INVESTMENT POLICY

2026-27

INVESTMENT POLICY

1 LEGAL COMPLIANCE

Ray Nkonyeni Municipality shall at all times manage its investments in compliance with the provisions of, and any prescriptions made by the Minister of Finance in terms of the Municipal Finance Management Act No. 56 of 2003.

In terms of Section 60(2) of the Municipal Systems Act No. 32 of 2000, the Council may delegate the authority to take decisions on making investments on behalf of the municipality only to the Executive Mayor, the Executive Committee, or Chief Financial Officer. The foregoing policy is based on the assumption that authority has been delegated to the Chief Financial Officer.

This policy is based on Local Government Financial Best Practice Guidelines.

2 OBJECTIVE OF CASH MANAGEMENT AND INVESTMENT POLICY

The Investment Policy of the municipality is therefore aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes. The effectiveness of the Investment Policy is dependent on the accuracy of the municipality's cash management programme, which must identify the amounts surplus to the municipality's needs, as well as the time when and the period for which such revenues are surplus.

3 INVESTMENTS REPORT

The Chief Financial Officer shall submit a report monthly to the Finance & Budget Portfolio Committee. Such report shall indicate any movements in respect of the municipality's investments, together with appropriate details of the investments concerned.

4 INVESTMENT ETHICS

The Chief Financial Officer shall be responsible for investing the surplus revenues of the municipality, and shall manage such investments in compliance with any policy directives formulated by the Council, and prescriptions made by the Minister of Finance.

In making such investments, the Chief Financial Officer shall at all times have only the best considerations of the municipality in mind, and shall not accede to any influence by or interference from councillors, investment agents or institutions, or any other outside parties.

The Chief Financial Officer or any other official concerned with investments, may not accept any gift, other than an item having such negligible value that it cannot possibly be construed as anything other than a token of goodwill by the donor, from any investment agent or institution, or any party with which the municipality has made or may potentially make an investment.

QUALIFYING INSTITUTIONS
It is of utmost importance that the investments only be placed with creditworthy institutions with a national Moody's credit rating of P-3 and higher for short term (0 -12 months) credit ratings and Moody's Baa3 and higher for long term (more than 12 months) credit ratings, if any general down grading of institutions is performed by Moody's, the Accounting Officer on recommendation of the Chief Financial Officer may allow a lesser favourable grading that is still acceptable according to their management judgement.

Moody's and or CA ratings to be obtained for preferred investment institution before a financial institution may be considered for investing funds.

Ratings must be updated before an investment is made or when there has been structural change in the market or at the particular institution.

The optimal combination of the most favourable rated institution and the institution offering the best returns for the investment sought, should be the determining factor when choosing the institution.

The following investments are permitted:
a) Securities issued by National Government;
b) Listed corporate bonds with an investment grade rating from a nationally or an internationally recognized credit rating agency;
c) Deposits with banks registered in terms of the Banks Act, 1990 (Act 94 of 1990);
d) Deposits with the Public Investment Commissioners as Contemplated by the Public Investment Commissioners Act, 1984 (Act 45 of 1984);
e) Deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act. 1984 (Act 46 of 1984);
f) Banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990 (Act 94 of 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 (Act 94 of 1990); Municipal Bonds issued by the municipality; or
i) Any other as might be approved by the Minister of Finance.

5 INVESTMENT PRINCIPLES

5.1 LIMITING EXPOSURE

Where large sums of money are available for investment, the Chief Financial Officer shall ensure that they are invested with more than one institution wherever practicable, in order to limit the risk exposure of the municipality. The Chief Financial Officer shall further ensure that, as far as possible, the municipality's investments are so distributed that more than one investment category is covered (that is, call, money market and fixed deposits).

5.2 RISK AND RETURN

Although the objective of the Chief Financial Officer in making investments on behalf of the municipality shall always be to obtain the best interest rate on offer, this consideration must be tempered by the degree of risk involved in regard to both the financial institution, and the investment instrument concerned. No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions. Deposits shall be made only with registered deposit taking institutions.

5.3 PAYMENT OF COMMISSION

Every financial institution with which the municipality makes an investment, must issue a certificate to the Chief Financial Officer in regard to such investment, stating that such financial institution has not paid and will not pay any commission, and has not and will not grant any other benefit to any party for obtaining such investment.

