

CITY OF CAPE TOWN INVESTMENT POLICY

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CITY OF CAPE TOWN

INVESTMENT POLICY

May 2006

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CITY OF CAPE TOWN INVESTMENT POLICY

1. Definitions

In this policy, unless the context indicates otherwise-

“Act” - means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003);

“City” - means the City of Cape Town;

“Council” - means the Municipal Council of the City of Cape Town referred to in section 18 of the Municipal Structures Act;

“Gazette”- means the Government Gazette;

“Investee” - means an institution with which an investment is placed, or its agent;

“Investment” – means -

- (a) the placing on deposit of funds with a financial institution; or
- (b) the acquisition of monetary assets with funds not immediately required, with the primary aim of preserving those funds.

“Investment manager” - means 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 a municipality or municipal entity to –

- (a) advise it on investments;
- (b) manage investments on its behalf; or
- (c) advise it on investments and manage investments on its behalf;

“Trust money” - means money held in trust on behalf of third parties in a trust contemplated in terms of section 12 of the Act.

2. Introduction and background

2.1 Section 13(1) and (2) of the Local Government Municipal Finance Management Act, 2003 (Act No. 56 of 2003) requires that a municipality establish an appropriate and effective cash management and investment policy within which the municipality must (a) conduct its cash management and investments, and (b) invest money not immediately required, in accordance with any framework which may be prescribed.

2.2 National Treasury has issued municipal investment regulations dated 1st April 2005 (Gazette no. 27431) which set out a framework within which all municipalities shall conduct their cash management and investments.

2.3 This policy is consistent with the Act and the gazetted framework .

3. Adoption of Investment Policy

3.1 The City must formally adopt an investment policy which shall be consistent with the Act and its regulations.

3.2 All investments made by the City, or by an investment manager on behalf of the City, must be in accordance with this investment policy, and with any investment regulations promulgated by national government.

3.2 **The effective date of this policy shall be the date of its adoption by Council.**

4. Purpose

The purpose of this policy is to secure the sound and sustainable management of the City's surplus cash and investments.

5. Scope and Application

5.1 The policy governs the investment of money not immediately required by the City for the defrayment of expenditure.

5.2 The policy applies to all new and existing investments made by –

- (a) the City; and
- (b) all investment managers acting on behalf of the City in making or managing investments.

5.3 The policy does not apply to trust monies administered by the City where the trust deed prescribes how the trust money is to be invested.

6. Objectives

The objectives of the policy are –

- (a) to ensure compliance with the relevant legal and statutory requirements relating to cash management and investments;
- (b) to ensure the preservation and safety of the City's investments;
- (c) to ensure diversification of the City's investment portfolio across acceptable investees, permitted types of investments and investment maturities; and
- (d) to ensure timeous reporting of the investment portfolio as required by the Act in accordance with generally recognised accounting practice.
- (e) to ensure that the liquidity needs of the City are properly addressed.

7. Standards of ethics, judgment and care

7.1 Investments made by or on behalf of the City –

- (a) must be made whilst maintaining a strict code of ethics and standards;
- (b) must be a genuine investment and not an investment made for speculation;
- (c) must be made with primary regard to the security of the investment, secondly to the liquidity needs of the City, and lastly to the income or return from the investment;
- (d) must be made without internal or external interference whether such interference comes from individual officials, councillors, agents, investees or any other external body.

7.2 No fee, commission or other reward may be paid to a councillor or official of the City, or to a spouse or close family member of such councillor or official, in respect of any investment made by the City. This shall be confirmed annually by all investees to the Auditor-General.

7.3 All investments made by or on behalf of the City must be made in the name of the City.

7.4 The City shall take reasonable steps to diversify its investment portfolio across investees, type of investment and investment maturities.

7.5 Confidentiality

- (a) Although alternative rates on offer need to be disclosed when negotiating a rate on an investment, the disclosure of a specific rate from a specific named investee to another investee shall be strictly prohibited.
- (b) The City's current cash position and its projected future cash flows shall not be discussed with or disclosed to investees.

8. Permitted investments

8.1 The City shall invest only in the following instruments or investments:

- (a) securities issued by the national government;
- (b) listed corporate bonds with an investment grade rating from a nationally or internationally recognized credit rating agency;
- (c) deposits with banks registered in terms of the Banks Act, 1990 (Act no. 94 of 1990);
- (d) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act no. 45 of 1984);
- (e) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act no. 46 of 1984);

- (f) bankers acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990;
- (g) guaranteed endowment policies with the intention of establishing a sinking fund;
- (h) repurchase agreements with banks registered in terms of the Banks Act, 1990;
- (i) municipal bonds issued by a municipality;
- (j) any other investment type as the Minister of Finance may identify by regulation in terms of section 168 of the Act, in consultation with the Financial Services Board.

