



# FFC Briefing to the Portfolio Committee on Energy

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Friday, 01 November 2013

# OUTLINE OF THE PRESENTATION

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- I. Nature of the asset care challenge as identified in recent FFC research
- II. Government response to poor asset management practice
- III. FFC input on Approach to Distribution Asset Management (ADAM)
- IV. Recommendations

# NATURE OF THE CHALLENGE ACCORDING TO FFC

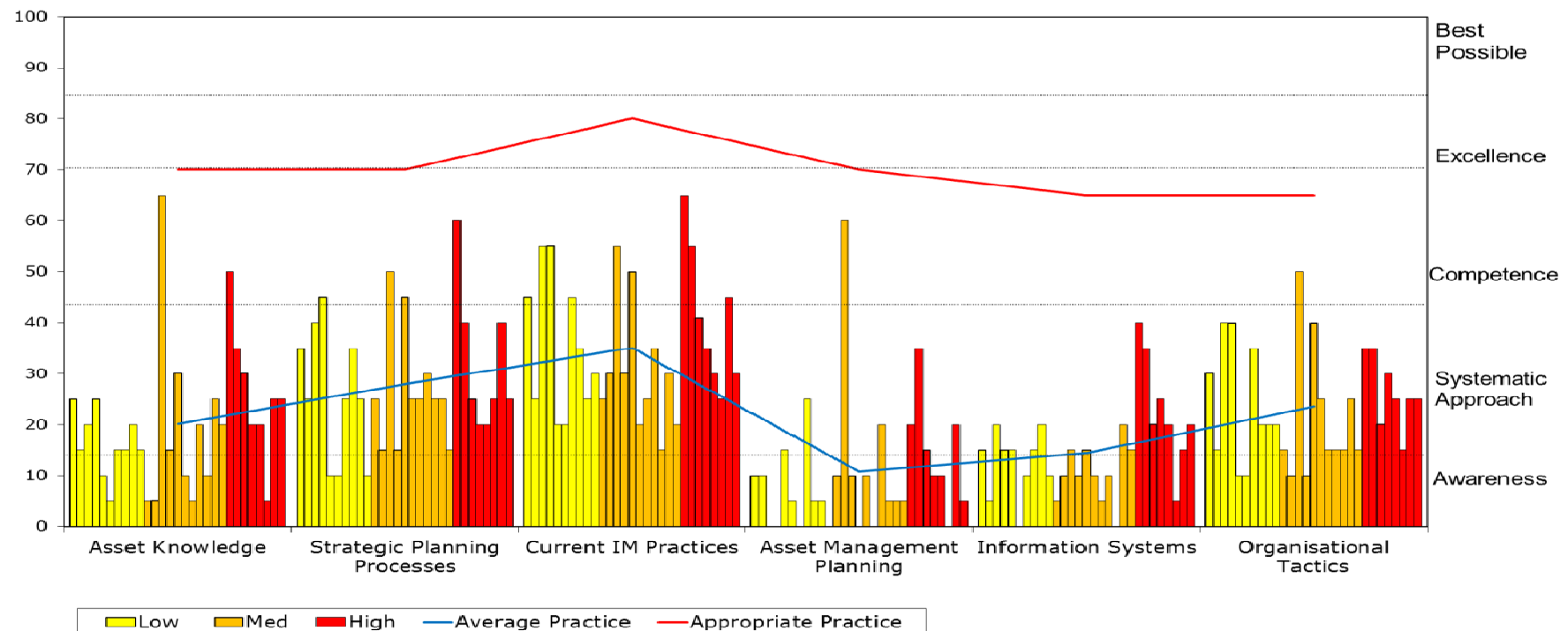
- The Commission's Annual Submission for the 2014/15 Division of Revenue includes a chapter on challenges in maintaining and rehabilitating water and electricity distribution infrastructure
- Summary of the challenges as identified in FFC research:
  - Local government is responsible for infrastructure worth R1.2 trillion as at June 2012
    - Value of electricity-related infrastructure = R398 billion
  - Limited regulatory framework
  - Under budgeting (R5billion) and under spending (RR8.9 billion) on repairs and maintenance at the local level
  - Extent of renewals backlog severe – in the case of electricity, between R8 billion and R41 billion required to address backlog
  - Should current investment patterns continue, condition of local government infrastructure portfolio will deteriorate significantly, thus threatening sustainability of basic service delivery

