



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

Infrastructure Maintenance

DBSA Asset Management Dialogue

Malijeng Ngqaleni
National Treasury

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Presentation Outline

- Legislative framework Acknowledges need for maintenance of public facilities
- Current Funding levels for infrastructure and measurement trends & limitations
 - Municipalities
 - Provinces per sector
- Infrastructure maintenance challenge
- Towards finding solutions
- Conclusions



Legislative Framework - provincial

PFMA [Section 38](1)(d) :

- The accounting officer for a department, trading entity or constitutional institution is responsible for the management, including the safeguarding and the maintenance of the assets of the department, trading entity or constitutional institution -. As a result, all these institutions need an asset management system which is a base for proper planning and budgeting for maintenance.
- Section 76(2)(d) also states that National Treasury must make regulations or issue instructions applicable to departments, concerning the improvement and maintenance of immovable assets.
- GIAMA: Section 5(1)(d) promotes efficient utilisation and maintenance of existing immovable assets and that immovable assets that are currently used must be kept operational to function in a manner that supports efficient service delivery.



Legislative framework - municipal

- The MFMA [section 63] delineates specific duties in respect of asset management, i.e. The safeguarding and maintenance of assets, valuation in accordance with generally recognised accounting practice (GRAP), maintaining a system of internal control over assets and keeping an asset register.
- Budgeting for maintenance:
 - Metros (6) are currently budgeting less than 15% but an average of 10% of their operating budgets on repairs & maintenance
 - Secondary cities (21) largely same as metros
 - A few of category B munics (210) starting to budget above 15% of their operating budgets
 - At least 6 of (46) districts budget above 15% of their operating budgets

Inadequate operations and maintenance budgets for big cities

R thousand	Outcome				Estimate		
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Category A Municipalities (6)							
Total Operating Expenditure	48 357 468	50 500 625	56 959 632	64 468 379	77 113 661	83 790 735	90 168 414
Total spending on repairs and maintenance	3 162 486	3 253 912	3 733 399	4 827 717	6 547 026	6 961 937	7 498 910
<i>R&M as % of operational expenditure</i>	6.54%	6.44%	6.55%	7.49%	8.49%	8.31%	8.32%
No. who spent							
less than 5% on R&M	2	1	1	1	1	1	1
between 5% and 10% on R&M	3	5	5	4	2	2	2
above 15% on R&M	0	0	0	0	0	0	0
Secondary Cities Category B Municipalities (21)							
Total Operating Expenditure	14 030 632	14 469 843	16 382 500	18 087 991	21 455 322	22 915 286	24 910 420
Total spending on repairs and maintenance	732 131	760 520	857 093	969 086	1 492 405	1 766 403	2 014 795
<i>R&M as % of operational expenditure</i>	5.22%	5.26%	5.23%	5.36%	6.96%	7.71%	8.09%
No. who spent							
less than 5% on R&M	9	8	9	10	5	5	6
between 5% and 10% on R&M	10	11	11	9	13	12	11
above 15% on R&M	1	0	0	0	1	2	2



Inadequate repairs and maintenance budgets for the rest of municipalities

R thousand	Outcome				Estimate		
	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11
Remaining Category B Municipalities (210)							
Total Operating Expenditure	13 765 259	15 991 407	18 450 181	21 287 768	23 796 083	24 926 767	26 718 488
Total spending on repairs and maintenance	772 450	947 954	1 000 239	1 140 514	1 571 585	1 713 869	1 861 503
<i>R&M as % of operational expenditure</i>	5.61%	5.93%	5.42%	5.36%	6.60%	6.88%	6.97%
No. who spent							
less than 5% on R&M	106	110	127	138	97	100	97
between 5% and 10% on R&M	84	76	66	60	95	89	86
above 15% on R&M	0	5	3	2	3	7	10
Category C Municipalities (46)							
Total Operating Expenditure	6 110 629	6 853 061	7 287 619	9 331 555	7 758 113	7 829 938	8 387 985
Total spending on repairs and maintenance	202 731	285 278	344 237	485 855	680 137	714 856	768 658
<i>R&M as % of operational expenditure</i>	3.32%	4.16%	4.72%	5.21%	8.77%	9.13%	9.16%
No. who spent							
less than 5% on R&M	39	39	38	33	31	29	28
between 5% and 10% on R&M	4	2	2	8	7	9	10
above 15% on R&M	2	4	4	3	5	6	7



Percentage of maintenance on capital budget

R'000	2008/09				
	Infrastructure Budget	Total Capital Budget	Funded by Grants	Repairs and Maintenance	% Maintenance of Capex
Metros	17,790,476	24,989,692	8,991,380	5,996,872	24.0%
21 Secondary Cities	5,550,932	7,989,539	3,035,134	1,393,856	17.4%
The rest of municipalities	13,283,544	15,874,359	10,785,566	2,310,831	14.6%
Total	36,624,952	48,853,590	22,812,080	9,701,560	19.9%

