



**CITY OF CAPE TOWN
ISIXEKO SASEKAPA
STAD KAAPSTAD**

ANNEXURE 17

POLICY GOVERNING PLANNING AND APPROVAL OF CAPITAL PROJECTS

2022/23 BUDGET (MAY 2022)



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1. DEFINITIONS AND ABBREVIATIONS

In this policy unless the context indicates otherwise -

“Accounting Officer” in relation to a municipality, means the municipal official referred to in section 60 of the MFMA. The municipal manager of a municipality is the accounting officer of the municipality for the purpose of this Act.

“Annual Division of Revenue Act (DORA)” means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution.

“Approved budget” means an annual budget-

- (a) approved by a municipal council, or
- (b) approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA.

“Budget Year” means the financial year for which an annual budget is to be approved in terms of section 16 (1) of the MFMA.

“City” means the City of Cape Town, a municipality established by the City of Cape Town Establishment Notice No 479 of 22 September 2000 issued in terms of the Local Government Municipal Structures Act 1998 or any structure or employee of the City acting in terms of delegated authority.

“Council” means the council of a municipality referred to in section 18 of the Municipal Structures Act.

“CPPPM” means Corporate Project Programme Portfolio Management.

“DORA” means Division of Revenue Act

“MBRR” means Municipal Budget and Reporting Regulations.

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

“Financial Year” means the municipal financial year starting on 1 July and ending on 30 June.



“Municipality”

- (a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
- (b) when referred to as a geographic area, means a municipal area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998).

“National Treasury” means the National Treasury established by section 5 of the Public Finance Management Act.

2. PURPOSE

- 2.1 This policy aims to provide guidelines through which directorates can plan and obtain approval of projects of a capital nature.
- 2.2 This policy is required in terms of regulation 7 of the Municipal Budget and Reporting Regulations (MBRR).

3. PROBLEM STATEMENT

The MFMA replaced the antiquated system of local government finance inherited from the previous rules-bound dispensation in 1994, which focused on rules and procedures rather than on sound outcomes. These practices included one-year, detailed line-item budgets, which did not allow for forward-planning or long-term strategic planning. Previous practices were one dimensional, financial processes that were generally centrally controlled by prescribed bureaucratic rules and regulations that stifled managerial efficiency, inhibiting innovation and information and often resulting in poor decision-making and a passive approach to financial management generally.

Financial planning within municipalities tended toward short-term outputs that were not necessarily integrated into long-term outcomes. Budgets typically catered for immediate demands with little or no view to future needs or the future consequences of particular decisions.

4. DESIRED OUTCOME

The MFMA aims to modernise budget and financial management practices in municipalities in order to maximise the capacity of the municipalities to deliver services to all their residents, customers and users. It also gives effect to the principle of transparency as required by sections 215 and 216 of the Constitution. The MFMA therefore supplements conventional procedural rules with a performance-based system focusing on outputs and measurable objectives, to enable municipalities to maximise their capacity for service delivery.



The MFMA empowers councilors to play their constitutional role as politically elected representatives of the community and residents by approving policies and budgets proposed by the executive mayor or committee and then overseeing the performance of the municipality in implementing these policies and budgets.

All these various roles are possible only because of the reporting requirements of the MFMA, as the Act recognises that effective service delivery is possible only with good-quality and timely management information. Such information allows management to be proactive, identifying and solving problems as they arise. The challenge facing all stakeholders is their capacity to use the information produced in terms of the MFMA to improve the efficiency and effectiveness of the service delivery of the municipality.

5. ROLE PLAYERS AND STAKEHOLDERS

In order to implement and give effect to the approved Capital budget the relevant role players and their respective powers, duties and responsibilities are listed below:

5.1 Budgets department

- (a) Responsible for administrative and technical guidance in terms of the compilation of the Capital Budget; and
- (b) Review of this policy, in consultation with relevant stakeholders, to ensure maximum compliance in terms of legislation.

5.2 Directorates and departments:

In consultation with their relevant Executive Director, MayCo member and portfolio committee are required to inform the Budgets department of their proposed budget. These inputs are coordinated through the Strategic Management Framework.

5.3 Executive Management Team

in consultation with the Mayor and Mayco are required to facilitate integration by making provision for four review points between the Strategic Alignment, Programmes, Project and Budgets as part of the Strategic Management Framework.

5.4 Municipal Council

Responsible for the approval of the Capital Budget.

5.5 Corporate Project Programme Portfolio Management (CPPPM)

All projects proposed for inclusion on the capital budget are assessed against an implementable delivery plan to comply with, inter alia, implementation readiness, tender readiness (must be on the City's Demand Plan), strategic alignment and capacity to implement.



