Item A-F (17-2023) CM 26/05/2021	MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) FOR 2023/24 TO 2025/26 AND THE REVISED 2022/2023 TO 2026/27 INTEGRATED DEVELOPMENT PLAN (IDP)

Resolved:

4. To guide the implementation of the municipality's annual budget, the Council of the City of Ekurhuleni **APPROVES** the amended policies and By-laws as contained in **Annexure E**.

POLICIES

Annexure E1 Medium-term Budget Statement Policy (Reviewed)
Annexure E2 Pricing Policy Statement (Reviewed)
Annexure E3 Property Rates Policy (Reviewed)
Annexure E4.1 Provision of Free Basic Electricity Policy (Reviewed)
Annexure E4.2 Provision of free Basic Water supply services (Reviewed)
Annexure E5 Waste Management Tariff Policy (Reviewed)
Annexure E6 Consumer Deposit Policy (Reviewed)
Annexure E7 Indigent Support Policy (Reviewed)
Annexure E8 Credit Control & Debt Collection Policy (Reviewed)
Annexure E9 Provision for Doubtful Debtor and Debtor Write-Off Policy (Reviewed)
Annexure E10 Budget Implementation and Monitoring Policy (Reviewed)
Annexure E11 Municipal Entity Financial Support Policy (Reviewed)
Annexure E12 Accounting Policy (Reviewed)
Annexure E13 Electricity Metering for Residential and business Customers (Reviewed)
Annexure E14 Policy for the vending of pre-paid electricity (Reviewed)
Annexure E15 Policy for Estimation and Correction of Energy or Demand Meter Reading and Billing Data (Reviewed)
Annexure E16 Electricity Tariff policy (Reviewed)
Annexure E17 Virements Policy (Reviewed)
Annexure E18 Consumer Agreement (Reviewed)
Annexure E19 Supply Chain Management Policy (Reviewed)
Annexure E20 Treasury Policy (Reviewed)
Annexure E21 Funds Transfer Policy (Reviewed)
Annexure E22 Assets Management Policy (Reviewed)
Annexure E23 Cost Containment Policy (Reviewed)
Annexure E24 Policy for the wheeling of Electricity Ekurhuleni (Reviewed)
Annexure E25 Policy for Embedded generation (Reviewed)
Annexure E26 Ekurhuleni Community Enterprise Development Fund Policy (Reviewed)
Annexure E27 Long Term Financial Strategy 2020/21-2029/30 (Reviewed)
Annexure E28 Expanded Public Works Programme Policy (Reviewed)

CONTENTS

CHAPTER 1

INTRODUCTION

In terms of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (“MFMA”), the City of Ekurhuleni Metropolitan Municipality (CoE) needs to have a budget and treasury office. CoE’s treasury office (Treasury) serves as internal banker of CoE and municipal owned entities (MOEs) and is, in general terms, responsible for cash management and borrowing. A policy has to be implemented to streamline and harmonise the activities and functions of Treasury. The areas of responsibility covered by Treasury, amongst others, include financial risk management, cash management, investments, financing, hedging, settlements, accounting and reporting.

This policy does not cover the functions of accounts receivable, accounts payable, financial accounting and reporting relating to the core operations of CoE. The purpose of this policy is to provide a comprehensive set of policy directives and guidelines to regulate Treasury and related activities of COE. In addition, it is also designed to provide an easy reference for any new staff member in Treasury and interested parties.

It is necessary that the contents of this policy be fully understood by all personnel in Treasury and all stakeholders. The awareness of controls and the extent to which they are interdependent is as important as their documentation.

For the purpose of asset-liability and financial risk management, Treasury, as instructed or when the need arises, reports to:

- The Asset and Liability Management Committee (“ALCO”);
- The Audit Committee;
- The section 79 Committee;
- The Mayoral Committee; and
- COE Council.

TREASURY PURPOSES AND MISSION

The following statements have been adopted by Treasury and support the overall mission statement of CoE:

VISION

To provide effective and efficient financial services to CoE to ensure that its strategic objectives are met.

PURPOSE

To ensure prudent debt, cash management and financial risk management resulting in reduced borrowing at the most cost effective rate within the financial markets and regulatory framework in which CoE operates.

MISSION

Treasury shall achieve its objective by:

- Providing a cost effective and efficient service to all the relevant stakeholders.
- Striving to realise the highest possible investment returns for CoE, while at the same time aiming to ultimately eliminate its CAPEX backlog.
- Continuously monitoring and managing CoE's debt profile.
- Improve the debt profile of CoE to reduce the overall cost of borrowing.
- Keeping abreast with the latest available and applicable technology for the delivering of services.
- Continuously disseminating relevant, transparent and accurate information timeously to stakeholders.
- Marketing services internally and externally within the local government sector.
- Maintaining and continually improving staff, skills and expertise.

1.2 TREASURY POLICY STATEMENT

The Council, authorised personnel from Municipal Owned Entities, senior management of CoE together with Treasury staff have committed to this policy, which details a strategy and process of financial risk management that complies with relevant legislation, regulations and policies.

Effective financial risk management is imperative to any organisation. The realisation of CoE's business strategy depends on Treasury being able to take calculated financial risks within CoE's risk tolerance. Sound management of financial risk will enable CoE to anticipate and respond to changes in the market environment, as well as make informed decisions under conditions of uncertainty.

It is expected that financial risk management processes shall become embedded in the business systems and processes, so that the responses to risk remain current and dynamic.

Every employee within Treasury has a part to play in this important endeavour and is obliged to perform his/her duties within the parameters set by this policy.

1.3 ROLE AND RESPONSIBILITY OF TREASURY

The objective of this section is to lay down the framework, which drives CoE's specific approach to its financial risk management and treasury activities.

The section is critical in shaping the overall environment for financial risk management and provides reference points against which future refinements and enhancements to Treasury can be measured. It is of paramount importance to note that financial risk management must be seen against the background of the King II Report (to be updated with King III) on Corporate Governance. The decisions taken by Treasury are merely a way of transacting investment, funding and hedging decisions in the financial market place and in accordance with the provisions of the MFMA. The role of Treasury is to provide liquidity to CoE and its MOEs by sourcing the most efficient financial instruments at the best price and to administer and account for such instruments within the bounds of this policy. It is important that Treasury personnel have the skills to support CoE's on-going financial risk management activities and to ensure that these are carried out in the best interests of CoE.

CoE's financial risk management activities can add value and provide the means by which stakeholders' requirements are met. Treasury may execute specific strategies when the Asset and Liability Committee (ALCO) has approved its recommendations, as and when required, given the market conditions and provided the required approvals have been obtained.

Treasury activities of CoE and MOEs shall be centralized.

Treasury comprises of 4 core sections as outlined below

TREASURY ARCHITECTURE

FRONT OFFICE	MIDDLE OFFICE	BACK OFFICE	INVESTOR RELATIONS
Market Interface	Risk Identification	Settlements	Stakeholder Communication Strategy
Execution	Valuations	Reconciliations	Reputational Risk
Structuring	Risk Measurement	Accounting	
	Risk & Cashflow Analysis	Reporting	
	Risk Monitoring	Bank Account Administration	
	Risk Reporting	Loans Administration	
	Compliance		
	Training & Risk Awareness		
	Development of Risk Strategies		

1.4.1.1 FRONT OFFICE

A. DEFINITION

The front office in municipal environment is different from that of normal banking or fund management office. Our area where the execution of trading and funding activities are performed is headed up by Head of the division, dealing and comprises of the capital market, money market and strategic dealing desks.

