LIMPOPO PROVINCIAL TREASURY INVESTMENT

POLICY

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1. DEFINITIONS

In this policy, unless the context indicates otherwise the following definitions will apply:

“AA ratings” means very high credit quality which denotes a very low expectation of credit risk, the capacity for timely payments is not significantly vulnerable to foreseeable events;

“A ratings” means high credit quality which denotes a low expectation of credit risk, but the capacity for timely payments may be more vulnerable to changes in circumstances or in economic conditions;

“AAA ratings” means highest credit quality which denotes the lowest expectation of credit risk, the capacity for timely payments is unlikely to be adversely affected by foreseeable events;

“Act” means Public Finance Management Act, 1999 (Act No. 1 of 1999) as amended by the Public Finance Management Act No. 29 of 1999);

“Constitution” means the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996);

“CPD” means Corporation for Public Deposits;

“Department” means Limpopo Provincial Treasury;

“Fund” means Provincial Revenue Fund;

“General manager” means the General Manager responsible for Assets and Liabilities Management in Limpopo Provincial Treasury;

“IGCC” means Intergovernmental Cash Coordination;

“Head of Department” means the Head of Department of Limpopo Provincial Treasury;

“Manager” means the manager responsible for cash-flow management in Limpopo Provincial Treasury;

“MEC” means Member of the Executive Council for Limpopo Provincial Treasury;

“Officials” means staff members responsible for banking and cash management in Limpopo Provincial Treasury;

“Payment schedule” means the schedule of cash transfers as approved by National Treasury, derived from the cash-flow projections by the province;

“PMG” means Paymaster General;

“SARB” South African Reserve Bank;

“Senior general manager” means the senior general manager responsible for Assets, Liabilities and Supply Chain Management in Limpopo Provincial Treasury;

“Senior manager” means the senior manager responsible for banking and cash management in Limpopo Provincial Treasury.

2. APPLICABLE LEGAL FRAMEWORK

2.1 Section 21-25 of the Act (Act No. 1 of 1999) as amended by Act No.29 of 1999 deals with all the matters of the fund.

Of importance is the provision of Section 21(1) of the Act, which confers the responsibility for the fund on the Department and paragraph (a) which requires that all monies received by the Province be paid directly into fund.

Section 24 of the Act stipulates that only the Department may withdraw money from a fund. All the legal requirements in terms of the Act are echoed in the Treasury Regulations made in terms of Section 76 of the Act.

2.2 The Constitution.

Section 217(1) of the Constitution stipulates that "when an organ of state acquires goods and services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost effective".

2.3 Treasury Regulations for the Department, Trading Entities, Constitutional Institutions and Public Entities, issued in terms of Public Finance Management Act, 1999 (Treasury Regulations), which provides for the effective and efficient financial management, more in particular, the investment of state funds from the Limpopo Provincial Revenue Fund.

2.4 The government of the Republic of South Africa has implemented IGCC System, and that necessitate the use of CPD. The current mandate of CPD is set out in the Corporation for Public Deposits Act, 1984. The Act allows for the depositing of public and other funds with the CPD. The CPD Board is currently composed of the SARB and the National Treasury employees, all appointed by the Minister of Finance.

3. PURPOSE OF THE POLICY

3.1 To lay down guidelines and directives for officials working and handling the investment of state funds from the Fund.

3.2 To draw up a prescription framework document for temporarily investing in the Republic of South Africa banking institutions as required by Section 24(3)(a) of the Act.

3.3 To ensure accountability on the part of line managers responsible for taking decisions on the investment of state funds under their control.

3.4 To promote and enforce transparency and effective management in respect of funds invested from the fund.

3.5 To assist line managers in the determination of a framework which is fair, equitable, transparent, competitive and cost-effective, regarding invitation of tenders from banks.

3.6 To determine the acceptable risk levels at which public funds may be invested.

3.7 To determine the period and amount of investments.

4. SCOPE OF APPLICATION

This policy is applicable to Department, its officials and Banking Institutions of South Africa with regard to the investment of funds in Provincial Revenue Fund.

5. RISK DETERMINATION

5.1. The aim of funds investment is understood in the context of the responsibility of the public service main objective, i.e. rendering service to the public as opposed to profit making motive, thus this ideal should always be borne in mind when investing state funds.

