess cash may be put 'at call' within the discretion of the Accounting Officer as long as the investment is for a period of less than 31 days and is for an amount equal or less than 10 Million Rand.

9. Reporting Requirements

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 investment portfolio at the end of that month just ended.

The report on the portfolio will set out the beginning market value of each investment, all portfolio changes for the month being reported, the ending market value of each investment for the period, and the fully accrued interest or yield for the reporting period.

In addition the report will outline the percentage of total municipal cash that was invested and the total investment and income by maturity group (as listed in section 6).

10. Miscellaneous

No commission or other reward may be paid to an official or councilor of a municipality or to a spouse or close family member in respect of any investment made or referred by a municipality .

If the municipality pays any commission or other reward to an investment manager in respect to any investment it makes, both the municipality and the investment manager must declare such payment to the council of the municipality by way of a certificate disclosing full details of the payment.

This policy is to be reviewed annually by the Accounting Officer and any recommended changes to this policy are to be submitted to the council for consideration.

11. Authority and Control

The Accounting Officer is responsible for ensuring that this policy is implemented and enforced. The Accounting Officer may delegate any authority and duty assigned to him within this policy by delegating it in writing and in conformance with requirements of the MFMA.

The Accounting Officer will develop and implement procedures for the benchmarking and evaluation of the performance of this policy to meet the objectives as stated within this policy .