



MOGALE CITY LOCAL MUNICIPALITY

CAPITAL PROJECT AND INFRASTRUCTURE INVESTMENT POLICY

2024 -2025

GT481



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1. DEFINITIONS

“Asset” means a tangible or intangible resource capable of ownership.

“Capital Asset” means:-

(a) Any immovable asset such as land, property or buildings; or

(b) Any moveable asset that can be used continuously or repeatedly for more than one year in the production or supply of goods or services, for rental to others or for administrative purposes, and from which future economic or social economic benefit can be derived, such as plant, machinery and equipment.

“Capital Expenditure (CAPEX)” means expenditure used to create new assets or to increase the capacity of existing assets.

“Infrastructure Assets” includes all core assets which are integral to the delivery of municipal services, including water supply, sanitation, road transport and stormwater drainage, solid waste removal, electricity supply, and community facilities. In terms of GRAP, it includes all immovable Property, Plant and Equipment (PPE), as well as specific immovable assets such as vehicles that are directly used in the delivery of the service (such as waste removal trucks). It excludes intangible assets (such as licenses, software, etc.) and current assets (ones with a life less than 12 months, such as consumables).

“Infrastructure Asset Management Plan (IAM)” means a plan developed for the management of Infrastructure Assets with the aim of providing specified levels of service in a cost-effective manner, now and in the future. Multi-disciplinary management techniques (including technical and financial) are combined to determine the aggregated asset life-cycle needs. A significant component of the plan is a long-term cashflow.

“Infrastructure Asset Management Policy” means a formal statement adopted by Council that indicates the municipality’s policy objective, the policy principles, and how these will be pursued (including the establishment of an IAM Team and aligned systems and planning).

“Infrastructure Asset Management Strategy” means a document that defines key IAM processes and targets including the definition of Consumer Groups and Service Catchments; Service Performance Standards and targets that accommodate the municipality’s vision of future growth and demand; interaction and coordination measures; AMS functionality and data standards; risk management processes; IAM practice improvement processes; a funding and prioritisation strategy; and allocation of responsibility for implementation.

“Operation” relates to running the service e.g. record keeping, accounting, monitoring, complaints, repairs.

“Maintenance” means the actions required for an asset to achieve its expected useful life and ensuring that the asset functions efficiently for the whole of its Expected Useful Life. Maintenance can be planned or unplanned. Planned Maintenance includes measures to prevent known failure modes and can be time or condition based. Repairs are a form of unplanned maintenance to restore an asset to its previous condition after failure or damage.

Expenses on maintenance are considered operational expenditure.



2. INTRODUCTION

2.1 This policy aims to describe the process through which the Municipality can initiate projects of a capital nature. It ultimately aims to serve as a principal instrument to steer the budget for Infrastructure and Capital projects in the Municipality around a particular agreeable and sustainable developmental path.

2.2 This policy is mandated by section 8 of the Local Government: Municipal Budget and Reporting Regulations (MBRR).

3.PURPOSE

The capital project and infrastructure investment policy seek to institute the necessary control measures to facilitate the daily activity of the municipality by providing a guideline for all stakeholders as to what is required for the formulation of capital projects and infrastructure investment, an internal dynamic document detailing the processes required for the efficient discharge of duties relative to financial controls necessary to ensure the efficient administration of the Mogale City Local Municipality (MCLM) budgets and a guideline for business units to plan and promote capital projects.

This policy sets out the process and methodology for capital investment of any nature, regardless of the funding source. The following investments of a capital infrastructure nature falls within the ambit of this policy:-

3.1.1 New building construction or acquisitions;

3.1.2 Extensions to existing buildings;

3.1.3 Upgrades to accommodation and housing, other than those projects relating to low cost housing;

3.1.4 Land acquisitions;

3.1.5 All major capital works, as covered within the Asset Maintenance / Life-Cycle Management Policy;

3.1.6 All infrastructure developments; and

3.1.7 Information and communication infrastructure renewals and/or upgrades;

4.OBJECTIVE

To ensure procedures and internal controls are in place to drive capital projects and infrastructure developments by:

i. Infusing business processes into internal control which complies with

all legislation and statutory requirements;

ii. Safeguarding cash resources and optimising cash flow via effective, efficient and economical use of the MCLM cash resources;



- iii. Driving a culture of accountability over MCLM by skilling staff and stakeholders alike;
- iv. Ensuring the budgetary process is not compromised;
- v. Ensure that staff assigned to capital projects should be appropriately trained and be aware of relevant policies and procedures.
- vi. Communicate to all staff that any monetary loss because of noncompliance with this policy is deemed to be gross negligence and could be cause for disciplinary action.

