



Centre for Municipal Asset Management

"Municipal Asset Management
Strategies and Oversight Requirements for
Sustainable Service Delivery"


Advanced Municipal Assets Management Lecture - University of Cape Town

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About CMAM


- ❑ Established with the support of the South African Local Government Association in 2017 to integrate municipal asset management support programmes, and close the gap between Technical & Finance Departments
* Linked with *Canadian Network of Asset Managers (CNAM)*
- ❑ Brings together, promotes and strengthens the Asset Management Community national wide
- ❑ Uplifts the professional status of the asset management practitioners
- ❑ Aiming to establish and standardize common specifications for asset management and maintenance for municipal assets;
- ❑ Serves as centralized knowledge repository, to stimulate and promote education and training in asset management;
- ❑ Promotes asset management as a means to long term sustainability



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ASSET ACCOUNTING FOR ENGINEERS


- **Newton's third law** states that when two bodies interact, they apply forces to one another that are equal in magnitude and opposite in direction.
- The third law is also known as the law of **action and reaction**.
- The double accounting entry system is similar in nature and determines that each transaction must have a debit and a credit entry in the books of account.



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Double-entry Accounting

- Benedetto Cotrugli, an Italian merchant, invented the double-entry accounting system in 1458.
- The system was later shared by Italian mathematician and Franciscan monk **Fra Luca Bartolomeo de Pacioli** (1447 – 1517), an Italian mathematician and collaborator with Leonardo Da Vinci.
- He is referred to as "The Father of Accounting and Bookkeeping" in Europe.
- He wrote *The Collected Knowledge of Arithmetic, Geometry, Proportion, and Proportionality* in 1494, which included a detailed description of the double entry-accounting system.



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How double-entry accounting works

- **Step 1: Set up a chart of accounts**
 - **Assets:** Anything you own
 - **Liabilities:** Anything you owe
 - **Revenue/income:** What your business earns
 - **Expenses:** The cost of doing business
 - **Owner's equity:** Reflects your current ownership level
- **Step 2: Use debits and credits for all transactions**
- **Step 3: Make sure every financial transaction has two components**

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How double-entry accounting works

Once your chart of accounts is set up and you have a basic understanding of debits and credits, you can start entering your transactions.

ACCOUNT	TO INCREASE BALANCE	TO DECREASE BALANCE
Assets	Debit	Credit
Liabilities	Credit	Debit
Revenue	Credit	Debit
Expenses	Debit	Credit
Equity/Accumulated Funds	Credit	Debit

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Asset Management Concepts

- Infrastructure asset management, which forms part of municipal asset management, is the combination of management, financial, economic, engineering, and other practices applied to physical assets to provide the best value level of service for the costs involved.
- This must be seen in contrast to the management of financial assets which is defined as the practice of increasing total wealth over time by acquiring, maintaining, and trading investments that have the potential to grow in value. Asset management professionals perform this service for others (including some municipalities). They may also be called portfolio managers or financial advisors.
- Our focus here is on the management of all fixed (non-current) assets.

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Infrastructure (re)defined

- ❑ The word infrastructure, coined by French railroad engineers in the late nineteenth century, refers to a complex set of systems that enable a society's functioning.
- ❑ Western world's growing understanding of infrastructure as encompassing social and cultural spaces and structures as well: public goods and services that produce healthy and well-educated citizens are essential components of the foundation for the business and individual activities that allow the economy and society to function.
- ❑ Brett Frischmann identifies three characteristics that unite infrastructure assets in his book *Infrastructure: The Social Value of Shared Resources*:
 - First, they are non-rival in use (many people can use them simultaneously).
 - Second, demand for them is derivative – e.g. people do not consume electricity for its own sake but because of what it enables them to do.
 - Third, they can be used as inputs for a wide range of other activities.

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Definition: Asset Management

➤ The process of guiding the acquisition, use, safeguarding and disposal of assets to make the most of their service delivery potential and manage the related risks and costs over their entire life.

• Fixed Asset

- Movable **or** immovable, (tangible/intangible);
- **Owned** or under control;
- Reasonable expectation to derive economic **benefits**, or **use** in service delivery;
- Over **period** beyond one financial year; and
- Cost or fair **value** can be measured reliably.

• **Manage** - the **life cycle** of each asset.

Municipal Asset Management

- Introduction – History, Legal and Practical
- Asset Life Cycle Management:
 - Planning
 - Acquisition and Recognition
 - Operating and Maintenance (including Physical Verification and Assessments)
 - Disposal and Replacement
- Conclusion

Asset Accounting: History

- ❑ Some drastic changes over the past 40 years. The British Rail System, with its “Fund accounting” was utilised up to the 1980’s, replaced with the IMFO – Standard in the 90’s.
- ❑ Replaced with the IMFO – Standard in the 90’s and some prescriptions were issued regarding the format of asset registers;
 - ❑ Inventories were maintained by various departments within a municipality.
 - ❑ No reconciliation between technical/engineering records and the financial disclosures.
 - ❑ Descriptions of assets made it difficult, if not impossible, to physically verify (or manage) the individual asset components.
- ❑ There was no coordinated effort to manage all the assets of the municipality, and conflicts arose frequently between the financial and technical divisions.
- ❑ The realisation that the physical management of assets has a direct result on financial results and legislation changed the way assets are intended to be managed.
- ❑ The requirements implemented by GRAP was definitive in the management of assets.

Legal Background

Constitution Of The RSA (No. 108 OF 1996)

Powers and functions of municipalities

Section 156.

