



INFRASTRUCTURE INVESTMENT AND CAPITAL PROJECTS POLICY

REVIEWED: 30.05.2022

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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.

“Council” means the municipal council of Overberg District Municipality.

“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, however, excludes intangible assets (such as licenses, software, etc.) and current assets (assets with a life less than 12 months, such as consumables).

“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.

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

“MFMA” means the Municipal Finance Management Act No. 56 of 2003.

“Maintenance” means the actions required for an asset to achieve its expected useful life and thereby ensuring that the asset concerned functions efficiently for the whole of its Expected Useful Life. Maintenance can be planned or unplanned. Planned Maintenance (Preventative maintenance) includes measures to prevent known failure modes and can be time or condition based. Repairs (Corrective maintenance) 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

- (a) 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.
- (b) This policy is required to meet the requirements of Regulation 7 of the Local Government: Municipal Budget and Reporting Regulations contained in General Notice No. 393 of 2009.

3. PURPOSE

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 fall within the ambit of this policy:

- (a) New building construction or acquisitions;
- (b) Extensions to existing buildings;
- (c) Land acquisitions;
- (d) All major capital works, referred to in the Asset Maintenance / Life-Cycle Management components of the Asset Management Policy;
- (e) All infrastructure developments; and
- (f) Information and communication infrastructure renewals and/or upgrades.

4. STRATEGIC OBJECTIVES

To ensure that there are proper controls and safeguards for capital assets to be protected against improper use, loss, theft malicious or accidental damage. It is also necessary that the creation and acquisition of an asset is maintained to the extent necessary for optimal levels of effective, efficient, and economical service delivery.

5. GUIDING PRINCIPLES

This Policy is based on the following principles:

- (a) "Need" as identified within the IDP, underpinned by the Municipal Capital Investment Program and the National Spatial Development Perspective;
- (b) Necessity to fulfil the service delivery mandate as identified in the Asset Management Policy; and
- (c) Affordability.

6. NEW CAPITAL INFRASTRUCTURE INVESTMENT

- (a) New infrastructure development may only be undertaken if:
 - (i) The relevant project has been included in the Municipality's IDP;
 - (ii) Funding for the project concerned has been secured through either internal or external funding mechanisms and such project been approved in the Municipality's Capital Budget; and
 - (iii)

- (b) All new infrastructure investments will be subject to:
 - (i) A "Needs" analysis based on: -
 - (a) Service delivery sustainability;
 - (b) Consumer growth projections which are in line with the National and Regional Spatial Development Growth Perspectives; and
 - (c) National, Regional and Municipal strategic directives.
 - (ii) A Strategic project plan, including: -
 - (a) A holistic overview of the direct benefits, risks and impact of the intended project;
 - (b) An assessment on the impact of current Infrastructure;
 - (c) A service delivery framework relevant to the project;
 - (d) A cost assessment, detailing the capital and maintenance cost projections for the project's entire life cycle; and
 - (e) A funding model, detailing the financing source and associated cost, if any, and any revenue projections associated with the project.
 - (iii) Outcome of stakeholder consultation, including:
 - (a) Environmental impact studies; and
 - (b) Feedback from the community participation process, with specific focus on:
 - Rights and entitlements of members of the community; and
 - Impact on quality of life.
 - (iv) An implementation model, detailing:
 - (a) Relevant skills base and source of skills required for implementation; and
 - (b) Specific timeframes for each activity throughout the project lifecycle.

7. REFURBISHMENT AND SIGNIFICANT INFRASTRUCTURE MAINTENANCE PROJECTS

- (a) All Capital Infrastructure refurbishment and significant maintenance projects may only be undertaken if:
 - (i) The project concerned is in line with the Municipality's IDP or emergency maintenance framework;
 - (ii) Funding has been secured through either internal or external funding mechanisms and has been approved in the Municipality's Capital Budget; and

- (iii) A detailed life-cycle funding plan has been developed, supported and integrated into the Asset Maintenance / Life –Cycle component of the Asset Management Policy.
- (b) All refurbishments and significant infrastructure maintenance projects will be subject to:
- (i) A “Needs” analysis based on:
 - (a) Service delivery sustainability; and
 - (b) Asset redundancy and failure assessment of the asset under scrutiny.
 - (ii) A strategic project plan including:
 - (a) A holistic overview of the direct benefits, risks, and impact of the intended refurbishment project;
 - (b) An assessment on the potential impact of unavailability of the asset during the refurbishment process, including redundancy measures;
 - (c) A service delivery framework relevant to the project;
 - (d) A cost assessment, detailing the capital and maintenance cost projections for the entire life cycle of the relevant project; and
 - (e) A funding model, detailing the financing source and associated cost, if any, as well as any revenue projections associated with the project.
 - (iii) Outcome of stakeholder consultation, including:
 - (a) Environmental impact studies; and
 - (b) Feedback from community participation process, with specific focus on:
 - Rights and entitlements of members of the community; and
 - Impact on quality of life;
 - (iv) An implementation model, detailing:
 - (a) Relevant skills base and source of skills required for implementation; and
 - (b) Specific timeframes for each activity throughout the project lifecycle.

