



**DRAFT CAPITAL PROJECTS POLICY
PLANNING, IMPLEMENTATION, MONITORING & APPROVAL
2023/24**



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1. DEFINITIONS AND ABBREVIATIONS

ABBREVIATIONS

“DORA”	Division of Revenue Act
“MBRR”	Municipal Budget and Reporting Regulations
“MFMA”	Local Government Municipal Finance Management Act No. 56 of 2003

DEFINITIONS

“Municipal Council” or “Council”	(MFMA) means the council of a municipality referred to in section 18 of the Municipal Structures Act.
“Municipality”	(MFMA) (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”	(MFMA) means National Treasury established by section 5 of the Public Finance Management Act.
“Accounting Officer”	(MFMA) in relation to a municipality, means the municipal official “Annual Division of Revenue Act” – (MFMA) means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution.
“Project Owner”	The Council official (Director or Acting Director) who is accountable for the project benefits being realised and holds the responsibility and accountability for ensuring the project objectives are achieved.
“SBU Manager”	The Council official (Manager or Acting Manager) who is responsibility and accountable to the (Director or Acting Director) for ensuring the project objectives are achieved.
“Project Manager”	The Council official that holds the responsibility and accountability for the delivery of the project objectives as well as ensuring the management of the project adheres to this Policy.
“Approved budget”	(MFMA) 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.

“Budget Year”

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

“Financial Year”

(MFMA) means a year ending 30 June.

“GCC”

General Conditions of Contract for Construction Works 2015 2nd Edition

“FIDIC”

FIDIC contracts 2017 - Red Book (building and engineering works designed by the Employer) and the Yellow Book (M&E, building and engineering works designed by the Contractor)

“JBCC”

Joint Building Contracts Committee building owners and developers, professional consultants, and general and specialist contractors 2018 Edition 6.2.

2. INTRODUCTION

2.1 This policy aims to provide a guideline through which the directorates can plan and obtain approval of projects of a capital nature.

3.2 It is governed by legislation in terms of regulation 7 of the Local Government: Municipal Budget and Reporting Regulations.

3. PREAMBLE

Polokwane Municipality have a Five-Year Integrated Development Plan, which is linked to the term of council. The Five-Year Integrated Development Plan is reviewed annually during the term of council. The Integrated Development Plan lists projects that the municipality have planned to implement over the five-year. The projects are initiated, developed, implemented and managed by the municipality. Budget is appropriated for the projects over the Medium Term Expenditure Framework. Further, projects are public participated to all the communities annually before the approval of the Integrated Development Plan and Budget. There are challenges with project planning, financing, costing, implementation and management which results in project implementation failures. Further, projects over spend, which further results in irregular expenditures. The consequence of poor project management is poor and inadequate service delivery infrastructure.

This Policy seeks to address the current challenges of project management planning, implementation and management in Polokwane Municipality. It further, seeks to promote forward planning in project management and financial planning to ensure that projects are properly planned, financed, implemented and completed within their stated timelines and at budgeted cost.

4. PROJECT MANAGEMENT

4.1 Project Management Lifecycle

The Project Management Lifecycle requires projects to be managed through the following processes:

4.1.1. Initiation;

4.1.2 Planning;

4.1.3 Controlling

4.1.4 Implementing; and

4.1.5 Closing.

4.1.6 The management of a project starts with the initiating process and finishes with the closing process. The interdependency between processes requires the controlling process to interact with every other process. Processes are seldom discrete or one-time in their application through the life of the project. Subject groups that are required to be managed through the lifecycle processes include:

4.1.6.1 Integration,

4.1.6.2 Stakeholders,

4.1.6.3 Scope,

4.1.6.4 Resource,

4.1.6.5 Time,

4.1.6.6 Cost,

4.1.6.7 Risk,

4.1.6.8 Quality,

4.1.6.9 Procurement and

4.1.6.10 Communication

4.2 Mandatory Project Management Requirements

All projects will:

4.2.1 Adhere to the Council Project Management Framework and be managed through the project management lifecycle.

4.2.2 Have a direct link to an Operational Plan, Delivery plan or Asset plan. Exceptions to this will be approved by the General Manager and/ or responsible Director (delegations shall apply) only

4.2.3 Have the documented Project Management Assessment/ Charter approved by the SBU Manager: Infrastructure and Planning.

