



## ASSETS MANAGEMENT POLICY

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## **DEFINITIONS AND ABBREVIATIONS**

<b>ITEM</b>	<b>DESCRIPTION</b>
Carrying Amount	The amount at which an asset is included in the statement or financial position after deducting any accumulated depreciation and any impairment losses thereon.
Cost	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.
Depreciation	This is the systematic allocation of the depreciable amount of an asset over its useful life.
Depreciable amount	The cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
Disposal Committee	A committee established in accordance with the provisions of the Municipality's Supply Chain Management Policy. The committee comprises of the following officials: <ul style="list-style-type: none"> <li>• Chief Financial Officer</li> <li>• Asset Management Supervisor</li> <li>• Manager: Technical</li> <li>• Manager: Fleet</li> </ul>
Fair Value	The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.
AMS/FAR	Assets Management System/Fixed Assets Register
IIR	Insignificant Items Register
AMU	Assets Management Unit

GRAP	Standards of Generally Recognised Accounting Practice
IAS	International Accounting Standards
Municipality	Mkhambathini Municipality
PPE	Property, Plant & Equipment – These are tangible assets that: <ul style="list-style-type: none"> <li>• are held by an entity for use in the production or supply of good or services, or for administrative purposes</li> <li>• are expected to be used during more than one reporting period</li> </ul>
Recoverable amount	The amount that the entity expects to recover from the future use of an asset, including residual value on disposal.
Residual value	The net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
SCM	Supply Chain Management
HOD	Head of Department
PMU	Project Management Unit
MM	Municipal Manager
CFO	Chief Financial Officer
Useful life	Useful life is either: <ul style="list-style-type: none"> <li>• the period of time over which an asset is expected to be used by the municipality, or</li> <li>• the number of production or similar units expected to be obtained from the asset by the municipality.</li> </ul>

## **SECTION 1 OBJECTIVE OF THE ASSET MANAGEMENT POLICIES AND PROCEDURES**

The Asset Management Policy provides direction for the management, accounting and control of Fixed Assets owned or controlled by the Municipality, in accordance with applicable legislation and best practices developed.

## **SECTION 2 ROLE OF THE MUNICIPAL MANAGER**

As accounting officer of the Municipality, the Municipal Manager shall be the principal custodian of all the Municipality's fixed assets, and shall be responsible for ensuring that the asset Management Policy is scrupulously applied and adhered to.

The Municipal Manager or his duly delegated representative is responsible to ensure implementation of the approved Asset Management Policy as required in terms of section 63 of the Municipal Finance Management Act (MFMA).

### **SECTION 3 ROLE OF THE CHIEF FINANCIAL OFFICER**

The Chief Financial Officer shall be the custodian of the assets management system of the Municipality, and shall ensure that a complete, accurate and up-to-date computerised assets management system is maintained. No amendments, deletions or additions to the assets management system shall be made other than by the Chief Financial Officer or by an official acting under the written instruction of the Chief Financial Officer.

The following units will be responsible for the operations regarding the assets management system, and report to the CFO in this regard:

#### **3.1 The Asset Management Unit**

- Shall ensure that complete records of asset items are kept, verified and balanced regularly.
- Shall ensure that all movable assets are properly tagged and accounted for (see also 20.1)
- Shall ensure that a verification report is compiled after every quarterly movable asset verification. The report shall: -
  - Reflect a complete list of all assets found during the verification;
  - Reflect whether appropriate records have been maintained indicating what articles should have been found during verification;

- Reflect any discrepancies between the articles found during verification and the record referred to above.
- Shall ensure that the assets management system is balanced monthly with the general ledger and the financial statements in conjunction with the CFO.
- Shall ensure adequate bar codes to exercise the function relating to asset control are available at all times.
- Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the assets management system.
- Ensure that all audit queries relating to assets management are resolved in a timely manner.
- Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the applicable department and provided to the Budget and Treasury Office in the prescribed format.
- Shall ensure that asset acquisitions are allocated to the correct asset codes.
- Shall ensure that infrastructure assets are recorded in the assets system with componentisation in accordance with the GRAP guidelines, from information as supplied by the Project Management Unit.
- Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, countersigned by the Asset Management Unit, is presented.
- Shall ensure that a verifiable record is kept of all obsolete, damaged and unused assets or asset inventory items received from municipal departments.
- Shall compile a list of the items to be auctioned in accordance with their guidelines in the Supply Chain Management (SCM) Policy.
- Shall compile and circulate a list of unused movable assets to enable other municipal departments to obtain items that are of use to them.
- Shall ensure that the Supply Chain Management Unit is notified of any auctioning or disposing of written-off asset or asset inventory items.

