

## INVESTMENT POLICY

Item A-F (20a-2012)  
CM 31/05/2012

**FINANCE DEPARTMENT: REVIEWED INTEGRATED  
DEVELOPMENT PLAN (IDP) AND MEDIUM TERM  
REVENUE AND EXPENDITURE FRAMEWORK (MTREF):  
2012/2013 TO 2014/2015**

### RESOLVED:

6. **That** to guide the implementation of the municipality's annual budget, the Council of the Ekurhuleni Metropolitan Municipality **APPROVES** the policies as set out in the following Annexure of this document:

- Annexure M** Property Rates Policy (as reviewed)
- Annexure N** Electricity Tariff Policy (as reviewed)
- Annexure O** Provision of Free Basic Electricity Policy (as reviewed)
- Annexure P** Water and Wastewater Tariff Policy (as reviewed)
- Annexure Q** Provision of Free Basic Water and Wastewater Policy (as reviewed)
- Annexure R** Solid Waste Tariff Policy (as reviewed)
- Annexure S** Credit Control & Debt Collection Policy (as reviewed)
- Annexure T** Indigent Policy (as reviewed)
- Annexure U** Policy on electricity metering for residential and small business customers in the Ekurhuleni Metropolitan Municipality (as reviewed)
- Annexure V** Planning and Approval of Capital Projects (as reviewed)
- Annexure W** Long Term Funding Policy (as reviewed)
- Annexure X** Cash Management Policy (as reviewed)
- Annexure Y** Investment Policy (as reviewed)
- Annexure Z** Funding and Reserves Policy (as reviewed)
- Annexure ZA** Grants in Aid Policy (as reviewed)
- Annexure ZB** Asset Accounting Policy (as reviewed)
- Annexure ZC** Uniform Cell Phone Policy (as reviewed)

## CONTENTS

<b>1. APPLICATION AND SCOPE .....</b>	<b>2</b>
<b>2. OBJECTIVE OF POLICY .....</b>	<b>2</b>
<b>3. LEGISLATIVE FRAMEWORK .....</b>	<b>2</b>
3.1 PERMITTED INVESTMENTS .....	2
3.2 INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES .....	3
<b>4. DEFINITIONS .....</b>	<b>3</b>
<b>5. PURPOSE AND OBJECTIVES OF INVESTMENTS .....</b>	<b>3</b>
5.1 PRESERVATION AND SAFETY OF INVESTMENTS .....	3
5.2 INVESTMENT DIVERSIFICATION .....	3
5.3 LIQUIDITY .....	3
5.4 RETURN ON INVESTMENTS .....	4
<b>6. STANDARDS OF CARE .....</b>	<b>4</b>
6.1 PRUDENCE .....	4
6.2 ETHICS AND CONFLICTS OF INTEREST .....	4
6.3 PAYMENT OF COMMISSION .....	4
<b>7. DELEGATION OF AUTHORITY .....</b>	<b>4</b>
<b>8. RATING of Financial Institutions .....</b>	<b>5</b>
<b>9. AUTHORISED INVESTMENTS .....</b>	<b>5</b>
<b>10. INVESTMENT LIMITATIONS .....</b>	<b>5</b>
10.1 GENERAL INVESTMENT PRACTICE .....	5
10.2 TOTAL EXPOSURE .....	6
<b>11. INVESTMENT MANAGERS .....</b>	<b>6</b>
<b>12. THE PROCESS OF INVESTMENT OF FUNDS .....</b>	<b>6</b>
<b>13. SAFEKEEPING AND CUSTODY .....</b>	<b>6</b>
<b>14. REPORTING .....</b>	<b>7</b>
<b>15. POLICY REVIEW .....</b>	<b>7</b>

# INVESTMENT POLICY

## 1. APPLICATION AND SCOPE

The Investment Policy is applicable to the Ekurhuleni Metropolitan Municipality as well as to all of the municipal entities of the Metro, being:

- ▶ Brakpan Bus Company
- ▶ East Rand Water Care Company
- ▶ Ekurhuleni Development Company, including Pharos Park, Phase Two and
- ▶ Lethabong Housing Institute

The policy, **as amended**, will be effective as from 1 July 2012.