- 4.2.4 Be subject to project assurance processes as appropriate to the scale and risk of the Project.
- 4.2.5 Specify level and type of funding being sought and timeframe for the use of the funds when requesting additional or new funding from Council.
- 4.2.6 Adhere to procurement processes.
- 4.2.7 Be allocated (for capital projects only) a unique work order number/ general ledger (for financial budgeting and accounting purposes) and to be added to Council's assets register.
- 4.2.8 Undertake post-completion report that will include an analysis of benefits realised, lessons learned and include a sign off on the quality and adequate completion. Project ledgers and work orders closed out.
- 4.2.9 Align the project governance structure and processes with the Project Management Framework and undertake an orientation on project roles and responsibilities.
- 4.2.10 Critique and if appropriate provide documented approval to the project for any foreseeable variation (this includes variation to project scope) to project cost and/ or project time greater than the approved tolerances.
- 4.2.11 Where a foreseeable variation to project cost over and above the approved Council budget, becomes apparent, shall liaise with BTO to ensure that appropriate funding is located and Council approval is sought for change in funding as appropriate.
- 4.2.12 Ensure records of meeting minutes and project decisions are kept.
- 4.2.13 Ensure that all project designs and documentation are properly recorder in hard and soft copies (and becomes the property of the Municipality).

4.3 Project Management Documents

4.3.1 Project management documents, which include but not limited project designs documents, project scoping document, work break down structure, project management implementation plans, project risk management documents and any other documents, produced by the Polokwane Municipality's appointed Project Management Consultants and Project Implementation Contractors shall remain sole property of the document.

5. DESIRED OUTCOMES

5.1 The Municipal Finance Management Act (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.

5.2 The Act 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.

5.3 The Act empowers councillors 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 Council committees and then overseeing the performance of the municipality in implementing these policies and budgets.

5.4 All these various roles are possible only because of the reporting requirements of the Act, as the Act recognises that effective service delivery is possible only with good-quality and time 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 Act to improve the efficiency and effectiveness of the service delivery of the municipality.

6. ROLE PLAYERS AND STAKEHOLDERS

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

6.1 Municipal Manager

- 6.1.1 The Municipal Manager must ensure that there is project management in Polokwane Municipality. Further ensuring projects meet planning objectives.
- 6.1.2 Ensuring that project-related capacity building and development objectives are met.
- 6.1.3 Ensure that projects are initiated, budgeted and approved through the IDP and Budget Process.
- 6.1.4 Establishing and approving contracts with contractors and consultants for each project, including feasibility studies.
- 6.1.5 Ensure that project management reports related to management, implementation, monitoring and expenditure are submitted to council committees and stakeholders on a regular basis.

6.2 Project Owner

- 6.2.1 Be responsible and is accountable for the delivery of the project objectives as well as ensuring the management of the project adheres to this Policy.
- 6.2.2 Ensuring that all the necessary legal formalities in entering into the contract are adhered to.
- 6.2.3 Recommend payments to the chief financial officer for payment on work done.
- 6.2.4 Be responsible for approval of reasonably foreseeable and unforeseeable variation orders that are within the approved project amount.
- 6.2.5 Be responsible for approval of extension of time claims recommendations submitted by the employer's agent / Engineers.
- 6.2.6 Be responsible for writing and recommending reports to council through the Municipal Manager for approval of reasonably foreseeable/unforeseeable variations and extension of contracts.

6.2.7 Be responsible for quarterly reporting/approving targets and milestones achieved on the SDBIP.

6.2.8 Be responsible to put effective corrective measures to ensure that targets are meet.

6.3 SBU Manager

6.3.1 Be responsible and is accountable for the delivery of the project objectives as well as ensuring the management of the project adheres to this Policy.

6.3.2 Be responsible for monthly reporting targets and milestones achieved on the SDBIP for approval by the Project Owner.

6.3.3 Be responsible to put effective corrective measures to ensure that targets are meet.

6.3.4 Recommend payments to the Project Owner for payment on work done.

6.3.5 Be responsible for approval of reasonably foreseeable and unforeseeable variation orders that are within the approved project amount.

6.3.6 Be responsible for approval of extension of time claims recommendations submitted by the employer's agent / Engineers.

6.4 Project Manager

6.4.1 Be responsible and is accountable for the delivery of the project objectives as well as ensuring the management of the project adheres to this Policy.

6.4.2 Ensure all subject groups are managed effectively (integration, stakeholder, scope, resource, time, cost, risk, quality, procurement and communication).

6.4.3 Report the status of the project on a monthly basis to the project s or more frequent as determined by the project funder.

6.4.4 Recommend payments to the SBU Manager for payment on work done.

- 6.4.5 Ensure that when responsibilities for projects and/ or project deliverables change a formal record of acceptance is stored.
- 6.4.6 Maintain project management documentation necessary to provide information for project assurance activities.
- 6.4.7 Ensure records are managed as per the standard folder structure for projects.
- 6.4.8 Shall ensure that appropriate project closure documentation is completed to enable asset capitalisation to occur, within 28 days of closing the project.
- 6.4.9 Provide the necessary information to the SBU Manager and Project Owner so as to provide the Project Owner and facilitate sound decision making.
- 6.4.10 Gain documented SBU Manager & Project Owner approval for any foreseeable variation (this includes variation to project scope) to project cost and/ or project time greater than the approved tolerances.