- (1) A municipality has executive authority in respect of, and has the right to administer
 - (a) the local government matters listed in Part B of Schedule 4 and Part B of Schedule 5; and
 - (b) any other matter assigned to it by national or provincial legislation.
- (4) The national government and provincial governments must assign to a municipality, by agreement and subject to any conditions, the administration of a matter listed in Part A of Schedule 4 or Part A of Schedule 5 which necessarily relates to local government, if—
 - (a) that matter would most effectively be administered locally; and
 - (b) the municipality has the capacity to administer it.
- (5) A municipality has the right to exercise any power concerning a matter reasonably necessary for, or incidental to, the effective performance of its functions

Functions of Local Government

➤ Municipal Demarcation Act No 27 OF 1998

- Determination of municipal **boundaries**.
- The boundary determination identified the possible **location** of all assets to be utilised in the delivery of services to the community.

➤ Municipal Structures Act No 117 OF 1998

- The establishment of municipalities in accordance with the requirements relating to **categories** and types of municipalities.
- The category of municipality determined in certain instances, which **powers and functions** were awarded to a specific municipality (as defined per the Constitution).

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Service Delivery Mechanisms

Local Government: Municipal Systems Act 32 Of 2000

Section 76.

A municipality may provide a municipal service in its area or a part of its area through-

- (a) an **internal mechanism**, which may be-
 - (i) a department or other administrative unit **within** its administration;
 - (ii) any business **unit devised** by the municipality, (within the municipality's administration and under the control of the council); or
 - (iii) any other **component** of its administration; or
 - (iv) any **other** institution, entity or person legally competent.
- (b) an **external** mechanism by entering into a service delivery agreement with-
 - (i) a municipal entity;
 - (ii) another municipality;
 - (iii) an organ of state,
 - (iv) a community-based organisation or other NGO legally competent, or
 - (v) any other institution, entity or person legally competent.

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Municipal Finance Management Act

Section 63 states that:

- (1) The **Accounting Officer** of municipality is responsible for the management of
 - (a) The **assets of the municipality**, including the safeguarding and the maintenance of those assets.

Section 78 stipulates the following regarding Senior Management:

- (1) **Each Senior Manager** of a municipality ... must take all reasonable steps **within their respective areas** of responsibility to ensure (e) that the **assets** and liabilities of the municipality are **managed** effectively and assets are safeguarded and maintained to the extent necessary.

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Guidelines from Government

- High level prescriptions in Municipal Finance Management Act (MFMA) Act 56, 2003.
- Local Government Capital Asset Management Guideline in 2008 (coordinated by NT)
- Sector specific guidelines:
 - Verification and Valuation of Major Water Infrastructure Assets – Department of Water and Forestry Affairs (DWAF);
 - National Infrastructure Maintenance Strategy (NIMS) Dept of Public Works (DPW).
 - National Environmental Management: Waste Act, 2008 (Act 59 of 2008) and the National Waste Management Strategy (2011).
 - Guidelines for Infrastructure Asset Management in LG 2006 – 2009 (DPLG)
- Generally Recognised Accounting Practice (GRAP), as amended by the ASB.
- Accounting Guideline on GRAP 17 – Property, Plant and Equipment NT (June 2012)
- Standard Operating Procedures for Municipalities NT (SOP May 2016).

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QUESTIONS?

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The Essentials

Municipal asset management is a developing science in our country and part of the improvement relies on the configuration of the various internal control structures, their coordination and cooperation.

The Four Pillars:
*Supervision,
 Management Unit,
 Guidelines, and
 System*
 are essential in the process.

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 Inspiring service delivery

Best Practice: The Four AM Pillars

Effective Management of Assets for Municipalities

<p>Supervision:</p> <p>Asset Management Committee (Team)</p>	<p>Management Unit:</p> <p>Operational Personnel (Dedicated and Ancillary)</p>	<p>Guidelines:</p> <p>Legislation, Strategies, Plans, Policies and Procedures</p>	<p>System/s:</p> <p>Physical, Documentary and Digital Controls</p>
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Asset Management Committee (AMC)

Asset Management Committee (Team) – based on the prescriptions in the MFMA (Sections 63 and 78) and the recommendations recorded in the LGCAMG of 2008.

Composition of the Committee:

The **Accounting Officer** will be the Chairperson, with the committee made up of a supervisory representative of at least the following departments-

- Budget and Treasury
- Economic Development and Infrastructure Management
- Community Services
- Corporate Services

Other municipal officials and officials from other organs of the state may be co-opted into the Committee for their specialist expertise or skills and knowledge on a temporary or permanent basis at the discretion of the Committee.

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AMC Objectives

The **purpose** of the Committee is to provide guidance and oversight to the municipality to assess and monitor the:

- Impact of the asset management **strategies**;
- Governance and **implementation** of plans, policies and procedures;
- Internal control environment and document **management**;
- Standard of financial management and **reporting**; Improvement of audit results.
- **Effective** management of assets to achieve the required service in the most cost-effective manner.
- Safeguarding and **maintenance** of the assets.
- Implementation and maintaining of an effective and efficient management, accounting and information **system** that accounts for the assets at municipality.
- GRAP compliance when valuing and **accounting** for the municipality's assets.
- Internal **control** systems of assets, especially physically, including an asset register, as prescribed.

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Management Responsibilities

Asset Management

Accounting Officer (Section 63 of the MFMA) - responsible for the management of assets, including safeguarding and maintenance, supported by **Senior managers** -Section 78 (2) of the MFMA.