The driver of this process is:

1. The surplus cash because of daily cash flow analysis and monitoring of income inflows and expenditure outflows.
2. The overall strategic funding policy that would drive the CoE to meet targets and to accumulate cash for future projects and funding requirements,

B. ROLES

Market Interface
This involves relationship management with both counterparties and institutional investors to support cash management, funding and hedging activities. This would include regular funding report back sessions and road shows to market participants.

Management - Head of Division
Execution – money market
The money market dealer transacts all vanilla (ordinary) money market products and instruments with a view of enhancing the returns on surplus cash and managing the money market investment portfolio.

Execution – capital market
The capital market dealer transacts all vanilla fixed income products and instruments with an objective of optimizing all long-term borrowings.

Execution – strategic dealer
The strategic dealer performs all valuations and pricing on both vanilla and structured products to establish their viability, as well as managing CoE's hedge book. The strategic dealer also compiles the CAPEX funding plan in conjunction with CoE's Budget Office.

1.4.1.2 MIDDLE OFFICE

A. DEFINITION

The middle office is the area where Treasury's financial risk management and compliance activities are performed.

B. ROLES

Risk identification
This involves the acknowledgement of all the Treasury financial risks that CoE could potentially be exposed to give the nature of its operations and objectives.

Valuations and risk measurement
Independent valuation of all transactions that shall be used for financial risk management and accounting processes shall be conducted. This will also include scenario analysis on all the positions to quantify CoE's financial risk exposure.

Risk and cash flow analysis
This involves the creation and maintenance of financial risk and economic databases that are used to provide context within which financial risk limits are set and exposures taken are evaluated. Provision of consolidated cash-flow financial risk management analysis will also be performed.

Risk monitoring
Financial risk exposures across CoE are evaluated against financial risk limits and exceptions are reported upon.

Risk reporting
This involves systematic design and generation of financial risk reports that present financial risk exposures, limits and performance data in a format that allows for ease of analysis.

Compliance
This entails the provision of assurance on compliance with legislation and policies.
Training on risk awareness
Financial risk awareness interventions and the provision of education on financial risk will take place.

Development of Risk Strategies
This involves the development of strategies to mitigate potential risks.

1.4.1.3 BACK OFFICE

A. DEFINITION

The back-office acts as a general support unit within Treasury.

B. ROLES

Settlements and confirmations
This involves the independent settlement of transactions that were executed in the front office and the settlement and drafting of loans relating to CAPEX to MOEs.

Reconciliations
This involves daily reconciliations of dealing activities, including reconciliation of the bank account against transactions executed.

Accounting and reporting
This involves the posting of positions, valuations and accruals arising out of settled transactions and all the other accounting activities for Treasury.

Reporting
Bank account administration
Administration of bank accounts externally and internally.

1.4.1.4 INVESTOR RELATIONS

A. DEFINITION

The Investor Relations unit seeks to market the Treasury division as a plausible vehicle in managing the finances of CoE. It seeks to market the Treasury as the engine room from where CoE's finances are managed in accordance with prevailing guiding statutes. This entails creating relationships with the investor community to the extent that they think of CoE as their priority when needing to diversify their portfolios, be it in the short- or long-term horizon. Through focusing on pro-active, continuous, and transparent communication, the investor relations unit strives for market leadership in the local government arena.

B. ROLES

The Investor Relations unit is active over a large segment of CoE's value chain, and in collaboration with the Communications and Marketing department, the unit is constantly looking for ways to add value beyond media relations. It entails such communication as changes in financial, credit ratings and overall policies of CoE including changes to senior Treasury management.
We seek to develop a channel through which investors can contact as a point of departure for any investment needs within CoE and provide a service that has a specific added value for our customers, in enhancing CoE's mandate of delivering services to the local communities it services. This frequently involves close joint development efforts from all stakeholders.
From an investor relations perspective, this unit aims to safeguard the business of the Treasury through sound communication strategies and aims to maintain a strong investor focus that eliminates and/or minimizes CoE's reputational risks. This vision, links, is tied to and compliments the overall Marketing Strategy of CoE and City events. The Investor Relations unit, therefore, serves as the mouthpiece for all Treasury communication that is released to both the investor community and the public domain.

1.5 REVIEW AND APPROVAL OF POLICY

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.

CHAPTER 2

2 PRINCIPLES

The following statements of principle provide a framework underpinning CoE's approach to financial risk management. It serves as points of reference for the further development of Treasury's functions and activities and indicates CoE's understanding of the broader aims and purposes of treasury management.

CoE needs to manage the risks for the following reasons:

- Strategic considerations such as the protection of vulnerable business units, financial and other assets of CoE.
- To assist CoE in achieving its budgeted income and expenditure levels.
- The maintenance of sound liquidity levels such that optimal returns on surplus cash are realised and interest on borrowings are minimised.
- Ensuring that CoE's investment grade rating is maintained or improved by ensuring that accounting ratios fall within required limits.
- To identify continuity risk within strategic business units (knowledge sharing & skills transfer).
- To ensure sustainable financial viability of CoE by avoiding the occurrence of unnecessary/uncontrolled losses that could arise because of exposure in the financial markets. Adverse fluctuations if not properly controlled, could weaken the overall financial position of CoE.
- To protect the financial position of CoE.
- To assist the Metro's MOE's and departments in identifying various financial risk elements which fall out of CoE's risk parameters and devising appropriate control measures.

2.1 GENERAL PRINCIPLES

2.1.1 CoE will comply with corporate governance guidelines in line with the requirements of applicable legislation as practiced in South Africa.

2.1.2 Treasury will act as internal central banker for the departments and municipal owned entities through the issue of notional loans and deposits at market related rates.

2.1.3 CoE will engage in financial market activities through its centralized treasury division.

2.1.4 Treasury will act as the principal borrower and investor for CoE's and its municipal owned entities' overall funding requirements to ensure that the most favourable terms, conditions and rates are obtained. This is also done to ensure that all the borrowings are centralised and that CoE's primary debt management is maintained.

2.1.5 Where necessary, CoE will provide securities or guarantees for the municipal owned entities' operational requirements, e.g. leases of premises.

2.2 FINANCIAL RISK MANAGEMENT PRINCIPLES

2.2.1 The financial risk management of CoE shall be subject to relevant legislation and policies.

2.2.2 The financial risk management activities must ensure a consistent approach to financial risk management to support business objectives and activities.

2.2.3 Before undertaking any activities, Treasury must ensure that all financial risks are identified for financial risk management and reporting.

2.2.4 CoE's financial risk management activities shall add value and provide a means by which the stakeholders' requirements are met.

2.2.5 CoE's financial risk management system and process must be robust in respect of financial risk and financial market activities".