6. STRATEGIC FOCUS AREAS

6.1 The City's Five Year IDP (2022-2027) identifies six priorities and three foundation areas, which support the vision of creating a City of Hope and provide a solid foundation for the articulation of service delivery. The priorities and foundation areas are:

Priority:

1. Economic Growth
2. Basic Services
3. Safety
4. Housing
5. Public Space, Environment and Amenities
6. Transport

Foundation:

1. A resilient City
2. A more spatially integrated and inclusive City
3. A capable and collaborative City government

The City has identified linked objectives and programmes within the above areas.

6.2 This policy supports the following priority/foundation area, objective and programme:

6.2.1 Foundation 3 – Objective 16: A Capable and collaborative City government and

Programme 16.1: Operational sustainability Programme.

This programme aims to ensure financial sustainability and procurement excellence based on

- Strategy-led budgeting initiative;
- Functional assignments reform initiative;
- Programme and project impact assessment initiative; and
- Effective supply chain management initiative.

7. REGULATORY CONTEXT

7.1 This policy must be read, analysed, interpreted, implemented and understood against this legislative background. The budget plays a critical role in an attempt to realise diverse community needs taking into account the IDP process. The formulation of a municipal budget should also take into account the government's macro-economic and fiscal policy fundamentals.

7.2 Section 16 of the MFMA states that *"the council of a municipality must for each financial year approve an annual budget for the municipality before commencement of that financial year. According to section 16(2), in order to comply with section 16(1), the executive mayor of the municipality must table the annual budget at a council meeting at least 90 days or earlier before the start of the budget year."*



7.3 Section 18 of the MFMA which relates to funding of expenditure states that:

“18.(1) An annual budget may only be funded from-

- (a) realistically anticipated revenues to be collected;*
- (b) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and*
- (c) borrowed funds, but only for the capital budget referred to in section 17(2).*

(2) Revenue projections in the budget must be realistic, taking into account-

- (a) projected revenue for the current year based on collection levels to date; and*
- (b) actual revenue collected in previous financial years.”*

7.4 Section 19 of the MFMA states that for capital projects –

“19.(1) A municipality may spend money on a capital project only if –

- (a) the money for the project, excluding the cost of feasibility studies conducted by or on behalf of the municipality, has been appropriated in the capital budget referred to section 17(2);*
- (b) the project, including the total cost, has been approved by the council;*
- (c) Section 33 has been complied with, to the extent that that section may be applicable to the project; and*
- (d) the sources of funding have been considered, are available and have not been committed for other purposes.*

(2) Before approving a capital project in terms of subsection (1) (b), the council of a municipality must consider -

- (a) the total projected cost covering all financial years until the project is operational; and*
- (b) the future operational costs and revenue on the project, including municipal tax and tariff applications.*

(3) A municipal council may in terms of section 19 (1) (b) approve capital projects below a prescribed value either individually or as part of consolidated capital programme.”

7.5 Regulation 13 of the MBRR on the approval of capital projects¹ states that:

¹ The MFMA must be read in conjunction with the Municipal Budgeting and Reporting Regulations (MBRR) as it provides further clarity on matters that are prescribed in the MFMA. Section 19 of the MFMA regulates budgetary matters in relation to capital projects. In terms of section 19(1)(b) a municipality may not spend any money on a capital project unless the council has approved the specific project including the total cost. Section 19 (3), however, provides that capital projects below a prescribed value may be approved either individually or as part of a consolidated capital programme.



“(1) Within ten working days after the municipal council has given individual approval for a capital project in terms of section 19(1)(b) of the Act, the municipal manager must in accordance with section 21A of the Municipal Systems Act make public-

- (a) The municipal council resolution approving the capital project; and*
 - (b) Details of the nature, location and total projected cost of the approved capital project.*
- (2) The following capital projects may be approved by council either individually or as part of a consolidated capital programme as contemplated in section 19(3) of the Act:*
- (c) Capital projects of which the total projected cost is below R50 million, in the case of a municipality with approved total revenue in its current annual budget greater than R500 million².*
- (3) Subregulation (1) does not apply to capital projects whose total projected cost when the annual budget is approved is below the values set out in subregulation (2).*
- (4) Expenditure needed for capital projects below the values set out in subregulation (2) may be included in the annual budget before the project is approved in terms of section 19(3) of the Act.”*

8. CAPITAL BUDGET

The City's capital budget is compiled, amended and maintained in accordance to:

- (a) Generally Recognised Accounting Practice (GRAP) principles and statements;
- (b) Relevant legislations: e.g. MFMA and chapter 4 of Systems Act;
- (c) National Treasury – MFMA circulars and budget regulations;
- (d) Division of Revenue Bill/Act (DORA);
- (e) The City's Asset Management policy;
- (f) The Integrated Development Plan (IDP);
- (g) Municipal Standard Chart of Accounts (mSCOA); and
- (h) Strategic Management Framework (SMF) and any other City strategies frameworks.

