ASSET MANAGEMENT

Regulatory Compliance Challenges
AMEU Convention - September 2010

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Understanding Infrastructure Asset Management
Government’s Vision – only a dream?

- long-term sustainability and risk management;
- service delivery efficiency and improvement;
- performance monitoring and accountability;
- community interaction and transparent processes;
- priority development of minimum basic services for all; and
- financial support from central government.

CONCLUSION: Asset Management is not only about single assets, it is about the function
What is Asset Management?

“The systematic and coordinated activities and practices through which an organization optimally manages its physical assets, and their associated performance, risks and expenditures over their life cycle for the purpose of achieving its organisational strategic plan”

PAS 55 definition
Asset Management Definition

• **Asset Provision** – making sure that the most appropriate asset is acquired for a specific application and also making sure that the asset is effectively disposed of (in a responsible manner) at the end of its useful life.

• **Asset Operation** – making sure that assets are operated in the most appropriate way that allows the asset to perform to its maximum capacity.

• **Asset Care** – making sure that assets are looked after in the most appropriate way that will ensure continued performance at its originally intended design capacity.
Asset Management – Asset Life Cycle Stages

Plan
- Investment Planning (New Assets)
  - Technology Research and Application

Design
- Investment Planning (Replace and Refurbish)
  - Design Specs, Standards and Policies

Acquire
- Procure Assets and related services
  - Project Execution and Asset Installation

Commission
- Commissioning Tests and Asset Documentation
  - Network and Asset Maintenance and Operation

Operate and Maintain
- Monitoring Condition and Performance
  - Technical Support to Field Staff

Retire
- Decommissioning
  - Asset Replacement

Project Management
- Application of Designs and Standards

Integrated Planning
- Network Design and Application Guides
  - Contract Management

- Emergency and Contingency Work
  - Asset Retirement

Management of Asset Information

Management of Finance

Management of Asset Risks

Management of Human Resources
Asset Management in Utilities

Asset Management is a process for providing the public with a cost-effective level of service through the creation, acquisition, maintenance, operation, rehabilitation and disposal of assets for existing and future customers.
Linking Asset Management with the Vision of the Municipality

- **Municipal Vision and Mission**
  - Statements reflecting the vision and mission of the municipality relating to its entire service of responsibilities

- **Policy**
  - Over-arching principles

- **Strategy**
  - Goals (performance measures and targets)

- **Plan**
  - Status, tactics, plan

Infrastructure Asset Management
Asset Management Standards and Legislation – Main Drivers

- PFMA/MFMA
- GRAP 17
- DPLG - SALGA Guidelines
- National Treasury Guidelines
- Regulator reporting requirements
- GIAMA
- NRS 093-1: 2009 Asset Management of Electricity Infrastructure
- British PAS 55 standard
- ANZAC Infrastructure Maintenance Manual
Asset Management Standards and Legislation – Secondary drivers

- OHS Act
- Municipal Systems Act
- Municipal Structures Act
- Electricity Regulation Act
- Electricity Act
- Electricity Pricing Policy
- ASGISA
- National Treasury Asset Management Framework
- Various National Treasury Regulations (R773)
- NERSA Licensing Requirements
- EDI Ringfencing Requirements
- Internal Municipal Requirements (IDP, CMIP)
- NRS 047 and NRS 048
- COSO Guidelines for Risk Management
- Environmental Management Framework
- Medium Term Revenue and Expenditure Framework
- Public Sector Risk Management Framework
- Provincial Growth and Development Strategy
- Provincial Spatial Development Framework
- National Treasury Asset Management Framework
- Sector Specific requirements i.e. water plans, energy efficiency plans, etc.
- Industry Guide to Infrastructure Service Delivery Levels and Unit Costs (MIG)
“Due to the onerous compliance regime referred to above, many municipalities have tended to focus much of their energies on fulfilling compliance requirements rather than focusing on the critical issues of service delivery and enhancing performance.”
Presentation Focus Areas

- MFMA
  - GRAP 17
  - GRAP Implementation Guide for Municipalities
  - R773

- NRS 093-1: 2009
  Asset Management of Electricity Infrastructure

- SALGA Guidelines

- EDI Ringfencing

- OHS Act

- NRS 047 and 048
Section 1

COMPLIANCE WITH TECHNICAL REGULATIONS
NRS 093-1 / PAS 55

- NRS 093-1: 2009
  Asset Management of Electricity Infrastructure
- Based largely on British PAS 55 standard
- Life cycle and risk driven
- Aligns with NRS 048 reporting requirements
- Defines critical assets
- Current industry focus not yet fully life cycle oriented
  - Life cycle stages still typically managed in “silos”, not as a single process
NRS 093-1 / PAS 55 – Integration Aspects

- Financial management not yet addressed
- Information systems requirements do not address full requirement set in terms of MFMA/GRAP
- Critical asset condition assessment vs MFMA’s full asset verification
- Asset focus vs Service Delivery focus
NRS 047: Quality of Service and NRS 048: Quality of Supply

- Focuses on the “customer experience”
- Assets are not directly addressed
- Asset management is a way to achieve compliance
- NRS-048-2 Reporting mechanisms utilised to report on asset management efficiency and effectiveness
- Supports all other regulatory requirements
Occupational Health and Safety Act No. 85 of 1993 (OHS Act)

Asset management is a way to ensure compliance with the regulations.