9. Prohibited investments

9.1 The City shall not be permitted to make the following investments:

- (a) investments in listed or unlisted shares, or unit trusts;
- (b) investments in stand alone derivative instruments;
- (c) investments denominated in, or linked to, foreign currencies;
- (d) investments in market linked endowment policies.

9.2 The City shall not borrow for the purpose of investing.

9.3 Any investment in capital or money market instruments shall be held until maturity. The City shall not buy and sell these instruments, to speculate with a view to making capital profits.

10. Investee limits

10.1 Calculation of limits

Maximum investment limits shall be set for each approved investee and these limits shall not be exceeded at the time of making the investment.

10.1.1 Deposit taking institutions

The investment limit per deposit taking institution shall be calculated as follows, using balance sheet figures obtained from the individual investees' Reserve Bank DI900 return:

5% of total equity divided by total assets multiplied by total deposits.

The ratio of the individual limits per investee, calculated above, as a percentage of the total limits, shall then be applied daily to the actual funds invested and available for investment. In this way, a daily investment limit, as per the calculated ratio, shall be determined per investee for any given level of total actual investments.

Investee limits and ratios, based on the above formulae, shall be revised annually, or as required upon the addition or deletion of an institution to or from the list of approved deposit taking investees.

10.2 Credit ratings

The City shall invest only with investees having, as applicable, an investment grade rating of **A.1-** or better, short term, and **A** or better, long term, from a nationally or internationally recognized credit rating agency.

10.3 Credit worthiness

The City must ensure that it places its investments only with credit-worthy investees. The credit worthiness of every investee shall be monitored throughout the year on an on-going basis. The City must liquidate an investment where the credit rating falls below the acceptable rate.

11. Competitive selection process

The selection of an investee for any investment shall be a competitive process. Where applicable, quotations shall be invited telephonically from at least three eligible investees for the terms for which the investment is to be placed. In the event of one of the investees offering a more beneficial rate for an alternative term, the other investees initially invited to quote should be approached for their rates on the alternative term. Quotations shall be recorded in writing and the recommended investee identified for signed approval by the authorised officials. As a general rule, subject to paragraphs 7.1.(c) and 10.1 above, the best rate offered shall secure the investment. Written confirmation of the terms of the investment shall be prepared and exchanged with the investee in all cases.

12. Internal control over investment function

12.1 Delegations

In terms of section 79 of the Act, the City Manager has delegated to the Chief Financial Officer (CFO), in writing, his duty under section 65(2)(h) to manage the City's available working capital effectively and economically in terms of the prescribed cash management and investment framework. The CFO has sub-delegated this duty to the Director: Treasury.

12.2 Obtaining quotations and concluding deals

Written mandates, signed by the Director:Treasury and the Chief Financial Officer, shall be issued to all investees with whom the City invests funds setting out the following:

- Authorised Dealers: names and particulars of the City officials who are authorised to transact investment deals telephonically with the investees;
- Authorised Signatories: names and particulars of the City officials who are authorised to sign written confirmations or any other correspondence in respect of investment deals.

A dealing sheet, signed by an authorised dealer, shall be prepared in all instances for each individual investment, detailing the quotations received and the recommended investee. The Manager: Treasury, or, in his absence, any of the authorised signatories referred to above, shall be authorised to approve the deal.

A written confirmation of the terms of each investment deal shall be prepared, and signed off by the Manager: Treasury and one other authorised signatory.

12.3 Approved investees

Any additions to or deletions from the list of approved investees, or any changes to the investment limits assigned to each investee, shall be approved jointly by the Manager: Treasury and the Director: Treasury.

12.4 Electronic Funds Transfer (EFT)

Investments shall be made electronically by EFT. Strict segregation of duties shall be maintained between the creator of a payment file and the payment authoriser/releaser. Investment EFT payments shall be authorised/released by the Manager: Treasury or by one of the authorised signatories referred to above.

12.5 Control over Investment Portfolio

A proper record shall be maintained of all investments made indicating, at a minimum, the investee, capital amount, interest rate and maturity date.

Interest must be correctly calculated and receipted timeously together with any capital which matures.