5.4 CALL DEPOSITS AND FIXED DEPOSITS

Before making any call or fixed deposits, the Chief Financial Officer shall obtain quotations from at least three financial institutions.

Given the volatility of the money market, the Chief Financial Officer shall whenever necessary, request quotations telephonically, and shall record in an appropriate register the name of the institution, the name of the person contacted, and the relevant terms and rates offered by such institution, as well as any other information which may be relevant, for example, whether the interest is payable monthly or only on maturity.

Once the best investment terms have been established, written confirmation of the telephonic quotation must immediately be obtained by facsimile, e-mail or other expedient means.

Any monies paid over to the investing institution in terms of the agreed investment (other than monies paid over in terms of section 7), shall be paid only to such institution itself and not to any agent or third party. Once the investment has been made, the Chief Financial Officer shall ensure that the municipality receives a properly documented receipt or certificate for such investment, issued by the institution concerned, in the name of the municipality.

5.5 MUNICIPAL CASH RESERVES

To ensure that the municipality meets the acceptable cash coverage standards considered optimal, it is necessary to ensure the accumulation of cash reserves via fixed investments which in turn will lead to further revenue generated via interest from the investment.

The municipality will apply the Cash and Reserves Policy to ensure it accumulates the necessary reserves.

5.6 RESTRICTION ON TENURE OF INVESTMENT

No investment with a tenure exceeding eighteen months ***(18 MONTHS)*** shall be made without the prior approval of the Executive Committee.

6 CONTROL OVER INVESTMENTS

The Chief Financial Officer shall ensure that proper records are kept of all investments made by the municipality. Such records shall indicate the date on which the investment was made, the institution with which the monies are invested, the amount of the investment, the interest rate applicable, and the maturity date. If the investment is liquidated at a date other than the maturity date, such date must be indicated.

The Chief Financial Officer shall ensure that all interest and capital due to the municipality is timeously received, and shall take appropriate steps or cause appropriate steps to be taken if interest or capital is not fully or timeously received.

FORBIDDEN ACTIVITIES
No investments may be made other than in the name of the Municipality.
Money may not be borrowed for the purpose of investments.
No person, including officials and councillors, may interfere or attempt to interfere in the management of investments entrusted to the Chief Financial Officer or persons delegated by the Accounting Officer
No investments may be made other than be denominated in Rand and which is not indexed to, or affected by, any fluctuations in the value of the Rand against any foreign currency.
The Municipality's current cash position or projected future cash flows shall not, as a general rule, be discussed with or disclosed to investees

7 OTHER EXTERNAL INVESTMENTS

From time to time, the municipality may make longer term investments in secure stock issued by the national government, Eskom, or any other reputable parastatal or institution, or by another reputable municipality. In such a case, the Chief Financial Officer must be guided by the best rate of interest pertaining to the specific type of investment which the municipality requires, and to the best and most secure instrument available at the time.

No such investment with a tenure exceeding twelve months shall be made without the prior approval of the Executive Committee, and without guidance having been sought from the municipality's bankers, or other credible investment advisers, on the security and financial implications of the investment.

8 INVESTMENT FOR THE REDEMPTION OF LONG-TERM LIABILITIES

In managing the municipality's investments, the Chief Financial Officer shall ensure that, whenever a long term (non-annuity) loan is raised by the municipality, an amount is invested at least annually equal to the principal sum divided by the period of the loan. Such investment shall be made against the bank account maintained for the external finance fund, and shall be accumulated and used only for the redemption of such loan on due date.
The Council shall approve such investment at the time that the loan itself is approved.

If the loan raised is not a fixed term loan, but an annuity loan, the Chief Financial Officer shall ensure that sufficient resources are available in the account maintained for the external finance fund, to repay the principal amounts due in respect of such loan on the respective due dates.

9 INTEREST ON INVESTMENTS

Interest accrued on all the municipality's investments shall, in compliance with the requirements of generally accepted municipal accounting practice, be recorded in the first instance in the municipality's operating account as ordinary revenues, and shall thereafter be appropriated at the end of each month to the fund or account in respect of which such investment was made.

In the case of the external finance fund, the Chief Financial Officer may reduce the amount which must be annually invested to redeem any particular loan, by the amount of interest so accrued.

10 INVESTMENT COMMITTEE

The investment of funds would be vested in the investment committee. The investment committee shall comprise of the following members:

1) Chief Financial Officer
2) Treasury managers delegated by council to be signatories to council's bank account.