Safety issues form an integral part of an asset management system and should be a built in function of the system.

Supports all other regulatory requirements.

Requires “owner” to maintain a structure (including infrastructure) in such a manner that the structure remains safe for continued use.

Maintenance records to be kept and made available to an inspector upon request.
R773 (NOTICE 1190 2008): Compulsory Norms and Standards for Reticulation Services

- Although not directly AM related – significant impact on assets
- For implementation by 01 January 2012:
  - Energy efficient lighting (01 January 2010)
  - Hot water systems
  - Heating, ventilation and cooling
  - Smart metering
- May only reduce the supply of electricity to customers during capacity or network constraints
- May remotely control the supply of electricity only during capacity or network constraints to avoid electricity blackouts
DPLG Guidelines for Infrastructure Asset Management in Local Government 2006/9

★ Based on IIMM
★ Introduces the concept of an asset hierarchy
★ Introduces straight line depreciation based on useful life
★ Presents examples of asset useful life
  • Differs from other sources
★ Uses different criticality process and measure from NRS 093-1
Section 2

COMPLIANCE WITH FINANCIAL REGULATIONS
Asset and liability management (Sect 63.)

(1) The accounting officer of a municipality is responsible for the management of—

- (a) the assets of the municipality, including the safeguarding and the maintenance of those assets; and
- (b) the liabilities of the municipality.
Local Government: Municipal Finance Management Act No 56, 2003

Asset and liability management (Sect 63.)

(2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure—

• ...

• (b) that the municipality’s assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and

• (c) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.
Senior managers and other officials of municipalities

Sect 78 (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 that assets are safeguarded and maintained to the extent necessary;

(f) that all information required by the accounting officer for compliance with the provisions of this Act is timeously submitted to the accounting officer; ...
Financial Statements

122. (1) Every municipality and every municipal entity must for each financial year prepare annual financial statements which—

(a) fairly presents the state of affairs of the municipality or entity, its performance against its budget, its management of revenue, expenditure, assets and liabilities, its business activities, its financial results, and its financial position as at the end of the financial year; and

...
“Most municipal Assets Registers in respect of infrastructure assets are inadequate. This is due to historical factors and the use of the fund accounting system. Property, plant and equipment that are classified as “Infrastructure Assets” will typically be long-life assets. It is likely that such assets will need to be re-valued on a regular basis when accounting standards are updated, as depreciation is not an appropriate measure of the consumption of such assets.”
GRAP Implementation Guide for Municipalities - Asset Register Contents

- Acquisition date
- Descriptions of individual items
- Expected useful
- Depreciation rates
- Location
- Department or service
- Identification reference for verification (bar code)
- Accumulated depreciation
- Impairment losses per item
- Carrying value of the asset
- Funding source
- Revalued amounts for land and buildings, revaluation date
- Residual values
- Insurance arrangements
- Pledged as security?
ASSET REGISTER PROCESS

- Ensure that PPE are capitalised and recorded
- If asset is constructed over a period of time, record as work-in-progress
- **Bar code** all items of PPE with a unique identification number
- The AR - end result of the physical verification of assets
- Review remaining useful life of all items of PPE at 30 June
- Identify items with shorter remaining useful life than reflected
- Override and amend the useful life
- Reveal assets that should be financially impaired as well as the impairment expense and accumulated impairment
GRAP Implementation Guide for Municipalities - ASSET VALUATION

- Developer created assets
- Grouped assets
- Asset disposal
- Acquisition date not known
NERSA Reporting Guidelines

- Detailed description of the accounting system requirements
- A GRAP 17 compliant asset register will comply with the NERSA reporting guidelines
EDI Ringfencing Toolkit and Exercise

- Varying degrees of accuracy between municipalities
- Global figures for many asset categories
- Sets common replacement value
- Sets common useful life – differing from other sources
- Not structured in a way that can be used for GRAP 17 compliance
Recommendations

- AMEU workgroup on asset management
- Alignment of processes and standards to enable MFMA and GRAP compliance without duplication of effort (e.g. EDI vs GRAP)
- Common standard for replacement equipment
- Common expected useful life standard
- Common measurement criteria for condition
- Common impairment indicators
- Regular update of replacement values
Conclusion & Discussion

"It's our smarter business approach!"

PLUG INTO THE PROVEN APPROACH FOR BRINGING SUSTAINABLE POWER TO THE PEOPLE