



## UMSOBOMVU MUNICIPALITY

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# ASSET MANAGEMENT PLAN FOR MOVEABLE ASSETS IN THE LOCAL MUNICIPALITY OF UMSOBOMVU

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**PREPARED FOR: -**

**Umsobomvu Municipality**  
**The Municipal Manager**  
Chamberlain Square, Church street,  
COLESBERG, 5980  
Tel: (051) 753 0777  
Fax: (051) 753 2180

Contact Person: Mr. D. Visage

**KV3**

**PREPARED BY: -**

**Kwezi V3 Engineers**

P O Box 36155  
MENLO PARK, 0102  
Tel: (012) 425 6300  
Fax: (012) 460 1336

Contact Person: Mr. G Zandberg

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**COMPILED BY:**

Service Provider : Kwezi V3 Engineers (Pty) Ltd

Contact : Mr. JG Zandberg Pr Eng

Postal Address : Northern Cape: PO Box 182, Kimberley, 8300  
Gauteng: PO Box 36155, Menlo Park, 0102

Physical Address : Northern Cape: 4 Sidney Street, Kimberley, 8301  
Gauteng : 160 Garsfontein Rd, Ashlea Gardens, 0081

Telephone : Northern Cape: +27 53 831 4199  
Gauteng: +27 53 832 2497

Facsimile : Northern Cape: +27 53 832 2497  
Gauteng: +27 12 460 1336

Cell Phone : 083 453 1099

E-mail : [gzandberg@kv3.co.za](mailto:gzandberg@kv3.co.za)

Project number 225490

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**ANNEXURE A: ASSET REGISTER**

**ANNEXURE B: POLICY ON VEHICLE USE**

**ANNEXURE C: Policy on Vehicle Accidents**

## GLOSSARY OF TERMS

<b>AFR</b>	Asset Financing Reserve
<b>AFS</b>	Annual Financial Statements
<b>AR</b>	Asset Register
<b>ASB</b>	Accounting Standards Board
<b>Consultant</b>	KV3 Engineers (Pty) Ltd
<b>DORA</b>	Division of Revenue Act
<b>DM</b>	District Municipality
<b>Financial Model</b>	Excel spreadsheet prepared by KV3 (Pty) Ltd, lodged with the Municipality
<b>GAAP</b>	Generally Accepted Accounting Practice
<b>GAMAP</b>	Generally Accepted Municipal Accounting Practices
<b>GIS</b>	Geographic Information System
<b>GRAP</b>	General Recognised Accounting Practice
<b>HOD</b>	Head of Department
<b>IDP</b>	Integrated Development Plan
<b>IFRS</b>	International Financial Reporting Standards
<b>IMATU</b>	Independent Municipal and Allied Trade Union
<b>LM</b>	Local Municipality
<b>LOS</b>	Levels of service
<b>ME</b>	Municipal Entity
<b>MIG</b>	Municipal Infrastructure Grant
<b>MFMA</b>	Municipal Finance Management Act 56 of 2003
<b>MSA</b>	Municipal Systems Act, No 32 of 2000
<b>MTEF</b>	Medium Term Expenditure Framework of National Government
<b>NPV</b>	Net present value
<b>O &amp; M</b>	Operation and Maintenance
<b>OAG</b>	Office of the Accountant-General
<b>PFMA</b>	Public Finance Management Act, 1999
<b>PPE</b>	Property, Plant and Equipment
<b>PSP</b>	Professional Service Provider
<b>SLA</b>	Service Level Agreement
<b>Status Quo Mechanism</b>	The mechanism currently used to deliver services
<b>Systems Act</b>	Local Government: Municipal Systems Act 32 of 2000

## EXECUTIVE SUMMARY

### 1. Introduction and Background

Umsobomvo Municipality, as every other municipality in South Africa needs to deliver services to the residents living in the municipal boundaries, and therefore needs assets to deliver that service. The assets can be grouped together according to GAMAP 17 in different classes:

- Infrastructure assets
- Heritage assets
- Community assets
- Investment properties
- Other assets (also vehicles)

This report is about the vehicles (movable assets) and the management plans necessary to make best use of those assets, but the officials of the municipality should always keep in mind that their focus should be on service delivery, and a vehicle is just one of the tools necessary to be able to achieve that goal.

### 2. Asset Management and the Asset Life Cycle

The purpose of asset management is to achieve maximum benefit from an asset over the entire life cycle of the asset. The life cycle thus starts when the municipality needs to deliver a service, and a decision made through a Demand Management process to purchase a vehicle that will fulfil the need until the vehicle is eventually being disposed off. In every phase there are costs involved, or a possible income during the disposal of the vehicle. These costs should be managed according to the Municipal Finance Management Act and the Municipal Systems Act. For that reason a significant portion of this report is dedicated to the roles and functions of the different officials according to the acts.

The life cycle of a vehicle is discussed through the following phases:

- Planning phase
- Acquisition phase
- Operation and maintenance phase
- Disposal phase

**3. Findings**

With reference to the different graphs as represented in paragraph 4 of this report, the following can be reported:

3.1 The financial implication of the vehicles is as depicted in the following table:

<b>Class Description</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Replacement Value</b>	<b>Holding Cost (Book Value)</b>
<b>Services</b>	R 74 615,00	R 466 050,00	R 426 836,00	R 2 440 000,00	R 39 214,00
<b>Construction</b>	R 8 795,00	R 87 950,00	R 87 950,00	R 850 000,00	R 0,00
<b>Light Vehicles</b>	R 773 247,00	R 1 070 426,00	R 320 750,00	R 320 750,00	R 749 676,00
<b>Total</b>	<b>R 856 657,00</b>	<b>R 1 624 426,00</b>	<b>R 835 536,00</b>	<b>R 3 610 750,00</b>	<b>R 788 890,00</b>

3.2 The majority of the vehicles are very old, and well beyond the Expected Useful Life (EUL).

3.3 The condition assessment also reflects the age of the vehicles, where a number of vehicles are in a very poor condition.

3.4 To replace the vehicles that has less than one years of expected useful life will cost the municipality approximately R3,8 million.

3.5 The municipality has staff in positions that can manage the vehicles.

3.6 The new manager at the vehicle depot lacks systems and procedures to manage the vehicles.

3.7 The workshop is currently not used to service and maintain vehicles.

**4. Recommendations**

4.1 Make use of the funding proposition to replace the oldest vehicles, but do not over commit the municipality in one year. Rather spread the replacement drive over a period of 5 years, since small vehicles have an economic life of 5 years.

4.2 Base the decision to replace the vehicles on those with the biggest need for service delivery.

4.3 Where possible, and economical, purchase vehicles with a service plan.

4.4. Implement systems and procedures that will manage and control the effective use of the vehicles on a day to day basis. The requirements are discussed in this document, but the form and function must be developed by the person that will use the procedures every day. This will ensure ownership of the administration of the vehicles.

4.5 Implement the attached (Annexure B) policy document "Policy on Vehicle Use" and update the document as and when necessary.

4.6 Implement the attached (Annexure C) policy document "Policy on Vehicle Accidents" and update the document as and when necessary.

4.7 Currently vehicles are serviced and maintained by the different dealers. The diversity of vehicles in the Umsobomvu fleet; from light delivery vehicles to heavy construction vehicles, from diesel engines to petrol engines would need a very specialised workshop to be able to service and maintain internally. It is therefore not recommended to establish and equip an own workshop.



**1. INTRODUCTION AND BACKGROUND**

**1.1 Background**

The State President pronounced in the State of the Nation address that all residents must have decent and safe Water and Sanitation by 2010 (Target of 300 000 households per year to be met as from 2007). National Government is committed to eliminating the backlog in basic services and to progressively improve the levels of service over time; the President has set out the following targets to which all stakeholders and role-players in the country are expected to contribute:

- By 2007 – eradication of the "bucket toilet" system
- By 2008 – all households need to have access to potable water
- By 2010 – all households need to have access to basic sanitation.
- By 2012 – every household need to have access to electricity.
- By 2014 – poverty and unemployment need to be halved.

**1.2 Introduction**

Umsobomvu Municipality (NC072) is one of eight local municipalities to form the Pixley ka Seme District Municipality (DC 7) in the Northern Cape Province.

The demographic information of the municipality is provided in the following table:

	Population	Households		
		Urban	Rural	Total
Pixley ka Seme DM	176 293	30 587	10 543	41 135
Umsobomvu Municipality	23 640	4 829	1 017	5 846
% of Pixley ka Seme DM	13,4%	15,7%	9,6%	14,2%

Source: Census 2001

Therefore 82,6% of all households in the local municipality can be regarded as urban which is a fairly large percentage. The major settlements/towns where the municipality are providing services are Colesberg (municipal offices), Noupoort (±53 km from Colesberg) and Norvelspond (±40km from Colesberg). The municipality employs approximately 153 people.

The service levels of the municipality (2001 figures), compared to the district municipality are shown in the following table:

<b>Municipality</b>	<b>RDP Water</b>	<b>RDP sanitation</b>	<b>Refuse removal</b>	<b>Electricity</b>
Pixley ka Seme DM	91,35%	44,29%	70,88%	75,25%
Umsobomvu LM	98,38%	53,86%	76,71%	80,52%
Umsobomvu households	5 752	3 150	4 484	4 706

The municipality is providing a service generally higher/better than the average for the district municipality.

All municipalities are faced with the challenge:

- They need to deliver services to existing residents
- They need to fulfil in national targets (eradication of backlogs)
- They need to extend services due to normal growth
- They need to perform new functions which were previously not theirs

All municipalities need assets to be able to deliver a service to the residents. One of the assets needed is vehicles. The municipality of Umsobomvu currently has a number of vehicles in various stages of condition and age. Generally the trucks and light delivery vehicles are very old and should have been replaced a long time ago.

### **1.3 Legislative Requirements**

The legislative basis for Asset Management can be found in the Municipal Finance Management Act (MFMA), Municipal Managers to be accounting officers; Section 60, and Asset and liability management; Section 63(1). These sections read as follows:

*“60. The municipal manager of a municipality is the accounting officer of the municipality for the purposes of this Act, and, as accounting officer, must –*

- (a) exercise the functions and powers assigned to an accounting officer in terms of this Act; and*
- (b) provide guidance and advice on compliance with this Act to-*
  - (i) the political structures, political office-bearers and officials of the municipality; and*
  - (ii) any municipal entity under the sole or shared control of the municipality.*

*63.(1) The accounting officer of a municipality is responsible for the management of:-*

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(a) the assets of the municipality, including the safeguarding and the maintenance of those assets;  
and

(b) the liabilities of the municipality.

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

(a) That the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;

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

(c) that the municipality has and maintain a system of internal control of assets and liabilities register, as may be prescribed."

**1.4 Identification and recognition of fixed assets**

Property, plant and equipment (PPE) are defined as tangible assets (movable or immovable) that are held for use in the supply of good or services or for administration purposes and that are expected to be used during more than one financial year.

