

# Ntinga O.R Tambo Development Agency



## **BANKING and INVESTMENT POLICY**

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<b>RESPONSIBLE MANAGER</b>	Chief Financial Officer

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## **TOP TEN BASIC VALUES AND PRINCIPLES**

(PUBLIC ADMINISTRATION)

Chapter 10, Section 195 of the Constitution of the Republic of South Africa

(Act No. 108 of 1996)

Public Service **must** be:

1. Governed by the democratic values and principles enshrined in the Constitution;
2. Maintaining and promoting a high standard of professional ethics;
3. Promoting efficient, economic and effective use of resources;
4. Orientated towards development;
5. Delivering services impartially, fairly, equitably and without bias;
6. Responding to people's needs and encouraging public participation;
7. Accountable for its actions;
8. Transparent by providing the public with timely, accessible and accurate information;
9. Cultivating good human resource management and career development practices to maximise human potential; and
10. Broadly representative of the South African people, with employment and personnel management practices based on ability, objectivity, fairness and the need to redress the imbalances of the past.

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## **1. SCOPE OF POLICY**

In terms of Section 85 (5) of the Municipal Finance Management Act No. 56 of 2003, the Accounting Officer of a municipal entity –

- a) Must administer all the entity's bank accounts;
- b) Is accountable to the board of directors of the entity for the entity's bank accounts; and
- c) Must enforce any requirements that may be prescribed in terms of Subsection (4)

The foregoing policy is based on the assumption that such authority has been delegated to the chief financial officer.

Municipal entity investment practice is guided by several influencing sources, including legislation, Chartered Institute of Government Finance, Audit and Risk Officer (CIGFARO) recommendations and the entity's policy. Investment of surplus cash is subject to certain restrictions, such as investments being allowed only at approved banking institutions, the maximum amount that may be held at any one such institution, the term of said investment, the method of placement and the payment of commission for placement of an investment.

This policy will aim to outline the above mentioned procedures concerning investments at Ntinga O.R. Tambo Development Agency SOC LTD.

## **2. OBJECTIVES**

The Board of Directors are the trustees of the public revenues, which it collects, and it therefore has an obligation to the community to ensure that the entity's cash resources are managed effectively and efficiently. The Board therefore has a responsibility to invest these public revenues knowledgeably and judiciously, and must be able to account fully to the community in regard to such investments.

The investment policy of the entity 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 entity's cash management programme, which must identify the amounts surplus to the entity's needs, as well as the time when and period for which such revenues are surplus.

### **3. LEGAL FRAMEWORK**

This policy will be implemented within the legal framework of the constitution and relevant national legislation outlined hereunder.

- i) Constitution of the RSA, (Act 108 of 1996)
- ii) The Local Government Municipal Systems Act, 2000 (Act No. 32 of 2000)
- iii) The Local Government Municipal Finance Management Act 2003(Act 56 of 2003)

### **4. PRESCRIBED FRAMEWORK AND APPROVED INSTITUTIONS**

#### **4.1 Prescribed framework**

The Minister, acting with the concurrence of the Cabinet member responsible for local government, may prescribe a framework within which municipal entities must—

- (a) conduct their cash management and investments; and
- (b) invest money not immediately required.

#### **4.2 Authorised institutions**

- a) Investments may only be placed with financial institutions registered as a bank in terms of the Banks Act, 1990 (Act No. 94 of 1990);
- b) The Board may place further restrictions on approved institutions, but will not place funds at institutions excluded from those approved. Further restrictions will include the prerequisite that an approved institution must have an established operation and be commercially active in the municipal district.

### **5. SURPLUS CASH**

Surplus cash will be defined as the excess funds available to an entity, that is not required to meet short-term obligations, and which safely may be withdrawn from current cash reserves without jeopardising the entity's daily operational capability.

Investment of surplus cash presupposes that cash is transferred from the current account to an investment account. No investment with a tenure exceeding twelve months shall be made without the prior approval of the Accounting Officer.

## **6. CASH MANAGEMENT**

### **6.1 Cash Management Programme**

The chief financial officer shall:

- a) prepare an annual estimate of the entity's cash flows divided into calendar months, and
- b) Shall update this estimate on monthly basis.

The estimate shall indicate when and for what periods and amounts surplus revenues may be invested and when and for what amounts investments will have to be liquidated. Heads of departments shall in this regard furnish the chief financial officer with all such information as is required, timely and in the format indicated. The chief financial officer shall report to the Audit Committee and the Board, on a quarterly basis.