2.2.6 CoE has financial market exposure on both its assets and liabilities and these risks shall be managed jointly, considering the impact of adverse movements in financial market prices on net income.

2.2.7 CoE has financial market exposure on both its assets and liabilities and these risks shall be managed jointly, considering the impact of adverse movements in financial market prices on net income.

2.2.8 Treasury is responsible for monitoring all financial markets risk to which CoE may be exposed, identifying opportunities for natural set-off or risks and managing the resultant net exposure in the most cost-effective manner.

2.2.9 Hedging activities shall only be undertaken by Treasury in accordance with the provisions of relevant legislation.

2.2.10 Implemented financial risk management strategies should ensure robust outcomes, so that a high degree of certainty regarding their outcome is achieved across a wide spectrum of possible rate and price movements, thereby eliminating undue adverse risks, while taking appropriate account of relevant short- and long-term costs. To achieve the above CoE believes that an acceptable low-cost risk approach shall be adopted, and that Treasury should therefore operate as a cost centre and not a profit centre.

2.2.11 Treasury should have performance measures for all its financial activities and such criteria must be linked to both external benchmarks e.g. market rates as well as internal benchmarks such as the budget and net income.

2.2.12 Treasury should act responsibly and remain aware of on-going market developments to ensure that it continues to develop in a manner that provides clearly identifiable benefits to CoE over the long term.

2.2.13 Treasury shall only transact business with approved counterparties, either directly or by making use of brokers/intermediaries who can add value to CoE's business without increasing the associated risk.

2.2.14 CoE should treat counterparties fairly and apply high ethical standards in a competitive environment.

CHAPTER 3

3 POLICIES

There are various financial risks facing an organization, on a regular basis, which necessitate vigilance and precautionary measures. These include liquidity risk, interest rate risk and credit risk, of which liquidity risk is the most critical for CoE. These financial risks are managed within the principles laid down by CoE and the specific policies addressing each of the financial risks.

The Treasury Policy consists of the following policies:

- Liquidity Risk and Cash Management Policy
- Funding Policy
- Investment Policy
- Interest Rate Risk Policy
- Credit Risk Policy
- New Instruments Policy
- Foreign Exchange Risk Policy
- Inflation Risk Policy
- Treasury Back Office Policy
- Dealing Policies
- Information Risk Management Policy
- Asset-backed Finance Policy
- Procurement Policy
- Ring-fencing Policy
- Process flow audit Policy

3.1 LIQUIDITY RISK AND CASH MANAGEMENT POLICY

3.1.1 DEFINITION

Liquidity refers to the ease with which an organisation can mobilise funds. Liquidity risk, therefore, is the risk that CoE may not have funds available to meet promptly all maturing liabilities, including demand deposits, off-balance sheet commitments or any other financial obligations on a cost effective and on a timeous basis.

Mismanagement of liquidity will have quicker and more severe repercussions than any other risks. Thus, remaining liquid is a precondition for achieving the required business objectives.

3.1.2 **POLICY**

3.1.2.1 Making appropriate use of cash management and forecasting systems.

3.1.2.2 Reviewing economic forecasts and information on a regular basis to ensure the optimal utilisation of cash.

3.1.2.3 Implementing a formal strategy for the management of liquidity risk while recognising the cost implications thereof.

3.1.2.4 Performing daily and long-term cash flows analysis regularly to avoid severe and unforeseen cash outflows.

3.1.2.5 Determining a minimum liquidity buffer by Treasury and approved by CoE that shall be used as a source of liquidity to meet the aggregate net cash outflows for CoE for the ensuing [55 days] in the event of COE not being able to generate enough working capital surpluses.

3.1.2.6 Such proportion of an investment portfolio as may be determined by Treasury shall consist of liquid instruments that may be used to settle any unforeseen fluctuations in the cash flows.

3.1.2.7 The funding portfolio should consist of money market instruments and working capital surpluses. The quality of the funding portfolio may be enhanced by using, amongst others, the instruments as referred to in the Investment Regulations. Working capital is required to ensure cash availability to fulfil operating requirements of the Metro.

3.1.2.8 In line with National Treasury recommendations, the difference between current creditors and current debtors must be retained in cash as working capital.

Depreciation: The depreciation cost item (net after offset depreciation) is to be appropriated towards the following cash expenditures:

- Redemption of external loans
- Investments made to provide for the redemption of external loans
- Capital funded from revenue

Any amounts left from the depreciation cost item (net after offset depreciation) after the above has been provided for, must be retained in cash to fund future asset renewals. This is to be done via the Capital Replacement Reserve.

The following instruments may also be used:

- *bridging finance,*
- *re-allocation of funds between portfolios and*
- *establishing short term facilities with approved counterparties.*

3.1.3 **CASH MANAGEMENT POLICY**

The improved accuracy of forecasts brings transparency, lower cost of funding and provides a realistic reporting framework. Entities, in conjunction with the Core departments are encouraged to document the Cashflow management guideline process to ensure continuity. Projections should be a true reflection of risks faced by the organization or department.

Bridging Finance Mechanisms

In assisting Treasury to identify and manage daily liquidity gaps, entities are required to submit:

1. The 3 months rolling daily cash projections adjusted on a weekly basis.
2. The cash flow projections will be benchmarked against the approved budgeted monthly targets.

To manage daily liquidity gaps the following facilities are utilized:

1. General banking facilities which incur the cost as agreed between COE and counterparty banks.
2. Short-term loans which incur the cost of *Jibar + up to **[250]** bps.
3. Commercial paper which incurs the cost of Jibar + up to [**60]** *bps (depends on investor appetite and market conditions).
4. Overdrafts which incur the cost as agreed between CoE and counterparty banks.

In the event where all available facilities are exhausted due to liquidity constraints, Treasury will seek the necessary approval to defer payments, hence accurate projections will assist in proactively managing and advising the organization on unfunded liquidity gaps.

* The **Johannesburg Interbank Agreed Rate** (JIBAR): is the money market **rate**, used in South Africa. It is calculated as the average interest **rate** at which banks buy and sell money market instruments.
* Basis points (Bps): one hundredth of one percentage point (used chiefly in expressing differences of interest rates).

Long Term Cash flow (12 months)

The purpose of the long-term projections is to identify long-term cashflow risks such that appropriate mitigations are timely implemented.
In assisting monitoring and oversight committees, it is imperative that all entities put processes in place for recording and reconciling actuals against projections for submission to Treasury. The submission to Treasury should be to **[treasury@ekurhuleni.gov.za.]**

- The long-term cash flow projections should be submitted at the beginning of each financial year or when requested by Treasury.

3 months Rolling Cash flow

- All entities (MOEs and Core) must submit daily 3 months rolling forecasts to
- Treasury via email to: [**treasury@ekurhuleni.gov.za.]**
- Daily 3 Month Rolling Cashflow projections should be submitted by 12h00 noon at the beginning of each week (Monday) or when requested by Treasury.
- No projections will be acceptable unless submitted as per the approved template.

Variance explanations

Upon request by Treasury, variance explanations pertaining to the 12 months' annual cashflows forecasts (Budget vs forecast vs. actual cash movements) must be provided per Treasury's requirements.