**1.5 Current vehicle fleet**

During May 2007 the Municipality was in possession of the following vehicles:

	<b>Reg. no</b>	<b>Type</b>	<b>Description</b>	<b>Duties</b>	<b>Age</b>	<b>Condition</b>
1	BDC680NC	Grader	Gallion	Roads	32	Poor
2	BDC668NC	Front end loader	Caterpillar	Roads	38	Good
3	BDC671NC	Truck, tipper	Isuzu	Roads	23	Poor
4	BDC663NC	Truck, tipper	Isuzu	Roads	23	Poor
5	BDC659NC	LDV	Toyota	Electrical	15	Poor
6	BDC688NC	LDV	Nissan	Water	2	Very Good
7	BMH 267 NC	LDV	Nissan	Supervisor	9	Poor
8	BHC 541 NC	LDV	Isuzu	Electrician	23	Very poor
9	BDC 676 NC	LDV	Isuzu	Electrical	12	Poor
11	BMH679NC	Tractor	M. Ferguson	Roads	23	Very poor
12	BDC 674 NC	Tractor	John Deere	Sanitation	34	Very poor
13	BHK 826 NC	Tractor	Fordson	Roads	26	Very poor
14	BIY 297 NC	Tractor	Fordson	Roads	26	Very poor
15	BDC669NC	3t LDV	Isuzu	Electrical	36	Poor
16	BDC 682 NC	Tanker	M. Benz	Sanitation	32	Very poor
17	BDC 684 NC	Tanker	Isuzu	Sanitation	25	Very poor
18	BDC 672 NC	Garbage truck	M. Benz	Solid Waste	13	Good

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19	BDC 691 NC	LDV	Nissan	Sanitation	2	<i>VERY GOOD</i> <del>Very poor</del>
20	BDC 670 NC	LDV	Isuzu	Sanitation	24	Very poor
21	BDC 689 NC	Fire Brigade	Land Rover		34	Very poor

It is clear that the vehicles (yellow vehicles excluded) are beyond their expected useful life, and that the municipality should engage into a program of replacing old and or vehicles in a poor condition.

During July 2007 the following vehicles were purchased:

	<b>Reg. no</b>	<b>Type</b>	<b>Description</b>	<b>Purchase price</b>
1	BSF 266 NC	LDV	Nissan 1400	R 73 216
2	BSF 207 NC	LDV	Nissan 2000	R 109 780
3	BSF 208 NC	LDV	Nissan 2000	R 109 780
4	BSF 209 NC	LDV	Nissan 2000	R 109 780
5	BSF 210 NC	LDV	Nissan 2000	R 109 780
6	BSF 211 NC	LDV	Nissan 2000	R 109 780

### 1.6 Project Objective

Asset Management is seen as the process of guiding the acquisition, use and disposal of assets to make the most of their service delivery potential and manage the related risks and costs over their entire life.

Key activities of Asset Management are as follows:

- Needs analysis
- Economic appraisal
- Planning
- Budgeting
- Pricing
- Acquisition and disposal
- Recording, valuation and reporting
- Management in use

This report will endeavour to cover all aspects over the expected useful life of the vehicles, taking in account existing policy, systems and procedures of the municipality.

### 1.7 Outsourcing as an option

This study is assuming that the decision to purchase a vehicle has already been taken, or will be taken somewhere in the near future. The Municipality must keep in mind that one of its prime missions should be to deliver a cost-effective service to the residents. One of the options to deliver the service could be to outsource the task.

Outsourcing became part of the business lexicon during the 1980's and often refers to the delegation of non-core operations from internal capacity to an external entity specializing in the management of that operation. The decision to outsource is often made in the interest of lowering costs. The external entity can usually offer the service at a lower cost due to management directing all competencies to that business or making more efficient use of labour, capital, technology and/or resources.

Outsourcing is also successful in increasing product quality and/or substantially lowering the municipality's and resident's costs (e.g. increases the quality to cost ratio). Because outsourcing allows for lower costs, even if quality reduces slightly, this is sometimes the case, productivity increases, which benefits the economics in the long run.

The difficult question to answer will be what all the costs for that particular service are. It is very difficult to isolate (ring fence) a particular service since there are many staff functions that are contributing to the success of a service. These staff functions will not necessarily be a saving when an internal service is terminated. Could however the direct costs be determined, and an external service provider can deliver the service at a saving, outsourcing should be seriously considered.

The MFMA will allow outsourcing via Public-Private Partnerships (PPP) that is described in detail in section 120 of the act. The act also refers in section 120 (3) that if the public-private partnership involves the provision of a municipal service, Chapter 8 of the Municipal Systems Act (MSA) must also be complied with. The MSA also provides for the process if a municipality decides to explore the possibility of providing a service through an external mechanism as described in section 78 (3).

## 2. DEFINITIONS

It is important to have a mutual understanding of terminology concerning asset management. The following definitions are applicable:

Carrying amount is the amount at which an asset is included in the statement of financial position, after deducting any accumulated depreciation and any impairment losses thereof.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Current replacement cost; the total cost of replacing the existing asset with one of comparable utility, employing the design and materials that are currently used in the market (a Modern Equivalent Asset (MEA)).

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable amount is the cost of the asset, or other amount substituted for cost in the financial statements, less its residual value.

Depreciated Replacement Cost is a method of valuation that is based on an estimate of:

a) in the case of property:

- i) the fair value of land; plus
- ii) the current gross replacement cost of improvements less allowances for physical deterioration, and optimization for obsolescence and relevant surplus capacity; and

b) in the case of plant and equipment, the current gross replacement cost less allowances for physical deterioration, and optimization for obsolescence and relevant surplus capacity.

Economic life is the life until the asset ceases to be the lowest cost alternative to satisfy a particular level of service, due to other factors.

The economic life should be assessed with consideration of factors which may impact on the expected replacement date, such as:

- demand factors
- legislative and environmental changes
- supply constraints
- regulatory restrictions
- technological redundancy
- operational costs and practices
- renewal and replacement programs

Property, plant and equipment are tangible assets that:

- Are held by an entity for use in the production or supply of goods or services, for rental or others, or for administrative purposes, and

- Are expected to be used during more than one reporting period.

Recoverable amount is the amount that the entity expects to recover from the future use of an asset, including residual value on disposal.

Residual value is the net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected cost of disposal.

Useful life is either:

- The period of time over which an asset is expected to be used by the entity; or
- The number of production or similar units expected to be obtained from the asset by the entity.

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction

Or:

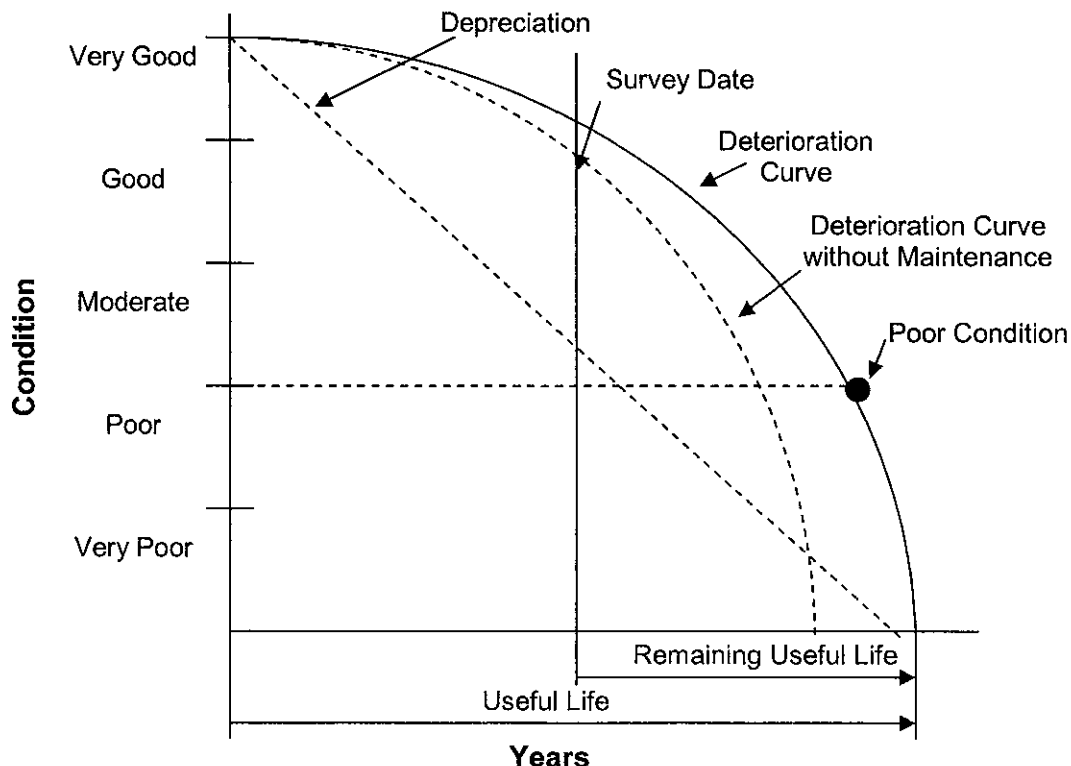
Fair Value can also be calculated by:

$$\text{Fair value} = \frac{\text{Cost} \times \text{Remaining useful life}}{\text{Useful life}}$$

Value of an asset (in general): Depending on the situation, either;

- Sales comparison (asking price i.e. Fair Value as described above)
- Income approach (determined by P/E value)
- Cost approach (replacement value)

The following figure explains some definitions very well:



### **3. ASSET MANAGEMENT AND THE ASSET LIFE CYCLE**

The purpose of asset management is to achieve maximum benefit from an asset over the entire life cycle of the asset. The life cycle thus starts when the municipality needs to deliver a service, and a decision made (through a Demand Management process) to purchase a vehicle that will fulfil the need until the vehicle is eventually being disposed off.

This life cycle of a vehicle will be discussed on the following phases:

- Planning phase
- Acquisition phase
- Operation and maintenance phase
- Disposal phase

#### **3.1 Planning phase**

It is essential to realise that planning to purchase a vehicle must always originate from the necessity to deliver a service. Naturally vehicles will then only be acquired to:

- replace old vehicles that provided a useful and necessary service
- perform a new service not previously delivered.

The planning phase is where the requirement for a new asset (vehicle) is determined and planned for. With regards to vehicles, the decision to purchase a specific vehicle can only originate from a replacement (financial) decision, or a new service. In the case of a new service, a proper needs analysis should be followed (Demand Management) to specify exactly what asset will be needed to perform the necessary task, and the influence of this purchase on other systems (drivers, other vehicles, fuel provision) and very importantly on the budget.

