

MPUMALANGA PROVINCIAL GOVERNMENT

No. 7 Government Boulevard
Building No. 4
Riverside Park Extension 2
Nelspruit
1201



Private Bag X 11205
Nelspruit
1200
Tel: (013) 766 4572
Fax: (013) 766 4604
E-mail : HODFinance@mpg.gov.za

Department of Finance Office of the Head of Department

Litiko LeteTimali

UmNyango weZeemali

Departement van Finansies

Kgoro ya Matlotlo

Enquiries: Ms C. E. Visser
Tel. No. 013 766 4213

PROVINCIAL TREASURY CIRCULAR 22(A) OF 2011

TO:

THE ACCOUNTING OFFICER: VOTE 1: OFFICE OF THE PREMIER (MR JM RABODILA)
THE ACCOUNTING OFFICER: (ACTING): VOTE 2: PROVINCIAL LEGISLATURE (MR LB SHABALALA)
THE ACCOUNTING OFFICER (ACTING): VOTE 3: FINANCE (MR JB MBATHA)
THE ACCOUNTING OFFICER: VOTE 4: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS (MR D MAHLOBO)
THE ACCOUNTING OFFICER: VOTE 5: AGRICULTURE, RURAL DEVELOPMENT AND LAND ADMINISTRATION (MS NL SITHOLE)
THE ACCOUNTING OFFICER: VOTE 6: ECONOMIC DEVELOPMENT, ENVIRONMENT AND TOURISM (DR DV DLAMINI)
THE ACCOUNTING OFFICER: VOTE 7: EDUCATION (MS MOC MHLABANE)
THE ACCOUNTING OFFICER: VOTE 8: PUBLIC WORKS, ROADS & TRANSPORT (MR KM MOHLASEDI)
THE ACCOUNTING OFFICER: VOTE 9: SAFETY, SECURITY & LIAISON (MR ST SIBUYI)
THE ACCOUNTING OFFICER: VOTE 10: HEALTH (DR JJ MAHLANGU)
THE ACCOUNTING OFFICER: VOTE 11: CULTURE SPORTS AND RECREATION (MS SP MJWARA)
THE ACCOUNTING OFFICER (ACTING): VOTE 12: SOCIAL DEVELOPMENT (MS NL MLANGENI)
THE ACCOUNTING OFFICER: VOTE 13: HUMAN SETTLEMENTS (MR D DUBE)

THE CHIEF FINANCIAL OFFICER: VOTE 1: OFFICE OF THE PREMIER (MR T NKOJOANA)
THE CHIEF FINANCIAL OFFICER: VOTE 2: PROVINCIAL LEGISLATURE (MR S SANYANE)
THE CHIEF FINANCIAL OFFICER: VOTE 3: FINANCE (MS P SEMENYA)
THE CHIEF FINANCIAL OFFICER: VOTE 4: COOPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS (MR MD SHIPALANA)
THE CHIEF FINANCIAL OFFICER (ACTING): VOTE 5: AGRICULTURE, RURAL DEVELOPMENT AND LAND ADMINISTRATION (MR R MNISI)
THE CHIEF FINANCIAL OFFICER: VOTE 6: ECONOMIC DEVELOPMENT, ENVIRONMENT AND TOURISM (MS JP HLATSHWAYO)
THE CHIEF FINANCIAL OFFICER: VOTE 7: EDUCATION (MR CB MNISI)
THE CHIEF FINANCIAL OFFICER (ACTING): VOTE 8: PUBLIC WORKS, ROADS & TRANSPORT (MR S SHONGWE)
THE CHIEF FINANCIAL OFFICER: VOTE 9: SAFETY, SECURITY & LIAISON (MR BH NGOMA)
THE CHIEF FINANCIAL OFFICER: VOTE 10: HEALTH (MS G MILAZI)
THE CHIEF FINANCIAL OFFICER: VOTE 11: CULTURE SPORTS AND RECREATION (MR M KHOZA)
THE CHIEF FINANCIAL OFFICER: VOTE 12: SOCIAL DEVELOPMENT (MS P MORGAN)
THE CHIEF FINANCIAL OFFICER (ACTING): VOTE 13: HUMAN SETTLEMENT (MS B MOJAPELO)

THE GENERAL MANAGER: SUSTAINABLE RESOURCE MANAGEMENT (PT) (MS N NKAMBA)
THE GENERAL MANAGER (ACTING): ASSETS AND LIABILITIES MANAGEMENT (PT) (MS CE VISSER)
THE GENERAL MANAGER: FINANCIAL GOVERNANCE (PT) (MS J BEZUIDENHOUT)

SUBJECT: SUBMISSION OF ASSET MANAGEMENT PLANS

According to Section 5.2.2 (e) and (g), of the Treasury Regulations the strategic plan must – “include details of proposed acquisitions of fixed assets or movable capital assets, planned capital investments and rehabilitation and maintenance of physical asset” and “include multi-year projections of income and projected receipts from the sale of assets”.