Investment papers and certificates must be kept in a locked, fireproof safe.

Investments must be recorded in the name of the City by the investee.

13. Cash management

13.1 Cash collections

The City shall insure that all cash received via the cash offices is collected and banked as early as possible in a controlled and secure manner. The cash handling procedures contained in the Revenue Directorate's "Cash Management Policy", approved by the City Manager on 17 August 2005, shall be adhered to in this regard.

Adequate cash receipting points shall be made available to the public in all areas to facilitate prompt payment of accounts. Every effort shall be made to encourage consumers to pay directly, or via third party agents, into the City's bank account by electronic means.

13.2 Payments to suppliers

Suppliers shall be paid in accordance with the payment clauses in the supply chain management policy. The number of monthly electronic batch payment runs shall be minimized and shall be done in a structured and scheduled manner in order to facilitate efficient cash flow management.

13.3 Bank current account balance

The balance on the City's current account shall be maintained at the minimum level possible taking into account daily cash requirements. Surplus cash shall be immediately invested in order to maximize interest earnings.

13.4 Cash forecasting

Effective cash flow forecasting is essential for determining the timing and size of cash surpluses and deficits affecting investment decisions. Forecasts of cash receipts and payments shall be prepared on a regular basis to facilitate investment decisions.

13.5 Cash flow reporting

In order to insure effective cash management for investment purposes, the following cash flow reports shall be prepared:

(a) Daily

- A summary of the preceding day, and month to date, closing bank account and investment balances, cash receipts, payments and inter-bank transfers.
- A detailed schedule of investment capital and interest maturing on the current day.
- A summarised schedule of daily investment maturities for all existing investments.
- A summarized monthly projected cash flow over the next 12 months.
- A summary of daily cash receipts and payments, actual against forecast, for the month to date.
- A daily projection of cash receipts and payments through to the end of the current month.

(b) Monthly

- A comparison of actual cash flow with forecast, current month and year to date.
- An explanation of variances in the above.
- An analysis of actual year to date cash receipts and payments, and projected cash flows for the remaining months of the current financial year, to be submitted to

National Treasury.

- The cash backing of statutory funds and reserves balances at month end.

(c) Quarterly

- A revised detailed cash flow projection for the next 12 months.

(d) Annually

- Preparation of the annual cash flow budget for the new financial year.

14. Investment reporting

Regular reporting mechanisms shall be in place in order to assess the performance of the investment portfolio and to ensure that the investments comply with policy objectives, guidelines, applicable laws and regulations -

The following reports shall be prepared :

(a) for internal Treasury management

- A daily summary of current investments by investee, actual against limits.
- A detailed schedule of investment capital and interest maturing on the current day.
- A daily summarised schedule of future maturities for all investments.
- A monthly reconciliation of all interest accrued with interest actually received.
- Each month, the weighted average actual return earned on investments for the month, and for the previous 3, 6, 9 and 12 months, shall be calculated on a nominal annual compounded monthly (nacm) basis and benchmarked against (a) the ABSA Bank cash management scheme (CMS) rate, and (b) the Alexander Forbes composite short term fixed interest (STEFI) rate. The CMS rate is the guaranteed interest rate (Prime minus 4.5%) available on the City's current account bank balance throughout the year, whilst the STEFI rate reflects the actual performance of money market instruments in the market.

(b) for the political leadership

- A monthly report on the investment portfolio, to be submitted to the Executive Mayor, and thereafter to the Finance Portfolio Committee for information, within ten working days of each month, detailing:
 - (a) the market value of each investment as at the beginning of the reporting period;
 - (b) any changes in the investment portfolio during the reporting period;

(c) the market value of each investment at the end of the reporting period; and
(d) fully accrued interest and yield for the reporting period.

- o A quarterly report to Council, in accordance with section 11.4.(a) of the Act, within 30 days after the end of each quarter, on the quarter's cash withdrawals from the City's bank account for investment purposes.

(c) for external parties

- o Notification to the Auditor-General, within 30 days after the end of the financial year, by all investees of any investment held by them for the City during that year.
- o Notification to the Auditor-General and the Provincial Treasury, within 90 days, of the name, type and number of any new bank account opened by the City.

15. Use of investment managers

The City shall be permitted to employ investment managers to:

- (a) advise it on its investments; and/or
- (b) manage specific investments on its behalf.

Appointment of an investment manager shall be made in accordance with the City's supply chain management policy.

All investments made by an investment manager on behalf of the City must be in accordance with this policy and with National Treasury's investment regulations.