### **3.2. Project Management Unit**

- Shall inform the AMU immediately when a new project is commenced with relating to infrastructure or buildings, including details of the components that will be created during the duration of the project.
- Shall inform the AMU if there are any variances to the details of a project, as soon as such variance is confirmed.
- Shall inform the AMU of the values of the applicable components to be recorded on all infrastructure or building projects, as and when progress payments are affected, including cost, estimated lifespan and residual values.
- Shall inform the AMU of the date of completion of each infrastructure and building project, which will be considered the date brought into use for purposes of updating the assets system.

### **3.3. Supply Chain Management Unit**

- Shall inform the AMU of all new acquisitions made regarding items to be recorded as assets.
- The assets details must be categorized and clearly identified as follows:
  - Immovable Assets:
    - Infrastructure assets
    - Buildings
    - Land
  - Community Assets
  - Recreational Facilities
  - Investment Properties
  - Intangible assets



- Agricultural assets
- Movable Assets:
  - Office Equipment
  - Computer Equipment ☐ Furniture and Fittings
  - Bins and Containers
  - Emergency Equipment
  - Motor Vehicles
  - Plant and Equipment
- Shall provide the AMU with a listing of all assets purchased on a monthly basis as extracted from the Financial management system, and assist in the reconciliation of any differences between the FAR and the Financial system in any given month, within seven days after month end.
- Shall dispose of assets in accordance with the provisions in the Supply Chain Management (SCM) Policy.

## **SECTION 4 ROLE OF OTHER MUNICIPAL DEPARTMENTS**

### **4.1 Human Resources Department**

The Human Resources Department:

- Shall ensure that no monies are paid out on termination of service without receiving the relevant asset resignation form signed off by the relevant HOD. (See also 20.6)
- Shall ensure that every asset resignation form is counter signed by the Asset Management Unit before processing the termination of service.

### **4.2 All Heads of Department**

- Shall ensure that employees in their Department adhere to the approved Asset Management Policies.
- Shall ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in his / her Department. The Asset Management Unit must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the HOD.
- Shall ensure that assets are properly maintained in accordance with their respective asset maintenance strategy.
- Shall ensure that the assets and / or inventory items of the Municipality are not used for private gain.
- Shall ensure that all their movable assets as reflected on the Fixed Asset Register are barcoded by the Asset Management Unit.
- Shall ensure that the Asset Management Unit is notified of any changes in the status of the assets under the Department's control.
- This must be done on the prescribed form and include the following:
  - Movements/Disposals which relate to the transfer of assets (inter departmental transfers)
  - Changes in the estimated useful lives of assets for depreciation purposes.
  - The identification of impairment losses on assets by following the procedures as outlined in Section 15 of this policy document.
- Shall certify in writing that they have assessed and identified impairment losses on all assets as outlined in Section 15 of this policy document.
- Shall ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the Asset Management Unit without delay.
- Shall be responsible for maintaining and managing their own Department Inventory Listing (DIL) for items that will not be recorded in the Fixed Asset Register or Insignificant Items Register. These inventory assets are acquired via the

operational budget. The information to be recorded in the DIL must include the description, quantity and location of the items.

- Shall ensure that the correct cost element and description are being used before authorising any requisitions.
- Shall ensure that assets are insured by Finance (Insurance Department).

## **SECTION 5 DEFINITION OF AN ASSET**

### **5.1 Definition**

A fixed asset is an asset, either movable or immovable, owned by or under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year, which cost or fair value can be measured reliably.

Fixed assets will include Property, Plant and Equipment (as defined in GRAP 17), Intangible

Assets (as defined in GRAP 102), Investment Property (as defined in GRAP 16), Heritage Assets (as defined in GRAP 103), as well as Assets held under a finance lease, in accordance with the principles contained in GRAP 13.

To be recognised as a fixed asset for accounting purposes, an asset must also meet the criteria referred to below.

### **5.2 Capitalisation Criteria**

All fixed assets that are in compliance to 5.1 of this policy must be capitalised in the Fixed Asset Register inclusive of non – claimable vat.

No item with a cost or reasonable value of lesser significance, as determined by the CFO, shall be recognised as a fixed asset for accounting purposes. If the item has a cost lower than this capitalisation benchmark, the cost shall be treated as an ordinary operating expense.