8. FUNDING OF CAPITAL INFRASTRUCTURE INVESTMENTS

- (a) All new Capital Infrastructure Investments may be funded from: -

- (i) Cash backed accumulated surpluses;
 - (ii) Borrowings;
 - (iii) Government grants and subsidies;
 - (iv) Public donations and contributions;
 - (v) PPP initiatives in line with the MFMA - PPP regulations; and
 - (vi) Operating Revenue.
- (b) All refurbishment and significant infrastructure maintenance projects may be funded from:
- (i) Cash backed accumulated surpluses;
 - (ii) Borrowings in respect of refurbishment;
 - (iii) Government grants and subsidies in accordance with their relevant conditions; and
 - (iv) Operating Revenue.

9. RELEVANT LEGISLATION APPLICABLE TO THIS POLICY

This policy gives effect to the provision of the following legislation

- The Constitution of the Republic of South Africa, 1996
- The Local Government Municipal Financial Management Act (MFMA) Act No. 56 of 2003
- General Recognised Accounting Practice

10. IMPLEMENTATION AND REVIEW OF THIS POLICY

- (a) This policy, which constitutes a budget-related policy as defined in the MFMA, shall be implemented once approved by Council.

11. Review

This policy will be reviewed at least annually and updated if needed

12. EFFECTIVE DATE

This policy shall come into effect on 1 July 2022



EXTRACT FROM THE COUNCIL MINUTES HELD ON 30 MAY 2022

Item A63. 30.05.2022

MTREF BUDGET: 2022-2023 TO 2024/2025 OPERATING AND CAPITAL BUDGET, IDP AND POLICY DOCUMENTS (Ref.-.6/1/1/3)

N Kruger : Chief Financial Officer

(Ref.:6/1/1/B & 6/1/1/1)

PURPOSE

The purpose of the report is to submit the budget for 2022/2023 MTREF to Council for consideration of approval.

BACKGROUND

In terms of section 16 of the Local Government: Municipal Financial Management Act, 2003 (Act 56 of 2003) Council must approve an annual budget before the start of the financial year.

LEGAL FRAMEWORK

The Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) stipulates as follows:

Municipal budgets

16. (1) The Council of a municipality must for each year approve an annual budget for the municipality before the start of the financial year.
(2) In order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

Contents of annual budgets and supporting documentation

17. (1) An annual budget of a municipality must be a schedule in the prescribed format—
- (a) setting out realistically anticipated revenue for the budget year from each revenue source;
 - (b) appropriating expenditure for the budget year under the different votes of the municipality;
 - (c) setting out indicative revenue per revenue source and projected expenditure by vote for the two financial years following the budget year;
 - (d) setting out—
 - (i) estimated revenue and expenditure by vote for the current year; and (ii) actual revenue and expenditure by vote for the financial year preceding the current year; and
 - (e) a statement containing any other information required by section 215(3) of the Constitution or as may be prescribed.
- (2) An annual budget must generally be divided into a capital and an operating budget in accordance with international best practice, as may be prescribed.
(3) When an annual budget is tabled in terms of section 16(2), it must be accompanied by the following documents:

- (a) Draft resolutions—

- (i) approving the budget of the municipality;
 - (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and
 - (iii) approving any other matter that may be prescribed;
- (b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;
- (c) a projection of cash flow for the budget year by revenue source, broken down per month;
- (d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act;
- (e) any proposed amendments to the budget-related policies of the municipality;
- (f) particulars of the municipality's investments;
- (g) any prescribed budget information on municipal entities under the sole or shared control of the municipality;
- (h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;
- (i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;
- (j) particulars of any proposed allocations or grants by the municipality to— (i) other municipalities;
- (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;
 - (iii) any other organs of state; (iv) any organisations or bodies referred to in section 67(1);
- (k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of—
- (i) each political office-bearer of the municipality;
 - (ii) councillors of the municipality; and
 - (iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager;
- (l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of— (i) each member of the entity's board of directors; and
- (ii) the chief executive officer and each senior manager of the entity; and (m) any other supporting documentation as may be prescribed.

22. Publication of annual budgets —

- (1) Immediately after an annual budget is tabled in a municipal council, the accounting officer of the municipality must—
- (a) in accordance with Chapter 4 of the Municipal Systems Act—
 - (i) make public the annual budget and the documents referred to in section 17(3); and
 - (ii) invite the local community to submit representations in connection with the budget; and
 - (b) submit the annual budget—
 - (i) in both printed and electronic formats to the National Treasury and the relevant provincial treasury; and

(ii) in either format to any prescribed national or provincial organs of state and to other municipalities affected by the budget.