REPORTING

The Accounting Officer, or his/her duly authorised delegate, must, in addition to the reporting in paragraph 3 above, within 10 working days of the end of each month submit to the Mayor a report describing in detail the investment portfolio of the municipality as at the end of the month.

The report referred to above must contain at least a statement, prepared in compliance with Generally Recognised Accounting Practice (GRAP), as amended from time to time, that gives the:

a) Beginning market value of each investment for the month;
b) Additions and changes to the investment portfolio for the month;
c) Ending market value of each investment for the month; and
d) Fully accrued interest/yield for the month.

The Accounting officer, or his/her duly authorised delegate, in making investments, must remind the relevant institutions of the institutions' legal reporting responsibilities in terms of Sections 13 (3) and 13 (4) of the Local Government: Municipal Finance Management Act, 2003.

INVESTMENT COMMITTEE

TERMS OF REFERENCE

1. THE COMMITTEE

The committee shall be known as the **INVESTMENT COMMITTEE.** The committee has no executive powers other than those specifically delegated in these Terms of Reference.

2. TERMS OF REFERENCE

2.1 Purpose

The investment committee is established to provide assurance to the council that all risks within the treasury are appropriately identified, assessed and managed. To ensure that non managed risks are reported to council where appropriate.

2.2 Objective

To ensure that all funds received are properly accounted for and recorded in the investment register.

To invests and surplus funds at a reputable institutions registered with the Financial Services Board or in terms of the Banking Act of South Africa.

To monitor the investments and advise council accordingly.

2.3 Membership

The committee membership will include:

The Chief Financial Officer
Treasury managers delegated by council to be signatories to council's bank account.

2.4 Quorum

The committee will conduct a meeting if there is a quorum. The committee will be quorate if four (4) members are present. The Chief Financial officer or delegated official (Acting for CFO) must be present in all meetings.

2.5 Accountability and Reporting

Members must declare any interest they may have in any issues arising at the meeting which may have conflict with the business of council.

Committee meeting shall be reported to the Finance and Budget Portfolio Committee meeting

Any items of specific concern or those which require council approval will be the subject of a separate report.

2.6 Frequency of Meeting

Meetings shall be held when required (with a minimum of 2 annually). The Manager: Revenue Management will be responsible for the scheduling of meetings.

Additional meetings may be arranged when required to support the effective function of the committee and investing of new funds received.

2.7 Authority

The committee will be authorised to carry out its duties in terms of the investment policy supported by this Terms of References.

The council will retain responsibility for all aspect of internal control vested in the delegated official.

The committee has decision making powers with regards to approval of procedural documents.

The committee is established to provide recommendation to council on risks management, governance issues.

3. REVIEW

The committee will review its Terms of Reference on an annual basis as a minimum.

CASH MANAGEMENT AND RESERVES POLICY

1. PREAMBLE

As a public institution, the Municipality is entrusted with public funds. The prudent management of these funds is critical to ensuring financial sustainability, liquidity, and the ability to deliver uninterrupted service delivery. This Cash Management and Reserves Policy sets out the framework for managing the Municipality’s cash inflows, outflows, and the establishment and maintenance of cash-backed reserves.

2. LEGISLATIVE FRAMEWORK

This policy is developed in compliance with the following South African legislation and guidelines:

- The Constitution of the Republic of South Africa, 1996.
- The Local Government: Municipal Finance Management Act, No. 56 of 2003 (MFMA) – specifically Sections 8, 11, and 13.
- The Municipal Budget and Reporting Regulations (MBRR).
- Generally Recognised Accounting Practice (GRAP) standards.
- National Treasury Circulars and Guidelines regarding Cash and Investment Management.

3. PURPOSE AND OBJECTIVES

The objectives of this policy are to:

- Ensure that the Municipality maintains adequate liquidity to meet its operational and capital obligations as they fall due.
- Safeguard municipal funds through strict internal controls and risk management.
- Optimize the return on surplus cash through short-term and long-term investments without compromising capital security.
- Ensure that all statutory and internally mandated reserves are fully cash-backed.
- Establish clear reporting and accountability structures for cash management.