5.2 An investment should be done only after the risk factor has been taken into consideration, thus the investment shall be done to ensure the protection of capital invested and achieving maximum returns on them at an acceptable risk level.

5.3 The risk as determined in this policy is based on the analysis done by the different Rating Institutions of South Africa, namely, FITCH IBA South Africa and CA-Rating.

5.4 Credit ratings provide an opinion on the relative ability of an entity to meet financial commitments, such as interest, preferred dividends, and repayment of principal, insurance claims or counterparty obligations.

5A RATING PER INSTITUTION

INSTITUTION	FITCH RATINGS	CA RATINGS
ABSA	AAA	AA
Standard Bank	AA+	
FirstRand Bank	AA	AA-
Nedbank Ltd	AA-	AA-
Investec Bank Ltd	A+	A+

6. INVESTMENT OF FUNDS

In terms of this policy the Department will invest funds with two categories of financial institutions as defined here under.

6.1 CATEGORY 1: FINANCIAL INSTITUTIONS

This category will include all institutions which their degree of safety regarding timely payments is either overwhelming or very strong. This is the best credit risk relative to all others in this country and is normally assigned to all financial commitments issued or guaranteed by the sovereign state. This category is limited to all institutions as mentioned in sub-clause 5.5 above.

6.2 CATEGORY 2: IGCC

6.2.1 This is the system introduced by the government and its purpose is to optimize the use of borrowed money, eliminate government inefficiencies in short term borrowing, especially in relation to provinces for bridging finance and reduce the credit risk exposure of government to the banking sector.

6.2.2 The IGCC system principles that have been agreed on are the following:

(i) compliance with the Constitution and other applicable statutes.
(ii) improve coordination of intergovernmental cash.
(iii) ensure that provinces receive monies due to them in terms of the division of revenue timeously.
(iv) enhance credit risk management across government.
(v) optimize the use of borrowed funds within Government.

(vi) reduce borrowing costs both at National and Provincial levels.

(vii) ensure that the provinces are not worse-off than their current status in terms of risk/return profile.

6.2.3 The institution that will be used in this category will only be the CPD with its accounts at the SARB.

7. LIMITATIONS

7.1 The investment with the category 1 institutions will be made according to the following:

7.1.1 Only if the interest rate excluding the administration fee is more than the prevailing interest rate on the CPD, at the time when such investment is made.

7.1.2 Borrowing by National Treasury from the Provincial CPD account must take precedence at all times irrespective of what the institutions in category 1 offers.

7.1.3 Investment period will not exceed 90 days on any given amount at any time.

7.1.4 All investments must mature by no later than 31 March in each financial year.

7.1.5 Provincial Treasury shall invest surplus funds from different PMG accounts on a daily basis on overnight facility.

7.1.6 For the purpose of this policy, only the FITCH ratings will be used as a guide to set the limits for the amount to be invested with each institution.

7.1.7 Total investment with category 1 institutions will not exceed R750 million at any given time, and will be limited as per the table below.

INSTITUTION	RATINGS	MAXIMUM AMOUNT THAT CAN BE INVESTED AT ANY TIME PER MONTH
ABSA	AAA	R300 million
Standard Bank	AA+	R200 million
FirstRand Bank	AA	R150 million
Nedbank Ltd	AA-	R50 million
Investec Bank Ltd	A+	R50 million

7.2 The investment with the category 2 institutions as per sub-clause 6.2 will be made according to the following:

7.2.1 The Department shall keep the level of surplus funds in the PRF as low as possible, and leave unused funds in the CPD account.

7.2.2 The Department must ensure that funds are transferred from the CPD account into fund only when they are needed, irrespective of the requisitions from departments.

7.2.3 Thorough analysis of departmental spending and requisitions should be done to ensure that balances in the PMG accounts are kept at the level of effective and efficient spending.

7.2.4 No limit will apply with regard to investments in this category.

7.2.5 Investments in CPD should at all times be preferred, unless the return offered by institutions in category 1 far outweighs the risk involved.