National Treasury designed a document, “Suggested Content of an Asset Strategy” (attached), to assist departments to formulate a multi-year Asset Strategy to form part of the strategic plan. The suggested document is merely a guideline from which departments must develop their own document.

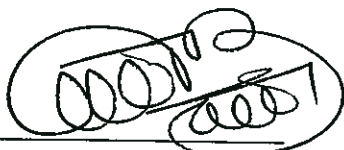
On an annual basis the Acquisition, Disposal, Operation and Maintenance Plans must be updated in line with the departmental objectives and the asset strategy.

To assist departments to have an Asset Strategic Plan that can be updated for the new cycle that starts in the 2015/16 financial year the following due dates are required:

- | | |
|---|----------------------|
| 1. Draft Asset Strategy | 31 October 2011 |
| 2. Draft Acquisition Plan | 31 December 2011 |
| 3. Draft Operation and Maintenance Plan | 31 January 2012 |
| 4. Draft Disposal Plan | 29 February 2012 |
| 5. Final Asset Strategy for 2013/14 | 31 July 2012 |
| 6. Final Acquisition, Disposal, Operational and Maintenance Plans for 2013/14 | 31 July 2012 |
| 7. Thereafter, Annual Asset Management plans for evaluation | 31 July of each year |

Training will be provided to asset management personnel. The Senior Manager: Physical Asset Management can be contracted on telephone number 013 - 766 4213 for further information.

Regards



MR JB MBATHA
ACTING HEAD OF DEPARTMENT
DATE: 5 / 8 / 2011

Suggested Content of an Asset Strategy

The documented Asset Strategy of a Department is the product of an integrated planning process. This process integrates the objectives and programmes of the department with the assets needed to achieve the required outputs, and translates that need into funding required in specific periods to give effect to the planned outputs.

The Strategy should be developed timeously to give input into the three year budget cycle. The document should be updated for any changed circumstances and the resulting funding requirements fed into the budget process.

The suggested points/headings to be covered are not exhaustive and can be extended or adapted as required. Likewise the wording in the numbered paragraphs is an example of how the various issues can be raised and should not be seen as the template with required wording. Each asset manager should decide on the best wording depending on his/her department.

The layout of the document with numbered paragraphs is suggested as it will facilitate discussion by referring to paragraphs (making it easy to find).

The following should be covered in the document:

1. Purpose
2. Identify the assets that are the subject of the strategy
3. The role of these assets within the department
4. Key asset policies
5. The Gap analyses
6. Plans and funding
7. Impact on current planning as a result of prior year policies and planning not complied with.
8. Motivation to management of the current set of plans
9. Possible impact on asset base as a result of deviation from the suggested plans and funding requirements.
10. Conclusion
11. Recommendation for management authorisation of the Strategy

Purpose

Insert a short paragraph to describe the purpose of the document.

1. The National Treasury has developed an Asset Management Framework that the Department should comply with. The Framework requires the Department to have an Asset Strategy. An implementation plan was drafted (to assist with compliance to the Framework) for the Department and accepted by the Chief Financial Officer.
2. This document represents the Strategy developed to provide the department with the asset resources required for its service delivery for the period 1 April 20xx1 to 31 March 20xx4, and the funding required to achieve that.
3. The information provided for the period 1 April 20xx1 to 31 March 20xx2 is of specific importance as it is for the next financial year and has been updated with all know information and is provided for the approval of management

Identify the assets that are subject to the Strategy

Give a short description of the assets that are covered by this Strategy.

4. The Strategy only applies to assets that have a useful life of more than one accounting period. The assets are referred to as capital assets (assets with a cost of R 5 000 and above) and minor assets (assets with a cost of below R 5 000). Examples of these assets are vehicles, computers, facilities, etc.

The role of these assets within the department

Give a short explanation that the assets are tied to the service delivery needs of the Department

5. The role of these assets is to ensure that the Department has the available resources in terms of assets to fulfil the service delivery objectives at the predefined level and in accordance with the Department's mandate.
6. The Strategy has been designed in a manner to ensure the availability to of assets as and when required.

Key asset policies

Note the key policies with regards to the life-cycle of every class of asset namely, acquisition, replacement, maintenance and disposal

7. The Department have approved policies for the management of its assets. The policies are set out in Annexure A to the Strategy.

(An annexure can be attached and the policy with regards to every class should be specified. Where different classes have the same policy they can be grouped together. Example:

Motor Vehicles

Acquisitions

Motor vehicles are acquired when replacements need to be made for existing assets that have reached the end of their useful lives as specified in the policy of the Department.