Sweeping of Bank Accounts

- All accounts should be swept to the Treasury bank account as per section 13 of the MFMA.
- All bank balances must have positive balances at financial year end.

FUNDING POLICY

3.1.4 DEFINITION

The funding policy is aimed at ensuring that CoE procures enough and cost-effective funding to achieve its capital expenditure objectives in an optimum manner. The funding policy shall be adhered to in the procurement of funding for CoE having due regard to the assets and liability maturity profile of CoE.

3.1.5 POLICIES

3.2.2.1 The funding plan shall be reviewed at least once a year and when the need arises.

3.2.2.2 New funding requirements determined by the business plans and reflected in the approved budgets shall be contained in the funding plan.

3.2.2.3 Funding sources may consist of:

Capital Market Facilities	Municipal bonds and commercial paper Primary loans Secondary loans Term loans Bank short-term facilities
Money Market	Commercial paper Repurchase agreements (Repos) Negotiable certificates of deposits (NCDs) Deposits Promissory Notes
Specialized Finance	Asset Backed structured finance Project finance Public Private Partnership Structured finance Securitisation Export Credit Agencies
Bridging Finance	In terms of cash flow requirements
Government Funding	Grants
Revenue	Internal generated funds

3.2.2.4 The authority to assume any financial liabilities, both on and off-balance sheet, shall be vested with COE's Accounting Officer or an official to whom such authority has been delegated. All financial liabilities (on and off balance) shall be arranged, structured, sourced and managed by the Group Chief Financial Officer through the Treasury Directorate. No other COE's Department or MOE can source, arrange, structure or manage any financial liabilities with balance sheet implications.

3.2 INVESTMENT POLICY

All investments made by CoE or by an investment manager on behalf of CoE must be in accordance with the provisions of this investment policy of CoE and the Investment Regulations promulgated in terms thereof in *Government Gazette* No. 27431 dated 01 April 2005 ("Investment Regulations").

The investments of CoE funds must also be conducted in terms of the provisions of the MFMA. Section 13 of the MFMA deals with cash management and investments.

Section 13 (2) of the MFMA provides that " *A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed in terms of subsection (1)".*

Section 13 (2) makes it mandatory for COE to have a cash management and investment policy in place whose objectives shall be to deal with cash management and investments.

The investment of funds must be carried out and deposited with the authorized counterparty and COE must ensure that the financial institution is financially sound.

To determine the financial soundness and creditworthiness of the investment managers with which CoE does business, a credit model of the counterparty concerned must be crafted.

The duly authorized officials must ensure that they determine the soundness and viability of any counterparty before investing funds with the investment manager.

The duly authorized officials may, from time to time, request the counterparty concerned, to furnish CoE with its financial statements for the past three (3) financial years or any other relevant information.

Treasury staff must ensure that they are familiar with any secondary legislation relevant to CoE's investment of funds promulgated, from time to time, in terms of the MFMA.

3.2.1 CASH FLOW ESTIMATES

The duly authorised officials must determine, before money is invested and the term of investment is fixed, whether there will be surplus funds available during the term of the investment.

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

3.3.2 PROHIBITED ACTIVITIES

The duly authorised officials shall, under no circumstances, invest funds with an investment manager that is not licensed in terms of the *FIAS Act or any other relevant legislation.
The duly authorised officials shall only invest funds in the permitted investment types as set out in the Investment Regulations.
Investments shall not be undertaken for speculation purposes.
CoE 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.
* The Financial Advisory and Intermediary Services Act (37 of 2002) affects the way in which a Financial services provider (FSP) conducts business and interacts with Consumers and guides Consumers in their daily dealings with their chosen product provider.

3.3.3 APPROVED INVESTMENTS

CoE may invest funds only in any of the following investment types:

(1) securities issued by the national government;
(2) listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
(3) deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
(4) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 19984);
(5) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);
(6) banker's acceptance ("BA") certificates or negotiable certificates of deposit ("NCD") registered in terms of the Banks Act, 1990;
(7) guaranteed endowment policies with the intention of establishing a sinking fund;
(8) repurchase agreements with banks registered in terms of the Banks Act, 1990;
(9) municipal bonds issued by a municipality; and
(10) any other investment type as the Minister of Finance may identify by regulation in terms of section 86 of the MFMA, in consultation with Financial Services Board.

CoE may invest funds with any new institution. However, such new institution shall be in line with the requirements as prescribed by the MFMA and Regulations issued in terms thereof.
The repurchase agreements that may be entered into by CoE, must be aligned with and documented in the Global Master Repurchase Agreement ("GMRA") issued by the International Securities Master Association (ISMA).

3.3.4 CONTROL OVER INVESTMENTS

Treasury must keep and maintain an electronic investment register of all investments made.
The investment register must contain at least the following information: - The name of the institution;

- The amount of capital invested;
- The date invested;
- The interest rate;
- The maturity date; and

- The name of Treasury staff member making the investment.

The investment register and accounting records must be reconciled on a monthly annual basis.
The investment register must be examined daily to identify investments falling due within the next few weeks.
The duly authorized officials must ensure that the invested funds are secure and, should there be any element of risk that such risk is evaluated and assessed realistically.

3.3.5 CREDIT REQUIREMENTS

CoE must take all reasonable and prudent steps consistent with its investment policy and according to the standard of care set out below, to ensure that it places its investments with creditworthy institutions.
Investments by CoE or by an investment manager on behalf of CoE-

3.3.5.1 must 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 affair;

3.3.5.2 may not be made for speculation but must be a genuine investment; and

3.3.5.3 must in the first instance be made with primary regard being to the probable safety of the investment, in the second instance to the liquidity needs of CoE and lastly to the probable income derived from the investment.

3.3.5.4 all investments must be carried out in accordance with the Investment Regulations as stipulated in the MFMA.

CoE must regularly monitor its investment portfolio and when appropriate, liquidate an investment that no longer has the minimum acceptable credit rating as specified in its investment policy.
Any investment manager or counterparty CoE invests money with must undergo a thorough credit process which aims to check authenticity of the counterparty's operations, their liquidity stance and any risk framework in place to ascertain that any counterparty risk is eliminated.

3.3.6 PAYMENT OF COMMISSION

No fee, commission or other reward may be paid to a councilor or official of CoE or to a spouse or close family member of such councilor or official in respect of any investment made or referred by CoE.
If an investee (being an institution with which an investment is placed or its agent), pays any fee, commission or other reward to an investment manager in respect of any investment made by CoE, both the investee and the investment manager must declare such payment to CoE Council by way of a certificate disclosing full details of the payment.

3.3.7 PERFORMANCE EVALUATION

CoE must constantly monitor the performance of funds regarding the returns. The performance must be monitored on a regular basis and measured against international best practices and benchmarks.

The duly authorized officials must ensure that there is growth in the capital invested with the financial institution by CoE. Should there be any reduction or lack of growth, the Treasurer should be informed and advised accordingly, and arrangements should be made to invest the funds with another institution that may produce positive results and increase the principal amount.