# NATURE OF THE CHALLENGE ACCORDING TO FFC [CONT.]

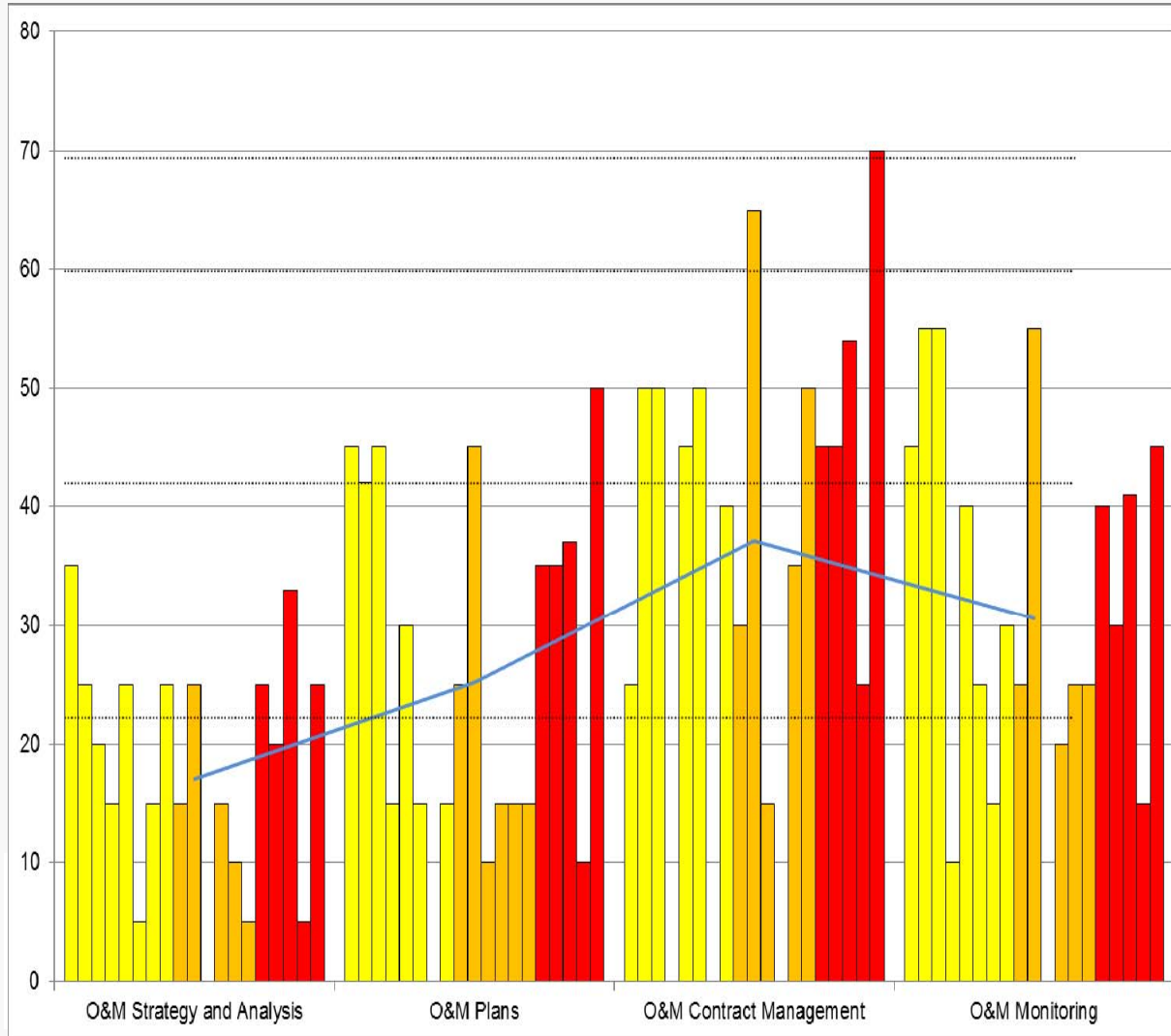
- The Commission also focused on issue of asset management practice at the local level
  - Infrastructure asset management defined as: *“The process of decision-making, planning and control over acquisition, use, safeguarding and disposal of assets to maximise their service delivery potential and benefits and to minimise their related risks and costs over their entire life”* (Boshoff, 2007)
  - Definition alludes to need for a life cycle approach to asset management
    - Life cycle approach refers to planning for all activities related to acquisition, maintenance, periodic refurbishments, disposal and replacement of the asset
    - Advantage of life cycle approach = start planning for all activities related to an asset upon identification of the need for an asset as opposed to reactive approach to maintenance/refurbishment

# ASSET MANAGEMENT PRACTICE

- On average all municipalities score below 50% in all categories of asset management practice
- Concern = municipalities are uncertain of extent, location, composition, physical attributes and asset care needs of their infrastructure asset
  - Brings into question the basis for planning and budgeting for maintenance and renewal of assets



