

NKANDLA MUNICIPALITY



ASSETS MAINTENANCE

POLICY: 2019/20

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INTRODUCTION

Ordinary maintenance and repairs of fixed assets are activities that owners or users of fixed assets are obliged to undertake periodically in order to be able to utilise assets over their expected service lives (they are current costs that cannot be avoided if the fixed assets are to continue to be used).

Maintenance and repairs do not change the fixed asset or its performance, but simply maintain it in good working order or restore it to its previous condition in the event of a breakdown (note the contrast between this item and “major renovations or enlargements”).

Deferred maintenance is the practice of postponing maintenance activities such as repairs on assets in order to save costs, meet budget funding levels, or realign available budget monies. The failure to perform needed repairs could lead to asset deterioration and ultimately asset impairment. Generally, a policy of continued deferred maintenance may result in higher costs, asset failure, and in some cases, health and safety implications

1. Operation and maintenance phase

1.1. Accountability for capital assets

Accountability for the operation and maintenance of capital assets is delegated from the municipal manager, through the senior managers, to the asset manager. The asset manager is accountable for ensuring that municipal resources assigned to him/her are utilised effectively, efficiently, economically and transparently. This would include:

- ❖ complying with systems of management and internal controls established by the municipality;
- ❖ preventing inappropriate losses;
- ❖ appropriately managing, safeguarding and maintaining assigned assets; and
- ❖ providing all asset-related information as and when required.

The asset manager will delegate custodianship of assets to specific users.

The custodians will be required to perform functions assigned to the asset manager in respect of their specific assets.

1.2. Reporting on emerging issues

Each asset custodian should report to the asset manager, who will report to the appropriate senior manager; and senior managers should report to the municipal manager on the execution of their delegated responsibilities, including any issues that will significantly impede the capability of the assets to provide the required level of service or economic benefit. One of these issues will be the adequacy of the maintenance, operation and safeguarding of assigned assets.

1.3. Operation and maintenance policies and plans

The asset manager must have a thorough understanding of the operational policies and budgets required to maintain assigned assets to the required level of performance. The asset manager will need to participate in the development of asset-management policies and strategies and to provide budget input that optimises the useful lives of their assets.

The selection of a maintenance strategy involves consideration of the appropriate mix of procedures and the capacity to undertake minor modifications and enhancements when required. It is unlikely that any one approach will be suitable. The main approaches are:

- ❖ **CORRECTIVE** - no maintenance is undertaken unless, or until, the asset no longer functions to the required standard or has broken down; and
- ❖ **PREVENTATIVE** - programmed maintenance is undertaken to reduce the likelihood of failure and to keep the asset operating at an acceptable level.

For some specialised assets the technical requirements for scheduled maintenance are provided by the manufacturer e.g. for electricity generators.

These schedules need to be taken into account when planning for the long and medium term and appropriate budget provision made to ensure adherence to schedules. Schedules are based on normal usage and specified fuel standards as well as risk assessments in relation to the assets.

Inappropriate or excessive use over extended periods may increase the risk of increased maintenance interventions, down time and reduction in the life of the asset.

An important consideration is the nature of the asset itself. Certain categories of assets require little or no regular maintenance (for example furniture and fittings). It is valid to exclude such assets from a formal maintenance programme and to rely instead on regular, periodic inspection of condition.

This could be undertaken in conjunction with the physical verification programme.

Risk is also an important consideration in determining appropriate maintenance policies. Risks associated with the operation of the asset in terms of occupational health and safety standards, as well as consequence of failure, need to be considered.

A maintenance strategy is a comprehensive plan that:

- ❖ defines the asset, the performance required of it, and the level to which it is to be maintained;
- ❖ identifies the risks associated with the chosen strategy in terms of service delivery in the event of asset failure;
- ❖ describes the systems (not specifically IT) and procedures to be used to plan and manage the maintenance work;
- ❖ specifies the types of maintenance to be carried out (i.e. in-house or outsourced), and why;
- ❖ nominates the means of resourcing and implementing maintenance;
- ❖ indicates any requirements for in-house spare parts and any specialist equipment needed to maintain certain assets; and
- ❖ outlines the projected costs of routine (and corrective/preventive) maintenance and forecasts major replacements for the next 5–10 years, depending on the type of asset.

In developing a maintenance strategy, two considerations are particularly important: the level of maintenance required for the asset and maintenance priorities.

Level of maintenance

The level of maintenance required for an asset, and the performance expected of it, should be clearly established. The level set should:

- ❖ be consistent with the role that the asset will play in the delivery of services, relative to other like assets in the portfolio of the entity; 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 upon with the users of the asset.

The level of maintenance should specify the extent to which the performance of the asset is operationally critical and to which visual appearance is important. It should also stipulate the necessary response times in the event of failure.