Every head of department shall, however, ensure that any item with a value in excess of R200.00 (Two Hundred Rand), and with an estimated useful life of more than one year, shall be recorded in the assets management system for inventory purposes (IIR). Every head of department shall moreover ensure that the existence of such inventory items is verified from time to time, at least once in every financial year, and any amendments which are made pursuant to such stock verifications shall be retained for audit purposes.

Meters (Water and electricity) and chairs for halls will be classed as a group asset. All group asset purchases inclusive of non-claimable VAT, must be capitalised in the Fixed Asset Register and provided for on the capital budget. Group assets will not be individually affixed with bar-coded labels, but will be verified on a regular physical count. Consumption meters will be verified with the meter reading controls.

Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the assets management system at such reasonable value as the Chief Financial Officer assigns to the asset in question, and the CFO will be authorised to utilise the services of valuers, if deemed necessary.

## **5.3 Calculation of Capitalisation Cost of Assets**

### **5.3.1 Initial Cost**

The initial recording of an asset is dealt with as follows:

An item of property, plant and equipment that qualifies for recognition as an asset should initially be measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are:

- The cost of site preparation;
- Initial delivery and handling costs;
- Installation costs;
- Professional fees such as for architects and engineers; and

- Administrative and other general overhead costs are only a component of cost if it can be directly attributed to the acquisition or construction of the asset without which the asset could not have been brought to working condition.

### **5.3.2 Costs incurred on existing PPE subsequent to the initial recording of the cost price**

Assets are often modified during their life. There are two main types of modification:

#### **5.3.2.1 Enhancement / Rehabilitation:**

This is where work is carried out on the asset that increases its service potential. Enhancements normally increase the service potential of the asset, and or may extend an asset's useful life and result in an increase in value.

These costs normally become necessary during the life of an asset due to a change in use of the asset or technological advances.

Disbursements of this nature relating to an asset, which has already been recognised in the financial statements, should be added to the carrying amount of that asset.

The value of the asset is thus increased when it is probable that future economic benefits or service potential will flow to the entity over the remaining life of the asset.

**To be classified as capital spending, the expenditure must lead to at least one of the following economic effects:**

- Modification of an item or plant to extend its useful life, including an increase in its capacity;
- Upgrading machine parts to achieve a substantial improvement in the quality of output;
- Adoption of new production enabling a substantial reduction in previously assessed operating costs;
- Extensions or modifications to improve functionality such as installing computer cabling or increasing the speed of a lift;
- Improve the performance of the asset;

- Increase the capacity of the asset;
- Prolong the expected working life of the asset;
- Increase the size of the asset; or ➤ Change the shape of the asset.

#### **5.3.2.2 Maintenance / Refurbishment:**

Expenditure related to repairs or maintenance of property plant and equipment are made to restore or maintain the future economic benefits or service potential that an entity can expect from the asset.

Refurbishment of works does not extend functionality or the life of the asset, but are necessary for the planned life to be achieved. In such cases, the value of the asset is not affected, and the costs of the refurbishment are regarded as operating expense in the statement of financial performance.

Thus if the improved performance or extended life of an asset is not beyond what has originally been estimated for the asset and the expenditure is only to bring performance back to the level that is normally expected for the asset, the expenditure will be considered an operating expense.

### **5.4 Recognition of assets in the Financial Statements**

An Asset item should be recognised in the Financial Statements if it meets the:

- Probability criteria (it is probably that any future economic benefits or service potential associated with the asset will flow to the entity);
- Measurement criteria (the asset has a cost or value that can be measured with reliability).

In many cases, cost or value must be estimated; the use of reasonable estimates is an essential part of the preparation of Financial Statements and does not undermine their reliability. When, however, a reasonable estimate cannot be made, the item is not recognised in the Statement of Financial Position or Statement of Financial Performance.

An item that possesses the essential characteristics of an asset but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes, explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is considered to

be relevant to the evaluation of the financial position, performance and changes in financial position of the Municipality by the users of Financial Statements.

No asset is recognised in the Statement of Financial Position for expenditure incurred where it is *improbable* that economic benefit or service potential will flow to the Municipality *beyond* the current financial year. Where the probability is low, such a transaction will result in the recognition of an expense in the Statement of Financial Performance.

Where the expenditure has been incurred in connection with an asset already recognised, consideration should be given to the probability that the expense will result in an extension of the asset's estimated useful life. If the probability is high the expense will be added to the value of the asset in the Statement of Financial Position and written off by way of depreciation over the *remaining* life of the asset.

Expenditure incurred on an existing asset that will not extend the useful life or the functionality of the asset, will be reflected in the Statement of Financial Performance as an expense (maintenance).