## 2. OBJECTIVE OF POLICY

The objective of the policy is to ensure that all investments made by the Ekurhuleni Metropolitan Municipality (“EMM”) comply with the Investment Regulations issued by National Treasury in terms of the Municipal Finance Management Act. This Policy, as far as practically applicable, must be consistent with the Supply Chain Management Policy.

## 3. LEGISLATIVE FRAMEWORK

The legislative framework governing investment decisions are:

- ▶ Local Government Municipal Systems Act 32 of 2000 (as amended)
- ▶ Municipal Finance Management Act 56 of 2003
- ▶ Municipal Investment Regulations published under Government Gazette 27431 on 1 April 2005.
- ▶ Municipal Supply Chain Management Regulations published under Government Gazette 27636 on 30 May 2005.

### 3.1 PERMITTED INVESTMENTS

The following are permitted investments in terms of the Government Gazette No. 27431:

- “6. *A municipality or municipal entity may invest funds only in any of the following investment types -*
- (a) securities issued by the national government;*
  - (b) listed corporate bonds with an Investment grade rating from a nationally or internationally recognised credit rating agency;*
  - (c) deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);*
  - (d) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984);*
  - (e) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);*

- (f) *bankers 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; and*
- (j) *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.”*

### 3.2 INVESTMENTS DENOMINATED IN FOREIGN CURRENCIES

EMM may make an investment only 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.

## 4. DEFINITIONS

**“Short-term investments”** are defined as:

“Any cash or liquid securities owned by the EMM which have a maturity date, and/or callable date reasonably expected to be exercised, that is equal to or less than one year.”

**:Long-term investments”** are defined as:

“Any cash or liquid securities owned by EMM which have a maturity date, and/or callable date reasonably expected to be exercised, that is greater than one year.”

## 5. PURPOSE AND OBJECTIVES OF INVESTMENTS

### 5.1 PRESERVATION AND SAFETY OF INVESTMENTS

The probable safety of the investment must in the first instance be considered when making investments. Preservation of capital is accomplished through placement of funds with creditworthy institutions and through portfolio diversification.

### 5.2 INVESTMENT DIVERSIFICATION

Diversification is required to minimize potential losses on individual securities and to maximize the yield from a blend of financial products.

### 5.3 LIQUIDITY

The investment portfolio shall remain sufficiently liquid to meet all reasonably anticipated operating requirements.

## 5.4 RETURN ON INVESTMENTS

The investment portfolio shall be designed with the objective of attaining a maximum rate of return subject to the investment risk constraints and liquidity requirements of EMM.

## 6. STANDARDS OF CARE

### 6.1 PRUDENCE

The City Manager, in accordance with this policy, must exercise due diligence in carrying out the investment function. The EMM has a responsibility to invest public Finance funds with great care and is accountable to the community in this regard. 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 that person's own affairs. Investments may not be for speculation but must be genuine investments.

### 6.2 ETHICS AND CONFLICTS OF INTEREST

Officials responsible for the investment of funds must steer clear of outside interference, regardless of whether such interference comes from individual Councillors, agents or any other institution. The ethical standards as contained in the Municipal Supply Chain Management Policy are “**mutatis mutandis**” applicable to investment activities. Interest rates offered should never be divulged to another institution.

### 6.3 PAYMENT OF COMMISSION

No commission or other award may be paid to an official or councillor of EMM or to a spouse or close family in respect of any investment made or referred by EMM. If an investee pays any commission or other reward to an external investment manager appointed by the EMM in respect of any investment made by EMM, both the investee and the investment manager must declare such payment to the council by way of a certificate disclosing full details of the payment.

## 7. DELEGATION OF AUTHORITY

Authority to manage EMM's investment portfolio is delegated as follows:

- The Chief Financial Officer to invest any amount (after taking due cognisance of the liquidity requirements of EMM) of the short-term funds in terms of the provisions of the investment policy
- The Bid Adjudication Committee or City Manager to approve the investment of long-term funds in terms of the provisions of the Investment Policy and Municipal Supply Chain Management Regulations in accordance with the process as stipulated in the Supply Chain Management Policy.

## 8. RATING of Financial Institutions

EMM shall rely on the credit analysis of the financial institutions as obtained from external Credit Rating Agencies as appointed by Council from time to time. The City Manager shall be made aware of real or potential problems related to credit or credit rating issues and their impact on the investment portfolio by the recognised Credit Rating Agencies, as this information becomes available.