3.3.8 INVESTMENT MANAGERS

An investment manager is defined in the Investment Regulations as a natural person or legal entity that is a portfolio manager registered in terms of the Financial Markets Control Act, 1989 (Act No. 55 of 1989), and Stock Exchanges Control Act, 1985 (Act No. 1 of 1985), contracted by COE to-

3.3.8.1 advise it on investments;
3.3.8.2 manage investments on its behalf; or
3.3.8.3 advise it on investments and manage investments on its behalf.

Any investment manager, with which CoE invests its monies, must be authorised to carry on the business of investments and be in possession of a valid license issued in terms of FIAS.

3.3.9 PORTFOLIO DIVESIFICATION

Upon identification of risks, CoE must take all reasonable and prudent steps, consistent with its investment policy and according to the standard of care prescribed above, to diversify its investment portfolio across institutions, types of investment and investment maturities.

3.3.10 MISCELLANEOUS PROVISIONS

3.3.11.1 The responsibility and risk arising from any investment transaction rests with CoE.
3.3.11.2 All investments made by CoE must be in the name of CoE.
3.3.11.3 CoE may not borrow money for investment purposes.

3.3.11 EXISTING INVESTMENTS

Nothing in the Investment Regulations compels CoE to liquidate an investment which existed when the Investment Regulations took effect on 01 April 2005 merely because such investment did not comply with a provision of the Investment Regulations.

3.3.12 VALUATION OF FINANCIAL INSTRUMENTS

The fair value of financial instruments that are not traded in an active market (for example, trading and available for sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by CoE should be the current bid offer price. The fair value of financial instruments that are not traded in an active market should be determined using valuation techniques.

CoE should use a variety of methods and assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments should be used for long-term financial assets. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

To determine the fair values of floating rate instruments, CoE should use market forward rates to estimate future interest and capital cashflows, and market implied discount rates to calculate their present values. To determine the fair values of fixed rate instruments, COE should market implied discount factors to calculate their present values.

3.3 INTEREST RATE RISK POLICY

3.3.1 DEFINITION

Interest rate risk is the risk that exists in an interest-bearing asset, such as a (loan or bond) or (asset investment), due to the possibility of a change in the value or resulting from the fluctuation of interest rates. The interest rate risk management policy must identify and quantify interest rate risk and structure the assets, liabilities and interest rate hedges of CoE in order to reduce the impact of changes in interest rates on the profitability and net worth of CoE.

The interest rate risk is the risk that the value of CoE's asset to liability portfolio may be negatively affected by changes in interest rates. This policy provides guideline measures to assist in containing the negative impact of adverse interest rate movements on CoE's net income within the acceptable risk profile of CoE.

3.3.2 POLICIES

3.4.2.1 Interest rate risk shall be managed taking due cognisance of interest exposure and corresponding liquidity risk.

3.4.2.2 The decision whether to use fixed and/or floating interest rates shall be determined by the duly authorised official having regard to the sensitivity and term of the underlying assets and liabilities and nature of the interest rate environment.

3.4.2.3 Interest rate hedging instruments shall not be employed for speculative reasons and shall only be used as a financial risk management tool.

3.4.2.4 Interest rate hedging instruments must be taken out for the period that matches the underlying commitment or exposure provided that in the event of an early retirement of such underlying commitment or exposure, such interest rate hedging instruments shall be terminated accordingly.

3.4 CREDIT RISK POLICY

3.4.1 DEFINITION

Credit risk is the risk that CoE may incur when dealing with counterparties who may not be able to meet all or a portion of their commitments within a certain time, including the risk of default.

3.4.2 POLICIES

- New counterparties and credit limits must be approved by ALCO (Asset and Liability Committee)/CFO.
- Transactions shall only be conducted with approved counterparties and within the approved limits.
- Credit limits may, at the discretion of the Treasurer, be set for individual legal entities and not on a group basis.
- Credit limits and the utilisation thereof are confidential.
- The criteria used to determine the credit limits shall not be revealed to any counterparty under any circumstances.
- Recognised credit rating agencies, where possible, must be utilised in the credit evaluation process.
- There shall be continuous and constant monitoring of the credit quality of counterparties. Credit limits must be formally reviewed at least annually.
- Compliance with credit limits shall be monitored at least daily and transactions exceeding these limits must be immediately reported to the Treasurer.
- Credit limits of counterparties must immediately be reassessed by Treasury if adverse information regarding the counterparties becomes available.
- The following documents may be used in dealing with credit risk:
  - ➢ ISDA Master Agreement, ISDA Schedules and Confirmations;
  - ➢ ISMA (Global Repurchase Master Agreements).

3.5 NEW INSTRUMENTS POLICY

3.5.1 DEFINITION

Due to the increasing range and complexity of financial instruments, it is imperative to establish a procedure for approval of new instruments before their incorporation and use by Treasury.

3.5.2 POLICIES

New instruments shall only be used after a thorough evaluation of the instrument's characteristics and potential risks, subject to the provisions of the Municipal Investment Regulations, 2005.

An approval for an evaluation of a new instrument must be sought from Chief Financial Officer before initiation and the Treasurer must approve the use of new instruments to manage risk.

The evaluation process of new instruments must incorporate at least the following steps:

Instrument description	Describe in general terms the application that the instrument has, as well as the embedded components if the instrument comprises a combination of other instruments.
Risk	Describe all risk characteristics that allow the instrument to be utilised in Treasury's risk management activities. Counterparty and liquidity risk must be specifically highlighted.
Cash flow	Many instruments have similar risk characteristics, but different cash flows. Cash flow is often the determining factor between competing instruments and must be analysed as to timing, amount and predictability.
Accounting	The accounting treatment must be in compliance with COE's accounting policies.
Operational	An instrument specification must be prepared. This must be prepared and coordinated with Treasury Information Systems. The confirmation, settlement and custodian policies and procedures must be documented and agreed to by Treasury.
Control	Dealer and counterparty limits must be established. The format and content of exception reports, as well as the percentage-weighting factor for risk must be agreed upon by Treasury.
Legal	Draft documentation should be submitted to COE's Legal and Compliance Department for comment on the validity of entering into a transaction, as well as the legal consequences.
Taxation	Tax implications must be taken into account.
Testing	Where an instrument requires changes to systems or procedures, it must be tested before implementation.
Other	Any other relevant factors must be considered.

- The evaluation report, together with a covering checklist, must be submitted to ALCO/CFO for approval.
- When a new instrument has been approved, a copy of the approval must be circulated to all Treasury employees.

3.6 FOREIGN EXCHANGE RISK POLICY

3.6.1 DEFINITION

Foreign exchange risk is the risk that adverse changes in exchange rates may cause a reduction in the income of COE.

3.6.2 **POLICIES**

Subject to the third paragraph below, CoE is not permitted to raise borrowings denominated in a foreign currency. However, certain operating expenses of COE may be paid for in a foreign currency.

Treasury must confine its activities to the transactions denominated in ZAR.

Approval to enter into foreign exchange transaction for the acquisition of goods and services must first be obtained from National Treasury and where applicable an application for Exchange Control Approval has to be sought from the South African Reserve Bank (“SARB”).

The selection criteria for hedging foreign exchange transactions must be based on the mechanism which provides the best overall risk reduction; and is the most cost effective.