PART B. CASH MANAGEMENT POLICY

4. BANKING ARRANGEMENTS

- **Primary Bank Account:** The Municipality shall maintain a primary bank account with a commercial bank registered in terms of the Banks Act, 1990.
- **Withdrawals:** All withdrawals from the primary bank account must be strictly governed by Section 11 of the MFMA and authorized by the Accounting Officer (Municipal Manager) or the Chief Financial Officer (CFO) under delegated authority.
- **Bank Reconciliations:** Bank reconciliations must be performed regularly and formally signed off monthly by the designated manager.

5. CASH RECEIPTS AND COLLECTIONS

- All monies due to the Municipality must be collected promptly and deposited into the municipal primary bank account daily or by the next business day.
- The use of electronic funds transfer (EFT), debit orders, and direct bank deposits by customers is prioritised to reduce cash-handling risks.
- Strict physical security and cash-in-transit protocols must be maintained at all cash receipting points (e.g., Margate and Port Shepstone offices).

6. PAYMENTS AND EXPENDITURE MANAGEMENT

- All payments to creditors must be made within 30 days of receiving the relevant invoice or statement, in compliance with Section 65(2)(e) of the MFMA, to avoid interest charges and penalties.
- Early settlement discounts should be capitalised on where it is financially beneficial.
- Payments shall strictly be made via EFT; the use of petty cash is restricted and governed by a separate Petty Cash Policy.

7. CASH FLOW FORECASTING

- The CFO must ensure that a comprehensive cash flow forecast is maintained.
- The cash flow forecast must map expected inflows against anticipated outflows to identify potential liquidity shortfalls in advance.
- Investment of surplus funds shall only occur when the cash flow forecast confirms that the funds are not required for immediate operational needs and must align with the prescripts of the investment policy.

PART C. RESERVES POLICY

8. PRINCIPLES OF MUNICIPAL RESERVES

The creation and maintenance of reserves are essential for long-term financial stability, infrastructure replacement, and mitigating unforeseen risks. **All statutory and internally established reserves must be 100% cash-backed.**

9. TYPES OF RESERVES

9.1. Capital Replacement Reserve (CRR)

- **Purpose:** To finance future capital expenditure and reduce reliance on external borrowings or government grants.
- **Funding:** The CRR is funded from cash-backed unappropriated surpluses, proceeds from the sale of land/assets, and specific budgetary appropriations.
- **Utilization:** Funds may only be utilized for approved capital projects as detailed in the Integrated Development Plan (IDP) and MTREF.

9.2. Self-Insurance Reserve

- **Purpose:** To provide a buffer for the replacement of municipal assets in the event of damage or loss that is not fully covered by external insurance policies, and to fund insurance excess payments.
- **Funding:** Annual premiums/contributions from the operating budget.

9.3. Employee Benefits Reserve (Provisions)

- **Purpose:** To ensure that sufficient cash is available to fund long-term employee benefits (e.g., Post-Retirement Medical Aid, Long-Service Awards) and short-term provisions (e.g., accumulated leave).
- **Funding:** An actuarial valuation must be performed annually, and the required cash must be ring-fenced to back the GRAP liability.

9.4. Housing Development Fund

- **Purpose:** Maintained in terms of the Housing Act. Ring-fenced to fund housing developments.
- **Funding:** Proceeds from the sale of municipal houses and housing grants.

10. UNAPPROPRIATED SURPLUSES

- Any cash-backed unappropriated surplus remaining at the end of the financial year must be evaluated by the CFO.
- The Accounting Officer may recommend to the Municipal Council that such surpluses be transferred to the CRR or used to settle high-interest external debt early.

PART C: GOVERNANCE AND REPORTING

11. ROLES AND RESPONSIBILITIES

- **Municipal Council:** Approves the Cash Management and Reserves policy and the annual budget dictating reserve contributions.
- **Accounting Officer (Municipal Manager):** Ultimately accountable for the implementation of this policy and ensuring compliance with the MFMA.
- **Chief Financial Officer (CFO):** Responsible for the day-to-day execution of cash management, authorizing investments, monitoring cash flows, and ensuring reserves are adequately cash-backed.

12. REPORTING

1. The CFO must submit a monthly report to the Accounting Officer detailing the cash flow position, bank balances, and the status of cash-backed reserves, in terms of Section 71 of the MFMA.
2. Quarterly reports on the performance of the cash flow and reserves must be submitted to the Mayor and the Finance Portfolio Committee.

13. POLICY ADOPTION AND REVIEW

This policy will be reviewed annually during the budget preparation process to ensure it remains aligned with legislative changes, National Treasury directives, and the strategic objectives of the Municipality.