Assets may be acquired for safety or environmental reasons. The acquisition of such assets, while not directly increasing the future economic benefits or service potential of any particular existing asset, may be necessary in order of the Municipality to obtain the future economic benefits or service potential from its other assets. When this is the case, such acquisitions of assets qualify for recognition as assets, in that they enable future economic benefits or service potential from related assets to be derived by the Municipality in excess of what it could derive if they had not been acquired. However, such assets are only recognised to the extent that the resulting carrying amount of such an asset and related assets does not exceed the total economic benefits or service potential that the entity expects to recover from their continued use and ultimate disposal.

## **SECTION 6 FORMAT OF THE FIXED ASSET REGISTER**

The fixed asset register shall be maintained in the format determined by the CFO, which format shall comply with the requirements of generally recognised accounting practice (GRAP) and any other accounting requirements which may be prescribed.

Without in any way detracting from the compliance criteria mentioned in the preceding paragraphs, the fixed asset register shall reflect at least the following information:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use
- the location of the asset
- the department(s) or vote(s) within which the assets will be used
- the category and type of asset
- the erf/stand number and title deed number, in the case of fixed property
- where applicable, the identification number, as determined in compliance with 8 below
- the original cost, or the revalued amount determined in compliance with 12 below, or a reasonable value if no costs are available
- accumulated depreciation to date
- any impairment value of the asset
- the carrying value of the asset
- the estimated lifespan and expected residual value (if any)
- the method and rate of depreciation
- the source of financing

All HOD's of Municipal Departments under whose control any fixed asset falls shall promptly provide the Chief Financial Officer in writing of any information required to compile the fixed asset register, and shall promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.

A fixed asset shall be capitalised, that is, recorded in the fixed asset register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, whereafter it shall be appropriately capitalised as a fixed asset.



A fixed asset shall remain in the fixed asset register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset.

The following general rules shall apply to the format:

- The FAR will consist of all the asset master records of assets capitalised each inclusive of nonclaimable VAT.
- Movable assets, except for group assets, must be numbered with the approved barcode labels.
- Immovable assets on the FAR will not be physically numbered with barcode labels but will have a unique asset master record number.
- Capital work-in-progress or incomplete construction work is stated at historic cost. Depreciation only commences when the asset is commissioned into use.

## **SECTION 7 CLASSIFICATION OF FIXED ASSETS**

In compliance with the requirements of GRAP, the Chief Financial Officer shall ensure that all fixed assets are classified under the following headings, and Heads of Departments shall in writing provide the Chief Financial Officer with such information or assistance as is required to compile a proper classification.

The Chief Financial Officer shall adhere to the classifications indicated in the annexure on fixed asset lives, and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question.

### **7.1 Property, Plant and Equipment**

- **Land** (not held as investment assets);

- **Buildings** excluding buildings classified as investment assets, Heritage assets, and buildings utilised in contributing to the community's well-being (Clinics, libraries etc.)
- **Infrastructure assets** are defined as any asset that is part of a network of similar assets. These assets usually display some or all of the following characteristics:
  - They are part of a system or network;
  - They are specialised in nature and do not have alternative uses,
    - They are immovable; and
    - They may be subject to constraints on disposal.

Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks. Infrastructure can be considered as a single asset or more usefully as a collection of different assets. Each individual asset, or component, shall be measured at its own cost and own lifespan, which will influence the depreciation of such an asset.

- **Community Assets** are defined as any asset that contributes to the community's wellbeing. Examples are parks, libraries and fire stations.
- **Capital Finance Lease** assets are defined as assets financed by a Capital Lease if it transfers substantially all the risks and rewards incidental to ownership of the asset from the lessor to the Municipality, in return for a payment or series of payments by the Municipality to the lessor.
- **Other assets** are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

## 7.2 Investment Property

Investment assets shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of financial position.

Investment assets shall comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.

Investment assets shall be recorded in the assets management system in the same manner as other fixed assets, but a separate section of the assets management system shall be maintained for this purpose.

Investment assets shall be not depreciated, but shall be annually valued on balance sheet date to determine their fair value as prescribed in GRAP 16. Investment assets shall be recorded in the balance sheet at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned, where it cannot be accounted for against the Revaluation reserve.

A professional valuer shall be engaged by the municipality to undertake the initial valuations, where after the values will be updated on an annual basis by a registered valuer appointed to prepare the Valuation Roll in terms of the Municipal Property Rates Act.