- Foreign exchange hedging instruments must be taken out for the period that matches the underlying commitment’s exposure.
- Foreign exchange exposures must only be hedged once firm and determined commitments have been established.
- Foreign exchange commitments must be reported for consolidation and action in the annual financial statements, except foreign currency requirements for travel purposes.
- Foreign exchange transactions must comply with all prescribed with legislation, including exchange control approvals where necessary.

TREASURY BACK OFFICE POLICY

3.6.3 **DEFINITION**

The Treasury back office acts as general support to Treasury.

3.6.4 **POLICIES**

Confirmations

- Confirmations of deals must be done on the deal date.
- Where there is a confirmation dispute this must be queried immediately and dealt with appropriately by the duly authorised officials.
- Changes to deals or on deal slips, which have been entered into the system, shall not be permitted unless such change has been confirmed by the duly authorised officials, after thorough background analysis is undertaken.
- Confirmation discrepancies must be resolved before settlement can take place.
- Confirmations must be done on CoE letterhead and signed by the duly authorised officials.
- Confirmations from counterparts must be on the relevant counterparty letterhead and the signatures must be verified by the duly authorised officials.

Settlements

- Treasury must comply with the settlement procedures prescribed by CoE's appointed settlement agent and the Johannesburg Stock Exchange ("JSE").
- For capital market settlements, there must be an offsetting of the capital amount between the transacting parties.
- For derivatives settlements the interest must be settled and not the notional amount.
- All transactions must be recorded on the deal date.
- Settlement must take place on the settlement date.
- A maturity diary must be maintained to ensure that obligations are paid timeously.
- All payments must be authorised by the duly authorised officials.
- All settlements must be accompanied by a signed deal ticket and confirmation. All values being settled must match the confirmation and deal slip. Payments cannot be made unless all the proper documentation is in order.
- Payments must not be unreasonably withheld from any counterparty unless such withholding is authorised by the Treasurer because of a dispute or discrepancy.
- Officials who are authorized to use the electronic funds transfer system must approve all electronic transfers.

Accounting

- All transactions must be recorded accurately and timeously in the relevant accounting system.
- All journal entries must be checked and authorized by the duly authorised official prior to processing.
- All Treasury transactions must be in line with CoE's approved accounting policies.
- All reconciliation's between bank statements and the cashbook must be done and maintained daily.
- Reconciliations must be checked and signed off by the duly authorised officials.
- Monthly reporting must be done periodically as required by any regulatory or oversight body.

Sweeping Accounts

- All CoE's different bank accounts must be swept into one Treasury account unless the bank account was purposely set-up as ring-fenced account for specific purpose. Treasury must be aware of all sweeping and non-sweeping bank accounts.
- Interest must be accrued monthly. The sweeping accounts represent revenue income from the Customer care Centres (CCC).

Government Grants

- These are monies received from National and Provincial government per terms and conditions.

Safe Custody

- Treasury shall be accountable for the safe keeping of all negotiable instruments.
- Release of negotiable instruments shall only be released against a valid transaction signed by the duly authorised signatories.

3.7 DEALING POLICY

3.7.1 DEFINITION

Dealing risk is the risk of sustaining opportunity losses arising from:

- Negligence by dealers
- Equipment failure
- Inability to transact timeously
- Inappropriate dealing activities
- Fraudulent dealing activities
- Incorrect and delayed exposure reporting
- Ineffective communication

3.7.2 POLICIES

- The trading or dealing team has exclusive responsibility to conduct all capital, money, foreign exchange and derivative market activities.
- Deals must be done at CoE's dealing room or offices in Benoni or at alternate site as identified by relevant authorities in line with approved processes or policies.
- Detailed business continuity or disaster recovery plans shall be in place and tested if there is a failure or disaster that impairs the ability of the dealer to operate.
- Deals done, and positions taken shall be in authorised instruments and within authorised limits only.
- Information pertaining to CoE's trading activities is highly confidential and is not to be disclosed under any circumstances.
- Private account trading is prohibited in any markets in which CoE transacts.
- All regulatory restrictions must be complied with.
- All deals shall be immediately recorded on a deal sheet and immediately captured into the appropriate system.
- Dealing activities shall be undertaken within clearly predefined strategies and tactics.
- CoE's daily cash requirement is to be squared-off each day by 14:30.
- All positions must be reconciled before close of business each day.
- All profits and losses calculated must include the cost of financing cash shortfalls and the income earned on surplus cash.
- Cash flows must be reconciled with the money market dealer daily, who in turn, shall reconcile with the cash management section.
- All variances and projections must be explained to the Treasurer and [ALCO/CFO].
- The Treasurer has sole responsibility to resolve disputes in terms of transactions entered into with counterparties where the counterparty's interpretation of the transaction conflicts with CoE's interpretation and which result in CoE being adversely affected should the counterparty's interpretation be accepted. Should such a dispute arise, the dealer is to notify the Chief Investment Specialist immediately, who in turn must notify the Treasurer. Under no circumstances may any Treasury staff member resolve the dispute with the counterparty concerned except when authority is granted by the Treasurer.

3.7.3 DEFINITION

This is the risk that CoE may incur a loss which may have a detrimental effect on CoE and/or its operations due to inadequate information management and appropriate architecture support within Treasury.

3.7.4 POLICIES

Treasury must adhere to the processes and/or policies of the Group Chief Information Office (termed OCIO) or such Information Technology department as approved by council.

3.8 ASSET-BACKED FINANCE POLICY

3.8.1 DEFINITION

Asset-backed financing may be structured based on a lease, instalment sale transactions, etc. There may be some flexibility in structuring the loan profile to suit specific needs. For example, the loan repayments can be structured to suit the cash flow requirements of CoE. This may be done by only making interest payments over the term of the financing and a bullet payment at the end of the lease term. There could also be a mixture of debt and equity in the structure depending on the type of asset being financed.
An asset may be used as security for loans and therefore if it falls out of favour or becomes outdated, that could create a problem for the financier (residual risk). The other issues that could pose risk with respect to asset-backed financing include:

- Change in the legal or regulatory environment/policies;
- The asset is damaged or destroyed;
- Market shocks and disruptions; and
- The entity fails i.e. both from the borrower's and the lender's point of view.

Terminating the transaction prematurely because of these issues can be costly.

3.8.2 POLICIES

The following must be considered:

- Asset based finance;
- Project finance; and
- Sale and leaseback of assets.

Municipal owned entities must be involved in project planning and project specific financing. In the event where Treasury needs to assess the viability of engaging in a Public Private Partnerships, municipal owned entities must furnish Treasury with all the information relating to their projects.

A thorough understanding of the project and determination of the optimum financing structure must be established, that is, issues such as gearing, etc. shall be considered whilst the cost of financing, shall be used as a benchmark for the financing proposals.

Once the project has been approved the request for financing proposals must be sent out to the market. Financial proposals received must be evaluated amongst other issues, on a cost and risk vs reward basis.

Implementation of the preferred financing strategy must ensure that:

- Internally generated funds (cash flow from operations), must be used to repay/redeem existing loans;
- Financing of any asset must match the life of the asset.