Since this phase is the starting point of committing the municipality for all costs incurred for this vehicle from now on until disposal, it is crucial to submit the specification of the proposed vehicle to Value Management by asking the following questions:

**Table 1: Value Management on vehicles:**

<b>No</b>	<b>Discussion</b>	<b>Yes</b>	<b>No</b>
1	Will service delivery be affected negatively if this vehicle is not purchased?		
2	Can this service be obtained from an outside source, without the vehicle being purchased?		
3	Does this vehicle depend on other assets or systems to deliver a service? (e.g. front-end loader and tipper, tractor and trailer). Is that ancillary		



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	asset already available?		
4	Will this vehicle be powerful enough for the intended task?		
5	Is the power requirement not excessive for the intended task?		
6	Will this vehicle require special skills or driver's licence from the driver/operator? Does the municipality have a person with such skills?		
7	Does the vehicle require special maintenance that is not readily available in town?		
8	Does the vehicle require special components and tyres that are not readily available in South Africa in case of a break down?		
9	Does the municipality have a driver for the vehicle once it has been delivered?		
10	Is there provision in the budget for maintenance, (planned and unplanned maintenance)?		
11	Is the specification open enough to allow more than one supplier to tender?		
12	Is the specification written in such a manner that the minimum requirements are specified?		
13	Is the fuel consumption of the vehicle of such a nature that special arrangements should be made for fuel supply at remote sites?		
14	Does this vehicle have a residual value after the expected useful life?		
15	Should circumstances change un-expectedly, would there be an external buyer/demand for this vehicle upon disposal?		

If any of the questions has a negative response, consideration should be given to the long-term effect on the municipality should this vehicle be purchased? The above list is by no means exhausted. The user must realise that the vehicle is part of a system and depend on other interfaces that might result on additional expenses. The cost price (purchase price) of the asset is not the only expense. Operational and maintenance costs are part of the total cost implication on the municipality.

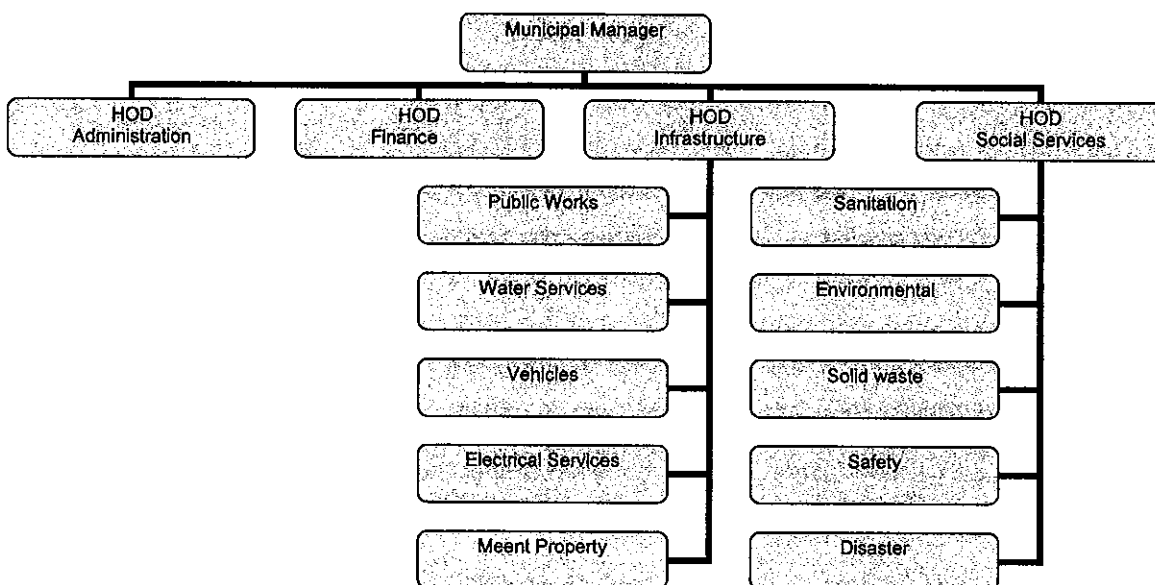
**3.2 Acquisition phase**

Umsobomvo Municipality must have existing Supply Chain Management procedures according to the requirements of the MFMA Chapter 11, part 1. New vehicles will therefore be purchased according to these processes and procedures.

### 3.3 Operation and maintenance phase

#### 3.3.1 Management of fleet

The current structure of the municipality is a typical hierarchical structure. This makes command and control relatively easy. The current structure at Umsobomvu Municipality is as follows:



Note that the detail underneath Head of Department (HOD) Infrastructure and HOD Social services refers to functions/responsibilities and not posts. Both departments are user departments regarding vehicles, but the HOD Infrastructure is responsible for the management of the vehicles.

#### 3.3.2 Record keeping

Due to the nature of this asset group (movable), record keeping is very important. Historical data is important for financial - as well as technical reasons.

Technical information such as the vehicle's operating and maintenance manuals should not be kept in the vehicle due to absence of continuity of a designated driver. These books (and spare key) should be stored at a safe place, and be the responsibility of the Fleet Manager. These records are important for many obvious reasons, such as maintenance (services) requirements, maintenance history and eventually proof of maintenance when disposing of the vehicle.

The log book of the vehicle should also be kept up-to-date diligently. This is the only way to allocate responsibility of the user to the specific vehicle. The log book is irreplaceable when allocating costs to different departments (if and when different departments are managed as cost centres) and will be valuable to trace the person responsible for traffic offences and damage. The same document can serve as a control on the fuel purchased and eventual fuel consumption. Theft of fuel should be prevented and systems be in place to prevent the practise.

The specific format and lay-out of record keeping could be prescribed, but it is the opinion that the administration to perform this task should no become a burden without visible advantages. Furthermore systems should be kept as simple as possible, in a format that is useful to everybody with the least effort to maintain it.

To summarise, the Fleet Manager should keep record of the following documents:

- a. Operators Manuals, maintenance manual and spare key as received from the dealer.
- b. Vehicle's registration and licence documentation.
- c. Detail of the vehicle's insurance.
- d. Maintenance planner for all vehicles in fleet
- e. Regular condition assessments of vehicle. The basic information should be documented to prevent theft and pilferage of the vehicle, such as type and condition of tyres, type of radio (if any), condition of windscreen, etc
- f. Information regarding all approved drivers:
  - Copy of driver's licence
  - Declaration that the driver has a copy and agree to the stipulations of "Policy on Vehicle Use" dated 30<sup>th</sup> May 2007
  - Declaration that the driver has a copy and agree to the stipulations of "Policy on Vehicle Accidents" dated 30<sup>th</sup> May 2007.

### **3.3.3 Reporting**

A vehicle fleet can be very expensive. Besides the original purchasing amount, and most probably the insurance expenses will be reflected in the Financial Officer's budget, the operating costs should not be watered down. Operating costs that will be incurred will be:

- Fuel
- Services
- Tyres

Reporting to the Municipal Manager and/or Chief Financial Officer should include or explain the need for services that resulted in the operating expenses. Reporting must have the benefit that the Fleet Manager understands the financial implication of every vehicle in his fleet, and every kilometre driven with that vehicle. On the other hand will the financial officer have a better understanding of the services rendered with the allocated budget.

The format of the reporting and the frequency of reports will be determined by the need of the individuals. It makes sense to report on a monthly basis.

### 3.3.4 Financial requirements

The local government accounting standards that have been approved by the Accounting Standards Board (ASB) will be replaced by standards of GRAP. The purpose of updating the old standards is to ensure that there will be not significant differences between the standards and the subsequent GRAP standards that will be issued in the next few years.

The following is a description of the standards implementation process regarding Property, Plant and Equipment:

*A comprehensive Fixed Asset Register (FAR) must be prepared. Once the FAR has been prepared, Loans Redeemed and Other Capital Receipts must be reversed. Loans redeemed and Other Capital Receipts must initially be used to finance backlog depreciation and establish the Future Depreciation Reserves and the residual balance remaining must be transferred to either the AFR or unappropriated surpluses.*

#### 3.3.4.1 Classification of Property, Plant and Equipment

GAMAP 17 requires certain information to be disclosed for each class of property, plant and equipment. A class of property, plant and equipment is described as "... The grouping of assets of a similar nature or function ....". Grouping assets for financial statement purposes according to their nature or function assist users in understanding the nature of the assets and activities of the municipality.

Basically, five broad categories of property, plant and equipment exist in the municipal environment, namely –

1. Infrastructure assets are defined as any asset that is part of a network of similar assets. Examples are road, water reticulation schemes, sewerage purification plants, transport terminals and car parks.
2. Heritage assets are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
3. Community assets are defined as any asset that contributes to the community's well being. Examples are parks, libraries and fire stations.
4. Investment properties are defined as properties that are required for economic and capital gains. Examples are office parks and underdeveloped land acquired for the purpose of resale in future years.
5. Other assets are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles, furniture and fittings.

It is therefore clear that vehicles should be classified as "Other assets". Spare parts and servicing equipment are usually carried as inventory; however major spare parts and stand-by equipment qualify as PPE when the municipality expects to use them during more than one period.

### **3.3.4.2 Standards of Generally Accepted Municipal Accounting Practice (GAMAP)**

The Accounting Standards Board is required in terms of the Public Finance Management Act as amended (PFMA), to determine generally recognised accounting practice referred to as Standards of Generally Recognised Accounting Practice (GRAP). The Board must determine GRAP for municipalities (generally referred to as entities) as well. The Board considers that the standards for GAMAP constitute GRAP for municipalities. GAMAP is therefore an interim solution until such time as it is replaced by a standard of GRAP. GAMAP 17 must be studied in order to gain an understanding of the accounting treatment and disclosure information relating to the vehicles.

### **3.3.4.3 Depreciation**

Depreciation is a familiar term in accounting and economics. International Financing Reporting Standards defines depreciation as the systematic allocation of an amount depreciated over an asset over its useful life. Depreciation is as much an expense as repairs and maintenance.

Most financial reporting standards recognise that it is important to allocate all costs to obtain a true view of costs of asset use. If depreciation is not charged then the real costs will be understated.

There are a number of depreciation methods:

- Straight line
- Declining Balance
- Condition-based depreciation
- Renewal Depreciation

With regards to vehicles, the straight-line method will be sufficient. The economic life of most commercial vehicles (light delivery vehicles and cars) will be regarded as 5 years, while other heavy-duty earth works vehicles will typically be depending on an hour estimate which will probably be in the order of 10 or even 15 years. The manufacturer's recommendation must be taken in account with the estimated usage (hours/year or hour/years).

As a general practice a light vehicle will not be financed for a period longer than the economic life, and therefore a depreciation of 20% per year (5 years) will be recommended as a true reflection of depreciation.

### **3.3.4.3 Asset register**

In order to be in a position to implement GAMAP 17, a detailed asset register (AR) must be prepared and maintained. The reason is that GAMAP 17 requires that assets (vehicles) be depreciated over their economic life.

The following information should be included in the Asset Register as a minimum:

- Acquisition date of the vehicle (date of acceptance)
- Clear description
- Depreciation rate

- Historical cost of item (i.e. all costs incurred to purchase vehicle).
- Department or service that uses or controls the vehicle
- Identification reference for physical verification and asset management purposes (ideally registration number?)
- Original funding source of every vehicle.

### **3.3.5 Policy on vehicle usage**

Due to the nature of this asset and the fact that employees of the municipality can misuse it, it is important to produce a policy to cover the usage of any vehicle in great detail. The policy is attached as Annexure A, and the purpose of a separate document is that it forms an important part of asset management (this document) in general, but it should be used as a tool to ensure that all managers and drivers are aware of their function and duties regarding vehicles.