23. Consultations on tabled budgets —

- (1) When the annual budget has been tabled, the municipal council must consider any views of—
 - (a) the local community; and
 - (b) the National Treasury, the relevant provincial treasury and any provincial or national organs of state or municipalities which made submissions on the budget.
- (2) After considering all budget submissions, the council must give the mayor an opportunity—
 - (a) to the submissions; and
 - (b) if necessary, respond to revise the budget and table amendments for consideration by the council.
- (3) The National Treasury may issue guidelines on the manner in which municipal councils should process their annual budgets, including guidelines on the formation of a committee of the council to consider the budget and to hold public hearings.
- (4) No guidelines issued in terms of subsection (3) are binding on a municipal council unless adopted by the council.

COMMENTS

The draft 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) report inclusive of the budget schedules, which have been compiled in terms of the Municipal Budgeting and Reporting Regulations (MBRR), have been distributed after tabling it in the Council meeting of 28 March 2022, while a notice has been placed in the local newspapers to invite the public/community to submit comments on the draft/tabled budget.

Input from Provincial Treasury

Provincial Treasury has submitted their 2022 SIME/ LG MTEC Assessment Report on 26 April 2022 and the municipal response was discussed with Provincial Treasury on 6 May 2022. The following aspects were highlighted by the Province Treasury and herewith the issues raised as well as the respective response from ODM Management :

The Municipality's budget reflects funded, but the nett surplus after the application of cash is on a declining trajectory over the MTREF indicating risks to future sustainability

- a) The Municipality tabled an operating surplus budget over the 2022/23 MTREF period which is commendable. As a district municipality, the Municipality has limited revenue sources, but great effort is noted in identifying additional revenue sources. Tariffs are proposed above inflation and may influence the revenue growth assumptions.
- b) The Municipality has over the last two (2) financial years shown great resilience to remain financially stable under exceptionally uncertain economic conditions. The Municipality's continued success depends on its ability to recognise when to adapt and adjust plans during any uncertainty. The Municipality is encouraged to continue with ongoing assessments of assumptions to ensure that revenue, expenditure projections and policy decisions to be accurately informed over the MTREF. It should be noted that based on the prior year audited outcomes, the Municipality has reported a deficit budget in 2018/19 but managed to achieve operating surpluses in 2019/20 and 2020/21 financial years. It has been noted on the Municipality's performance that in the 2021/22 financial year, operational expenditure has increased by two (2) per cent whilst the operating revenue has also increased by six (6) per cent.

- c) It is clear from the budgetary allocation to the strategic objectives that the bulk of the 2022/23 MTREF allocation is focused towards Strategic Goal (1): 'To ensure the well-being of all in the Overberg through the provision of efficient basic services and infrastructure'; this includes an operating budget allocation of R180.9 million (71.2 per cent) and a capital allocation of R7.5 million (73.7 per cent) in 2022/23. It is evident that the Municipality's 2022/23 budget prioritised spending towards delivering on its service delivery mandate.
- d) Annual growth in operating expenditure is below projected inflation in 2023/24 and 2024/25, while capital expenditure declines from a high of R10.2 million 2022/23 over the MTREF, to R3.4 million in 2024/25.
- e) This largest of the allocations, for road transport, will mainly be directed towards refurbishment and rehabilitation as well as upgrades and additions to existing road transport infrastructure, the biggest of these for 2022/23 being for the Hermanus-Gansbaai project (R130.0 million), the reseal of the Stanford-Riviersonderend road (R105.0 million), refurbishment of the Caledon-Sandbaai road (R93.8 million), upgrades and additions to the Draalberg road and refurbishment of the Barrydale – Ladismith road (R60.0 million).
- f) The District has allocated R20.8 million towards its municipal health function (operating budget) and as well as a capital budget allocation of R40 000 (mostly office equipment) in 2022/23. Districts are mandated to provide municipal health services, which includes the surveillance and prevention of communicable diseases such as the current COVID-19. The allocation for municipal health is part of an investment in future health provision. The importance of strengthening this function and providing it with adequate resources is crucial to attaining and maintaining levels and safety standards with regards to our physical environment. The District has significantly increased its municipal health operating budget allocation in the 2022/23 financial year (21.2 per cent) compared to its 2021/22 allocation.
- g) The District has allocated a total operating budget of R36.0 million to the provision of fire-fighting services for 2022/23. This represents a 7.2 per cent increase from its 2021/22 allocation. A capital budget of R2.6 million is geared primarily towards vehicle replacement (R2.2 million) and vehicle upgrades/refurbishment (R300 000). In total, allocations towards fire-fighting services equates to 14.6 per cent of the overall 2022/23 budget.
- h) For 2022/23, the District has allocated R16.2 million of its operational expenditure budget to 'Sport and Recreation'; the corresponding capital allocation for the year is R1.4 million. If resorts are well managed and maintained, upgraded, and appropriately marketed, it can play a role in promoting domestic and international tourism within the region. The Municipality must consider if the allocation for this function is sufficient given the 1.9 per cent drop in operating expenditure in 2022/23.
- i) Firefighting and health services remain an essential part of the Municipality's service delivery to its community, however huge deficits are incurred in the process of providing these services. The Municipality must identify efficiencies within these functions to minimise the cost and negative financial impact. In this regard, ODM raised the Health Service funding issues at the Cabinet and Municipalities "Meet & Greet Sessions" on 22 April 2022 and ODM was advised to approach Provincial Treasury to make a submission to National Treasury. This was to motivate sufficient funding through an Equitable Share formula review for District Municipalities which would provide a framework for funding of Municipal Health Workers in line with required norms and standards. Currently ODM reflects a deficit of EHP's based on population figures (1 EHP/10 000). An item was placed on the next CFO Forum for 10 June 2022 to discuss this issue with District CFO's.