Maintenance priorities

Higher-priority maintenance tasks are identified in the maintenance strategy. This will enable maintenance efforts to be focused on these areas if resources fall below the planned levels. Some operational policies will require input in specialist areas, such as from engineers for infrastructure, technology managers for computer equipment, etc. Some of the budgetary requirements will be determined by asset management policies. For example, if the policy is for computer equipment to be replaced every three years, then this should be provided for in the budget in the third year of operation.

The usefulness of an asset depends on how effectively it meets its purpose.

The chosen operation and maintenance policies of a municipality have a direct bearing on the useful life of an asset. The correct application and implementation of the policies will also impact on the maintenance of the useful life of the assets. The useful life of assets will be reduced if they are poorly operated and maintained.

Deferring maintenance on an asset is not a healthy practice as it means that the asset will not reach the estimated useful life envisaged on acquisition. In the long run, the cost to the entity in terms of lost economic benefits or backlog in service delivery will exceed the perceived 'saving' in maintenance costs. The cumulative effect of deferred maintenance should be assessed, and the impact on the budget considered, as this will have a significant bearing on the formulation of the asset plans and budgets that are input into the IDP. If this is current practice in a given municipality, the municipality should implement a plan for reducing the backlog over the shortest possible period and regularly report progress achieved in relation to this plan to senior management.

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Once the asset policy has been formulated, operation and maintenance plans should be developed to give effect to the policy. Operation and maintenance plans define the approaches to be used, and what needs to be done, to optimise performance and asset life. The objective of operation and maintenance plans is to ensure that assets remain appropriate to programme requirements; are efficiently utilised; and are maintained in the condition necessary to support programme delivery at the lowest possible long-term cost.

The following is a checklist of what should at least be covered in the operation and maintenance plans:

Operation plan:

- ❖ resources required to operate and maintain assets;
- ❖ responsibility for, control of, access to, and security of the asset (Logistics Management);

- ❖ operating policies (i.e. working hours, security, cleaning, energy management and the like);
- ❖ the level and standard of performance required of the asset;
- ❖ arrangements for collecting, monitoring and reporting performance data;
- ❖ training staff in use of the asset; and
- ❖ estimates of operating costs.

Maintenance plan:

- ❖ definition of maintenance standards;
- ❖ allowance for the rectification of existing defects;
- ❖ description of the work to be carried out; and
- ❖ forecast of the necessary maintenance, major repairs and preventative maintenance expenditure for the planning period.

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1.4. Maintenance decisions

A planned approach to maintenance will ensure that the delivery of maintenance services, such as routine inspections, and servicing are undertaken in a manner which minimises disruption to the users of the asset and ensures that maintenance resources are used in the most cost-effective manner.

Planning for asset maintenance enables targeted action to be taken in a timely and cost-effective manner. For many types of assets, this may depend on the regularity and appropriateness of its maintenance. Regular maintenance may also help to preserve an asset's value. As a first step to planning, the entity must determine which of its assets need to be maintained (i.e. prioritisation in terms of service delivery within a programme). By recognising the decline in asset values through use and obsolescence, management is encouraged to consider the costs of holding and using assets. Under-utilisation will increase the unit cost of programme delivery and may prompt the purchase of new assets when they are not required. Over-utilisation can have adverse effects in terms of deterioration in asset performance and condition, shortening productive life and increasing recurring operating and maintenance costs. Through the above process, management is able to manage those costs, and to make informed decisions, such as outsourcing a service.

Deferred maintenance is the practice of postponing maintenance activities such as repairs on assets in order to save costs, meet budget funding levels, or realign available budget monies. The failure to perform needed repairs could lead to asset deterioration and ultimately asset impairment. Generally, a policy of continued deferred maintenance may result in higher costs, asset failure, and in some cases, health and safety implications

Operation and maintenance-phase costs:

- ❖ **Operation** - fuel or energy costs, operational labour, security costs, safety costs, training costs, performance monitoring costs, cleaning costs and consumables.
- ❖ **Maintenance** - spare parts and repair labour.
- ❖ **Administration (asset specific)** - insurance, rates and taxes, management fees, etc.
- ❖ **Rehabilitation and renewal** - upgrade costs, modification costs if this improves asset life (capital), re-training costs (current), etc.
- ❖ **Asset-related receipts** – tariffs, rates and equitable share (only to the extent that it relates to this asset acquisition).

UPDATING THE POLICY

- ❖ It will be the responsibility of the Budget & Treasury Department together with all HOD's to consider the provisions of this policy on an annual basis. The Budget & Treasury Department shall request all Unit and Departmental Managers to submit their proposed changes for submission to Council for approval

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