The policy should be regarded as a dynamic document to be updated when necessary.

The purpose of the policy should be:

- to achieve maximum benefit from the vehicle over the entire life cycle of the asset
- to prolong the useful life of the vehicle
- to establish responsibility
- to prevent liability claims against the municipality
- to prevent misuse of the vehicles
- to prevent fraudulent actions, especially with theft of petrol and components such as tyres.

### **3.3.6 Accident policy**

The Accident policy for Umsobomvu Municipality is attached as Annexure B. Again, this policy should be regarded as a dynamic document to be updated when necessary.

The purpose of an accident policy is to enable the driver to apply a "Best Practice" when in a position of shock or uncertainty to minimise liability to the municipality. For this reason, the driver should be provided with the latest copy of the policy, made aware of the contents, and should have a copy available in the vehicle.

### **3.3.7 Maintenance**

Maintenance can be divided into two categories; Planned (or proactive) maintenance and unplanned (or reactive) maintenance.

**Planned Maintenance** is work undertaken to reduce the probability of asset failure to an acceptable level of risk. Planned maintenance activities include:

- **Preventative maintenance** actions undertaken before an asset fails, to delay or prevent the occurrence of a known failure mode. An example of preventative maintenance on a vehicle is to overhaul an engine when hearing that a failure will occur.

- **Servicing** tasks are usually those associated with the replenishment of consumables, such as oil to maintain the vehicle in operating condition. The scheduled service as described by the dealer/manufacture is typical of a vehicle.
- **Condition monitoring** to determine the condition and/or correct functioning of the vehicle. It includes inspection and testing. An example is where oil samples are tested for unusual deterioration of the engine. This is a practice used by mines with very big and expensive vehicles.

Planned corrective maintenance is work undertaken to restore assets to a satisfactory condition or level of performance after unsatisfactory condition has been detected. Maintenance is also expected during the life cycle of the vehicle to be able to reach the expected useful life,

**Unplanned maintenance** is corrective work, carried out in response to a reported problem or defect to restore service and mitigate adverse effects of the failure in accordance with the required response time. Unplanned maintenance activities include:

- **Repair** which is a corrective process involving the detection and repair of a failure after it has occurred. This could be mechanical, or even an accident.
- **Redesign and modification** where there is no effective maintenance option available to enable the vehicle to meet its operational objective.
- **Decommissioning and dispose** (according to regulations) when maintenance options are uneconomic and replacement of the vehicle are justified. It could be a failure (accident) or that maintenance or service over a period not be financial viable. It could also be that the service level of the vehicle is so unreliable that it cannot perform its intended duty.

Planned maintenance can never be completely effective. Some items will still fail before the preventative task is due to be performed due to inaccuracies in predicting the rate of deterioration or the occurrence of random failures not associated with the identified deterioration pattern. Examples are the failing of globes, windscreens, batteries etc.

### **3.4 Disposal Phase**

The MFMA Part 2, section 14 is very clear on the conditions and procedures necessary for the disposal of a capital asset.

In short, an asset may not be disposed of if it is still needed to provide a minimum level of basic municipal service. If not needed, the decision to dispose of the vehicle must be taken at a municipal council meeting open to the public.

The process to dispose an asset must be fair, equitable, transparent, competitive and consistent with the supply chain management policy which the municipality must have and maintain in terms of section 111.

## **4 FINDINGS AND RECOMMENDATIONS**

### **4.1 Findings**

#### **4.1.1 Financial assessment:**

The assessment of the vehicles is as in the following table. Pending on confirmation of the actual cost (purchase price) this assessment was done taking the replacement value as basis, and escalating back at a rate of 7%. The fair value (current value) was taken as the same as the residual value, and that was assumed as 10% of the original purchase price.

Depreciation was taken as the straight-line method, depreciated over the expected useful life of the vehicle. This will certainly be different to the economic life of the item (usually the basis of depreciation) and as a result these figures will differ to the official holding cost (cost price less accumulated depreciation).

The date of assessment was taken as 30<sup>th</sup> June 2007.

**Table 1: Financial assessment**

<b>Class Description</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Replacement Value</b>	<b>Holding Cost (Book Value)</b>
<b>Services</b>	R 74 615,00	R 466 050,00	R 426 836,00	R 2 440 000,00	R 39 214,00
<b>Construction</b>	R 8 795,00	R 87 950,00	R 87 950,00	R 850 000,00	R 0,00
<b>Light Vehicles</b>	R 773 247,00	R 1 070 426,00	R 320 750,00	R 320 750,00	R 749 676,00
<b>Total</b>	<b>R 856 657,00</b>	<b>R 1 624 426,00</b>	<b>R 835 536,00</b>	<b>R 3 610 750,00</b>	<b>R 788 890,00</b>

#### **4.1.2 Classification**

The vehicles were classified in groups that will be unique to Umsobomvu LM. The following graph shows the difference between the different groups:

- **Services** – heavy vehicles that cannot be regarded as construction vehicles as such. Since they are heavy vehicles, the expected useful life (EUL) was taken as 10 years. It will normally be more correct to take a EUL as a certain amount of hours, but for the purposes of uniformity it is assumed that the vehicles will not be operated at abnormal hours. These vehicles will be the tipper trucks, garbage truck and tractors.
- **Construction** – these vehicles are regarded as heavy vehicles used for maintenance, especially roads. The same norm was used regarding EUL, and the period was taken as 15 years with normal maintenance.
- **Light vehicles** – these are all the LDV's and motorcars will also fall in this category. The EUL of these vehicles were taken as the same as the economic life, that is 5 years.



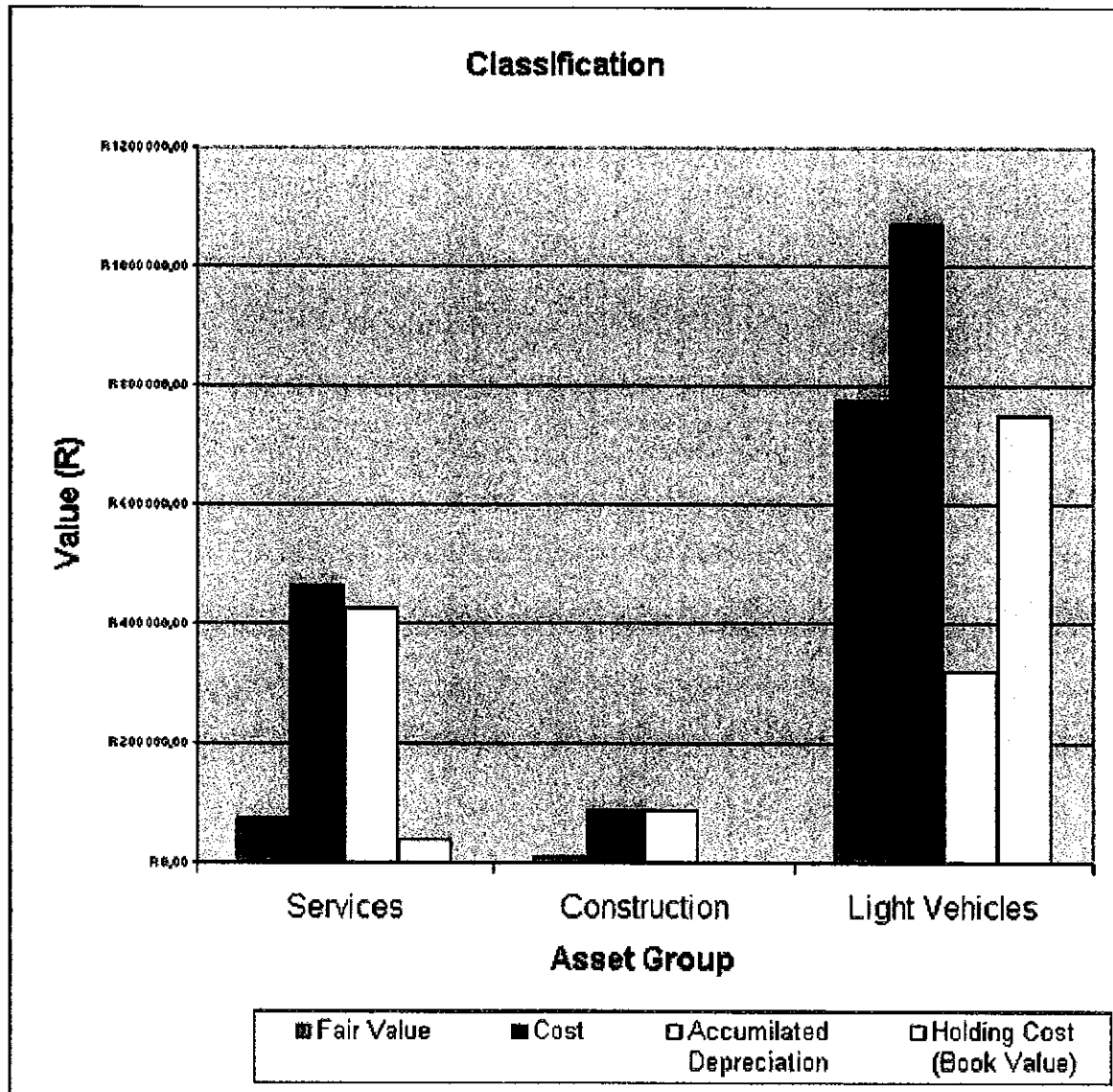
**ASSET MANAGEMENT PLAN FOR MOVEABLE ASSETS OF THE UMSOBOMVO MUNICIPALITY**

The abovementioned financial information in the different classification groups are shown in the following graph:

**Umsobomvu LM**

As on: 30 June 2007

Class Description	Fair Value	Cost	Accumulated Depreciation	Replacement Value	Holding Cost (Book Value)
Services	R 74 615,00	R 466 050,00	R 426 836,00	R 2 440 000,00	R 39 214,00
Construction	R 8 795,00	R 87 950,00	R 87 950,00	R 850 000,00	R 0,00
Light Vehicles	R 773 247,00	R 1 070 426,00	R 320 750,00	R 320 750,00	R 749 676,00
<b>Total</b>	<b>R 856 657,00</b>	<b>R 1 624 426,00</b>	<b>R 835 536,00</b>	<b>R 3 610 750,00</b>	<b>R 788 890,00</b>



