SEDIBENG DISTRICT MUNICIPALITY

CAPITAL PROJECT AND INFRASTRUCTURE INVESTMENT POLICY

POLICY, PROCESSES & PROCEDURES

RECOMMENDED

THAT the **Capital Projects and Infrastructure Development Policy** and the contents thereof be tabled for approval at the Mayoral Committee.

Version	Version 1
Date	March 2014
Document Name	**Accounts Payable Policy and Procedures**
Reviewed By	______________________ **Date:** ______________________
	INTERNAL AUDITOR
Supported By	______________________ **Date:** ______________________
	CHIEF FINANCIAL OFFICER
Signature	______________________ **Date:** ______________________
	MUNICIPAL MANAGER
Adopted by the Mayoral Committee	______________________ **Date:** ______________________
	CHAIRPERSON
Approved by the Council	______________________ **Date:** ______________________
	RESOLUTION
Effective date	…………………………………
Next revision date	…………………………………

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1. POLICY

1.1. Overview

Sedibeng District Municipality has developed its capital project and infrastructure investment policy to include activities at all departments at which municipality business is conducted. This in recognising its:

i. community orientation; and
ii. the need for good governance.

The capital project and infrastructure investment policy is a transparent and codified internal control system aimed at promoting its core District Objectives to ensure that the limited resources at the disposal of Sedibeng District Municipality will be focussed towards serving the various stakeholders in the pursuit of their interactions with Sedibeng District Municipality both efficiently and congruent to approved budgets and broader financial policies of Sedibeng District Municipality, whilst minimising the temptation of misuse of municipality funds.

1.2 Purpose

The capital project and infrastructure investment policy seeks to institutes the necessary control measures to facilitate the daily activity of the municipality by providing:

i. A guideline for all stakeholders as to the what is required for the formulation of capital projects and infrastructure investment;
ii. 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 Sedibeng District Municipality budgets.
iii. A guideline for business units to plan and promote capital projects.

1.3 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 Sedibeng District Municipality cash resources;
iii. Driving a culture of accountability over Sedibeng District Municipality 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 as a result of non-compliance with this policy is deemed to be gross negligence and could be cause for disciplinary action.

1.4 Business Process Framework

1.4.1 Legislative Framework

The ***Municipal Systems Act (No. 32 of 2000) (MSA), Municipal Finance Management Act*** **(MFMA)** ***(No. 56 of 2003),*** the ***King II Code on Corporate Governance in South Africa (2002)*** and other applicable legislation informs and seeks to regulate the functioning of cash handling so as to lead to the early detection of irregular and unauthorised, activity, and allow for reporting thereof in terms of the Code of conduct for Councillors and Municipal Staff Members.

In particular, Regulation 7 of the Municipal Budget and Reporting Regulations **(MBRR**) governs this policy.

1.4.2 Accounting Framework

The responsibility of capital projects and infrastructure devlopment lies with the Accounting Officer and Chief Financial Officer, or delegated official, who has to ensure that reasonable controls exist to support the implementation of policies. In delegating this function to subordinates, it does not alleviate the responsibility of the Chief Financial Officer. The HOD has to ensure all policies and procedures are communicated to and implemented by the responsible individual(s).

1.5 Recommendations

i. This policy, processes and procedures document supersedes all previously issued references to capital projects and infrastructure development;

ii. This policy, processes and procedures document be recognised as providing the framework of operation and internal control mechanisms for all staff members of the municipality charged with capital projects and infrastructure development in a particular vote;

iii. This policy document be adopted by the Executive Management and the broader Council of Sedibeng District Municipality as the framework for Capital Projects and Infrastructure Development.

2. PROCESSES

2.1 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

2.2 Roleplayers

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

2.2.1 Capital Budget 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.

2.2.2 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.

2.2.3 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.

