

# MERAFONG CITY LOCAL MUNICIPALITY



## **BP6 INVESTMENT POLICY FINANCIAL YEAR 2022/2023**

# BP6 Investment Policy

<b>Investment: Policy</b>	<b>Effective Date: 01 July 2022</b>
<b>Approved:</b>	<b>Review Date: 31 March 2022</b>

## 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 Affordability.

### **Standards of Care**

#### **Prudence**

The Municipal Manager, in accordance with this policy, must exercise due diligence in carrying out the investment function. The MCLM has a responsibility to invest public Finance funds with great care and is accountable to the community in this regard. Investments must be made with such judgement and care, under the prevailing circumstances, as a person of prudence, discretion and intelligence would exercise in the management of that person's own affairs. Investments may not be for speculation but must be genuine investments.

#### **Ethics and Conflicts of Interest**

Ethics and Conflicts of Interest Officials responsible for the investment of funds must steer clear of outside interference, regardless of whether such interference comes from individual Councillors, agents or any other institution. The ethical standards as contained in the Municipal Supply Chain Management Policy are "mutatis mutandis" applicable to investment activities. Interest rates offered should never be divulged to another institution

#### **Payment of Commission**

No commission or other award may be paid to an official or Councillor of Merafong City LM or to a spouse or close family in respect of any investment made or referred by Merafong City LM. If an investee pays any commission or other reward to an external investment manager appointed by the MCLM in respect of any investment made by MCLM, 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.

### **Short-term investments**

In order to obtain the greatest security for MCLM's funds, short-term investments are not to be made with financial institutions with ratings lower than A1 /F1 as defined in the National Rating Definitions.

### **Long-term investments not to be treated in terms of MFMA section 33 or section 46 in the investments process**

Although long-term investments are regarded as "competitive bids" and must be treated in accordance with the Supply Chain Management Policy, in as far as allowing fair competition among the financial institutions / investing institutions / fund managers that meet the predefined criteria. Investing in permitted investments, in terms of the municipal investment regulation 6 and clause 3.1 of this policy; represents prudent financial management that ensures fund preservation and building cash reserves in the name of the municipality / entity to yield better return while ensuring that there will be sufficient cash liquidity for the municipality to meet its commitments when due and service delivery objectives as a primary premise. Therefore, funds investment should be viewed as creating cash diversification for the municipality and not as creating expenditure or obligation as such. In conclusion; the MFMA section 33 or section 46 is not applicable in the investments process

### **The Process of Investment of Funds**

The process of investment of funds must in the first instance be made with the primary regard being to the probable safety of the investment in the second instance to the liquidity needs of MCLM and lastly to the probable income derived from the investment. The investment of funds must be dealt with in accordance with the procedure for the calling of quotations.

### **Safekeeping and Custody**

The Chief Financial Officer shall establish and maintain an internal control structure designed to ensure the assets of the municipality are protected from loss, theft, or misuse. The controls will be to prevent losses of public funds from fraud, employee errors, misrepresentation by third parties, or imprudent actions by employees and officers of MCLM. The controls will include, among others:

- Control of collusion
- Separation of functions
- Separation of transaction authority from accounting and record-keeping
- Custodial safekeeping
- Clear delegation of authority to subordinate staff members
- Specific limitations regarding security losses and remedial action
- Supervisory control of employee actions
- Minimising the number of authorised investment officials
- Effective data management and reporting system for investment activities – Documentation of transactions and strategies.

### **Reporting**

The Municipal Manager must, within 10 working days after the end of each month, submit to the Executive Mayor a report describing, in accordance with generally 432 recognised accounting practice, the investment portfolio as at the end of the month. The above-mentioned report must set out the following:

- the market value of each investment as at the beginning of the reporting period;
- any changes to the investment portfolio during the reporting period;
- the market value of each investment as at the end of the reporting period; and
- fully accrued interest or yield for the reporting period.

A bank, insurance company or other Investment / Fund Managers which at the end of a financial year holds, or at any time during a financial year held, an investment for MCLM, must: - within 30 days after the end of that financial year notify the Auditor General, in writing, of that investment, including the opening and closing balances of that investment in that financial year and; - promptly disclose information regarding the investment when so requested by the National Treasury or the Auditor-General.

## **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 The Council to utilise MSCOA Investment return and report to LGDatabase on quartely basis

13. **APPROVAL AND EFFECTIVE DATE**

The policy will be effective as from 1 July 2022.