If an investee pays any fee or commission to an investment manager in respect of the City's investments, both the investee and the investment manager must declare such payment to the Council by way of a certificate disclosing full details of the payment.

Investment managers found guilty of non-compliance with this policy, as well as the National Treasury investment regulations, shall be held liable for any loss or penalty suffered by the City.

16. Accounting for investments

The City's investments shall be accounted for as held to maturity (HTM) financial investments in accordance with the City's approved accounting policies. Initially recognized at cost, these investments shall be subsequently measured, at balance sheet date, at amortised cost, using the effective interest rate method, less any write-down for impairment or uncollectability.

17. Annual review of policy

This policy on investments will be reviewed annually or earlier if so required by legislation.

Any changes to the investment policy must be adopted by Council and be consistent with the Act and any National Treasury regulations.

18. Effective date

The effective date of this policy shall be

ANNEXURE A.1

STAATSKOERANT, 1 APRIL 2005

GOVERNMENT NOTICES

NATIONAL TREASURY

No. R. 308

1 April 2005

LOCAL GOVERNMENT : MUNICIPAL FINANCE MANAGEMENT ACT 2003 MUNICIPAL INVESTMENT REGULATIONS

The Minister of Finance, acting with the concurrence of the Minister for Provincial and Local Government, has in terms of Section 168, read with Section 13 and 99 (2)(g), of the Local Government : Municipal Finance Management Act, 2003 (Act No. 56 of 2003), made the regulations as set out in the Schedule.

SCHEDULE

Definitions

1. In these regulations, unless the context indicates otherwise, a word or expression to which a meaning has been assigned in the Act, has the same meaning, and-
“Act” means the Local Government : Municipal Finance Management Act, 2003 (Act No. 56 of 2003);
“investee” means an institution with which an investment is placed, or its agent;
“investment manager” means 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 a municipality or municipal entity to :-

- (a) advise it on investments;
- (b) manage investments on its behalf; or
- (c) advise it on investments and manage investments on its behalf.

“trust money” means money held in trust on behalf of third parties in a trust contemplated in terms of Section 12 of the Act.

Application

2. (1) These regulations apply to :-

- (a) all municipalities
- (b) all municipal entities; and
- (c) all investment managers acting on behalf of, or assisting, a municipality or municipal entity in making or managing investments.

(2) These regulations do not apply :-

- (a) to a pension or provident fund registered in terms of the Pension Funds Act, 1956 (Act No. 24 of 1956), or any subsequent legislation; or
- (b) in respect of trust money administered by a municipality or municipal entity where a trust deed prescribes how the trust money is to be invested.

(3) Municipal pension or provident funds which do not comply with subregulation (2)(a) are exempted from these regulations until 30 June 2005.

(4) The accounting officer of a municipality and municipal entity must provide the National Treasury with details of all pension or provident funds that do not comply with subregulation (2)(a) within 30 days of promulgation of these regulations.

Adoption of Investment Policies

3. (1) The investment policy to be established by a municipality in terms of Section 13(2) of the Act, must be :-

- (a) adopted by the Council of the municipality; and
- (b) consistent with the Act and these regulations.

- (2) The board of Directors of a municipal entity must adopt an investment policy for the entity consistent with the Act and these regulations.
- (3) All investments made by a municipality or municipal entity, or by an investment manager on behalf of a municipality or municipal entity, must be in accordance with the investment policy of the municipality or entity and these regulations.

Core elements of Investment Policies

4. The investment policy of a municipality or municipal entity must :-

- (a) be in writing;
- (b) give effect to these regulations; and
- (c) set out :-
 - (i) the scope of the policy;
 - (ii) the objectives of the policy, with due regard to the provisions of these regulations relating to :-
 - (aa) the preservation and safety of investments as the primary aim;
 - (bb) the need for investment diversification; and
 - (cc) the liquidity needs of the municipality or municipal entity;
 - (iii) a minimum acceptable credit rating for investments, including :-
 - (aa) a list of approved investment types that may be made, subject to regulation 6;
 - (bb) a list of approved institutions where or through which investments may be made, subject to regulation 10;
 - (iv) procedures for the invitation and selection of competitive bids or offers in accordance with Part 1 of Chapter 11 of the Act;
 - (v) measures for ensuring implementation of the policy and internal control over investments made;
 - (vi) procedures for reporting on and monitoring of all investments made, subject to regulation 9;
 - (vii) procedures for benchmarking and performance evaluation;

- (viii) the assignment of roles and functions, including any delegation of decision making powers;
- (ix) if investment managers are to be used, conditions for their use, including their liability in the event of non-compliance with the policy or these regulations; and
- (x) procedures for the annual review of the policy.