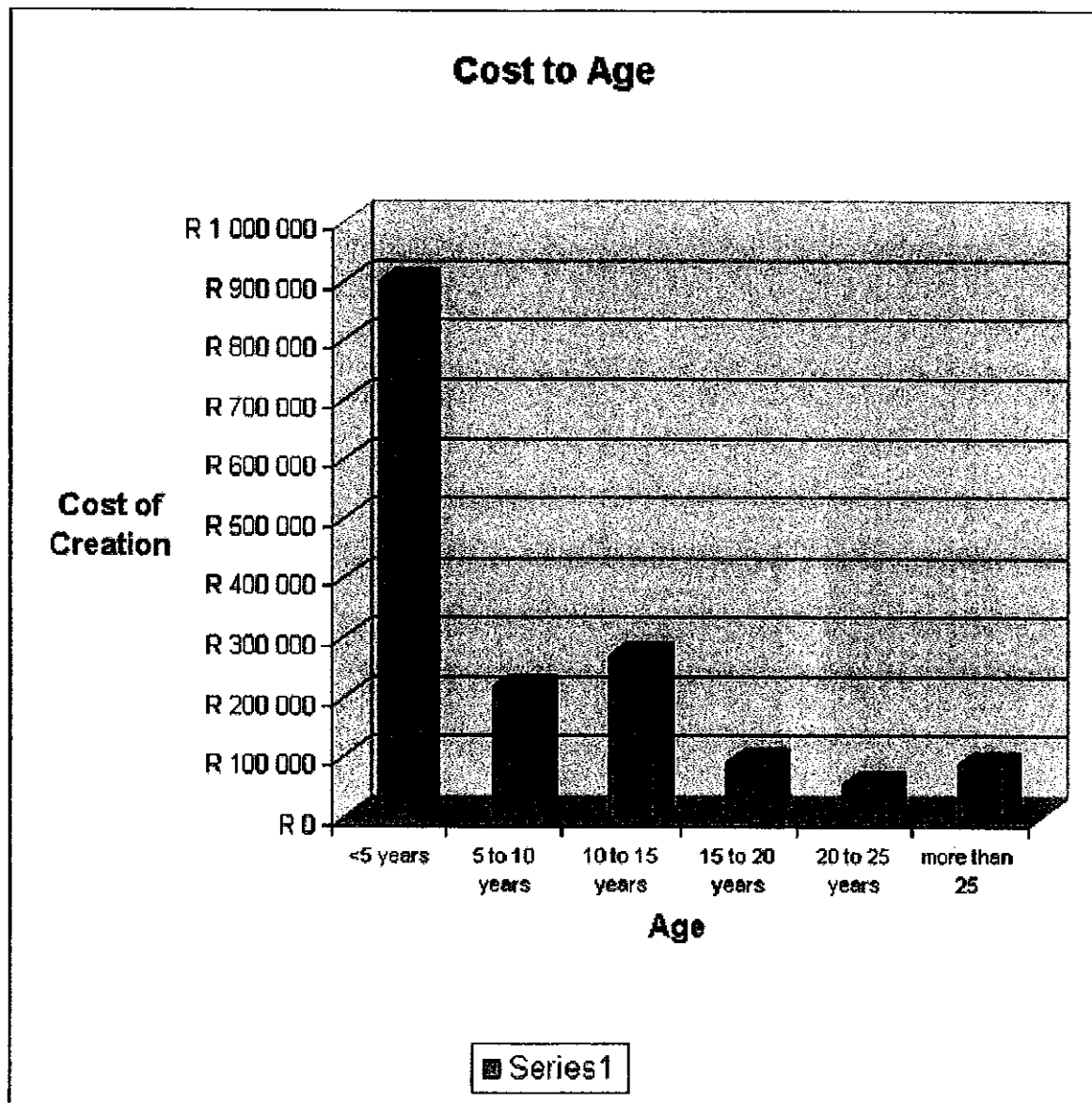
**4.1.3 Age**

The following graph shows that the municipality has spend on average about R250 000 per annum on the purchasing of vehicles over the past 15 years. Although the graph shows that in the period more than 15 years ago, only about R80 000 was spend, but it is assumed that a number of vehicles bought during that time should have been disposed of. The age of the fleet is a serious concern, and will be reflected in the condition assessment and remaining useful life.

**Umsobomvu LM**

As on: 30 June 2007

	<5 years	5 to 10 years	10 to 15 years	15 to 20 years	20 to 25 years	more than 25
<b>Cost</b>	R 900 916	R 217 570	R 270 170	R 92 970	R 54 850	R 87 950



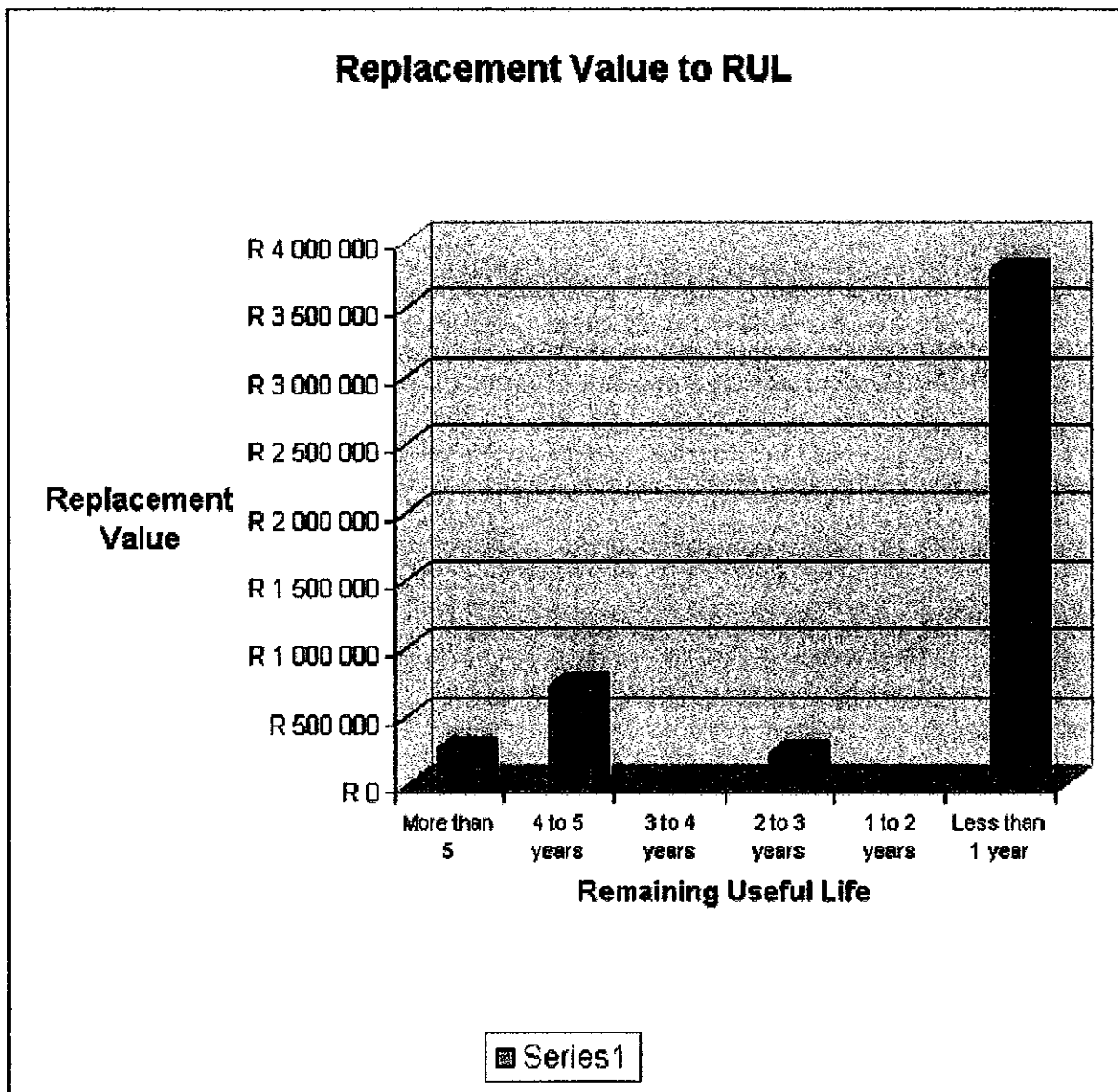
**4.1.4 Remaining Useful Life (RUL)**

The information below shows clearly that the fleet is very old and have been utilised way beyond the economic life of every vehicle. It also indicates that the municipality will need R4,06 million rand to rectify the problem. This will however not be suggested, and a phased approach should be followed.

Umsobomvu LM

As on: 30 June 2007

	More than 5	4 to 5 years	3 to 4 years	2 to 3 years	1 to 2 years	Less than 1 year
Replacement Value	R 270 000	R 730 200	R 0	R 243 400	R 0	R 3 791 076



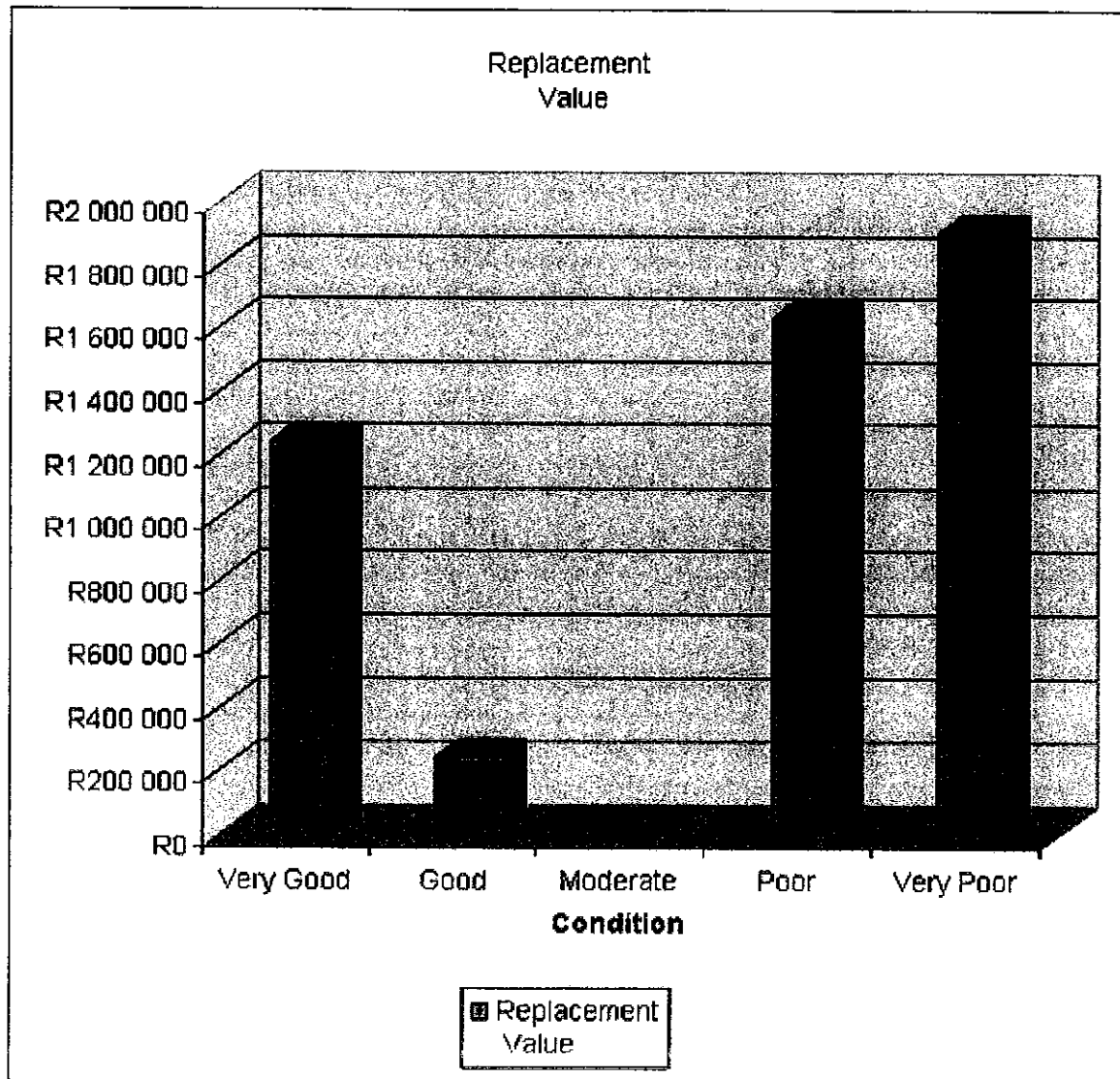
**4.1.5 Condition assessment**

The following information strengthen the opinion that the vehicles are very old and therefore in a very bad condition. According to the definition, a vehicle in a very poor condition cannot be utilised to perform its intended function. The immediate reaction would be to replace all vehicles in a very poor condition at a replacement value of approximately R2 million rand. However, it will be required to do a criticality assessment, in other words, it must be determined which vehicles are performing a critical function, and replace those first.