Percentage of maintenance on provincial infrastructure budgets

R' 000	Overall provincial infrastructure budgets						
	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Education	2,683,455	3,615,362	3,276,884	5,259,838	5,525,153	7,099,212	8,518,731
Health	2,329,159	3,009,720	4,232,094	5,809,101	7,349,052	9,098,289	9,977,243
Roads and Transport	7,612,864	8,844,448	10,618,731	13,437,878	13,901,906	14,964,771	16,284,105
Total	12,625,478	15,469,530	18,127,709	24,506,817	26,776,111	31,162,272	34,780,079

	Percentage of maintenance						
Education	12.1%	12.3%	11.1%	9.7%	13.6%	15.9%	16.3%
Health	25.1%	13.4%	21.3%	17.8%	20.9%	20.5%	19.9%
Roads and Transport	40.2%	39.4%	35.8%	37.5%	36.2%	38.1%	37.4%

R' thousands	Maintenance figures						
Education	325,805	442,964	363,801	512,251	752,683	1,125,771	1,384,660
Health	585,760	404,234	902,319	1,032,543	1,534,472	1,868,259	1,984,860
Roads and Transport	3,058,135	3,484,680	3,799,251	5,034,935	5,025,791	5,702,077	6,089,261

Infrastructure maintenance challenges

- Norms & Standards – no appropriate guidelines, systems & manuals
- Lack of culture of asset management practices
 - Inadequate asset registers and the extent of maintenance needs unknown
 - No lifecycle costing & budgeting – methodology and skills/capacity challenge across government
- Resource and skills capacity differs across the 3 major groupings of municipalities
- Deficiencies in institutional arrangement undermines actual maintenance of assets
- Funding constraint:
 - One size fits all approach to fiscal flows to municipalities is a major problem
 - Political imperative to eradicate backlogs vs limited resource

Towards Solutions

- Strengthening the regulatory framework governing planning and budgeting for infrastructure maintenance
 - Budget documents and reports provide clear information on maintenance per sector
 - Budget rules and enforcement per key infrastructure –problem assets base not quantified - how to strike a balance between maintenance on new projects vs maintenance backlog
 - Progressive increase in budgets towards acceptable levels
 - Lifecycle costing and budgeting for new projects – budgets must ensure that adequate provision is made?
- Asset management systems with regular updates, and condition assessment should be in place to guide proper planning and budgeting for infrastructure.
 - Accounting standards for assets are in place
 - Auditor General started qualifying institutions on account of assets forcing institutions to comply
 - Will however reflect a major challenge in funding gap

Towards Solutions

- Government still needs to accelerate eradication of access backlogs
 - challenge is how to strike an appropriate balance to avoid increasing backlog due to maintenance failure?
- Differentiated approach to resolving funding and capacity problems
 - Approach to big cities to enforce planning and budget regulations and rules - new budget formats a start and role of AG
 - Smaller municipalities depend more on national funding will need scaling up for operation and maintenance – this is being done through equitable share & strengthen regulation of budgets
 - Challenge is to address capacity deficiencies
 - Need to find appropriate technical solutions for rural areas – considering costs of extending infrastructure and its sustainability
 - Need to find appropriate institutional solutions for maintaining assets
- Strengthening monitoring and reporting – regulated reporting requirements provides better information on sector budgets and expenditure



Current Initiatives in Provinces

- Infrastructure maintenance initiatives achieving employment objectives of government which are being strengthened:
 - EC Sakha Isizwe Household contractor - a routine maintenance programme
 - KZN Zibambele – a Road Maintenance Programme
 - GT recruited 69 CIDB level 1 to 4 emerging contractors to maintain existing road network
 - FS Contractor Development Programme 100 emerging contractors recruited for routine road maintenance
 - MP Siyantentela Programme recruited 78 emerging contractors for routine road maintenance
- R4,1 incentive grant for expanding employment opportunities through infrastructure esp these maintenance programmes
- Education is finalising sector norms and standards and strategies /guidelines of delivering maintenance, Roads RIFSA

Conclusion

- Maintenance problem has been acknowledged across government
- Also acknowledges employment creation opportunities of maintenance – scaling up funding for EPWP
- Government already taking steps to address the problem:
 - NIMs provides for a coherent and coordinated government response
 - Sector initiatives addressing norms and guideline gaps: water, education, roads
 - Regulating municipal budgets and reporting
 - IDIP targeting key infrastructure departments in provinces
- Capacity and funding constraints remain
- Need to address information gaps i.e. asset base, funding and costing appropriate technical solutions
- Collective effort required with relevant stakeholders to address these problems

Thank You