6.5 Budget and Treasury Office:

- (a) be responsible for overall administrative and technical oversight in terms of the compilation of the Capital Budget;
- (b) review policy and strategy, in consultation with relevant stakeholders, to ensure maximum compliance in terms of legislation.

6.6 Directorates and Departments:

- (a) in consultation with their relevant Director, Mayoral Committee Member and Portfolio Committees are required to inform the Budget and Treasury Office of their proposed budget;
- (b) responsible for providing information to Budget and Treasury Office regarding any proposed amendments to the current versions of the adopted budgets.

6.7 Council

Responsible for the approval of the Capital Budget.

6.8 Project Management Unit

6.8.1 Project Management Unit is responsible for providing project technical support to all the directorates that are implementing capital projects in the municipality.

6.8.2 Project Management Unit in collaboration with directorates provides project monitoring services and project implementation reports.

8. STRATEGIC FOCUS AREAS

8.1 The strategic focus areas of the municipality are enshrined in the Polokwane Municipality's Integrated Development Plan (IDP) and Six Smart City Pillars. The pillars are namely, Smart Economy, Smart Environment, Smart Governance, Smart Living, Smart Mobility and Smart People. Further to ensure that Polokwane Municipality maintains financial prudence with a purpose of obtaining clean audits from the Auditor- General South Africa.

8.2 The underlying tenets of the well-run municipality are the principles of openness and due process. A well-run municipality is the guarantor of all other government programmes. Citizens need to know that their government works for them, is accountable to them and answers to them at all times. Governments manage public resources and programmes. As such, they must be constantly scrutinised in public to ensure responsible management.

9. REGULATORY CONTEXT

MFMA

9.1 In terms of the Municipal Finance Management Act (MFMA), No.56 of 2003, Chapter 4 on Municipal Budgets, section (16), 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.

9.2 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.

9.3 This policy must be read, analysed, interpreted, implemented and understood against this legislative background.

9.4 The budget plays a critical role in an attempt to realise diverse community needs taking into account the IDP process.

9.5 The formulation of a municipal budget should also take into account the government's macro-economic and fiscal policy fundamentals.

Section (19) of the MFMA states that for Capital projects –

(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.

Regulation 13 of the MBRR on the approval of capital project¹ states that:

(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) (c) of the Act: 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) Sub-regulation (1) does not apply to capital project whose total projected cost when the annual budget is approved is below the values set out in sub-regulation (2).

(4) Expenditure needed for capital projects below the values set out in sub-regulation (2) may be included in the annual budget before the project is approved in terms of section 19(3) of the Act.

General Conditions of Contracts for Construction Works (2015)

(1) The General Conditions of Contracts deals with civil, mechanical, electrical and building projects.

(2) Contractors time risks must be indicated on the programme of works

(3) The GCC permits the contractor to suspend the works if the employer fails to make payment on a payment certificate and includes delay and cost due to expected risks (like strikes and electricity cuts) as an entitlement that a contractor may claim.

(4) The GCC are to be used with the project contract documents.

FIDIC contracts 2017

(1) FIDIC contracts 2017 - Red Book (building and engineering works designed by the Employer) and the Yellow Book (M&E, building and engineering works designed by the Contractor)

(2) FIDIC contracts will be used for specialised turnkey or design & build contracts.

FIDIC contracts 2017

(1) JBCC Contracts will be applicable to Architectural and General Building contracts

10. CAPITAL BUDGET

The Polokwane Municipality'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 System Act.

(c) National Treasury – MFMA circulars and budget regulations.

(d) Division of Revenue Bill/Act (DORA).

(e) The Polokwane Municipality's Asset Management policy.

(f) The Integrated Development Plan (IDP).

11. BASIS OF CAPITAL BUDGET

(a) 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.

(b) The capital projects must be funded from realistically anticipated revenue.

(c) The consequence of the implementing a capital project must consider all operating impacts in terms of finance charges to be incurred on external loans, depreciation of the fixed asset, maintenance on fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analysed by Directorates when proposing a new capital project for inclusion on an annual budget.

(d) In addition, the Council must consider the likely impact of such operational expenses- net of any realistic revenues expected to be generated by such item-on future property rates and service tariffs.

(e) 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.

(f) The budget approved by Council for assets shall clearly distinguish between enhancement/replacement and new assets.

(g) A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.

(h) 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.

12. CAPITAL BUDGET AND CAPITAL PROGRAMME

12.1 Directorates must, in respect of the activities of the departments, in consultation with their relevant Directors, Mayoral Committee Member and Portfolio Committee prepare: -

(a) Revised Capital Budget reflecting revised estimates for the current financial year;

(b) A Draft Capital Budget in respect of the ensuing financial year and a Draft Capital Programme for the following three financial years, based on the following principles: -

(i). Year Two of the current Capital Budget shall become Year 1 of the next year's Budget and Year Three of the current Capital Programme shall become Year Two.