**Umsobomvu LM**

As on: 30 June 2007

Condition	Very Good	Good	Moderate	Poor	Very Poor
Replacement Value	R1 243 600	R250 000	R0	R1 632 888	R1 908 188



## **4.2 Recommendations**

4.2.1 Make use of the funding proposition to replace the oldest vehicles, but do not over commit the municipality in one year. Rather spread the replacement drive over a period of 5 years, since small vehicles have an economic life of 5 years.

4.2.2 Base the decision to replace the vehicles on those with the biggest need for service delivery.

4.2.3 Where possible, and economical, purchase vehicles with a service plan.

4.2.4. Implement systems and procedures that will manage and control the effective use of the vehicles on a day to day basis. The requirements are discussed in this document, but the form and function must be developed by the person that will use the procedures every day. This will ensure ownership of the administration of the vehicles.

4.2.5 Implement the attached (Annexure B) policy document "Policy on Vehicle Use" and update the document as and when necessary.

4.2.6 Implement the attached (Annexure C) policy document "Policy on Vehicle Accidents" and update the document as and when necessary.

4.2.7 Currently vehicles are serviced and maintained by the different dealers. The diversity of vehicles in the Umsobomvu fleet; from light delivery vehicles to heavy construction vehicles, from diesel engines to petrol engines would need a very specialised workshop to be able to service and maintain internally. It is therefore not recommended to establish and equip an own workshop.

## **5 CONCLUSION**

With the expansion of services to be delivered, the establishment and management of all assets have to keep up with the demand. The municipality shows the willpower to address the problem of old vehicles that could become a problem to service delivery.

## **6 REFERENCES**

6.1 New Zealand Infrastructure Asset Valuation and Depreciation Guidelines, Edition 2,0

6.2 International Infrastructure Management Manual; IMESA

6.3 Treasury Regulations for departments, trading entities, constitutional institutions and public entities.

**Annexure A**  
**Movable Asset Register**

**Annexure B**  
**Policy on Vehicle use**



# **UMSOBOMVU MUNICIPALITY**

## **POLICY ON VEHICLE USE**

**Document controlled by: Mr. B. Kapp**  
**Issue date: 30<sup>th</sup> May 2007**



## **POLICY ON VEHICLE USE FOR THE UMSOBOMVU MUNICIPALITY**

### **1. PREAMBLE**

The Management of the UMSOBOMVU MUNICIPALITY has a legal, moral and financial obligation to protect municipal assets against abuse, which could result in a loss to the municipality and taxpayer.

These assets include vehicles and are extended to include equipment used by the municipality to render services to the community.

The policy excludes those vehicles, which are used subject to specific agreements, such as vehicles used by Councilors, and vehicles subject to specific conditions of employment. It is therefore accepted that where an official or Councilor has access to a vehicle subject to such an agreement an Official or Councilor will not have the automatic right to use an Official or Councilor vehicle. A decision to allow such an official or Councilor vehicle can only be granted by the Municipal Manager (MM) or Head of Department (HOD)

### **2. AIM OF THE POLICY**

- 2.1 To regulate the use of official municipal vehicles and to ensure that vehicles are used in a safe and efficient manner in order to minimize accidents and abuse of municipal vehicles.
- 22 To provide a framework for remedial action to be instituted by management.

### **3. APPLICATION OF POLICY**

This policy is applicable to every driver of the Umsobomvu Municipality. For the purposes of this policy, the definition of a driver is a person that:

- 3.1 Is an employee of the Umsobomvu Municipality.
- 3.2 Is in possession of a valid driver's license.
- 3.4 Is not under the influence of alcohol or any other intoxicating substance.
- 3.4 Are in possession of a valid trip authority
- 3.5 Have been allocated a roadworthy municipal vehicle.

## **4. REGULATIONS**

### **4.1 DRIVER'S LICENSES**

- 4.1.1 Every employee required to drive a municipal vehicle or implement requiring a drivers license, will furnish the municipality with a certified copy of his/her drivers license. Only the new credit card type driver's license will be accepted.
- 4.1.2 It is the employee's responsibility to renew his/her driver's license or public drivers permit on or before the indicated expiry date.
- 4.1.3 Departmental Managers will ensure that new employees are competent before handing over a vehicle to new employees.
- 4.1.4 All newly appointed personnel who must use a municipal vehicle to execute his/her duties must be tested by the Municipal Examiner of Licenses before driving a municipal vehicle.
- 4.1.5 The Examiner of Licenses shall also check on the Natis (or eNatis) system for the validity of such licenses presented by the employee prior to the driving of a municipal vehicle.
- 4.1.6 Copies of driver's licenses will be kept on the employee's personal file.
- 4.1.7 The employee should inform his/her supervisor of any endorsement or restrictions, if any, placed on the employee's license.
- 4.1.8 If it is discovered that the employee's license was acquired fraudulently, disciplinary proceedings will be instituted.

### **4.2 USE OF MUNICIPAL VEHICLES**

- 4.2.1 Municipal vehicles will only be used for authorized and essential municipal business
- 4.2.2 Employees driving municipal vehicles will ensure that the logbook provided for the vehicle, is properly completed after every trip. Logbooks will be returned to the Departmental Manager or his/her designate after each trip.
- 4.2.3 The driver must be in possession of a trip authorization form issued by his/her Departmental Manager.
- 4.2.4 Council vehicles are not taken home except with the written authority of the Departmental Manager. In that case an employee must ensure that the vehicle is kept in a lock up garage. Where such a facility is not available, the vehicle will

be parked at the police station or workshops where security is available.

- 4.2.5 Only municipal employees on official duty and on work related business may be transported as passengers in the Council vehicles.
- 4.2.6 No private passengers may be transported in municipal vehicles unless the prior authorization of the HOD or Municipal Manager.
- 4.2.7 In the event that authorization has been obtained to transport private persons in municipal vehicles, the driver must, prior to the trip, complete an indemnity form and ensure that it is signed by the private individual prior to the trip.
- 4.2.8 Employees are expected to look after municipal vehicles and to keep these vehicles in a clean, safe and roadworthy state at all times.
- 4.2.9 Departmental Managers must inspect vehicles which are in their care on a monthly basis.
- 4.2.10 All vehicles will be driven with due care at all times.
- 4.2.11 No intoxicating liquor may be consumed whilst in charge of a municipal vehicle.
- 4.2.12 No liquor may be transported in municipal vehicles.
- 4.2.13 The driver is responsible and accountable for all tickets and fines received while using the vehicle.

## **5. ENFORCEMENT**

- 5.1 The Municipal Manager or his/her assignee is charged with enforcement of this policy.
- 5.2 The Municipal Manager or his/her assignee or members of the South African Police Service and Traffic services are authorized to impound or confiscate vehicles driven without the necessary trip authorization and to issue fines if vehicles are driven without the consent of the HOD.
- 5.3 All cases of unauthorized used of Municipal vehicles; same shall be reported to the HOD by the Municipal Traffic Officer.
- 5.4 In the cases of unauthorized use of vehicles, the HOD shall investigate the matter and decide on disciplinary actions.

## **6 IMPLEMENTATION PROVISIONS**

- 6.1 In the event of misconceptions, misinterpretations and misunderstandings of this policy, or any clause contained on this policy, the Municipal Manager reserve the right to give an objective interpretation, subject to

an appeal to Council, which shall be deemed to be a final judgment of the uncertainty.

- 6.2 Any amendment or annulment of this policy shall be done upon submission of a comprehensive motivation by management to Council which will be entrusted with absolute powers of amending or annulling this policy.
- 6.3 The Municipality shall take proper action not to deviate from the policy where this policy falls short, or does not provide a mechanism or a framework for addressing any matter or issue pertaining to the mission of this policy, in order to give effect to the objectives of this policy in particular and to the interests of the municipality in general.
- 6.4 Notwithstanding the contents in general of this policy the Municipal Manager shall have the discretionary authority to waive any clause of this policy provided that it is in the best interest of the Municipality to do so.

**Annexure C**  
**Policy on Vehicle accidents**



# **UMSOBOMVU MUNICIPALITY**

## **POLICY ON VEHICLE ACCIDENTS**

**Document controlled by: Mr. B Kapp**  
**Issue date: 30 May 2007**

## **POLICY ON VEHICLE ACCIDENTS FOR THE UMSOBOMVU MUNICIPALITY**

### **1. PREAMBLE**

The management of the UMSOBOMVU MUNICIPALITY has a legal, moral and financial obligation to protect municipal assets against abuse, which could result in a loss to the municipality and taxpayer.

These assets include vehicles and are extended to include equipment used by the municipality to render services to the community.

The policy includes those vehicles, which are used to subject to specific agreements, such as vehicles used by Councilors, and vehicles subject to specific conditions of employment. It therefore accepted that where an official or Councilor has access to a vehicle subject to such an agreement an official or Councilor will not have the automatic right to use an official or Councilor vehicle. A decision to allow such an official or Councilor to use an official vehicle can only be granted by the Municipal Manager (MM) or Head of Department (HOD)

### **2. AIM OF THE POLICY**

- 2.1 To regulate the use of official municipal vehicles and to ensure that vehicles are used in a safe and efficient manner in order to minimize accidents and abuse on municipal vehicles.
- 2.2 To provide a procedure for accidents and modus operandi for conducting an enquiry into vehicle accidents involving municipal vehicles.

### **3. APPLICATION OF POLICY**

- 3.1 This policy will apply to all users of municipal vehicles, where an official / employee of Council is expected or required to drive during the course of his / her duties
- 3.2 This applies to casual, contract as well as full time employees working for the Council.

### **4. VEHICLE ACCIDENTS**

When a municipal vehicle is involved in an accident, no matter how trivial, and irrespective of whether any person or animal or property sustained injury or damaged, the following procedure will be followed in all events.