Assets Management Procedural Guidelines

- All managers** – Responsible for assets in department, Committee
- Asset Controllers** – Movables in departments
- CFO** – Financial reports, Project Business Plans, Costing of Plans
- AMU** – Updating of system, Physical verifications, Secretarial/Corporate
- PMU** – Project Management, Updating costing of Assets
- Technical/Technicians** – Operating & Maintenance (Plans) of Infrastructure, Assessments and Verifications
- SCM/Expenditure Accountant** – Reconciliation of expenditure monthly
- Planners** – Strategies, Plans (with AMC) and GIS

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Asset Management Unit

- Group name for the individuals providing the technical/practical skills required to manage the various types and classes of fixed assets of a municipality; the “engine room” of asset management.
- The multi-disciplinary requirements of asset management extends beyond financial management, and responsibility and accountability must be assigned to all the appropriate managers.
- AMU responsible to the Office of the Municipal Manager is best placed to coordinate the functions exercised by the various managers responsible for assets in the respective departments, as well as the contributions from the various functional departments regarding updating the asset data base, management plans and physical control.

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Guidelines: Strategic Relationship

Asset Management Strategy

Life Cycle Policies and Management Plans

Accounting Policy

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Life Cycle Policy and Management Plans

Infrastructure	Fleet	IT	Property
<ul style="list-style-type: none"> Water Sanitation Roads Stormwater Electricity Waste Disposal IT Structures 	<ul style="list-style-type: none"> Vehicles Plant Machinery 	<ul style="list-style-type: none"> Hardware Software 	<ul style="list-style-type: none"> Land Buildings Facilities

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AM Accounting Policy

- The compilation of the Asset Management Policy includes decisions where national directives (especially GRAP) gives a choice to the municipality, like; disclosure method for the value of PPE and Investment Property, Depreciation method and Calculation of Impairment of assets.
- The policy cannot contradict national directives but must disclose municipal preferences and choices within that framework, and add decisions not necessarily provided for in national directives.
- The policy must be approved by council and provides an essential link between Legislation and Strategy to the procedure manual for implementation.

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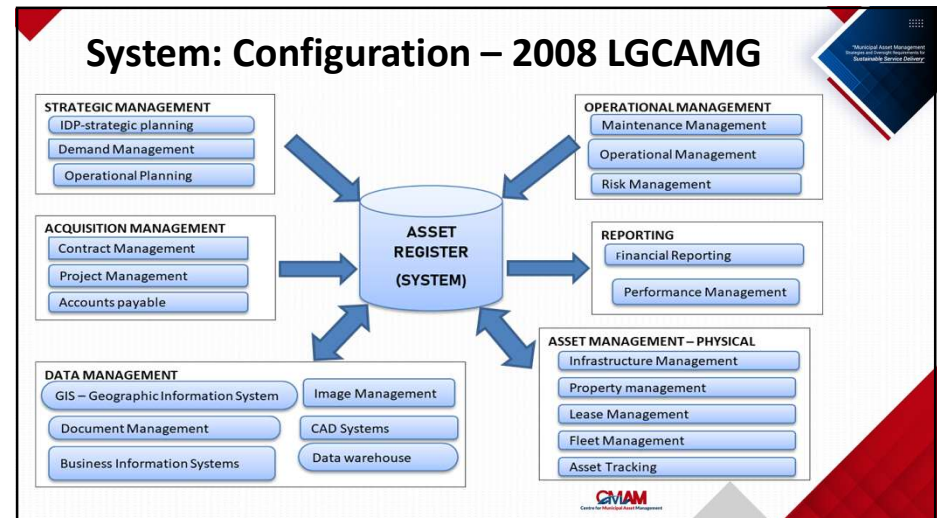
Procedure Management

The AM Procedure Manual must have extensive referencing to enable integration with the Job Descriptions of all personnel tasked with duties relating to the management of assets.

The integration of these documents will ensure:

- All required tasks have been assigned,
- There is a clear understanding by each staff member of their responsibilities, and
- There is an easy way to establish control and supervision over all aspects of assets management.

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System: MFMA Circular 80 –March 2016

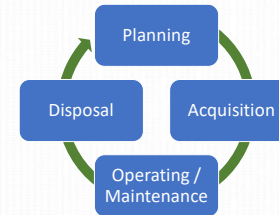
Para 4. Minimum Compliance to mSCOA – Business Processes and System Functionality

A system of financial management and internal control capable of providing for the uniform recording and classification of both municipal budget and financial information at a transaction level in the prescribed municipal standard chart of accounts.

Annexure B - Asset System (Circular 80)

- Manage the full asset life cycle
- Identification of Assets
- Maintenance Strategies

Assets Life Cycle



Planning:

Service delivery that drives the need for assets including input into the IDP, budget and assets management plans-MFMA section 19(2) and MSA section 74 (2).

Acquisition:

Purchase, construction or manufacture of new assets.

Operating/Maintenance:

Operation of assets, maintenance/refurbishment, enhancement /rehabilitation, depreciation and impairment.

Disposal:

Timing and disposal actions including the disposal costs and specific requirements of disposal.

Planning Phase

- The first phase of the Asset Management Cycle is **Planning**.
- The Integrated Development Plan (IDP) must be based on the guidelines accepted in the Asset Management Strategy, Policies and Management Plans.
- The AMC **combines** the input from the Corporate, Community, Planning, Financial and Infrastructure Sections to develop an integrated development plan for fixed assets, major portion of the Integrated Development Plan (IDP).
- The Capital Development Plan must be based on **business plans** compiled for the **asset life cycle** for each project and must also provide for the **replacement** of assets reaching the end of their useful life within the timeline of the IDP's expenditure framework.

Municipal Systems Act

Section 24.

- (1) The planning undertaken by a municipality must be aligned with, and complement, the development plans and strategies of other affected municipalities and other organs of state so as to give effect to the principles of co-operative government contained in section 41 of the Constitution.