3.12 RING FENCING POLICY

DEFINITION

In the context of the City of Ekurhuleni (CoE), ring fencing refers to the identification, monitoring and placing of specific revenue for particular purpose. Revenue streams, in this instance, refer to revenue generated from municipal services rendered and grant funding.

Ring fencing is a process of assigning conditional grants funding and internally generated funds to specific purposes, to restrict its use. Treasury runs a single bank account, where all conditional grants received will be deposited into, and disbursements for the specified projects or purpose are made from the account to meet the specific expenditure.

Two spheres of ring-fencing revenue emanate:

- Ring fencing revenue for redeeming debt within a financial year and
- Ring fencing conditional grants for transparency purposes.

This policy sets out a framework to allow Treasury to efficiently identify incoming and outgoing funds for proper liquidity monitoring on ring fenced accounts.

RING FENCING OF REVENUE FOR DEBT REDEMPTIONS

As part of its operations for providing liquidity, City of Ekurhuleni's Treasury borrows short-term funds as a bridge against grants which tend to be received later in the financial year. Any borrowing is embarked on against expected future grant revenue stream. In this regard, each short-term borrowed liability gets matched against a specific grant to be received.

Because grants are paid in the City's operating accounts, care is taken to identify which grant was "pre-drawn" against expenditure.

Rules and Mechanics

Setting up of accounts

Upon recognition of high liability concentration risk from the constructed cash flow ladder, Treasury Risk together with Front office can set up a ring fenced account to redeem liabilities incurred on the basis of expected operating or capital grant inflows to be received in the future. This will be done in conjunction with the liability ladder as provided by Risk desk. Back office has to be notified on all accounts needed to be set up.

Deposits within accounts

Contributions into ring fenced accounts may be made in line with the Cash Flow Ladder which identifies underlying liability constraints. Surplus monies from operational cash flow will be used for deposits. Safe to state that preference for deposits will be given to those ring-fenced accounts matched to liabilities with shorter maturing durations.

Withdrawals from ring fenced accounts

The front office must notify risk office on any withdrawals it intends carrying out for operational liquidity provision. Each notice will be accompanied by a 'Withdrawal Notification' of which the template will be provided. A withdrawal will not be effected without a signed Withdrawal Notification by:

- An authorized signatory from Treasury Risk unit and/or
- The Treasurer
- At times the Treasurer may not be available to sign the notice. In such instances, an authorized signatory from the back office operations may sign the notice.

  Note that there might be limitations on withdrawals; this phenomenon depends on the tenure of underlying liability maturities.
  Any withdrawal notice should stipulate:
    - *withdrawal amount*
    - *the name of the ring-fenced account in question*
    - *the initial balance intended for the ring-fenced account*
    - *the remainder balance after withdrawal*

A) RING FENCING OF CONDITIONAL GRANTS

Departments & Entities, Merchant Payments and Treasury should be in a position to monitor and reconcile the grants as follows:

- Treasury normally receives the grants via the primary account and reconcile against the grants schedule.
- Grants will be ring-fenced at book level whereby all the monies go through the pool of investment accounts.
- In terms of ring fencing of funds, Treasury should keep an active record of the amount of the grant received belonging to the Department/Entity.
- City's Departments should reconcile and keep track of all their payments related to the grant, and the amount at any given point in time should not exceed the grants received.
- A monthly reconciliation supported by Grant Template will be carried out. The template will depict the amount of grants received and drawdown relating to specific project expenditure.

It is the responsibility of departmental finance heads to ensure that the values of the AUC (Assets under Construction) and/or Deferred Revenue are updated accordingly and the split between grant and non-grant funding is isolated based on their capital budget.

Upon request from Treasury, departments should submit a monthly reconciliation showing the monthly and year to date spending of the grant, the outstanding unspent cash amount of the grant, the AUC and Deferred Revenue based on the latest payments made.

3.13 PROCESS FLOW AUDIT POLICY

3.13.1 DEFINITION

The process flow audit is one of the mechanisms utilised to check the effectiveness of controls that have been put in place as well as ensuring that operational risk is minimised. The process flow audit helps to identify areas for improvement versus benchmark and best practice. The design of the operational controls affects the efficiency and security of the Treasury Department.

3.13.2 POLICIES

Treasury Risk is responsible for conducting a process flow audit for the Front, Middle and Back Office.

- The effectiveness of treasury internal control environment should be confirmed annually on the basis of the principles list below.
- Assess both the design and operating effectiveness of selected internal controls related to significant accounts and relevant assertions, in the context of material misstatement risks;
- Understand the flow of transactions, including IT aspects, enough to identify points at which a misstatement could arise;
- Evaluate controls over the period-end financial reporting process;
- Scale the assessment based on the size and complexity of the company;
- Conclude on the adequacy of internal control.

3.14 INTEREST RATE EXCHANGE POLICY

3.14.1 Interest Rate Swap Objectives

Interest rate swaps, in the context of CoE's financial operations:

- Reduce or manage exposure to changes in interest rates on a financial transaction or in the context of the management of interest rate risk derived from CoE's overall asset/liability balance consistent with prudent debt and risk guidelines.
- May result in a lower net cost of borrowing with respect to CoE's debt or achieve a higher net rate of return on investments made in connection with, or incidental to the issuance, or carrying of CoE's debt obligations or other City investments.
- Manage variable interest rate exposure consistent with prudent debt practices.
- Manage exposure to changing market conditions in advance of anticipated bond issues (using anticipatory hedging instruments).
- Achieve more flexibility in meeting overall financial objectives than can be achieved in conventional markets.

3.14.2 Permitted Instruments

CoE may utilize the following financial products on a current or forward basis, after identifying the objectives to be realized and assessing the attendant risks.

- Interest rate swaps, including (i) pay fixed/receive floating swaps (fixed rate swaps), (ii) receive floating/pay fixed swaps (floating rate swaps) and (iii) pay floating/receive floating swaps (basis swaps). Swaps may include option features, such as for the extension, cancellation, or index conversion of the swap.
- Interest rate caps, floors, and collars.
- Stand-alone options to enter into swaps (swaptions) on a particular date, series of dates, or during a particular period of time in the future.

3.14.3 Conditions for the Use of Interest Rate Swaps

Each Agreement and Transaction will be entered not for purpose of speculation, but solely in connection with the financing activities of CoE.

A. **General Usage** Interest rate swaps may be used to lock-in a fixed rate or, alternatively, to create additional variable rate exposure. Interest rate swaps may be used to produce interest rate savings, limit or hedge variable rate payments, alter the pattern of debt service payments, or for asset/liability matching purposes.
B. **Call Option Value Considerations** When considering the relative advantage of a fixed rate swap to fixed rate bonds, the value of the call option that would typically be purchased for the fixed rate bonds shall be compared to the incremental present value of the savings from using a swap. This shall be done to ensure the benefit from use of the swap will provide enough compensation to offset the expected value of any foregone future refunding savings.