- 4.1 The Municipal Traffic Officer and the SAPS must be called from the scene of the accident. If requested to do so, supply name and address of the driver of the vehicle to any person having grounds on requiring such information.
- 4.2 If the accident occurred inside the jurisdiction of the UMSOBOMVU MUNICIPALITY, the municipal Traffic Services must be notified.
- 4.3 If police or traffic office is not available, report the accident to the nearest police station and to the municipal Traffic Services as soon as practically possible after the accident.
- 4.4 Under no circumstances should liability be admitted or unguarded statements made to any person or payment or liability offered to a third party.
- 4.5 Should any third party involved admit liability, endeavors should be made to obtain a statement in writing from him/her to this effect.
- 4.6 Should a vehicle driver be suspected of being under the influence of intoxicating substance or narcotic drugs, this fact must be brought to the attention of the Police or Traffic Office present at the scene of the accident, with the least possible delay and every assistance should be rendered to such police or traffic office in ensuring that the suspected person is examined by the doctor or be subjected to a permissible alcohol test.
- 4.7 Obtain as soon as possible, preferably at the scene of the accident, at least the following particulars, which are required for completing the accident report form:
  - 4.7.1 Registration number , make and type of other vehicle
  - 4.7.2 Name(s) and address of driver(s) of the other vehicles
  - 4.7.3 Names, age, occupation and address of persons involved in the accident, whether they are passengers, pedestrians or driver of the vehicle.
  - 4.7.4 Name and address of the third party's insurance company.
  - 4.7.5 Name, occupation and address, age or estimated age of passengers, pedestrians or driver killed in the accident.
  - 4.7.6 Description of animals and fixed objects involved in the accident and the name and address of the owner.
  - 4.7.7 Name and address of the witnesses including the occupants of the other vehicles in their capacity as witnesses.



- 4.7.8 Measurements of the preparation of a sketch, the scene of the accident (pace off the distance if a tape measure is not available)
- 4.7.9 Note the geographical landscape of the place of the accident, type of road, accident related obstructive substance, object on or around the road make up including any fencing and weather condition at the time of the accident.
- 4.1 Internal accident report**
- 4.1.1 The driver of the municipal vehicle shall, within twenty four hours after an accident, ensure that the accident report form is completed by the Claims Officer and also ensure those statements by witnesses and other relevant supporting documents e.g. case number is forwarded to the Claims Officer or a Senior Officer in the event of his/her absence.
- 4.1.2 The Claims Official or his/her superior shall endeavors to obtain a minimum of two repair quotations from the different repairing agencies or write off report, if applicable and trade-in value of the vehicle.
- 4.1.3 In the event of institution of legal action by the third party, the driver concerned shall upon receipt of summons, subpoena or notice to appear in court pass that information to the Claims Officer or his/her superior so that the municipality's insurers and legal practitioners may be approached.
- 4.1.4 Any accident damage or third party claim received shall immediately be submitted to the Claims Officer.
- 4.1.5 Any damage to the municipal vehicle as a result of and accident involving another vehicle or animal/s or any other object shall be reported to the Claims Officer as soon as possible.
- 4.2 Duties of the Head of Department (H.O.D)**
- 4.2.1 The H.O.D shall investigate all vehicle accidents and gather all documentary, photographic and other evidence relevant to the case.
- 4.2.2 The H.O.D shall objectively advise the Municipal Manger on available evidence, whether any further action is recommended in each case.
- 4.2.3 The H.O.D may interview the driver, assessor, third party or any other person with information relevant to the accident.
- 4.2.4 The H.O.D must request witnesses to make a verbal/written statement about the accident.
- 4.2.5 The H.O.D may probe the nature of the trip and granting of the authority to the driver

4.2.6 The H.O.D shall after completing an investigation on each accident case draw and submit a report to the Municipal Manager in the following format:

- 4.2.6.1 Introduction
- 4.2.6.2 Statement case
- 4.2.6.3 Findings
- 4.2.6.4 Recommendations
- 4.2.6.7 Signature

#### **4.3 Framework for remedial actions**

4.3.1 All remedial and corrective actions will be subject to and governed by the municipality's disciplinary procedure.

### **5 ENFORCEMENT**

- 5.1 The Municipal Manager or his/her assignee is charged with enforcement
- 5.2 The Municipal Manager or his/her assignee or members of the South African Police Services and Traffic services are authorized to impound or confiscate vehicles driven without the necessary trip authorization and to issue fines if vehicles are driven without consent of the HOD.
- 5.3 All cases of unauthorized use of municipal vehicles, same shall be reported to the HOD by the Municipal Traffic Officer.
- 5.4 In the case of unauthorized use of vehicles, the HOD shall investigate the matter and decide on disciplinary actions.

### **6 IMPLEMENTATION PROVISIONS**

- 6.1 In the event of misconceptions, misinterpretation and misunderstanding of this policy, or any clause contained on this policy, the Municipal Manager reserve the right to give an objective interpretation, subject to an appeal to the Council, which shall deemed to be final judgment of the uncertainty.
- 6.2 Any amendment or annulment of this policy shall be done upon submission of a comprehensive motivation by management to Council which will be entrusted with absolute powers of amending or annulling this policy.

- 6.3 The Municipality shall take proper action not to deviate from the policy where this policy falls short, or does not provide a mechanism or a framework for addressing any matter or issue pertaining to the mission of this policy, in order to give effect to the objectives of this policy in particular and to the interests of the municipality in general.
- 6.4 Notwithstanding the contents of this policy to the Municipal Manager shall have the discretionary authority to waive any clause of this policy provided in the interest of the Municipality to do so.

# UMSOBOMVU MUNICIPALITY (NC072)

(NOUPOORT, COLESBERG, NOVALSPONT)

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## ACCOUNTING POLICY

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These financial statements conform to the requirements set out in the Statements of Generally Accepted Municipal Accounting Practice.

Investments are stated at cost less amounts written off. No investments have been written down as there has been no permanent decline in their value.

### 1. PROPERTY, PLANT AND EQUIPMENT

Property (including investment property), plant and equipment are recorded at cost less accumulated depreciation.

Major improvements to fixed assets are capitalized, but ordinary repairs and maintenance re shown as operating expenses.

Heritage assets are not depreciated, but all other fixed assets are depreciated on the straight-line basis over their estimated useful lives.

### 2. INVENTORY

Consumable stores and raw materials are recorded at the lower of cost and net realizable value. The first-in, first-out method is used in determining costs. Redundant and obsolete inventory is written down to its estimated economic or realizable value.

### 3. RETIREMENT BENEFITS

The Council provides retirement benefits on a defined benefit plan for its employees and Councillors. Contributions to the fund are shown as operating expenses under Salaries and Allowances.

4. REVENUE RECOGNITION

Revenue from rates is recognized annually and monthly on the date on which payment falls due. Service charges for electricity, water, sewerage and refuse are similarly recognized. Revenue from other charges is recognized when payment is received.

5. INTERNAL FINANCING OF FIXED ASSETS

In order to finance the acquisition or construction of fixed assets, the Council from time to time sets aside amounts from unappropriated surpluses in the Asset Financing Fund (AFF). The cash resources of the AFF are invested until required for financing purposes.

6. EXPENDITURE RECOGNITION

Operating expenses is recognized when the cost is incurred and not when the payment is made. Other expenditure producing no future economic benefit or potential service provision is immediately recognized.

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# UMSOBOMVU

MUNICIPALITY



# ADVANCES AND MICRO LOANS POLICY

Drafted by:  
Abuti Management  
Nelis van Zyl

## Summary of policy

<b>Name of policy</b>	<b>Advances and micro loans policy</b>
<b>Classification</b>	<b>Human Resources / Financial</b>
<b>Purpose</b>	<b>To provide a guideline and explanation of how to handle advances and micro loans, as well as deductions from pay slips</b>
<b>Areas</b>	<b>Management responsibility Employee responsibility Procedure and requirements</b>
<b>Key words</b>	<b>Advances Micro-loans Legislation MFMA Rights Limitations Pay- slip Deductions</b>

## **CONTENT**

### **DEFINING KEY CONCEPTS**

1. INTRODUCTION
2. MANAGERIAL RESPONSIBILITY
3. EMPLOYEES RESPONSIBILITY
4. LEGISLATIVE FRAMEWORK
5. GUIDELINE AND PROCEDURE
6. IMPLEMENTATION

### **APPROVAL**



## **DEFINING KEY CONCEPTS**

### **Advances**

*Shall mean an advance on a salary*

### **Micro-loans**

*Shall mean a loan to an employee which is required to be paid back by the employee*

### **Deductions**

*Refer to payments in favor of external institutions and exclude normal payments for fringe benefits*

### **Pay slip**

*The pay "advice" slip received by employees that explain salaries, allowances, deductions, taxes and contributions to benefits*

## 1 INTRODUCTION

Umsobomvu Municipality acknowledges that it may happen to any employee that a financial crisis may arise and that such an employee is in desperate need for funds. It is also the responsibility of the Municipality to guide employees in events of deductions from salaries to the benefit of institutions that is not conducive to good financial planning. In light of the MFMA that prohibits any loans to employees, as well as a responsibility of the employer to protect its employees from being financially exhausted and drained by institutions such as money grabbers, a policy of no or limited assistance is adopted.

## 2 MANAGEMENT RESPONSIBILITY

Management has the following responsibilities regarding this policy:

- 2.1 Applying the law as prescribed by the MFMA.
- 2.2 Accurate and sound administration of the policy.
- 2.3 To be fair in dealing with deductions for payment to outside institutions.
- 2.4 To inform employees regarding in any changes in the policy.

## 3 EMPLOYEES RESPONSIBILITY

Employees have the following responsibilities:

- 3.1 Follow the right procedure in applying for deductions on a salary pay slip.
- 3.2 Be reasonable about the efforts of the employer to support the financial viability of every employee.
- 3.3 Provide accurate details in case of an application to deduct payments from salaries.

3.4 Inform management timely in the event of intention to deduct payments from salaries.

#### 4. LEGISLATIVE FRAMEWORK

- MFMA.

#### 5. GUIDELINE AND PROCEDURE

##### 5.1 Loans and Micro-loans

The employer will in no circumstances loan any money to an employee as prescribed by the MFMA.

##### 5.2 Advances

In general the policy is to grant no or very limited advances on salaries. A request will however be considered in the following circumstances:

- Employee works longer than 3 years at the municipality
- In case of death of a loved one (only spouse, child) (death certificate needed as prove)
- In case of serious illness of a spouse or child (medical certificate of doctor needed as proof)
- In case of own sickness or injury and treatment is necessary (medical certificate of doctor needed as proof)
- Only one week salary in advance
- Pay slip must reflect the possibility of such an advance

- Advance only within the same month of payment
- Only one application per year per employee
- The above is subjected to approval from the CFO

### **5.3 Deductions from pay slips**

#### **5.3.1 The following institutions qualify for deductions from pay slips:**

- legal obligations determined by court
- assurance companies that benefits the employee (policies, long term and short assurance, funeral policies)
- banks (including home loans etc)

#### **5.3.2 Payments will only be deducted under the following conditions:**

- An employee must have the financial capacity to make the payment
- Payments must not exceed seventy- five percent (75%) of the netto salary (the employee must at least take 25% of the netto salary home)

The implication of the above is that the employer wants to urge and support employees not to make additional or further loans if already in financial difficulty and therefore create a sense of responsibility and also fulfill its social responsibility role as employer.