- j) The Municipality is reliant on own funding to contribute to capital budget and must consider the return on investment to ensure ongoing sustainability. The main fiscal challenge facing the Municipality is the limited revenue base and the identification of revenue opportunities within a cost-efficient governance model of service delivery. Balancing affordability and increasing spending demands is key to maintain a healthy funding position with active contributions to the capital replacement reserve fund.
- k) The liquidity ratios of the Municipality indicate that the Municipality can take care of their financial commitments.
- l) (l) The draft budget data strings over the MTREF period indicates that the Municipality is not exposed to a liquidity risk.

FURTHER COMMENTS

No other comments or inputs had been received on the advertised budget and tariffs.

Other necessary amendments based on changed assumptions and additions were made in the 2022/23 budget document, as proposed and tabled to the Budget Steering Committee for consideration on 17 May 2022.

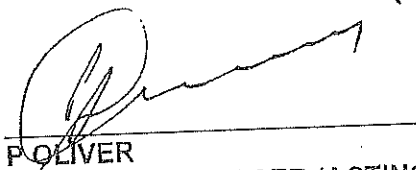
The 2022/23 Medium Term Revenue and Expenditure Framework (MTREF) report, inclusive of the budget schedules, which are compiled in terms of the Municipal Budgeting and Reporting Regulations (MBRR), will be distributed prior to the Council meeting of 30 May 2022.

RESOLVED : (Proposed by Ald A Franken and seconded by Ald J Nieuwoudt)

- 1) The consolidated budget of **R253 440 054**, consisting of an **Operating budget of R253 345 851** (resulting in a **surplus R 94 203** after tariff increases) and a **Capital budget of R10 273 000** and budgeted cash flows, as set out in the Municipal Budget is adopted and approved by Council and that it constitutes the Budget of the Council for 2022/2023 financial year as well as the medium term (indicative) budgets for the 2023/2024 and 2024/2025 financial years.
- 2) The tariffs as per tariff list be approved. That an application for waiver of tariffs be considered by the Municipal Manager, on written application.
- 3) That all other matters prescribed in sections 17(1) (a-e); 17(2) and 17(3) (a-m) of the Municipal Finance Management Act 56 of 2003, are included in or that accompany the budget document be approved.
- 4) The measurable performance objectives for 2022/2023 for operating revenue by source and by vote is approved.
- 5) That the following budget related policies are approved:
 - i Asset Management Policy (as amended)
 - ii Credit Control and Debt Collection Policy (as amended)
 - iii Cash Management and Investment Policy (as amended)
 - iv Tariff Policy (as amended)
 - v Supply Chain Management Policy (as amended)
 - vi Virement Policy (as amended)
 - vii Borrowing Policy (as amended)
 - viii Funding and Reserves Policy (as amended)

- ix Budget Policy (as amended)
- x Customer Care Policy (as amended)
- xi Demand Management Policy (as amended)
- xii Infrastructure and delivery Management Policy (Repealed)
- xiii Infrastructure investment and Capital projects Policy (as amended)
- xiv Liquidity Policy (as amended)
- xv Long term Financial Planning Policy (as amended)
- xvi Management and Admin of Immovable Assets Policy (as amended)
- xvii Payroll Management and Administration Policy (as amended)
- xviii Preferential Procurement Policy (Repealed)
- xix Cost containment Policy (as amended)
- xx Travelling and Subsistence Policy (as amended)

**CERTIFIED A TRUE EXTRACT FROM THE MINUTES OF THE COUNCIL MEETING HELD
ON 30 MAY 2022.**



**P. OLIVER
MUNICIPAL MANAGER (ACTING)**