3.14.7 Hedge Accounting Policy

DEFINITION

A hedging relationship qualifies for hedge accounting if, and only if, all of the following conditions are met:

1. At the inception of the hedge there is a formal designation and documentation of the hedging relationship and the entity's risk management objectives and strategies for undertaking the hedge. That documentation shall include identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in the offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.
2. The hedge is expected to be highly effective in achieving the offsetting changes to the fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for the particular hedging relationship.
3. For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.
4. The effectiveness of the hedge can be reliably measured, i.e. the fair value or the cash flows of the hedged item that are attributable to the hedged risk and the fair value of the hedging instrument can be reliably measured.
5. The hedge is assessed on an ongoing basis and determined to have been highly effective throughout the financial reporting periods for which the hedge was designated.

It is therefore management's responsibility to ensure that the above requirements are met in order for the entity to apply hedge accounting for SWAP transactions.

CHAPTER 4

4. CODE OF CONDUCT

All personnel within COE's Treasury department shall abide by the City of Ekurhuleni's Code of Conduct. A copy thereof could be attained from the relevant Human Resources Office.

CHAPTER 5

5 LEGISLATIVE AND REGULATORY FRAMEWORK

The following legislation guide Treasury:

5.1.1 Municipal Finance Management Act, 2003 (Act No. 56 of 2003) ("MFMA")

In terms of section 80 of the MFMA, every municipality must have a budget and treasury office.

Section 81 of the MFMA vests the Chief Financial Officer with the powers over the budget and treasury office.

Most of the provisions of the MFMA came into effect on 1 July 2004. On 1 July 2005, section 179(1) of the MFMA came into operation and repealed the provisions of the Local Government Transition Act, 1993 ("LGTA") referred to below.
Section 8 of the MFMA makes provision for the designation of the primary bank account. Treasury manages the primary account. All the sweeping arrangements with the MOEs are conducted via this account. COE's primary account resides with the City's commercial banker. The commercial banker is appointed for a period of five (5) years. The appointment of the commercial banker is made through a competitive bidding process as set out in the MFMA: Supply Chain Management Regulations.
In terms of sections 38, 39 and 40 of the MFMA, the National Treasury may stop the transfer of funds due to a municipality as:

(i) an allocation; or

(ii) a share of the local government's equitable share of budgeted funding, but only if the municipality commits a serious or persistent breach of the measures established in terms section 214(c) or 216(1) of the Constitution of the Republic of South Africa, 1996.

In terms of section 45 of the MFMA, the City can incur short-term debt. Treasury must oversee this process and incur debt on behalf of CoE. The relevant resolution of the City Council must be obtained before Treasury can bind CoE to agreements.
In terms of section 46 of the MFMA, CoE may incur long-term debt for the following:

5.1.1.1 re-financing existing long-term debt; and
5.1.1.2 capital expenditure.

Section 46(3) of the MFMA provides that the accounting officer of the City must, at least 21 days prior to the meeting of Council at which approval for the debt is to be considered, make public an information statement setting out the of the proposed debt. This subsection of the MFMA must be read in conjunction with section 21A of the Systems Act. The information statement must be broadcast on the radio and on the newspapers circulating within the jurisdiction of the City. Treasury must ensure that this process takes place.

Regarding long-term debt, it is instructive to note that COE may issue bonds. When COE issues bonds, it must comply with other relevant of legislation.
The investment of CoE's funds must be conducted in terms of the MFMA. Section 13 of the MFMA deals with cash management and investment. Section 13(2) provides that "*A municipality must establish an appropriate and effective cash management and investment policy in accordance with any framework that may be prescribed in terms of subsection (1)".*

Section 13(2) makes it mandatory for a municipality to have a policy in place whose objective shall be to deal with cash management and investment.
The investment of funds must be carried out in terms of the provisions of the Policy and be deposited with an authorised and approved financial institutions and CoE must ensure that

the financial institution is financially sound. To determine the financial soundness and viability of the financial institution with which CoE carries out its business, a credit rating of the institution concerned must be obtained. The long-term investments must be made with an institution with a minimum of BBB rating. Short-term investment, on the other hand, should be made with an institution with a minimum of B rating.
The Municipal Investment Regulations are attached hereto as Annexure “A”.

5.2 Local Government Transition Act, 1993 (the LTGA)

The LGTA was promulgated to pave the way for local government legislation that has been passed since 1998 and for legislation that may still be promulgated in the future. The Local Government: Municipal Structures Act, 1998 (“the Structures Act”) and the Local Government: Municipal Systems Act (“the Systems Act”) have to a large extent replaced the content of the LGTA. Section 10G of the LGTA, which regulates municipal finance, is however still in force by section 93(4) (a) of the Structures Act read with section 179 of the MFMA. Section 10G of the LGTA remained in effect until 1 July 2005, when section 179(1) of the MFMA came into operation and repealed provisions of the LGTA.
Section 10G(8)(a)(i) of the LGTA provides that a municipality may obtain money and raise loans for capital expenditure budgeted for by the Council, including the payment of fees and expenses associated with the raising of such funds and any resolution tabled to raise funds shall require a majority of the members of the Council, provided that the Minister of Finance may by notice in the Government Gazette determine reasonable conditions and criteria with regard to the raising of loans by municipalities and such conditions and criteria may include the limiting or disallowance of such loans.

Section 10G(c) provides that any money borrowed by a municipality in accordance with that subsection and the interest thereon shall be the financial obligation of the municipality concerned and shall be chargeable to and payable from the revenues and assets of that municipality.

In terms of conditions and criteria laid down by the Minister of Finance with regard to the raising of loans by municipalities in terms of section 10G(8)(a)(i) of the LGTA, a municipality may only raise loans for the purpose of financing capital expenditure which has been budgeted for and approved by Council in terms of the Resolution by it, specifying in respect of such loan, the specific items mentioned in paragraphs 2(1)(a) to (g) published under Government Notice R412 in Government Gazette 18764 of 27 March 1998 in terms of LGTA, of such conditions and criteria.

5.3 Exchange Control Regulations

The consent of National Treasury must be obtained in respect of the issue of tranches of notes as is contemplated in Exchange Control Regulation 16 of the Exchange Control Regulations, 1961.
The issue of any bearer notes, the acquisition and the disposal thereof are subject to the necessary exemptions having been obtained from National Treasury as contemplated in Regulation 15 of the Exchange Control Regulations. Treasury must ensure that these Regulations are complied with.

5.4 Securities Services Act, 2004

The fixed income debt (bonds) issued by COE must be listed with the authorised financial exchange, that is, the Bond Exchange of South Africa ("BESA"). BESA is regulated in terms of the Securities Services Act. Thus, it is incumbent upon Treasury to comply with this Act, and to ensure that other regulatory requirements stipulated in the Act are complied with.

5.5 Financial Intelligence Centre Act, 2001

The thrust of this Act is to combat money laundering and organized crime. This Act must be read in conjunction with the Prevention of Organised Crime Act.

It is incumbent upon Treasury to furnish the financial institutions with the founding documents of COE, list of authorised signatories and the relevant details of the authorised signatories when requested thereto.

5.6 Financial Advisory and Intermediary Services Act, 2002

The financial institutions with which COE and particularly Treasury has dealings, must comply with this Act. It behoves Treasury to ensure that the relevant licences stipulated in the Act are complied with and forwarded to COE by the relevant financial institutions.