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use – where after it shall be reclassified as an investment asset. Further notes on Investment property are included under Section 16 of this policy.

#### **7.2.1 Intangible Assets**

Items belonging to the category “**intangible**” do not have a physical form and meets the identification criterion in the definition of an intangible asset when it:

- is separate, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract asset or liability; or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations; and can be further classified as:
- Intangible assets with a finite useful life; and ➤ Intangible assets with an infinite useful life.

An intangible asset shall be regarded by the entity as having an infinite useful life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Examples of intangible items are:

- Mineral exploration rights
- Computer software (not operational software)
- Licensing rights
- Servitudes

Intangible items are treated in accordance with the provisions of GRAP 102 and in applying the cost model are initially recorded at their cost price. After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

### **Retirements and disposals**

An intangible asset shall be de-recognised: ○ on disposal; or ○ when no future economic benefits are expected from its use or disposal.

### **Review of useful life assessment**

The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an infinite useful life assessment for that asset.

## **7.3 Non-Current Assets Held For Sale**

Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as Non-current Assets held for Sale, and not included in either property, plant or equipment or investment property in the municipality's balance sheet, at a value equal to the lower of cost and net realisable value, in accordance with GRAP 100. The CFO will do a comparison on balance sheet date, and adjustments to the previous year's recorded value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

Such Non-current assets shall be recorded in the assets management system in the same manner as other fixed assets, but a separate section of the assets management system shall be maintained for this purpose.

Land that was purchased for explicit township development will initially be accounted for in terms of GRAP 100 as Non-current Assets held for Sale. Any development expenses, inclusive of all infrastructure, will be recorded as Work in Progress (under PPE), until the township development has been completed. The portion to be sold will be disclosed and accounted for in terms of GRAP 12 as Inventory, until the selling process is confirmed, when the development will be disclosed as Non-current Assets held for Sale. The infrastructure will remain under PPE.

#### **7.4. Heritage Assets**

Heritage assets are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

Heritage assets shall be carried at its cost less any accumulated impairment losses after recognition as an asset, in accordance with GRAP 103.

If no original costs or reasonable values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, if it is believed that the determination of a reasonable value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the assets management system without an indication of the costs or reasonable value concerned.

For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note, with reasons why the value of such heritage assets or class of heritage assets, if any, could not be measured reliably.

#### **7.5. Biological Assets**

Accounting for biological assets shall take place in accordance with the requirements of GRAP 101.

The Chief Financial Officer, in consultation with the head(s) of department concerned, shall ensure that all biological assets, such as livestock and crops, are valued at 30 June each year at fair value less estimated point-of-sales costs. Such valuation shall be undertaken by a recognised valuer in the line of the biological assets concerned. Any losses on such valuation shall be debited to the department or vote concerned as an

operating expense, and any increase in the valuation shall be credited to the department or vote concerned as operating revenue.

If any biological asset is lost, stolen or destroyed, the matter – if material – shall be reported in writing by the Head of Department concerned in exactly the same manner as though the asset were an ordinary fixed asset.

Records of the details of biological assets may be kept in a separate section of the fixed assets register or in a separate accounting record, and such details shall reflect the information which the Chief Financial Officer, in consultation with the Head of Department concerned and the internal auditor, deems necessary for accounting and control purposes.

The Chief Financial Officer shall annually insure the municipality's biological assets, in consultation with the head(s) of department concerned, provided the Council of the municipality considers such insurance desirable and affordable.

## **SECTION 8 IDENTIFICATION OF FIXED ASSETS**

The Municipal Manager shall ensure that the Municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register.

The identification system shall be determined by the Municipal Manager, acting in consultation with the Chief Financial Officer and other HOD's of Municipal Departments, and shall comply with any legal prescriptions, as well as any requirements of the Auditor-General, and shall be decided upon within the context of the Municipality's budget.

Every HOD of a Municipal Department shall ensure that the asset identification system approved for the Municipality is scrupulously applied in respect of all fixed and movable assets controlled or used by the Municipal Department in question.

## **SECTION 9 VERIFICATION OF ASSETS**

Every Head of Department shall with the help of the AMU at least twice a year , and in compliance with the relevant written directives issued by the Chief Financial Officer, undertake a comprehensive verification of all movable assets controlled or used by the department concerned.

The directives issued by the Chief Financial Officer shall stipulate the date(s) when such verification shall be undertaken.

Every Head of Department shall promptly and fully report in writing to the Chief Financial Officer in the format determined by the Chief Financial Officer, all relevant results of such movable asset verification, and the resultant report shall be submitted to the Chief Financial Officer not later than stipulated date.