Cash flow estimates shall be divided into calendar months, and in reporting the chief financial officer shall provide comments or explanations in regard to any significant cash flow deviation in any calendar month forming part of such report. Such report shall also indicate any movements in respect of the entity's investments, together with appropriate details of the investments concerned.

### **6.2 Bank Accounts**

The Accounting Officer is responsible for the management of the entity's bank accounts, but may delegate this function to the chief financial officer. The chief financial officer is authorised to approve transfers and any other documentation associated with the management of such accounts. The Accounting Officer, in consultation with the chief financial officer, is authorized to appoint two or more additional signatories in respect of such accounts, and to amend such appointments from time to time. All payments other than petty cash disbursements must be made through the entity's bank account(s).

- 6.2.1 One or more separate accounts shall also be maintained for the following:
- a) capital receipts in the form of grants, donations or contributions from whatever source;
  - b) trust funds; and
  - c) in determining the number of additional accounts to be maintained, the Accounting Officer, in consultation with the chief financial officer, shall have regard to the likely number of transactions affecting each of the accounts referred to. Unless there are compelling reasons to do otherwise, and the Board expressly so directs, all the entity's bank accounts shall be maintained with the same banking institution to ensure pooling of balances for purposes of determining the interest payable to the entity.
- 6.2.2 The accounting officer must submit to O.R. Tambo District Municipality, in writing:
- a) within 90 days after a new bank account has been opened, the name of the bank, where the account has been opened, and the type and number of the account; and
  - b) annually before the start of the financial year, the name each of each bank where the entity holds a bank account, the type and number of each account.

## **7. PROCEDURES FOR INVITATION AND SELECTING OF BIDS**

The chief financial officer shall be responsible for investing the surplus revenues of the entity and shall manage such investments in consultation with the Accounting Officer as the case may be, and in compliance with any policy directives formulated by the Board 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 entity in mind, and, except for the outcome of the consultation process with Accounting Officer, as the case may be, shall not accede to any influence by or from investment agents or institutions or any other outside parties. Any gift received by any employee of the entity should be declared to the Board.

### **7.1 Roles and responsibilities**

Accountability and transparency in the investment management process are the specific responsibility of the financial management function. No external investment managers will be



used by the entity. The person responsible for entity's investments will do so in a manner as if the investment was his own and he/ she will be a person of prudence, discretion and intelligence.

Before making any call or fixed deposits, the chief financial officer or official delegated by him/her, 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, and so forth). Details of the proposed investment will be submitted to the CFO for approval (if above mentioned task was delegated to an official). Once the best investment terms have been identified, written confirmation of the telephonic quotation must be immediately obtained (by facsimile, e-mail or any other expedient means). Any monies paid over to the investing institution in terms of the agreed investment shall be paid over 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 entity receives a properly documented receipt or certificate for such investment, issued by the institution concerned in the name of the entity.

The accounting officer must further ensure that the entity's available working capital is managed effectively and economically in terms of the prescribed cash management and investment framework.

## **8. INVESTMENT PRINCIPLES**

### **8.1 Limiting exposure**

Risk management principles advise investors to spread their risk in a reasonable manner. Limited to approve institutions or instruments means that risk is already reduced to those perceived to be the most stable at that time. The Board shall not place investments in excess of a specified limit determined by Accounting Officer, which may be varied from time to time, at any one approved banking institution. Investment limits will be guided by the amounts of surplus cash available for investment, the risk to cash demand profile of the entity, and the perceived risk-to-return ratio in the local investment market.

Risk management will also take into account the fact that comparative rates of return and investment cycles may combine to cause limits to be exceeded for short periods, with justifiable reason. Surplus cash may be received shortly before an existing investment matures and the interest rate offered by that bank may be significantly more favourable than other banks in the same market.

## **8.2 Commission Disclaimer**

All investments made on the basis of placement certificates will verify the amount, term, interest rate, interest due, maturity date and method of payment of interest.

Certificates will individually state that no commission has been paid to any party for the placement of the investment with that institution. Where individual certificates do not meet this requirement a general statement to that effect from the relevant institution will be obtained.

Any official or person connected with the entity who receives a commission for placement of investments with an institution will be guilty of misconduct and be liable to prosecution.

## **8.3 Investment Term**

Investments will generally be of a short-term nature, varying between 7 and 365 days and depending on the needs of the entity at that particular time. The best rates will be obtained in this way. Cash flow and liquidity positions will be managed by packaging investments in smaller amounts and maturity dates will be linked to operational peak periods.