7.3 All investment will be done in terms of normal fixed deposit or call deposit standards.

7.4 This policy prohibits the use of financial instruments when investing state funds.

7.5 Borrowing from the fund by any institution is prohibited.

8. OPERATIONAL GUIDELINES

8.1 The Senior Manager responsible for Banking and Cash-flow Management will on a monthly basis analyze the departmental requisitions or projections to determine the level of cash available for investment and forward them to the General Manager.

8.2 Recommendations will then be forwarded to the Senior General Manager for consideration and thereafter to the Head of Department for approval or disapproval.

8.3 The investment of state funds will be done to improve revenue collection through maximization of returns.

8.4 The Senior General Manager must ensure that revenue is not maximized at the expense of service delivery at all times.

8.5 Departments must submit credible cash forecast to Department at least three working days before end of the month, to allow proper planning for investments, so as to maximize interest generated.

8.6 Departments are allowed to revise their cash forecast in line with the payment schedule, and that should be done at least three days before the actual cash is needed.

8.7 The Department shall use its discretion when transferring funds to departments, based on the available funds in the individual PMGs, and not compromising service delivery.

8.8 The Senior Manager for banking and cash management must ensure that the fund will not be overdrawn as a result of investments made. The Senior Manager will therefore ensure maturity of investments on the days when scheduled payments are due.

8.9 The extension of the investment period must be as far as possible be avoided, where the investments is with category 1 institutions.

8.10 Limitations and requirements as set out in clause 7 shall be adhered to at all times to minimize the risk involved.

8.11 The approved payment policy must be adhered to for the release of the payment.

9. TENDER PROCEDURE

9.1. The Procedure in inviting tenders from the different banking institutions and Intergovernmental Cash Coordination process will be as follows:

9.1.1. officials will invite quotations for investment by fax from all institutions in category 1.

9.1.2. invitation of investment quotations will not be assigned to a specific official but will be rotated.

9.1.3. the Head of Department will appoint a committee of not more than four (4) members and its role will be to approve investment on quotations received. The term of the committee will not exceed 12 months at any given time.

9.1.4. the supply chain management policy in government will be complied with, but the appointment of the adjudication committee members as per sub-clause 9.1.3 will not necessarily be the members of the departmental tender committee.

9.1.5. the highest interest rate offered and the possible risk as per clause 5 should be used as guide when awarding a tender, however the Department Treasury retains the right not to award the tender to the highest quote.

9.1.6. in instances where the quotes are the same, the committee as appointed per sub-clause 9.1.3 will award the tender at its discretion based on the risk determination as outlined in clause 5.

9.1.7. the outcomes of the tender will be communicated to the relevant institution by fax, which will be required to confirm the investment details in writing per fax or by post.

9.3 The Senior General Manager will submit a report on investments to the Head of Department on a monthly basis. The report will include the results of all the tenders requested.

10. BOOKKEEPING

10.1 The Senior Manager shall ensure that the Investment register exists and the minimum information contained will be as follows:

10.1.1 the date of the investment.
10.1.2 the date of maturity.
10.1.3 the particulars or description thereof.
10.1.4 the institution with which the investment is held.
10.1.5 the capital amount invested.
10.1.6 the period for which the funds have been invested.
10.1.7 the quoted interest rates.
10.1.8 upon receipt of the funds from the bank the actual interest amount received.
10.1.9 the Senior Manager will be required to certify the amounts received as correct.

10.2 All investments should be properly recorded and accounted for on the current financial systems.

11. POLICY CONTROL

11.1 POLICY AUDIT

Annual audits will be conducted by the Directorate: Banking and Cash flow Management to ensure appropriate compliance with the Policy.

11.2 POLICY REVIEW

This policy is subject to annual review or when deemed necessary by the Department, to ensure that it is aligned to prevailing legislation and market related conditions.

11.3 POLICY AMENDMENTS

No amendment(s) may be made to any section of this policy without such amendment(s) first being-

- negotiated with recognised Employee Organisations; and
- duly approved and signed by the recognised parties to the Provincial Bargaining Council.

12. EFFECTIVE DATE

This policy will be effective from the 22 day of June 2007.

13. RATIFICATION

Signed at Polokwane on this 22 day of June 2007.

HEAD OF DEPARTMENT : ______________________

MEMBER OF EXECUTIVE COUNCIL : ______________________