## **SECTION 10 SAFEKEEPING**

Section 63 of the Municipal Financial Management Act (Act no. 56 of 2003) determines that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of these assets.

Section 78 of the Municipal Financial Management Act (Act no. 56 of 2003) determines each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary. A senior

manager or such official must perform the functions subject to the directions of the accounting officer of the municipality.

Every HOD of a Municipal Department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the Municipal Department in question.

In exercising this responsibility, every HOD of a Municipal Department shall adhere to any written directives issued by the Municipal Manager to the Municipal Department in question, or generally to all Municipal Departments in regard to the control of or safekeeping of the Municipality's fixed assets.

## **SECTION 11 DEPRECIATION OF ASSETS**

### **11.1 Definition**

Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services.

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed, from the date that the asset is brought into use.

Each Head of Department, acting in consultation with the Chief Financial Officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

### **11.2 Which assets must be depreciated**



All fixed assets, except Land, Investment property, Non-current assets held for sale, and heritage assets, shall be depreciated – or amortised in the case of Intangible assets.

Although typically disclosed together, land and buildings are separable assets and because land normally has unlimited life it is not depreciated whilst buildings are. Heritage assets such as works of art, historical buildings and statues are also not normally depreciated. The reason is that these assets have cultural significance and as such are likely to be preserved for the benefit of future generations. It should therefore be impossible to determine their useful lives.

### **11.3 Determining useful lives of assets**

The Chief Financial Officer shall assign a useful operating life to each depreciable asset recorded on the Municipality's Fixed Asset Register. In determining such a useful life, the Chief Financial Officer shall adhere to the useful lives set out in the annexure to this document (refer **Annexure A**) or to the recommendation of the head of the department involved.

In the case of a fixed asset which is not listed in this annexure, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the HOD of the Municipal Department who shall control or use the fixed asset in question, and shall be guided in determining such useful life either by the useful lives assigned in the annexure to the fixed asset most closely comparable to the asset in question or by the likely pattern in which the asset's economic benefits or service potential will be consumed.

The residual value and the useful life of an asset shall be reviewed at least at each reporting date.

The amortisation period of an Intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life, and reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be amended accordingly.

### **11.4 Depreciation Calculation**

### **11.4.1 Tangible assets**

The Municipality uses the straight-line depreciation method whereby items of property, plant and equipment are depreciated on a constant or uniform amount over their estimated useful life.

The depreciation will be calculated to not reduce the value of the asset to less than a residual value, which equals the estimated net realisable value, or value in service, at the end of the estimated lifespan of the asset. This residual value will be determined by the CFO for each asset, but a default calculation will be based on twenty percent (20%) of the asset value at original acquisition or revaluation for all movable items, and fifteen percent (15%) for Infrastructure assets.

When depreciation is calculated, a corresponding accumulated depreciation account is created. The accumulated depreciation account is a statement of financial position item (it is an asset provision). This account balance reflects the depreciation charge that has been expensed or capitalised since the asset was brought into commission. The balance on the accumulated depreciation account can never exceed the cost or valuation of the specific item of property, plant and equipment to which it relates.

### **11.4.2 Intangible assets**

#### **Amortisation period and amortisation method**

- Finite useful life

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The amortisation period and the amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern.

- Infinite useful life

No amortisation will take place

#### **11.5 Amendment of Asset Lives and Diminution in the Value of Fixed Assets**

Only the Chief Financial Officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the Chief Financial Officer shall inform the Council of the municipality of such amendment.

The Chief Financial Officer shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, based on the reports submitted from departmental heads.

The CFO shall also amend the useful operating life assigned to any fixed asset should it come to light that the useful operating life of an asset can be extended due to maintenance, refurbishment or rehabilitation exercised on an asset.

If the value of a fixed asset has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs.

Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off the assets management system.

In all the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

#### **11.6 Alternative Methods of Depreciation in Specific Instances**

The Chief Financial Officer may employ the sum-of-units method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services.

The Chief Financial Officer shall only employ this method of depreciation if the Head of Department controlling or using the fixed asset in question gives a written undertaking to the Municipal Manager to provide:

- estimates of statistical information required by the Chief Financial Officer to prepare estimates of depreciation expenses for each financial year; and
- actual statistical information, for each financial year.

The Head of Department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the Chief Financial Officer.

Where the Chief Financial Officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the Chief Financial Officer shall inform the Council of the municipality of the decision in question.

