

# MERAFONG CITY LOCAL MUNICIPALITY



## BP6 INVESTMENT POLICY FINANCIAL YEAR 2020/2021

# BP6 Investment Policy

<b>Investment: Policy</b>	<b>Effective Date: 01 July 2020</b>
<b>Approved:</b>	<b>Review Date: 01 July 2021</b>
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## 1. PURPOSE

1.1. 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:-

1.1.1 New building construction or acquisitions;

1.1.2 Extensions to existing buildings;

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

1.1.4 Land acquisitions;

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

1.1.6 All infrastructure developments; and

1.1.7 Information and communication infrastructure renewals and/or upgrades;

## 2 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 GAMAP, 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.

### **3. OBJECTIVE**

3.1 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.

3.2 This policy is mandated by section 8 of the Local Government: Municipal Budget and Reporting Regulations.

### **4. POLICY AMENDMENT**

The Accounting Officer must–

- (a) at least annually review the implementation of this Policy; and
- (b) when the Accounting Officer considers it necessary, submit proposals for the amendment of this Policy to the Council.

The review of this policy and any amendment should be made with due consideration and in conjunction with the annual review of the budget related policies as prescribed in the Municipal Budget and Reporting Regulations, 2008.

## 5. **RELATIONSHIP WITH OTHER POLICIES**

This policy needs to be read in conjunction with other relevant adopted policies of the municipality, including the following:

- Delegation of Powers;
- Accounting Policy;
- Credit Control and Debt Collection Policy;
- Tariff, Indigent and Free Basic Services Policy;
- Property Rates Policy;
- Budget Implementation and Monitoring Policy;

## 6. **REFERENCES**

The following references were observed in compiling this document:

- Municipal Finance Management Act, 2003
- Municipal Systems Act, 2000
- Municipal Structures Act, 1998
- Accounting Standards Board
- Municipal Budget and Reporting Regulations, 2008
- Generally Recognised Accounting Practice

## 7. **PRINCIPLES**

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

7.1.1 Need as identified within the IDP, underpinned by the Municipal Capital

Investment Program and National Spatial Development Perspective;

7.1.2 Necessity to fulfil the service delivery mandate as identified within the Asset

Maintenance / Life-Cycle Management Policy; and

7.1.3 Affordability.

## 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 INFRASTRUCTURE BUDGETING**

11.1 The ongoing renewal of Infrastructure Assets should be at minimum 2.5 % of current Replacement Cost (CRC).

11.2 Ongoing Repairs and Maintenance of Infrastructure Assets should be at the very least 2% of Current Replacement Cost (excluding bulk purchases).

## **12 IMPLEMENTATION AND REVIEW OF THIS POLICY**

12.1 This policy shall be implemented once approved by Council.

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

### **12.3 APPROVAL AND EFFECTIVE DATE**

The policy will be effective as from 1 July 2020.