5.GUIDING PRINCIPLES

5.1. The Capital Infrastructure Investment Policy is based on the following principles: -

5.1.1 Need as identified within the IDP, underpinned by the Municipal Capital Investment Program and National Spatial Development Perspective;

5.1.2 Necessity to fulfil the service delivery mandate as identified within the Asset Maintenance /Life-Cycle Management Policy; and

5.1.3 Affordability.

6.REGULATORY CONTEXT

The Municipal council is compelled to annually approve a budget before the commencement of that particular year – Chapter4 of the MFMA. The budgetary process comprises monetary allocations per vote categorised in operating budgets and capital budgets. The former seeks to provide the framework for operational dictates whilst the latter seeks to plan and sustain longer term visioning of the municipality.

Subsection 19 of the MFMA holds that:

1) A municipality may spend money on a capital project only if:

a. The money for the project, excluding the feasibility study conducted by or on behalf of the municipality, has been appropriated in the capital budget;

b. The project, inclusive of land cost has been approved by council;

c. Section 33 has been complied with to the extent it refers to the capital project;

d. The sources of funding has been considered, are available and have been committed for the purposes

2) Before approving a capital project as per subsection (1)(b), the council needs to consider:

a. The total project cost covering all financial years until the project is operational;

b. The future operational costs and revenue on the project, including municipal tax and tariffs implications.

3) A municipal council may in terms of subsection (1)(b) approve capital projects below a prescribed value either individually or as part of a consolidated capital programme.



7.ROLEPLAYERS

The following non exhaustive lists are of the various stakeholders who participate in the process:

7.2.1 Budget and Treasury Office in the Finance Department

- i. Charged with the administrative and technical oversight to the compilation of a capital budget;
- ii. Review policies, strategies, legislations and strategic imperatives to satisfy compliance and good governance;
- iii. Play the financial oversight role on the project through constant interaction with the designated project leader or project finance official.

7.2.2 Directorates and Departments

- i. Originate and place the capital project in the budgetary process;
- ii. Post approval, through the mandated reporting line –both political and administrative – inform the budget office of the approved budget;
- iii. Provide information on any amendments to the adopted budget, as and when they arise.

7.2.3 Chief Financial Officer

- i. Draft the intended capital project into the broader budgets;
- ii. Have an oversight role in all capital projects via monthly reporting mechanisms.

7.2.4 Municipal Council

The Municipal Council is responsible for the approval of the Capital Budget.

8.NEW CAPITAL INFRASTRUCTURE INVESTMENT

8.1. New infrastructure development may only be entered into if:-

8.1.1 The project is in line with the Municipality's IDP;

8.1.2 Funding has been secured through either internal or external funding mechanisms and has been approved in the Municipality's Capital Budget; and

8.1.3 A detailed life-cycle funding plan has been developed, supported and integrated into the Asset Maintenance / Life –Cycle Management Policy;

8.2. All new infrastructure investments will be subject to:-

8.2.1 Needs analysis based on:-

- i. Service delivery sustainability;



- ii. Consumer growth projections which are in line with the National and Regional Spatial Development Growth Perspectives; and
- iii. National, Regional and Municipal strategic directives.

8.2.2 Strategic project plan, including:-

- i. A holistic overview of the direct benefits, risks and impact of the intended project;
- ii. An assessment on the impact of current Infrastructure;
- iii. A service delivery framework relevant to the project;
- iv. A cost assessment, detailing the capital and maintenance cost projections for the entire life-cycle; and
- v. A funding model, detailing the financing source and associated cost, if any, as well as any revenue projections associated with the project.

8.2.3 Outcome of stakeholder consultation, including:-

- i. Environmental impact studies; and
- ii. Feedback from community participation process, with specific focus on:-
 - Rights and entitlements of members of the community; and
 - Impact on quality of life.

8.2.4 Implementation model, detailing:-

- i. Relevant skills base and source of skills required for implementation; and
- ii. Specific timeframes for each activity throughout the project lifecycle (cradle to grave approach).

9. REFURBISHMENT AND SIGNIFICANT INFRASTRUCTURE MAINTENANCE PROJECTS

9.1 All Capital Infrastructure refurbishment and significant maintenance projects may only be entered into if:-

9.1.1 The project is in line with the Municipality's IDP or emergency maintenance framework;

9.1.2 Funding has been secured through either internal or external funding mechanisms and has been approved in the Municipality's Capital Budget; and

9.1.3 A detailed life-cycle funding plan has been developed, supported, and integrated into the Asset Maintenance / Life –Cycle Management Policy.