Standard of Care to be exercised when making Investments

5. Investments by a municipality or municipal entity, or by an investment manager on behalf of a municipality or entity :-
- (a) 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 persons' own affairs;
 - (b) may not be made for speculation but must be a genuine investment; and
 - (c) 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 the municipality or municipal entity and lastly to the probable income derived from the investment.

Permitted Investments

6. A municipality or municipal entity may invest funds only in any of the following investment types :-
- (a) securities issued by the national government;
 - (b) listed corporate bonds with an investment grade rating from a nationally or internationally recognised credit rating agency;
 - (c) deposits with banks registered in terms of the Banks Act, 1990 (Act No. 94 of 1990);
 - (d) deposits with the Public Investment Commissioners as contemplated by the Public Investment Commissioners Act, 1984 (Act No. 45 of 1984);
 - (e) deposits with the Corporation for Public Deposits as contemplated by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984);
 - (f) banker's acceptance certificates or negotiable certificates of deposit of banks registered in terms of the Banks Act, 1990;
 - (g) guaranteed endowment policies with the intention of establishing a sinking fund;
 - (h) repurchase agreements with banks registered in terms of the Banks Act, 1990;
 - (i) municipal bonds issued by a municipality; and

- (j) any other investment type as the Minister may identify by regulation in terms of Section 168 of the Act, in consultation with the Financial Services Board.

Investments denominated in foreign currencies prohibited

- 7. A municipality or municipal entity 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.

Payment of Commission

- 8. (1) No fee, commission or other reward may be paid to a Councillor or Official of a municipality or to a Director or Official of a municipal entity or to a spouse or close family member of such Councillor, Director or Official in respect of any investment made or referred by a municipality or municipal entity.
- (2) If an investee pays any fee, commission or other reward to an investment manager in respect of any investment made by a municipality or municipal entity, both the investee and the investment manager must declare such payment to the Council of the municipality or the board of directors of the municipal entity by way of a certificate disclosing full details of the payment.

Reporting requirements

- 9. (1) The accounting officer of a municipality or municipal entity must within 10 working days of the end of each month, as part of the Section 71 report required by the Act, submit to the mayor of the municipality or the board of directors of the municipal entity a report describing in accordance with generally recognised accounting practice the investment portfolio of that municipality or municipal entity as at the end of the month.
- (2) The report referred to in subregulation (1) must set out at least :-

- (a) the market value of each investment as at the beginning of the reporting period;
- (b) any changes to the investment portfolio during the reporting period;
- (c) the market value of each investment as at the end of the reporting period; and
- (d) fully accrued interest and yield for the reporting period.

Credit Requirements

10. (1) A municipality or municipal entity must take all reasonable and prudent steps consistent with its investment policy and according to the standard of care set out in regulation 5, to ensure that it places its investments with credit worthy institutions.
- (2) A municipality or municipal entity must :-
- (a) regularly monitor its investment portfolio; and
 - (b) when appropriate liquidate an investment that no longer has the minimum acceptable credit rating as specified in its investment policy.

Portfolio Diversification

11. A municipality or municipal entity must take all reasonable and prudent steps, consistent with its investment policy and according to the standard of care prescribed in regulation 5, to diversify its investment portfolio across institutions, types of investment and investment maturities.

Miscellaneous Provisions

12. (1) The responsibility and risk arising from any investment transaction vests in the relevant municipality or municipal entity.
- (2) All investments made by a municipality or municipal entity must be in the name of that municipality or municipal entity.
- (3) A municipality or municipal entity may not borrow money for the purpose of investment.

Existing Investments

13. Nothing in these regulations compels a municipality or municipal entity to liquidate an investment which existed when these regulations took effect merely because such investment does not comply with a provision of these regulations.

Commencement

14. These regulations take effect on 1 April 2005.

List of currently approved Investees

A. Deposit taking institutions

ABSA Bank

FirstRand Bank

Investec Bank

Nedbank

Standard Bank

Public Investment Commissioners

Corporation for Public Deposits

B. Corporate bond issuers

None currently approved.

C. Municipal bond issuers

None currently approved.

D. Endowment policy issuers

Momentum Life.

E. National Government/ Parastatals

RSA fixed income stock.

Eskom fixed income stock