## **11.7 Offset Depreciation**

### **11.7.1 Assets financed by Government Grants or Public Contributions**

The principle of government grant and public contribution funded assets is that there should be no capital cost included in tariffs from using this source of financing.

Funding from Government grants and Public Contributions, equal to the amount used to finance the asset are directly transferred to the operating account as revenue. This transfer will reflect in the accumulated surplus as offset of depreciation against future depreciation charges on these assets.

When property, plant and equipment is disposed of whether by selling or destroyed, the asset values must be offset against the proceeds, if any, resulting in a profit or loss on the particular item of property, plant and equipment. If this item was previously financed from a Government Grant and there is still a balance left regarding this item on the Government Grant Reserve, this balance must then be transferred to the Accumulated Surplus / Deficit account.

## **SECTION 12 REVALUATION OF FIXED ASSETS**

### **12.1 Revaluation Process**

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair

value at the reporting date. The frequency of such assessments will coincide with the test for Impairment in Paragraph 15 below, where it is not already prescribed for asset categories like Investment property, Non-current Assets held for sale and Biological assets, which will occur annually.

## **12.2 Revaluation Reserve**

The Chief Financial Officer shall also, where applicable, create a revaluation reserve for fixed assets equal to the difference between the value as recorded by the revaluation and the carrying value of the fixed asset before the adjustment in question.

## **12.3 Depreciation of re-valued assets**

- The fixed asset concerned shall thereafter be depreciated on the basis of its re-valued amount, over its remaining useful operating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the Department's vote controlling or using the applicable fixed asset.
- The CFO shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the operating account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary.
- If the amount recorded by the revaluation is less than the carrying value of the fixed asset recorded in the fixed asset register, the Chief Financial Officer shall adjust the carrying value of such asset by recording an impairment of the fixed assets in question by an amount sufficient to adjust the carrying value to the value as recorded by the revaluation. Such additional impairment expenses shall form an immediate additional charge against the department or vote controlling or using the asset in question.

## **12.4 Investment Property**

Investment properties will be revalued on an annual basis, and any increases or decreases will be recorded against the Revaluation Reserve. Any gains or losses on the disposal shall be accounted for against operating account, and the carrying value will be written off against the Revaluation Reserve

## **12.5 Non-current Assets held for sale**

The CFO can also utilize the services of a valuer to determine the values of Non-current assets held for sale, where it is expected that the Net Realisable Value, as calculated from the values reflected in the Valuation roll, differ materially from what can be expected, due to changes in market conditions since the fixed date used for the determination of values in the assets system. Any adjustments made in this regard will be accounted for as gains or losses in the municipality's operating account.

## **SECTION 13 DISPOSAL OF ASSETS**

### **13.1 Disposal**

In compliance with the principles and prescriptions of the Municipal Financial Management Act (***Annexure B***), the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the Municipality's supply chain management policy.

Every Head of Department shall report in writing to the Chief Financial Officer on a quarterly basis on all fixed assets controlled or used by the department concerned which such Head of Department wishes to dispose by public auction or public tender. The Chief Financial Officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Council or the Municipal Manager of the municipality, as the case may be, recommending the process of disposal to be adopted.

Any items declared obsolete or damaged will be handed in to the Asset Management Unit for safekeeping. No items will be received by the Asset Management Unit without a completed asset disposal form counter-signed by the Asset Management Unit, describing the status of the item and the reason for writing-off the item.

Each Municipal Department must take the necessary steps to ensure that all their obsolete or damaged assets are disposed of in the correct and approved manner. It is

the responsibility of each Municipal Department to ensure that all such assets to be disposed of are delivered to and received at the Asset Management Unit.

The Council shall ensure that the disposal of any fixed asset takes place in compliance with Section 14 of Municipal Financial Management Act of 2004 and the Supply Chain Management Policy.

Every HOD of a Municipal Department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the Municipal Department in question is promptly reported in writing to the Insurance Section as well as the Asset Management Unit by using the asset disposal form, and, in cases of suspected theft or malicious damage, also to the South African Police Services. Once the fixed assets are disposed, the Chief Financial Officer shall remove the relevant records from the fixed asset register.

The Council shall delegate to the Municipal Manager the authority to approve the alienation of any fixed asset with a carrying value less than R50 000.00 (Fifty Thousand Rand).

### **13.2 Other write-offs**

A fixed asset, even though fully depreciated, shall be written-off only on the recommendation of the HOD of a Municipal Department controlling or using the asset concerned, and with the final approval of Council.