9.2 All refurbishments and significant infrastructure maintenance projects will be subject to:-

9.2.1 Needs analysis based on:-

- i. Service delivery sustainability; and
- ii. Asset redundancy and failure assessment of the asset under scrutiny.

9.2.2 Strategic project plan, including:-

- i. An holistic overview of the direct benefits, risks and impact of the intended refurbishment project;
- ii. An assessment on the potential impact of unavailability of the asset during the refurbishment process, including redundancy measures;
- iii. A service delivery framework relevant to the project;
- iv. A cost assessment, detailing the capital and maintenance cost projections for the entire life cycle; and
- v. A funding model, detailing the financing source and associated cost, if any, as well as any revenue projections associated with the project.

9.2.3 Outcome of stakeholder consultation, including:-

- i. Environmental impact studies; and
- ii. Feedback from community participation process, with specific focus on;
 - Rights and entitlements of members of the community; and
 - Impact on quality of life;

9.2.4 Implementation model, detailing:-

- i. Relevant skills base and source of skills required for implementation; and
- ii. Specific timeframes for each activity throughout the project lifecycle (cradle to grave approach)

10.FUNDING OF CAPITAL INFRASTRUCTURE INVESTMENTS

10.1 All new Capital Infrastructure Investments may be funded from:-

- 10.1.1 Cash backed accumulated surpluses;
- 10.1.2 Borrowings;
- 10.1.3 Government grants and subsidies;
- 10.1.4 Public donations and contributions;
- 10.1.5 PPP initiatives in line with the MFMA PPE regulations; and
- 10.1.6 Operating Revenue.



10.2 All refurbishment and significant infrastructure maintenance projects may be funded from:-

10.2.1 Cash backed accumulated surpluses;

10.2.2 Borrowings in respect of refurbishment;

10.2.3 Government grants and subsidies in accordance with their relevant conditions;
and

10.2.4 Operating Revenue.

11. DERIVING A CAPITAL BUDGET

11.1.1 The zero-based method is used to initiate new capital projects– except if there is a contractual obligation in excess of one financial year;

11.1.2 Realistic revenue streams are to serve as the funding source for capital projects;

11.1.3 The full spectrum of charges ancillary to the project are to be tabled inclusive but not limited to, finance charges, depreciation, maintenance and all other charges;

11.1.4 The net effect – realistic revenue expectation as opposed to fees attracted needs to be examined for impact on future property rates and service tariffs;

11.1.5 The fair value of the asset may be determined by examining possible future economic benefits derived;

11.1.6 Care has to be taken as to whether the capital expense is to be for replacement assets or new capital expenditure;

11.1.7 CAPEX is only permissible post capital budget appropriation;

11.1.8 Funding sources for the capital project needs to be clearly identified and ring fenced for that specific project.

11.2 INFRASTRUCTURE BUDGETING

11.2.1 The ongoing renewal of Infrastructure Assets should be budgeted based on the available funds.

11.2.2 Ongoing Repairs and Maintenance of Infrastructure Assets should be budgeted based on available.

12. IMPLEMENTATION OF CAPITAL BUDGET

Business units based on annual plans need to in consultation with both their political heads and heads of department prepare:

12.1 Revised capital budget reflecting revised estimates for the current financial year;

12.2 A Capital Budget for the ensuing year with a Capital programme for the next three financial years based on:



- i. Total project costing and the operational impact for all financial years cited, inclusive of cash flow impact;
- ii. Unfinished Projects from the previous year will be accommodated if they fall within 85% to be completed. Such unfinished are to be identified at the annual budget preparation review;
- iii. New or additional projects not previously approved by Council, need to be endorsed by both the Mayoral Committee and the relevant head of department, and Municipal Manager, also not prejudice existing projects;
- vi. The draft capital budget and capital programme need to be aligned and consistent with the IDP.

12.3 Reconciling and Monitoring

12.3.1 Consistent monitoring will ensure early detection of constraints and blockages and such need to be addressed;

13. IMPLEMENTATION AND REVIEW OF THIS POLICY

13.1 This policy shall be implemented once approved by Council.

13.2 In terms of section 17(1)(e) of the MFMA this policy must be reviewed on a regular basis as deemed necessary and the reviewed policy tabled to Council for approval as part of the budget process.