## 9. AUTHORISED INVESTMENTS

All investments must be in the name of the EMM or one of the municipal entities.

## 10. INVESTMENT LIMITATIONS

### 10.1 GENERAL INVESTMENT PRACTICE

#### 10.1.1 Short-term investments

In order to obtain the greatest security for EMM's funds, short-term investments are not to be made with financial institutions with ratings lower than A1 /F1 as defined in the National Rating Definitions. EMM's exposure to any one financial institution, for short-term investments, is limited as follows:

- A1+ / F1+ Short Term Rating: 5% of institution's total equity as published from time to time in the Banking Sector Credit Ratings Report;
- A1 / F1 Short Term Rating: 4% of institution's total equity as published from time to time in the Banking Sector Credit Ratings Report;

#### 10.1.2. Long-term investments not to be treated in terms of MFMA section 33 or section 46 in the investments process

Although long-term investments are regarded as "competitive bids" and must be treated in accordance with the Supply Chain Management Policy, in as far as allowing fair competition among the financial institutions / investing institutions / fund managers that meet the predefined criteria. Investing in permitted investments, in terms of the municipal investment regulation 6 and clause 3.1 of this policy; represents prudent financial management that ensures fund preservation and building cash reserves in the name of the municipality / entity to yield better return while ensuring that there will be sufficient cash liquidity for the municipality to meet its commitments when due and service delivery objectives as a primary premises. Therefore funds investment should be viewed as creating cash diversification for the municipality and not as creating expenditure or obligation as such. In conclusion; the MFMA section 33 or section 46 is not applicable in the investments process.

## 10.2 TOTAL EXPOSURE

EMM's total exposure for short and long-term investments to any Financial Institution/ Investment / Fund Managers must be limited to 7% of the institution's total equity as published from time to time in the Banking Sector Credit Ratings Report.

## 11. INVESTMENT MANAGERS

Investment or Asset Fund Managers may be appointed to assist with the placing of investments, or to manage a portion of the investment portfolio in order to maximize interest earned without jeopardizing liquidity. The appointment of these service providers must be done in accordance with the Supply Chain Management Policy. The conditions for their use including their liability in the event of non-compliance with this policy must be included in the bidding documentation specifying mandates that minimize risk and place the institutions on equal footing.

## 12. THE PROCESS OF INVESTMENT OF FUNDS

The process of investment of funds must in the first instance be made with the primary regard being to the probable safety of the investment in the second instance to the liquidity needs of EMM and lastly to the probable income derived from the investment. The investment of funds must be dealt with in accordance with the procedure for the calling of quotations and competitive bids as detailed in the Supply Chain Management Policy.

## 13. SAFEKEEPING AND CUSTODY

The Chief Financial Officer shall establish and maintain an internal control structure designed to ensure the assets of the Metro are protected from loss, theft, or misuse. The controls will be to prevent losses of public funds from fraud, employee errors, misrepresentation by third parties, or imprudent actions by employees and officers of EMM. The controls will include, among others:

- Control of collusion
- Separation of functions
- Separation of transaction authority from accounting and record-keeping
- Custodial safekeeping
- Clear delegation of authority to subordinate staff members
- Specific limitations regarding security losses and remedial action
- Supervisory control of employee actions
- Minimising the number of authorised investment officials
- Effective data management and reporting system for investment activities
- Documentation of transactions and strategies.

## 14. REPORTING

The Municipal Manager must, within 10 working days after the end of each month, submit to the Executive Mayor a report describing, in accordance with generally recognised accounting practice, the investment portfolio as at the end of the month. The above-mentioned report must set out the following:

- the market value of each investment as at the beginning of the reporting period;
- any 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.

A bank, insurance company or other Investment / Fund Managers which at the end of a financial year holds, or at any time during a financial year held, an investment for EMM, 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.

## 15. POLICY REVIEW

This policy will be reviewed annually by the Chief Financial Officer to ensure congruence with changing needs, technology, evolving regulatory standards with the MFMA, Investment regulations, and private sector best practices. The process to be followed for the annual revision of the policy will be via the committee system of Council as part of the annual Budget Process.

