

# BLUE CRANE ROUTE MUNICIPALITY (EC102)



## DRAFT CAPITAL INFRASTRUCTURE INVESTMENT POLICY

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No. 23

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MZWANDILE PATRICK NINI  
MUNICIPAL MANAGER

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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.

**“Capital Expenditure (CAPEX)”** means expenditure used to create new assets or to increase the capacity of existing assets.

**“Council”** means the municipal council of Blue Crane Route 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).

**“Infrastructure Asset Management Plan (IAM)”** means a plan:

- (a) developed for the management of Infrastructure Assets with the aim of providing specified levels of service in a cost-effective manner either at present or in the future; and
- (b) includes multi-disciplinary management techniques (including technical and financial) that are combined to determine the aggregated asset life-cycle needs; and
- (c) a long-term cashflow as a significant component thereof.

**“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, 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; IAM’s 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.

**“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 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.

## 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 section 8 of the Local Government: Municipal Budget and Reporting Regulations contained in General Notice No. 393 of 2009 and forms an element of a “Funding and Reserves Policy” as referred to therein.

## 3. PURPOSE

This policy sets out the process and methodology for capital infrastructure investment 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) Upgrading to accommodation and housing projects, other than to low cost housing projects;
- (d) Land acquisitions;
- (e) All major capital works, referred to in the Asset Maintenance / Life-Cycle Management components of the Asset Management Policy;
- (f) All infrastructure developments; and
- (g) Information and communication infrastructure renewals and/or upgrades.

## 4. 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 fulfill the service delivery mandate as identified in the Asset Maintenance /Life-Cycle Management components of the Asset Management Policy; and
- (c) Affordability.

## **5. 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) A detailed life-cycle funding plan has been developed and included in the Asset Maintenance / Life –Cycle Management component of the Municipality’s Asset Management Policy.
- (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.

## **6. 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.

## **7. 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.

## **8. INFRASTRUCTURE BUDGETING**

(a) The ongoing renewal of Infrastructure Assets should be approximately 2.5 % of Current Replacement Cost (CRC).

(b) Ongoing Repairs and Maintenance of Infrastructure Assets should be, at the very least, 2% of CRC (excluding bulk purchases).

## **9. 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.

(b) In terms of section 17 (1)(e) of the MFMA, this policy must be reviewed on an annual basis and the reviewed policy must be tabled before the Council for approval as part of the annual budgetary process.

## **10. COUNCIL RESOLUTION**

**The Capital Infrastructure Investment Policy to be reviewed.**