2.2.4 Municipal Council

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

2.3 Deriving a Capital budget

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

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

2.3.3 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;

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

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

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

2.3.7 Capital expenditure is only permissible post capital budget appropriation;

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

2.4 Funding a Capital Budget

MFMA National treasury Circular 42 holds that the budget process is to ensure that the budget is appropriately funded from:

2.4.1 Realistic and collectable revenue; or

2.4.2 Cash backed accumulated funds; or

2.4.3 Borrowed Funds at affordable rates.

2.5 Sources of Funding

2.5.1 Surplus / accumulated own resources – there needs to be sufficient revenue for the implementation of the entire project;

2.5.2 External Funding –

i. normally linked to the useful life of the asset;

ii. Secured by the asset;

iii. Interest payable is costed into the operating budget;

iv. Finance charges are to be costed into the operating budget.

2.5.3 Capital Replacement Reserve (CRR)

i. The municipality will establish a CRR for the purposes of financing capital projects and replacing capital goods. The CRR will be established by:

a. Unappropriated cash surpluses which are not required for operational purposes;

b. Interest on Investments of the CRR;

c. Additional amounts appropriated as contributions at the annual adjustment budget.

ii. The reserve needs to be able to fund the proposed capital project in cash i.e. the commitment needs to be covered;

iii. Should there not be sufficient cash available to cover the proposal then the limit of the fund needs to be adjusted to equal the available cash.

2.5.4 Grant Funding – for SA Government grants (whether national through the Division of Revenue Act – DORA – or provincially motivated should be absorbed into the municipal capital budget programme;

i. Interest earned on investments of conditional grant funding shall be capitalised if it is a condition of funding;

ii. If not conditional then it may be allocated to the revenue account;

iii. The grant fund spending should be linked to a service level agreement which directs the spending.

2.5.5 Other sources of funding:

2.5.5.1 Donated Assets – subject to acceptance by council, based on a report by the relevant business unit. The asset needs to be attributed a fair market value and capitalised on the asset register. Council acceptance is relative to the operating costs;

2.5.5.2 Donations – whether foreign or local it needs to be applied for the purpose donated;

2.5.5.3 Public / Private Partnerships – capital costs can be borne by participating entities;

3. PROCEDURES

3.1 Regulatory Procedures

Regulation 13 of the **MBRR** holds that -

(1) Within 10 days of the municipal council giving individual approval for a capital project in terms of section 19(1)(b) of the **MFMA**, the municipal manager must as per section 21A of the **MSA** publish:

a. The municipal council resolution approving the capital project;

b. Details of the nature, location and total project cost of the approved capital project.

(2) Council may approve capital projects of which the total projected costs are below R ...m for the municipality – based on the current annual budget of R ....m

(3) Sub regulation (1) above does not apply if the total project costs are within the confines of sub regulation (2). Conversely projects above the limits of sub regulation (2) need to be individually approved by council;

(4) Expenditure needed for capital projects which are below the limits of sub regulation (2) may be included in the annual budget prior to final approval in terms of section 19(3) of the **MFMA**.

3.2 Implementation

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

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

3.2.2 A draft Capital Budget for the ensuing year with a Capital programme for the next four financial years based on:

i. Year two of the capital Budget becoming Year 1 of the new years budget and Year 3 becoming Year 2;

ii. New projects will enter in Year 3;

iii. Exceptions thereto are at the discretion of the Budget Steering Committee;

iv. Total project costing and the operational impact for all financial years cited, inclusive of cash flow impact;

v. Carryovers from the previous year will be accommodated if they fall within the limits of the existing levels of the capital budget. Such carryovers are to be identified at the midyear review for the adjustment budget;

vi. New or additional projects not previously approved by Council, need to be endorsed by both the Mayoral Committee member and the relevant head of department, and also not predjudice existing projects;

vii. The draft capital budget and capital programme need to be aligned and consistent with the IDP.

3.3 Reconciling and Monitoring

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

3.4 Amendment and Review of the policy

The Capital Projects and Infrastructure Development Policy shall be reviewed annually and/or at the discretion of the CFO due to changing circumstances as a result of the legislation or otherwise.