Section 120.

- (1) The Minister may, by notice in the Gazette and after consultation with organised local government representing local government nationally, make regulations or issue guidelines not inconsistent with this Act concerning—
 - (a) the matters listed in sections 22, 37, 49, 72, 94 and 104

IDP Regulations, 2001

The Guide (DPLG) framed in terms of section 120 of the MSA:

- The IDP has a lifespan of 5 years that is linked directly to the **term of office** for local councillors.
- After every local government election, the new council has to **decide on the future** of the IDP.
- The council can adopt the existing IDP or develop a **new** IDP that takes into consideration existing plans.
- At District Council level, a framework will be developed in consultation with all local municipalities within the district. This framework will ensure **co-ordination**, consultation and alignment between the district council and local municipalities.

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Reality: Basic Human Needs

➤ *Survival*

Survival needs include physiological needs such as the need to have food, water, air, breathing, excretion, reproduction, warmth, shelter, rest, sleep, homeostasis (mechanism that maintains a stable internal environment despite the changes present in the external environment).

➤ *Safety*

Safety needs include security, protection, work, resources, property, healthcare, structure, order, certainty, control, self-care, leisure, entertainment.

If these requirements are not fulfilled, the human body won't be able to work efficiently.

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Spatial Land Use Management Act, 2013 (Act No. 16 of 2013)

Section 20 (2) requires a municipal SDF must: Prepare a Spatial Development Framework as part of the **Integrated Development Plan** in terms of the Municipal Systems Act.

Section 21 requires a municipal SDF must:

- a) give effect to the development principles and applicable norms and standards set out in Chapter 2;
- b) include a written and spatial representation of a five-year spatial development plan for the spatial form of the municipality;
- c) include a longer-term spatial development vision statement for the municipal area which indicates a desired spatial growth and development pattern for the next 10 to 20 years;
- h) **identify, quantify and provide location requirements** of engineering infrastructure and services provision for existing and future development needs for the next five years;

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HUMAN RESOURCE PLANNING

Municipal Staff Regulations (In terms of the MSA) w.e.f. 1 July 2022
Chapter 2

Section 4 (2) (b) Determine the staff establishment necessary to perform its functions which will determine the **staff demand**:

- number,
- competency,
- post levels, and
- recruitment.

❖ Read with Section (3) (a) **Aligned to IDP**

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ESG Factors

- **Environmental, Social and Governance (ESG)** issues affect long-term sustainability, no matter the demands of the moment.
- Align sustainability goals, and responses, to those of the **UN Sustainable Development Goals (SDGs)**:
 - Increase disclosure and transparency around **climate** change-related targets, timelines and actions;
 - Labour and wage practices – focus on a **fair** living wage for employees and pay parity across race and gender;
 - Human **rights** and fair trade across the supply chain.
- Clear action plans on environmental and social priorities strengthen the operational resilience of a municipality and strengthens efficacy.
- ESG must work alongside financial factors to save, not increase, costs.

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International Guidelines IIMM

- The objective is to meet the required level of service, in the most **cost-effective** manner, through the management of assets for present and future customers/consumers.
- The focus is to look at the **lowest long-term cost** (rather than short-term savings) when making decisions.
- AM planning **cannot be done well in isolation** from other activities in the organisation.

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Cost Recovery: Finance

MFMA Section 19. (2)

Before approving a capital project in terms of subsection (1)(b), municipal council must consider—

- (a) the **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 implications.*

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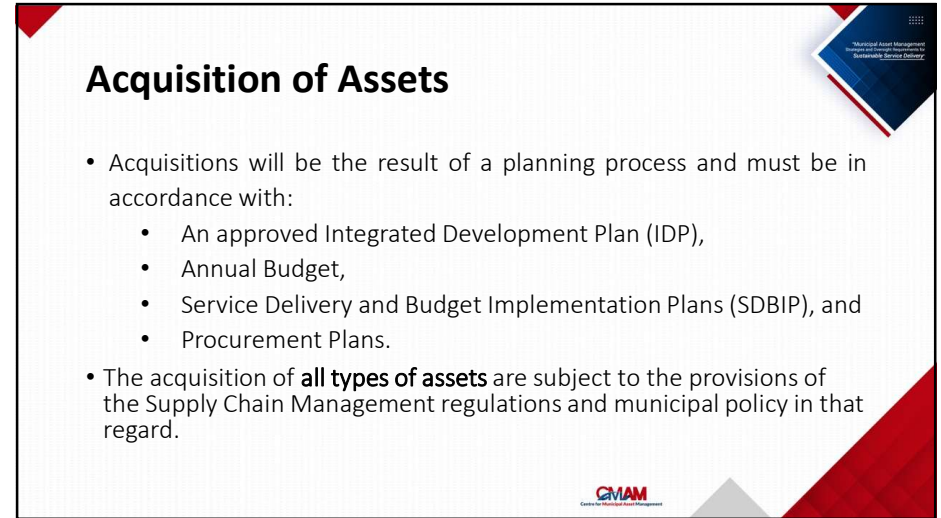
Replacement and Maintenance Planning

The requirements relating to the maintenance (see O & M) and replacement (see Disposals) plans of assets will be discussed under separate headings within this presentation.