# OPERATIONS AND MAINTENANCE (O&M) PRACTICE



- Scores for O and M practice = below standard
- Scores in respect of O and M strategy and analysis indicate that municipalities are not in a position to properly estimate asset maintenance needs
- High scores in respect of O and M contract management
  - Entails having arrangements in place for contractors to conduct maintenance activities and to keep emergency spares on hand for reactive maintenance

# POOR PERFORMANCE AND RESPONSE BY GOVERNMENT

- Asset management in general is in a poor state
  - Need to determine whether poor performance is as a result of :
    - Inefficiencies on the part of municipalities - not abiding by sound asset management principles due to lack of consequences or
    - Real challenges which may be beyond control of a municipality such as not being able to attract/retain adequate skills required to drive sound asset management practice or
    - Combination of the above
- Response of government:
  - Establishment of President's Infrastructure Coordinating Committee (PICC)
  - Establishment of local government-wide infrastructure capacity building agency in the form of Municipal Infrastructure Support Agency (MISA)
  - Establishment of sector-specific intervention in the form of Approach to Distribution Asset Management (ADAM) programme
  - Conditional grants such as infrastructure skills development grant

# ESTABLISHMENT OF ADAM

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- In response to the 2008 energy crisis, the then Department of Minerals and Energy outlined a National Response Plan to South Africa's electricity shortage
  - Approach to Distribution Asset Management (ADAM) drafted in support of National Response Plan
  - EDI Holdings responsible for drafting business plan and implementation strategy
  - ADAM = multi year initiative targeted at addressing maintenance, refurbishment and strengthening shortcomings in key electricity distribution infrastructure



# PROPOSED OPERATION OF ADAM

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- Due to resource constraints, ADAM to be implemented in a five-phased approach
- Operation of ADAM is to run parallel to normal day to day operation of utilities
  - Therefore require skills to address day-to-day running and ADAM
  - ADAM aims to spearhead skills development and transfer process so as to ensure sustainable availability of skills in the sector

# FUNDING OF ADAM

- In 2008, estimated that extent of under investment in EDI maintenance, refurbishment and strengthening = R27.4 billion
- Department of Energy's 2012 Annual Report, states no funding available to implement ADAM
- 2013 Division of Revenue Act allocated R320 million to Department of Energy to fund a pilot of ADAM (mini ADAM)
  - Support provided to nine municipalities facing serious electricity provision challenges
    - King Sabata Dalindyebo municipality, Nelson Mandela metropolitan municipality, Ngwathe municipality, Moqhaka municipality, Nala municipality, Mangaung metropolitan municipality, Msunduzi municipality, Sol Plaatjie municipality, Tlokwe municipality

# FFC VIEWS ON ADAM

- ADAM strategy to be contextualised within current reality facing electricity sector
  - ADAM drafted within context of creation of regional electricity distributors (REDs), despite scrapping of REDs reform, ADAM strategy not updated
- Roll out is slow in relation to extent of the challenge ADAM was established to address
  - Initiative proposed in 2008 funding only comes five years later (2013)
  - Transparency with respect to information on progress/challenges etc related to ADAM
- Shortage of staff/skills
  - Pertinent issue, severity of problem has not lessened



Implementation of ADAM requires skills to address day-to-day running and ADAM imperatives