(ii). New projects shall enter the Capital Budget and Programme in Year 3.

(iii). Special circumstances as determined by the Executive Mayor / Budget Steering Committee must exist for a project to be included in the Capital Budget in any other way.

(c) No capital project will be accepted for inclusion into the Draft 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.

(d) Roll-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 roll – over budget requests during the Mid-Year Review and Adjustments process.

(e) New or additional projects (excluding Ward Allocations projects) included in the Draft Capital Budget which were not previously approved by Council must be fully supported by the relevant Mayoral Committee Member and Director responsible for implementing the project and not prejudice any committed projects.

(f) The Draft Capital Budget and Capital Programme which is submitted to the Budget and Treasury office by the Directorates must be aligned to the IDP.

13. FUNDING A MUNICIPAL CAPITAL BUDGET

13.1 A fundamental element to planning is the funding of the proposed project that was identified. MFMA National Treasury Circular 42 states that the key elements of the budget process are to ensure that: Budget is appropriately funded from –

(a) Realistic, collectable revenue

(b) cash-backed accumulated funds

(c) borrowed funds (capital expenditure) within affordable levels Budget must be credible i.e. capable to implement.

14. SOURCES OF FUNDING

14.1 Revenue

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

14.2 External Financing Fund (EFF)

14.2.1 External Financing Fund (EFF) is the borrowed component (loans) of internal funding, which is linked to the life expectancy of the asset. In the case of the City it is linked to the Domestic Medium Term Note (Bond) and/or other external loans and earmarked for long-term use.

- (a) External loans can be raised only if it is linked to the financing of an asset;
- (b) A capital project to be secured or if can be reasonably assumed as being secured;
- (c) Interest payable on external loans shall be included as a cost in the operating budget;
- (d) Finance charges relating to such loans be charged to or apportioned only between the departments or votes to which the projects relate.

14.3 Capital Replacement Reserve (CRR)

(a) Council shall establish a CRR for the purpose of financing capital projects and for the acquisition of assets. Such reserve shall be established from the following sources of revenue:

- (i). Unappropriated cash-backed surpluses to the extent that such surpluses are not required for operational purposes;
- (ii). Interest on the investments of the CRR, appropriated in terms of the investments policy;
- (iii). Additional amounts appropriated as contributions in each annual or adjustments budget; and

(b) Before any asset can be financed from the CRR the financing must be available within the reserve and available as cash as this fund must be cash backed;

(c) If there is insufficient cash available to fund the CRR, this reserve fund must then be adjusted to equal the available cash.

14.4 Grant Funding Government grants as well as private sector funds

14.4.1 Municipalities receive National Treasury and Provincial Treasury allocations. 12.4.2 These grants are approved and published in the Division of the Revenue Act (DORA) and Provincial Treasury circular respectively and should be included in Municipal Capital Budget programme.

14.4.2 All projects funded externally must be linked to a Grant Fund (GD).

(a) Capital expenditure must be budgeted for in the capital budget;

(i). Interest earned on investments of Conditional Grant Funding shall be capitalised if the condition stated the interest accumulate in the fund.

(ii). If there is no condition stated, the interest can then be allocated directly to the revenue accounts.

(iii). Grant funding should be secured by way of a legal binding agreement, before spending can take place. Donations and public contributions - Local and foreign donors may sometimes donate a capital fund to be used specifically for the purchase of a capital item.

14.5 Other Funding Sources

14.5.1 Contributed assets:

14.5.1.1 All physical Assets that are expected to be given to Polokwane Municipality should be identified early and their fair value settled to the Asset register (capitalised) in a similar manner to existing Capital projects.

14.5.1.2 A capital asset donated by external parties requires from the directorate to submit a report in order to obtain permission from Council to accept the donation of capital items.

14.5.1.3 Council approves the acceptance of the physical asset after considering specifications and future cost of operating and maintaining the asset.

14.5.2 Public/Private Partnerships:

14.5.2.1 Capital costs can be paid for by means of partnerships between the private sector and the municipality.

14.5.2.2 The process to follow regarding Public/Private Partnerships remains within the policy governing planning and approval of capital projects.

15. IMPLEMENTATION, EVALUATION AND REVIEW

- (a) This policy shall be implemented once approved by Polokwane Municipality's Council.
- (b) Directorates to ensure that during implementation stages that there is consistent monitoring and evaluation of the policy as indicators will inform blockages within the policy implementation phases.
- (c) 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.**
- (d) Changes in legislation must be taken into account for future amendments to this policy.
- (e) Any amendments to this policy must be re-submitted to Council for review and approval