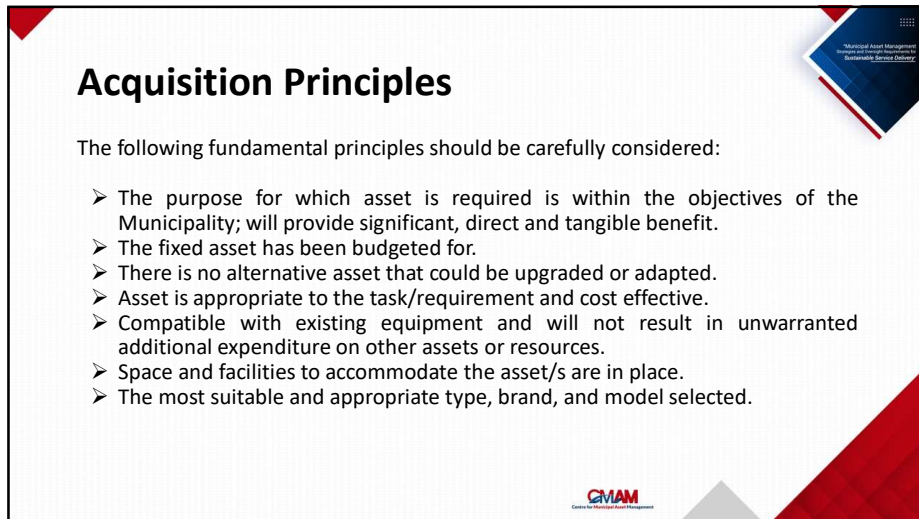
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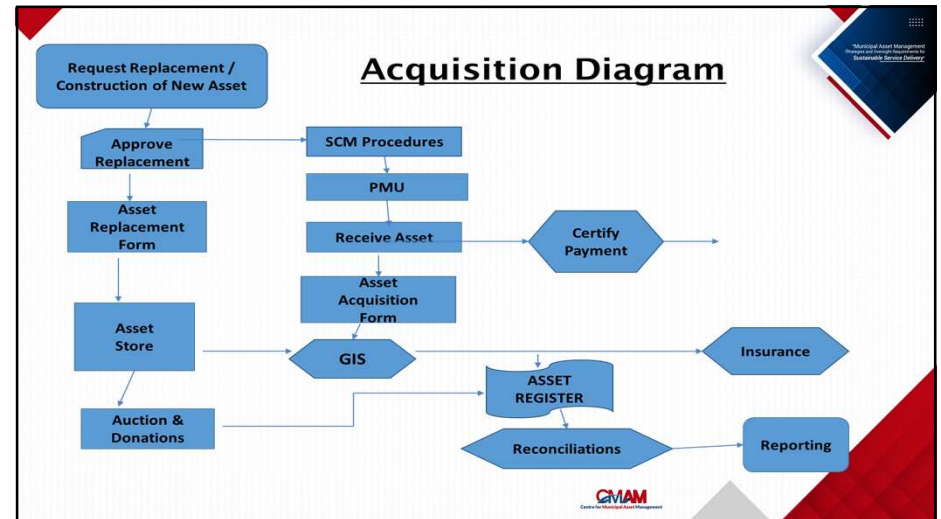
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Property Plant and Equipment

Initial recording:

- Measured at its cost, or
- Recognised at its fair value, if it is acquired at no or nominal measurable cost.
- Cost comprises of the purchase price and any directly attributable costs of bringing the asset to working condition for its intended use.
- The Municipal Policy can authorise the CFO to decide when expenditure on an item of PPE will be capitalised or expensed when incurred, in terms of GRAP 17.09. The CFO will decide if an item is significant enough to be capitalised.

PPE: Attributable costs

Examples are:

- The cost of site preparation,
- Initial delivery and handling costs,
- Installation costs,
- Professional fees like architects and engineers,
- The estimated cost of dismantling the asset and restoring the site, to the extent that it is recognised as a provision.

Acquisition: Investment Property

- Investment property is a property (land or building – or part of a building) held (by the owner or by the lessee under finance lease) to earn **rentals** or for **capital appreciation** or both.
- Investment property is measured initially at its cost.
- Cost of a purchased investment property comprises:
 - purchase price and any directly attributable expenditure,
 - professional fees for legal services,
 - property transfer taxes and
 - other transaction costs.
- The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, the Municipality applies the GRAP standard on accounting for PPE.

Acquisition: Intangible Assets

Acquisition of Intangible assets (computer software) should **include** the following steps (over and above the steps for Movable Assets as recorded above) to be performed by the IT department:

- Obtain all details of the program.
- Perform security checks on the program.
- Prepare an IT Business Plan.
- Follow normal Supply Chain Management procedures (SCM).
- Test the program
- Install and register the program.
- Update individual user file.

Construction Projects

After approving a construction project, the municipality ensures —

- Specifications are properly described in the Bill of Quantities;
- Clear **identification** of the assets/components to be constructed; and
- Project Managers are assigned to ensure updated progress on the assets constructed with **each** request for payment.

During the project:

- **Components** progress updated with each payment certificate;
- Any approved **variances** to the specifications immediately updated in the Bill of Quantities (and schedule of components); and
- Cadastral **drawings** are kept up to date of the As-Built assets and identified to the descriptions in the progress certificates.

PPE Subsequent Costs (1)

Assets modified during their life, 2 types of expenditure:

1. Enhancement / Rehabilitation:

- Modification of an item or plant to extend its useful life, including an increase in its capacity for service delivery;
- Upgrading machine parts to achieve a substantial improvement in the quality of output;
- Adoption of new production enabling a substantial reduction in previously assessed operating costs;
- Extensions or modifications to improve functionality;
- Improve the performance of the asset;
- Prolong the expected working life of the asset;
- Increase the size of the asset; or
- Change the shape of the asset.