# INFRASTRUCTURE AND ASSET CARE IN RELATION TO NATIONAL DEVELOPMENT

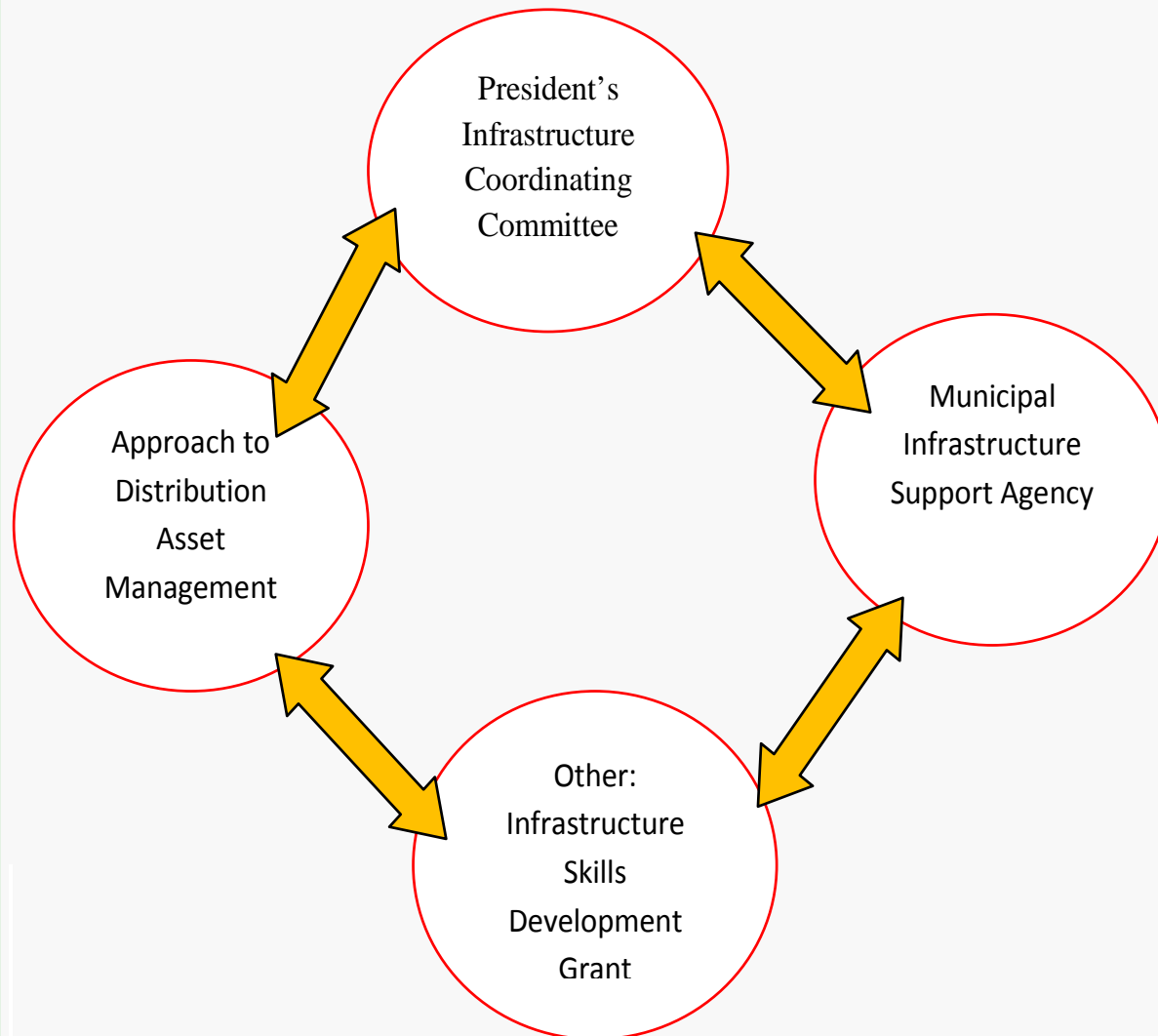
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- 2013 Medium Term Budget Policy Statement (MTBPS) key messages:
  - Unfavourable global and domestic circumstances have resulted in slower growth in the economy
  - Government is looking towards infrastructural investment as principal driver of economic growth
  - To improve performance of the economy and in provision of public services, emphasis on better use of existing resources as opposed to higher expenditure
    - Emphasis on reduction in waste and inefficiency in government spending

# RECOMMENDATIONS

- Extent of challenge is significant. What can be done to move forward?
  1. Improve regulatory and accountability frameworks
    - Enabling legislation (similar to Government Immovable Asset Management Act) to formalise and guide municipalities with respect to asset management (recommendation in FFC Submission for 2014/15 DoR )
    - National Treasury should devise LG infrastructure asset management guidelines (recommendation in FFC Submission for 2014/15 DoR )
    - Enforce accountability: where non performance exists as a result of inefficiencies, accounting officers to be held accountable and repercussions should follow
  2. Role of Department of Cooperative Governance and Energy in terms of Section 154(1) of the Constitution to be emphasised
    - Requires national and provincial government by legislation and other measures to support and strengthen capacity of municipalities to manage their own affairs, exercise their powers and perform their functions

# Recommendations [cont.]



3. Integrated package of infrastructure-related capacity development
  - All interventions aimed at enhancing infrastructure development should be coordinated to avoid duplication and improve effectiveness



THANK YOU.

*Financial and Fiscal Commission  
Montrose Place (2<sup>nd</sup> Floor), Bekker Street,  
Waterfall Park, Vorna Valley, Midrand,  
Private Bag X69, Halfway House 1685*

*[www.ffc.co.za](http://www.ffc.co.za)*

*Tel: +27 11 207 2300*

*Fax: +27 86 589 1038*