² Capital projects of which the total projected cost is above these values must be approved individually by the council in terms of section 19(1)(b) of the Act



9. BASIS OF CAPITAL BUDGET

- 9.1 The zero based method is used when proposing new capital projects, except in cases where a contractual commitment has been made that would span over more than one financial year.
- 9.2 All capital projects must be funded from realistically anticipated revenue.
- 9.3 Capital Projects with a value of R10 million or more are to be assessed through a stage gate review process to ensure they are strategically aligned, viable and implementable.
- 9.4 No capital project will be approved for inclusion into the capital budget unless it is accompanied by the total project cost and operating impact covering all financial years the project is operational and a cash flow for the project. Projects with a total project cost in excess of R50 million must be approved individually. In addition, Council must consider the likely impact of such operational expenses on future property rates and service tariffs.
- 9.5 The consequence of the operating impacts should be carefully analysed by directorates when proposing a new capital project for inclusion on an annual budget, such impacts includes finance charges to be incurred on external loans, depreciation of the fixed asset, maintenance on fixed assets and any other operating expenditure.
- 9.6 Expenditure of a project shall be included in the capital budget, if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; the cost or fair value of the asset to the municipality can be measured.
- 9.7 The budget approved by Council for assets must clearly distinguish between upgrading, renewal and new assets.
- 9.8 A municipality may spend money on a capital approval object only if the money for the project has been appropriated in the capital budget.
- 9.9 The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and not been committed for other purposes.
- 9.10 During the Draft Budget process, carry-over of capital projects from the previous year will be considered for inclusion if they fall within the existing levels of the capital budget. Directorates must identify carry – over budget requests during the mid-year budget and performance assessment and subsequent adjustments budget process.
- 9.11 All Ward allocation projects will be included once supported by the relevant Subcouncil and Subcouncil resolution sent to the Budgets department.
- 9.12 All projects (excluding Ward Allocations projects) included in the proposed capital budget which were not previously approved by Council must be fully supported by the relevant Mayoral Committee Member and Executive Director and not prejudice any committed projects.



- 9.13 The proposed capital budget and capital programme which is submitted to the Budgets Department by the directorates must be aligned to the IDP and any other special policy decision.
- 9.14 The City adopted the programme budgeting methodology.
- 9.15 Capital projects must, through readiness assessment demonstrate an implementable delivery plan (including project readiness screening and inclusion on the contract demand plan, as relevant).

10. FUNDING A MUNICIPAL CAPITAL BUDGET

- 10.1 A fundamental element to planning is funding of the proposed project. The budget should be funded in accordance with the section 18 of the MFMA.

11. SOURCES OF FUNDING

11.1 Revenue

If the project is to be financed from surplus funds, then there must be sufficient cash available for the implementation of the project.

11.2 External Financing Fund (EFF)

EFF is the borrowed component (loans) of capital funding, which is linked to the life expectancy of the asset. In the case of the City it is linked to the City's borrowing programme and earmarked for long-term use. External loans can be raised only if it is linked to the financing of an asset.

11.3 Capital Replacement Reserve (CRR)

In order to finance the acquisition of property, plant and equipment and other assets from internal sources, cash amounts are transferred from the accumulated surplus to the CRR in terms of a Council resolution. No funds can be transferred into the CRR unless approved by Council. The following guidelines are set for the creation and utilisation of the CRR:

- (a) The cash funds that back up the CRR are invested until utilised.
- (b) The CRR may only be utilised for purchasing items of property, plant and equipment, and may not be used for their maintenance/repair, unless otherwise directed by Council.
- (c) The CRR may only be utilised to the extent of funds available in the relevant CRR.

11.4 Grant Funding

11.4.1 Government grants

Municipalities receive allocations from National Treasury and Provincial Treasury. These grants are approved and published in the Division of the Revenue Act (DORA) and Western Cape Government Gazette respectively and must be included in the Municipal Capital Budget program. Grant funding from national and provincial departments, other than those allocations reflected in the DoRA and Provincial Gazette, should be secured by way of a legal binding agreement before spending can take place.



11.4.2 Public contributions

The City receives grants from various private donors for capital (and operating) projects, which must be secured by way of a legal binding agreement before spending can take place.

11.4.3 Criteria when using grant funding

- 11.4.3.1 Government- and public contributions conditional grant funds must be used in terms of the grant conditions, failing which, the grant funds must be returned to the grantor.
- 11.4.3.2 Interest earned on the investment of conditional grant funds shall be capitalised if it is a stipulation as set out in the grant agreement. In all other cases, the interest earned on grant funds is recognized as revenue. Capital expenditure funded by grants must be budgeted for in the capital budget.

12. IMPLEMENTATION, EVALUATION AND REVIEW

- 12.1 This policy shall be implemented once approved by Council.
 - 12.2 In terms of section 17(3)(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 Changes in legislation must be taken into account for future amendments to this policy. Any amendments to this policy must be re-submitted to council for review and approval.
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