PPE Subsequent Costs (2)

2. Maintenance / Refurbishment:

- Expenditure related to repairs or maintenance of PPE made to restore or maintain the future economic benefits or service potential that an entity can expect from the asset.
- Refurbishment does not extend functionality or the life of the asset, but are necessary for the planned life to be achieved.
- If the improved performance or extended life of an asset is not beyond what has originally been estimated for the asset and the expenditure is only to bring performance back to the level that is normally expected for the asset, the expenditure will be considered an operating expense.

QUESTIONS?

Operating and Maintenance (O&M)

- Assets are brought into use, after acquisition, and the operating/maintenance phase commences. The operational plans will provide guidance for each asset in relation to the category or classification, and the functionality of each.
- This presentation focus mainly on the maintenance aspect.
- Asset Management Unit (AMU) must have a thorough understanding of the operational policies and budgets required to maintain assets to the required level of performance.

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Operational Guidelines

Departmental regulations or “operating policies” include Infrastructure Management Policies, Property Management Policy, Fleet Management/Transport Policy and Information Technology Policy.

Examples of guidelines are as follows:

- Only authorised personnel should be allowed in areas where expensive equipment is kept;
- Only authorised personnel should be allowed to operate plant or vehicles;
- The keys for office vehicles should be controlled in a central office during the day, and employees should sign when they take the keys;
- Ensure that drivers or operators have the necessary qualifications and licences;
- It should be part of service conditions that employees incur personal liability if they drive while under the influence of alcohol, drugs, medication, and so forth; or if they leave the vehicle unattended and unlocked;
- Physical access to buildings, or areas within buildings, should be restricted, especially after hours.

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Maintenance Strategy

Strategy involves consideration of the appropriate mix of procedures and the capacity to undertake minor modifications and enhancements, approaches are:

- **Corrective** –
No maintenance is undertaken unless, or until, the assets no longer functions to the required standard or has broken down;
- **Preventative** –
Programmed maintenance is undertaken to reduce the likelihood of failure and keep the asset operating at an acceptable level.

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Level of Maintenance

The level of maintenance should:

- be consistent with the role the asset will play in the delivery of services, relative to other like assets;
- reflect obligations for compliance with statutory requirements in terms of occupational health and safety, fire, environmental management and the like;
- be realistically attainable, given the age, condition and expected life of the asset;
- be capable of being achieved within planned resource availability; and
- be agreed with the users of the asset.

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Maintenance Plan

- **What:** The inventory of assets that must be maintained (such as roofs, windows, pumps, boilers, etc.)
- **How:** The types of maintenance tasks (such as inspecting, cleaning, adjusting, re-aligning, lubricating, etc.)
- **When:** The intervals at which each asset is to be maintained (such as weekly, quarterly annually, etc.) Also called the maintenance schedule.
- **Who:** The skill levels required for each maintenance task.

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Maintenance Manuals

Classification of maintenance manuals:

- ❖ **Level-1 Manual** – Rudimentary manual, contain a package of manufacturer's product data sheets.
- ❖ **Level-2 Manual** - Include reference information in Level-1 manual and summary table with itemised maintenance instructions for the more common routine maintenance tasks.
- ❖ **Level-3 Manual** - Contain all the information in a Level 2 manual and recommended intervals (cycles) for the maintenance activities relative to the total service life of the asset.
- ❖ **Level-4 Manual** – Information as in Level-3, and methods of maintenance, the skill levels of the persons required and an estimated cost for the individual activities.

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Depreciation

- Depreciation is charged to write off the cost or valuation of assets over their estimated useful lives.
- Depreciation is charged to the applicable Department utilising the service of each asset (normally on a monthly basis), forms part of the operating expenses of such Department, commences when an asset is brought into use.
- The depreciation will be calculated to not reduce the value of the asset to less than a residual value.
- Heritage assets, which are defined as culturally significant resources are not depreciated as they are regarded as having an infinite life. Land is also not depreciated for the same reason.
- Estimated useful lives, residual values and depreciation method are reviewed at each year end.

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Assessment of Values

- Condition assessments on selected or identified assets is part of ongoing assets management.
- Assess whether there are indicators that the useful life and/or residual value of particular assets should be changed and if there are any indication that any asset should be considered for impairment.
- The assessment of an item or a group of identical items of property, plant and equipment should be performed periodically (if not continually) per asset category in order to assess if there are indicators for review, and can be limited to a percentage of items, as decided by the CFO, per category.
- The testing of Buildings and Community Assets should coincide with the valuation performed in terms of the Municipal Property Rates Act and should cover all Structures.

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Indicator approach

- ❖ Detailed assessment of the useful lives of assets on an annual basis is onerous, particularly given the nature and volume of assets. **(GRAP 17 BC2.)**
- ❖ Indicator approach is a feasible compromise still require entities to assess the useful lives of assets on a regular basis. **(GRAP 17 BC3.)**
- ❖ Entities not be required to review the useful lives of assets every year, only when specific circumstances exist or have changed from the prior year. **(GRAP 17 BC3.)**
- ❖ Internal experts could be used, as long as they possessed the requisite competence to undertake these valuations. **(GRAP 17 BC6.)**
- ❖ Standard could not describe when an expert is competent, but that it could describe that the valuations should be undertaken in accordance with the principles established in the applicable Standards of GRAP. **(GRAP 17 BC7.)**

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Impairment (External Factors)

Indicators are based on identifiable factors as follows-

External factors:

- Cessation of the demand for services by the asset,
- Significant adverse effects with long-term changes in operations due to changes in the environment relating to -
 - Technology,
 - Legal requirements, or
 - Government Policy

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Impairment (Internal Factors)

Internal factors:

- Evidence that it has been physically damaged,
- Evidence that its service performance will be worse than expected,
- Plans to discontinue or restructure the operation to which an asset belongs,
- Plans to dispose of an asset before the previously expected date,
- Item has become technologically obsolete, or
- Item remains idle for a considerable period of either prior to it being put into use or during its useful life.