#### **5.3.3 The following institutions do not qualify for deductions from pay slips:**

- Money - grabbers
- Furniture businesses
- Clothing businesses
- Meat and food supply groceries
- Hotels, pubs and restaurants
- Garages

Council	For approval
Management	For execution
Human Resources	Administration
Unions	Input, notification and discussion with members
Employees	Notification and clarification

**Recommended:** Municipal Manager: .....

Date: .....

**Supported:** Union: .....

Date: .....

Union: .....

Date: .....

**Approved:** Council

Signature Mayor: .....

Date: .....

# UMSOBOMVU

MUNICIPALITY



# ANNUAL LEAVE POLICY

Drafted by:  
Abuti Management  
Nelis van Zyl

## Summary of policy

<b>Name of policy</b>	<b>Annual leave policy</b>
<b>Classification</b>	<b>Human Resources</b>
<b>Purpose</b>	<b>To provide a guideline for annual leave</b>
<b>Areas</b>	<b>Management responsibility Employee responsibility Procedure and requirements</b>
<b>Key words</b>	<b>Annual leave Accrued leave Procedure Leave form Approval Withdraw leave Sickness during leave Fairness Legislative framework Administration of leave Public holiday</b>



## **CONTENT**

### **DEFINING KEY CONCEPTS**

1. INTRODUCTION
2. MANAGERIAL RESPONSIBILITY
3. EMPLOYEES RESPONSIBILITY
4. LEGISLATIVE FRAMEWORK
5. GUIDELINE AND PROCEDURE
6. GRANTING OF LEAVE
7. AUDIT AND SYSTEMS
8. IMPLEMENTATION

### **APPROVAL**

## **DEFINING KEY CONCEPTS**

### **Public holiday**

*Shall mean a Public Holiday as determine in the Public Holidays Act, 1994 (Act 36 of 1994) and any other day designated as such by the employer*

### **Working day**

*Shall mean every day on which an employee is required to work according to the service requirements applicable to the post*

### **Leave**

*Shall mean approval for an employee to be absent from work and for which application was made in the prescribed way*

### **Annual leave cycle**

*An annual leave cycle means the period of twelve (12) months employment with the same employer immediately following an employee's commencement of employment or following the completion of that employee's existing leave cycle.*

## 1. INTRODUCTION

Umsobomvu Municipality acknowledges the importance of its staff to be granted leave and adhere to prescriptions as stipulated in the Law on Labour Relations (Act no 66 of 1995). It is important for Umsobomvu Municipality that their workers annually have the opportunity to rest thoroughly and therefore regard leave as something earned by its employees and what they deserves. It is also the opinion of Umsobomvu Municipality to grant leave as far as possible to the convenience and choice of employees, taking operational requirements into consideration and to be fair to all employees.

## 2. MANAGEMENT RESPONSIBILITY

Management has the following responsibilities regarding this policy:

- 2.1 Applying the law as prescribed by the Labour Relations Act (1995).
- 2.2 Accurate and sound administration of the policy.
- 2.3 To be fair in dealing with leave applications.
- 2.4 To inform employees regarding in any changes in the policy.
- 2.5 To keep employees informed about any decisions made by SALGA or any other institution with the necessary authority regarding leave benefits.

## 3. EMPLOYEES RESPONSIBILITY

Employees have the following responsibilities:

- 3.1 Follow the right procedure in application for leave.
- 3.2 Be reasonable about the operations and service delivery of the Municipality.
- 3.3 Provide accurate details on leave application forms.
- 3.4 Inform management timely in the event of intention to take leave or cancel approved leave.

## 4 LEGISLATIVE FRAMEWORK

- The procedures were guided by the Labour Relations Act (1995).
- Collective agreement on conditions of service between The South African Local Government Association (SALGA) and the Independent Municipal and Allied Trade Union (IMATU) and South African Municipal Workers Union (SAMWU).

## 5 GUIDELINE AND PROCEDURE

- 5.1 An employer shall grant an employee the following annual leave in a leave cycle:
- 5.1.1 Twenty four (24) days for a five (5) day worker; and
- 5.1.2 Twenty seven (27) days for a six (6) day worker.
- 5.2 An employee is required to take leave within each leave cycle as follows:
- 5.2.1 A five (5) day worker shall take a minimum of sixteen (16) days leave; and
- 5.2.2 A six (6) day worker shall take a minimum of nineteen (19) days leave.
- 5.3 An employee shall only be entitled to retain a maximum of forty – eight (48) days of accrued leave.
- 5.4 If a public holiday falls within the annual leave period of an employee, the employee will be granted leave for a public holiday and will not be subtracted as annual leave.

## 6 GRANTING OF LEAVE

The following principles apply:

- 6.1 Application must be made in advance equal to the period of annual leave to be taken (e.g. one week leave must be one week made in advance).
- 6.2 The employee must use the official leave application form of Umsobomvu Municipality.
- 6.3 It is the responsibility of the employee to complete the form correctly. Any inaccurate information may lead to declining leave application.
- 6.4 Subject to consultation with the employee, the employer may change or withdrew annual leave already granted. The employer will act fair in such a case, consideration all alternative measures and motivate why it is necessary to withdraw such leave.
- 6.5 Where an employee falls ill during the period of his/her annual leave, such annual leave, or a part thereof, as the case may be reverted to sick leave if a medical certificate containing the information is presented.

## 7 AUDIT AND SYSTEMS

- 7.1 Leave applications must be annually audit, by any of the following:
  - Human Resource Manager
  - Internal auditors if available
  - and /or external auditors.

- 7.2 It will be responsibility of the Section: Human Resources to implement effective control systems. Leave application must be controlled through either attendance registers and or other methods of clocking in for work.
- 7.3 The Section Human Resources must at short notice have all the proven documentation ready for audit purposes.
- 7.4 A well-established record system (computer IT system and documents) should be kept by the Section: Human Resources to handle any enquiry of a manager and/or an employee on the current status of that specific person.

## 8 IMPLEMENTATION

Council	For approval
Management	For execution
Human Resources	Administration
Unions	Input, notification and discussion with members
Employees	Notification and clarification

<b>Recommended:</b>	Municipal Manager:	.....
	Date:	.....
<b>Supported:</b>	Union:	.....
	Date:	.....
	Union:	.....
	Date:	.....
<b>Approved:</b>	<u>Council</u>	
	Signature Mayor:	.....
	Date:	.....

# UMSOBOMVU MUNICIPALITY

## ATTENDANCE AND PUNCTUALITY POLICY

### 1. Purpose

The purpose of this policy is to provide a standard of attendance and punctuality for all employees. Because employees are vital to the work of Umsobomvu Municipality, reliable and consistent attendance is condition of employment.

### 2. Procedure

This policy applies to all employees of Umsobomvu Municipality. Employees are expected to be at their work area at their scheduled start time. Each Department determines the work schedule and hours for employees as necessary for its operations. However, work schedules may vary among Departments including hours of work.

#### 2.1 Absence

Employees are considered absent from work when not available for the assigned work schedule regardless of the reason.

##### 2.1.1 Scheduled Absences:

Employees are to notify their supervisors as early as possible about scheduling time off from work (eg doctor's appointment, personal days etc), whether paid or unpaid. Scheduled absences are arranged at the mutual convenience of the Directorate and employee based on the operational needs of the Directorate. Absence can be considered scheduled if a 24-hour advance notice is given in advance, and the absence is approved by the supervisor.

##### 2.1.2 Unscheduled Absences:

If an employee misses work due to an unscheduled absence (e.g. Calling-in due to sickness), he/she must follow prescribed Department procedures for calling in. Failure to follow prescribed Department procedures may result into instituting disciplinary action up to including dismissal. After three consecutive days of unscheduled absence, failure to notify and receive approval will be considered job abscondment and the employees status can be terminated effective from the day following the last day of work.



### **2.1.3 Excessive Unscheduled Absences:**

Excessive unscheduled absences may result in instituting disciplinary action up to and including dismissal. Supervisors will notify an employee when patterns or concerns develop that may place them at risk of being reprimanded. The following factors should be considered in determining if unscheduled absences are excessive:

- **Patterns of absence:** A pattern of absence demonstrates a predictable routine. For example, is the employee consistently absent the day after pay day, or a particular day, e.g. Monday or Friday, or always on the day before or after a holiday, etc.
- **Frequency of absence:** How often does the employee have unscheduled absence. Repeated instances of unscheduled absences, such as call-ins, early departures, not reporting etc, should be considered. Even though the absences may not constitute a predictable pattern, is the employee often absent.

### **2.1.4 Tardiness:**

Employees are considered tardy when he/she fails to report to the assigned work area at the scheduled time. This includes returning from breaks and lunch breaks. Departments defines punctuality standards for their operations and are responsible for communicating them to employees. Employees who expect to be late are to notify the supervisor or his/her assignee according to Departments prescribed procedures. Employees may not extend a normal workday to make up for being tardy without supervisors approval.

### **2.1.5 Attendance Register:**

Where applicable, employees must use a time reporting system or attendance register to document work time and breaks from work. Absences, late arrivals, early departures, and extended breaks in the workday are accounted for on employees time record. Failure to adhere to time reporting procedures may be grounds for instituting disciplinary procedures up to and including dismissal.

### **2.1.6 Procedure to complete attendance register:**

- Attendance registers are kept at the Head of the Department's office or central place where every employee has access to, and must be completed daily.

- Unless prevented from doing so by unavoidable cause or where it is not practically possible (e.g. a person not at office or where a register is kept) every employee is required in respect of each day worked to make entries in ink on that day.
- Employee to sign name, pay number and date of month on top of each page.
- Each day on arrival, the employee should sign, fill in the times of arrival even if he/she is late.
- On departure the same is applicable.
- When employee attends work outside council, sick or on leave; a column "written remarks" must be completed putting the reason/attaching a copy of certificate.
- At the end of each month employees must sign under "Certified Correct", date and hand to Supervisor for verification.
- The register must be reviewed by the Head of Department on at least a monthly basis. The review should be evidenced in the register by signature.
- The Head of Department must make sure the he possesses the means for making an accurate review (e.g. retain copies of staff leave application forms)
- Department Heads are required to keep record of their attendances in the Attendance Registers.
- Link the flow of leave forms through the system to control leave forms.

**Note :** that subject to any superior law or other instrument, this policy repeals all or any policy on the same subject matter existing on the date of its coming into operation.

# ATTENDANCE REGISTER

NAME.....EMP.NUMBER..... DATE.....

DATE	SIGNATURE	TIME OF ARRIVAL	LUNCH HOUR		TIME OF DEPARTURE	REMARKS	PARAGRAPH
			FROM	TO			
1							
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Employee Signature ..... Date..... H.O.D Signature.....