Lower interest rates received for medium term investment will be justified by the nature of the investment for example when held as contra security by the bank for other guarantees.

From time to time it may be in the best interests of the entity to 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 cases the chief financial officer, must be guided by the best rates of interest pertaining to the specific type of investment, which the entity requires, and to the best and most secure instrument available at the time.

No investment with a tenure exceeding twelve months shall be made without the prior approval of the Board of Directors and without guidance having been sought from the entity's bankers or

other credible investment advisers on the security and financial implications of the investment concerned.

#### **8.4 Investment Placement**

Investments will be placed on the basis of once-off quotations of money market rates at the time of placing surplus funds. Each locally approved banking institution eligible for such investment trade will be contacted and asked to quote their current treasury rates for the relevant amount and term of placement. Banks will be required to respond on such quotes within a given time to enable the placement to be done.

Surplus funds will be placed depending on the banks' responses and quoted rates, without any attempt to trade one bank off against another in order to secure better interest rates.

The investment advice reflecting all relevant details will be compiled and submitted to the CFO for authorisation and execution.

#### **8.5 Types of investments**

Ntinga O.R. Tambo Development Agency SOC LTD may use different types of investments to ensure that the investment will be of optimal benefit to the entity either long-term or short term. In such cases the chief financial officer will be guided by the best rates of interest pertaining to the specific type of investment and to the best and most secure instrument available at the time.

The following investment types may be utilised:

- ◆ Call & Fixed Deposits
- ◆ Money market
- ◆ Property
- ◆ Capital projects
- ◆ Municipal bonds

#### **8.6 Interest on investments**

The interest accrued on all the entity's investments shall, in compliance with the requirements of generally accepted municipal accounting practice, be recorded in the first instance in the

municipality's current account as ordinary operating revenues, and may thereafter be appropriated, at the end of each month, to the fund or account in respect of which such investment was made. All interest earned on the entity's investments shall be credited to that account and accrued interest on active investments shall, unless otherwise specified by the Accounting Officer, be paid on the last working day of each month. Closing interest shall be paid with the maturing capital on the expiry date.

### **8.7 Control over investments**

The chief financial officer shall ensure that proper records are kept of all investments made by the entity. Such records shall indicate the date on which the investment is 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 shall be indicated.

The chief financial officer shall ensure that all interest and capital properly due to the entity are timeously received, and shall take appropriate steps or cause such appropriate steps to be taken if interest or capital is not fully or timeously received.

The chief financial officer shall ensure that all investment documents are properly secured by handing them over to the Corporate Services manager for safekeeping.

## **9. RISK MANAGEMENT**

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.

This policy will aim to protect against the following risks:

- ◆ Fraudulent transactions
- ◆ Mismanagement of cash and investments
- ◆ Non-performance because of inadequate cash flows

- ◆ 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.
- ◆ No investment will be made for speculation purposes but exclusively for sound investment.
- ◆ Investments will be made with primary regard to the liquidity needs of the entity and to the probable income derived from the investment.

Risk control will include the following:

- ◆ The entity will liquidate an investment that no longer has the minimum acceptable rating as specified in this policy.
- ◆ The entity will ensure that all investments are with credit-worthy institutions.
- ◆ The entity will take all reasonable steps to diversify its investment portfolio across institutions, types and maturities.
- ◆ All investment will be made in the Entity's name and the entity is not allowed to borrow money for investment purposes.
- ◆ Accurate, complete and up-to-date cash management programme will ensure that:
  - Fraudulent activities in payments and receipts are promptly detected
  - Emergence of cash flow problems timeously identified
  - Proper budgetary management is possible

## **10. MONITORING**

The following will be set out in the monthly investment report:

- ◆ Market value of the investment at the beginning of the reporting period
- ◆ Changes to the investment portfolio during period
- ◆ Market value of investment at month end
- ◆ Interest received in the reporting period on investment


## **11. CONTRA ALLOCATION OF INTEREST EARNED**

Where funds are received from other authorities and applied to specific functions or tasks such special projects, the entity will isolate such funds and allocate interest earned on investments to the funding principal if stated per allocation conditions.

Contra interest allocations will take into account funds received from the principal, the period held and any expenditure incurred on such account, with interest being credited at the average investment rate earned for the relevant period.

## 12. REVIEW AND COMMENCEMENT

This investment policy will be reviewed annually and effective from 28 April 2022.

Formulated by:  Date: 28/04/22

CEO Recommendation:  Date: 28/04/22