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QUESTIONS?

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O&M: Physical Inventory - Movable

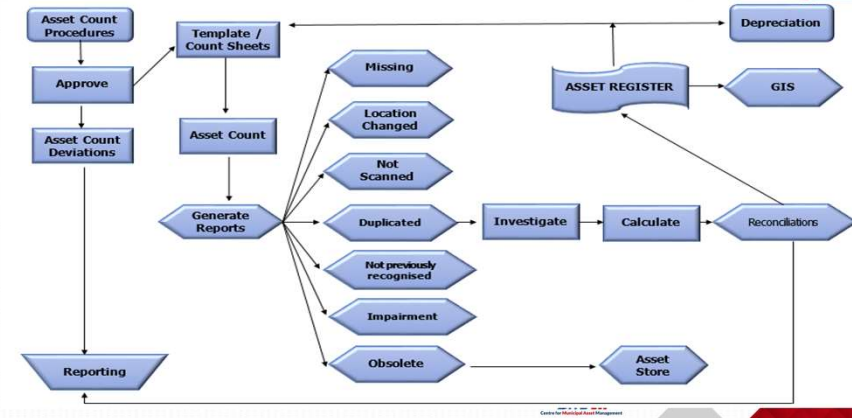
Asset Management Unit, with the co-operation of Departmental personnel, must conduct a physical inventory of movable assets annually (preferably quarterly), and will require to:

- Develop Asset Count Procedures.
- Verify asset count with information on the Asset Register.
- Prepare a report with all deviations found during the count.
- Write-off assets on the Asset Register.
- Prepare list of "assets not previously recognised", update FAR.
- Obtain condition rating of all assets from asset count teams.
- Consider for each category whether it is change in useful life or an indication of impairment.



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Inventory of Movable Assets



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Tagging

Tagging means to place a control number on a piece of equipment/property;

- Provide an accurate method of identifying individual assets
- Aid in the annual physical inventory
- Control the location of all physical assets
- Aid in maintenance of fixed assets

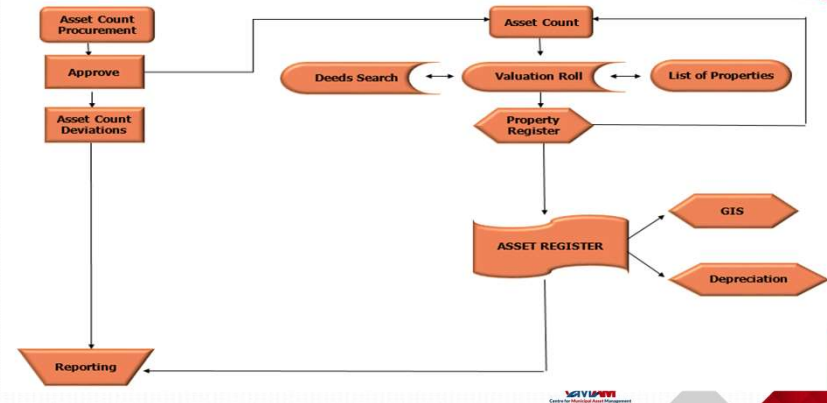
Fixed property and plant is **not** tagged; such as:

- Buildings (record legal description in asset record),
- Land (record legal description in asset record),
- Vehicles (record licensing details in asset record),
- Infrastructural assets.



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Inventory: Land and Buildings



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Assessment of Control of Land

Control of land is evidenced by the following criteria:

- Legal ownership (**paragraphs .18 and .19 of IGRAP 18**); and/or
 - The right to direct access to land, and to restrict or deny the access of others to land (**paragraphs .20 to .35 of IGRAP 18**).
- **Substantive rights** grant the ability to make decisions about, and benefit from, certain rights and assets, such as how to use the land to provide services, and when to dispose of the land, to whom and at what price.
- **Protective right** is merely to protect the rights of the holder without giving it power over the land to which the right relates, municipality needs to consider whether it has a substantive right to confirm control of the land.

Inventory: Infrastructure

Inventories are taken at least annually, and process include:

- Inspect all Infrastructure assets in the Infrastructure register and confirm their usage and location.
- Condition Assessment to be performed where HoD's informed the AMU that Indicators exist that would indicate the:
 - Amendment of Useful Remaining Life
 - Amendment of Residual value; and/or
 - Impairment of Asset/s
- The verification of service concession assets must be performed in accordance with the key fundamental principles of GRAP 32.

Disposal

- Each Department within the municipality must take the necessary steps to ensure that all their redundant, obsolete, or damaged assets are disposed of in the correct and approved manner.
- The carrying amount of an item of property, plant and equipment shall be **derecognised**:
 - (a) on **disposal** (including disposal through a non-exchange transaction); **or**
 - (b) when **no future economic benefits** or service potential are expected from its **use or disposal**. (GRAP 17.78)
- The transfer of ownership of any fixed asset shall be in compliance with the principles and prescriptions of Section 14 of the Municipal Finance Management Act.

Disposal Decisions

- ❖ Reasons are critically examined, corrective action considered before decision to dispose of the asset is made.
- ❖ The analysis of disposal methods takes into consideration:
 - Potential market/other intrinsic values,
 - Location and volume of assets to be disposed of,
 - Ability to support other government programmes, and
 - Environmental implications.
- ❖ Regular evaluation of disposal performance is undertaken.
- ❖ The municipality implements a proper system of internal controls over disposals to avoid risks of theft or misappropriation of assets.