Motor vehicles are further acquired for increase of capacity, as dictated by the service delivery needs of the Department

Replacements

In terms of the departmental policy all motor vehicles are replace once a vehicle has travelled 150 000 km (one hundred and fifty thousand).Unplanned replacements are only done when circumstances necessitates usually in case of accidents where repairs cannot be done.

Operation and Maintenance

Operational use of the vehicle as estimated in the life-cycle planning is compared to the actual cost and corrective measures put in place.

Maintenance

In terms of the policy all vehicles must be send for a service every 15 000 km (fifteen thousand)

Disposals

Vehicles are disposed of when they are due for replacement.

Vehicles are also disposed of earlier than planned for when a condition assessment indicates that a vehicle is no longer able to serve the purpose for which it was required.

Vehicles are further disposed of when it is established that they are surplus to the establishment and will not be used again.

Furniture and Office equipment

The policies regarding the acquisition, replacement, maintenance and disposal of these classes of assets are the similar and are therefore been dealt with together.

(Deal with each heading as before for motor vehicles))

The Gap Analyses

Note the manner in which the analyses have been done to establish the gap between the assets on hand and the needs

8. The strategic objectives of the Department over the next three years have been analysed and the needs for assets determined, per programme. This included identifying new or adjustments to existing programmes as well as planned increase in capacity that will demand the availability of assets.
9. This needs identified through the analyses have been confirmed through communication with the different programme leaders and chief directorates.
10. The identified needs were then compared to the existing assets of the Department as represented by the asset register.
11. The difference between the need for and availability of assets represents the gap that needs to be planned for, to ensure assets of the required function
12. The gap as established forms the basis for the planning included in the Strategy. The Gap Analyses is attached as Annexure B and assets are dealt with per class.

Plans and funding

Here a short explanation should be given to indicate that the plans have been tied to the money appropriated to the Department.

13. Once the Gap Analyses have been finalised through discussion with all stakeholders plans were drafted, distinguishing between capital and maintenance allocations needed to achieve the provision of assets of sufficient quality, functionality and capacity to ensure that the Department can deliver the level of service as envisaged.
14. The required funding was compared to the actual allocations made for both capital and maintenance.

15. It was found that the actual allocations made were not sufficient to cover the needed funding. As a result a process of prioritising had to be done. The process included discussion with stakeholders and revisiting the condition assessment of existing assets. The final prioritising has been indicated on the Gap Analyses (Annexure B)

Impact on current planning as a result of prior year policies and planning not complied with.

An indication must be given to management of the condition of existing assets that are worse than expected during the life-cycle planning as a result of the later replacement and deferred and or inadequate maintenance

16. Before assets are acquired the useful life is taken into account and cost over the life-cycle is planned for, including the time of replacement and disposal. The useful life of an asset is based on the intended use and the assumption that planned maintenance is carried out. Regular physical inspections are done where the condition of the asset is assessed and compared to the expected condition based on the age and use of the asset.
17. The last condition assessment of existing assets for the current year however revealed that certain of the assets were in a worse condition than expected in accordance with the life cycle planning.
18. The situation is the result of insufficient funding allocations made during earlier years. It is an ongoing problem that funds for maintenance is inadequate while the allocation for capital expenditure is sometimes excessive.
19. The result of the above is that assets are not maintained in accordance with the life-cycle planning. The condition of assets, therefore keep on deteriorating faster than it should and eventually the service cannot be delivered of such a quality and functionality as expected. The problem is often negated by acquiring new assets in stead of sufficiently maintaining the existing assets. This in turn results in surplus assets being created by replacing assets that can otherwise still fulfil the required functionality.
20. The non-compliance with stated policies places undue pressure on the capital funding available for increase in capacity. The alternative is that excessive maintenance has to be incurred to keep assets operational. The current situation however where maintenance funds are already insufficient, makes the problem an ever increasing one. At some stage in future, if this practice is allowed to persist, the service delivery of the Department will be severely impacted by this lack of proper planning.

Motivation to management of the current set of plans

The fact that the current plans is a result of the assessment of priorities need to be explained as well as the basis used for how the priorities were established

21. The plans for the next financial year and the two years following, attached as Annexure C, have been compiled as a result of prioritising acquisitions and or replacement in terms of capital funding available. Similarly the planned and needed maintenance have been prioritised depending on available funding.
22. The priorities have been discussed with stakeholders and motivated in terms of funding and condition assessments of existing assets in use.
23. It was necessary to defer needed maintenance on certain existing assets giving priority to those assets with a poor condition assessment. The replacement of assets had to be similarly deferred to give priority to assets needed for an increase in capacity.

The possible impact on the Department's the asset base as a result of continuing deviation from the suggested plans and funding requirements.

Explain the impact in future years of unplanned replacement and needed maintenance on the budget of the Department. The impact should be illustrated by using the Rand.

24. It is clear from the Gap Analyses (Annexure B), that the condition assessment of existing assets demands a higher level of maintenance than currently provided for.
25. It is equally evident that new assets acquired (as a result of increase in capacity or replacement) will need a planned level of maintenance to ensure that the useful lives be achieved.
26. The predicted planned maintenance for the year starting on 1 April 20xx1 (year 1) is R10 000 000 (ten million), year 2 R12 000 000 (twelve million) and year three R15 000 000 (fifteen million), on assets existing and new, to achieve the respective expected useful lives. In addition, based on the most recent condition assessment, there is a backlog of maintenance on existing assets of R6 000 000 (six million) for year 1. The year 1 budget for maintenance is only R8 000 000, (eight million), year 2 R8 500 000 (eight million five hundred thousand) and for year 3 R9 000 000 (nine million).
27. It is clear from the above that an ever increasing backlog will be experienced in terms of maintenance. At the end of year 3 the total budget solely for the purpose of catching up on the backlog maintenance will be R17 500 000 (seventeen million five hundred thousand) as no funds are available on an annual basis to erode some of the backlog. In addition the planned maintenance per the

departmental policy must be funded. The situation is thus very serious indeed, and action should be taken as a matter of priority to ensure that the needs of maintaining assets are used as input into the budget, as instead of the budget dictating the level of maintenance that can be achieved.

28. The replacement of assets is also deferred due to the lack of funding, which in turn places increased pressure on the maintenance budget due to deteriorating condition. The replacements for year 1, 2 and 3 are respectively R20 000 000 (twenty million), R25 000 000 (twenty five million) and R 30 000 000 (thirty million). New assets required to facilitate the increase in capacity for the same period are R15 000 000 (fifteen million), R50 000 000 (fifty million) and R80 000 000 (eighty million). The budget for the capital expenditure on assets is R37 000 000 (thirty three million), R70 000 000 (seventy million) and R112 000 000 (one hundred and twelve million) for respectively for the three years.
29. The lack of proper input into the budget process is evident and the disparity between what is needed for capital and maintenance funding highlighted.
30. In the next financial year funding to the amount of R35 000 000 (thirty five million) is needed for capital expenditure while R37 000 000 (thirty seven million) has been allocated. The year 2 funding requirement is R75 000 000 (seventy five million) while only R70 000 000 (seventy million) has been allocated. In year 3 the need is R110 000 000 (one hundred and ten million) whereas the budget reflects R112 000 000 (one hundred and twelve million).
31. The above illustrates quite clearly that the funding needs and allocated funds are not comparable. Should this situation be allowed to persist, the Department's service delivery as per its mandate will in the near future be severely affected. The figures as quoted for capital needs do not include replacements that will have to be done as a result of not following the maintenance policy and eroding the backlog maintenance. The situation can therefore potentially be more serious.

Conclusion

The problems identified must be summarised and the action required to rectify or mitigate should be documented here.

32. The plans as prepared (Annexure C) have been drawn up based on the process set out above and agreed to the available funding.
33. The attention of management is however drawn to the fact that the plans in their current format, related to funding available, are insufficient to ensure that assets will be available and capable to deliver services at the functional level required.
34. Management is urged to study the requirements as set out by the Gap Analyses to ascertain the actual needs of the Department and to devise appropriate

actions to mitigate the shortcomings of the current budget process. The plans based on the Gap Analyses should be used to allocate the annual budget to ensure that the management of assets can be effective, and compliance with the Public Finance Management Act, 1999 be achieved.

35. It is evident from available information regarding assets that the Department will face a serious challenge in terms of effective, efficient and economical service delivery in the near future.

Recommendation for management authorisation of the Strategy

Management should be requested to approve the Strategy for the next financial year and the following two years.

It is recommended that management:

- Study in detail the Strategy as prepared;
- Take note of the issues raised and the potential future impact on the service delivery of the Department;
- Approves the Strategy for the next financial year.

Prepared by

Sign XXXXXX

Print name

Designation:

Date:

Approved / Not approved / To be adjusted / Approved after adjustment

Sign XXXXXX

Print name

Designation: Chief Director: Supply Chain

Date:

Approved / Not approved / To be adjusted / Approved after adjustment

Sign XXXXXX

Print name

Designation: Chief Financial Officer

Date:

Approved / Not approved / To be adjusted / Approved after adjustment

Sign XXXXXX

Print name

Designation: Head of Department

Date:

FLOW of INFORMATION to DEVELOP an ASSET STRATEGY