Guidelines: MFMA Section 14

14. (1) a municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services.
- (2) A municipality may transfer ownership or otherwise dispose of a capital asset other than one contemplated in subsection (1), but only after the municipal council, in a meeting open to the public:
 - (a) has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
 - (b) has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- (5) Any transfers of ownership of a capital asset in terms of subsection (2) or (4) must be fair, equitable, transparent, competitive and consistent with the Supply Chain Management Policy which the municipality must have and maintain in terms of section

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Transfer Regulations

Municipal Asset Transfer Regulations (No R. 878 August 2008) provides more guidance on the transfer and disposal of Exempted and Non-exempted assets as foreseen in Section 14(6) of the MFMA.

Key principles which must be considered and implemented in any asset transfer:

- ❖ Valuation principle – attach a value.
- ❖ Continuity of service principle – especially basic municipal service.
- ❖ Risk transfer principle - in conjunction with physical transfer.
- ❖ Asset preservation principle – not undermine ability of the municipality.
- ❖ Municipal housing or land transferred to a national/provincial organ.
- ❖ Required or permitted in terms of national legislation.
- ❖ Not needed to provide a minimum level of basic municipal service and is surplus to the requirements.

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Transfer: Participation

The participation process requires:

- Determine the combined value of all capital assets it intends to transfer or dispose of in the particular financial year.
- Exceeds **five percent** of the total value of its assets; public participation process must be followed - ATF Regulation 5 and 8.
- Transfer or dispose of non-exempted high value capital assets must commence with a request to the council to authorise a public participation process; excess of **R50 million or 1 per cent** of the total value of the municipality's assets (whichever is the lesser), or a lower value determined by the council.
- Accounting officer must make public the information statement and invite the local community, the national government and the relevant provincial government, at least 60 days before the council will meet to consider the proposal, to submit any comments or representations.

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Replacement Strategy

The Asset Management Committee (AMC) shall formulate strategies and standards for the replacement of all PPE, considering:

- The nature of the asset
- The usage of the asset
- Priorities
- Available funding
- Operational and maintenance costs
- Operational skills
- Future expected developments
- Technology
- Outsourcing
- Private sector partnerships

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Formulation of a Plan

- Establish firstly a system for assessing the Assets.
- Formulation of the system includes:
 - ❖ Developing policies indicating -
 - complete inventory and periodic measurement.
 - established methods of condition assessment for all types.
 - ❖ Establishing condition/functional performance standards;
 - Understandable and reliable.
 - May be dictated by mandated requirements; Safety, Engineering, Other professional standards.
 - ❖ Condition inventory and measures used should be kept current; and
 - ❖ Linked with the municipality's fixed assets system.

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Replacement Cost

- Replacement cost is the price that the municipality would pay to replace an existing asset at current market prices with a similar asset.
- Replacement asset only has to perform the same functions as the original asset - it does not have to be an exact copy of the original asset.
- The estimated future replacement cost (EFRC) for any asset at the estimated replacement date must be based on the current replacement cost, adjusted with CPIX over the period of the estimated remaining useful life of the asset.
- This calculated cost (EFRC) must be used for purposes of updating the Replacement Plan.

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QUESTIONS?

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Conclusion (Take-away thoughts)

Municipal Asset Management relies on the capacity of the institutional control structures, their coordination and cooperation.

The structures rest on the four pillars:

***Supervision (Management/AMC),
 Management Unit (Personnel/AMU),
 Guidelines (Strategy/Policy/Plans), and
 System/s (Physical/Digital/Financial).***

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Activities: AMC/AMU

The AMC, with the AMU, will achieve the desired results through:

- **Establishment (and capacitation)** of the extended Asset Management Unit.
- **Development and implementation** of Strategy, Policy, Plans, and Procedures.
- Decision/s on the **System/s** to be used and periodic review.
- **Cooperation** on business plans during the Demand management processes (and IDP).
- Appointment (and capacitation) of departmental **asset controllers**.
- Control of all asset transactions, including **reconciliations** between systems.
- Control of **physical** verification results (and recommended actions).
- Review and action relating to condition assessment **indicators**.
- **Monthly control** with Project Management Unit on all Assets Under Construction.
- **Monthly update** relating to assets acquired from maintenance processes.
- Review of monthly **maintenance expenditure** (against plans/budget).
- Control over the **disposal** of assets: Assets Disposal Policy; and Secure location.

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Guidelines

- Specific instructions in the SA Constitution, Municipal Structures and System Acts.
- High level prescriptions in the Municipal Finance Management Act (MFMA).
- Generally Recognised Accounting Practice (GRAP):
 - ❖ Property, Plant and Equipment (GRAP 17)
 - ❖ Investment Property (GRAP 16),
 - ❖ Intangible Assets (GRAP 31)
 - ❖ Heritage Assets (GRAP 103)
 - ❖ Agricultural assets (GRAP 27)
 - ❖ Assets held under a finance lease (GRAP 13)
 - ❖ Inventory under certain circumstances (GRAP 12) and,
 - ❖ Other GRAP standards.
- Local Government Capital Asset Management Guideline in 2008
- International Infrastructure Management Manual (IIMM) as updated.
- Infrastructure Development Management System (IDMS) as developed.
- Municipal Strategy, Policies, Plans and Procedures.

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System/s

MFMA Circular 80 - Para 4.

- Municipalities must ensure when examining the functionality of their current systems of financial management and internal control that it meets the **minimum business processes** capable of providing for the uniform recording and classification of both municipal budget and financial information at a transaction level in the mSCOA format.
- Commercial or bespoke solutions are meant to assist officials within an organisation to generate information for **management control and decision making purposes**.

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It is up to us to make it work!

Thank You

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