Every HOD of a Municipal Department shall report to the Chief Financial Officer on any fixed assets which such HOD of the Municipal Department wishes to have written off, stating in full the reason for such recommendation. The Chief Financial Officer shall consolidate all such reports and shall promptly submit a recommendation to the Council on the fixed assets to be written off.

The only reasons for writing off fixed assets, other than the disposal of such fixed assets, shall be the loss, theft, destruction, incorrect capitalisations or material impairment of the fixed asset in question.

### **13.3 Proceeds / Loss on Disposal of Assets**

When assets are disposed of whether by disposal or written off the asset values needs to be readjusted and offset against the proceeds. If the proceeds of the disposal are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the cost centre of the Municipal Department concerned.

If this asset has an outstanding balance on the Government Grants Reserve account or the Revaluation Reserve, this balance must be transferred to the Accumulated Surplus.

All proceeds realised on the disposal of assets shall be appropriated annually to the Municipality's Capital Replacement Reserve and all losses on the disposal of assets shall remain as expenses on the cost centre of the department concerned. If, however, both gains and losses arise in any one financial year in respect of the disposal of assets of any department, only the net gain (if any) on the disposal of such assets shall be appropriated.

## **SECTION 14 FUNDING SOURCES**

The main sources of finance utilised to acquire assets are:

- The Capital Replacement Reserve (CRR)
- External Loans
- Grants, Subsidies and Public Contributions
- Revenue Contributions
- Revaluation Reserve

The sources of finance that may be utilised to finance assets are utilised in accordance with the provisions of Section 19 of the Municipal Finance Management Act.

There will be a departure from GRAP 1.144 regarding Capital Reserves, in accordance with GRAP

1.22 and .23, read with GRAP 3.07, as the inclusion of capital receipts applied for the purchase of Property, Plant and Equipment in the Accumulated surplus will lead to a misinterpretation by users, particularly Council and Ratepayers/Consumers. These Reserves will be disclosed in accordance with GRAP 1.86.



### **14.1 The Capital Replacement Reserve (CRR)**

Council must annually approve the basis and the amounts for which contributions should be appropriated to the CRR in conjunction with the availability of funds and the requirements of the capital program for that financial and three ensuing years.

The funds in the CRR are accumulated by:

- An annual contribution from revenue
- The cash backed profit on the disposal of assets

When an asset is financed from the CRR a transfer is effected to the Accumulated Surplus account equal to the cost of the particular item.

The balance of the accumulated funds in the CRR will therefore represent the amount that is available to finance assets in future periods. This balance must be backed by cash at all times.

### **14.2 External Loans**

Major expenditure on PPE, especially Infrastructure and major items of Plant, can be financed from external financing sources, if the municipality complies to the requirements of the MFMA in this regard. Costing of this source of finance must include finance costs and depreciation against the Statement of Financial Performance over the period of financing. The period of financing should ideally be aligned to the estimated lifespan of the assets thus financed, but should never exceed such.

### **14.3 Grants, Subsidies and Public Contributions**

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/(deficit) to the Grants Reserve equal to the Grant recorded as revenue in the Statement of Financial Performance. When such items of property, plant and equipment are depreciated, a transfer is made from the Reserve to the accumulated surplus/(deficit). The purpose of this procedure is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from Grants.

Unspent conditional grants are reflected on the Statement of Financial Position under current liabilities as Unspent Conditional Grants. These funds always have to be backed by cash. The following conditions are set for the creation and utilisation of these funds:

- The cash which backs up the grant is invested until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If the conditions are silent on investment interest it is recognised as interest earned in the Statement of Financial Performance and might be allocated, in part or fully, to the unspent portion of the grant if it is so stated in the accounting policy.
- Whenever an asset is acquired from a conditional government grant an amount equal to the cost of the asset is transferred from the Unspent grant creditor to the Statement of Financial Performance as revenue. Thereafter an equal amount is transferred to the Grant Reserve. This account must have equal book value of assets purchased from conditional government grants and is utilised to offset depreciation charged on assets purchased out of conditional government grants.

When an asset, previously financed by a conditional government grant, is disposed of with a balance left on the Grants Reserve account such a balance must be transferred to the Accumulated Surplus account.

#### **14.4 Revaluation Reserve**

The surplus arising from the revaluation of assets is credited to a non-distributable reserve. The revaluation surplus is realised as revalued assets are depreciated, through a transfer from the Revaluation reserve to the accumulated surplus/(deficit). On disposal the net Revaluation surplus is transferred to the accumulated surplus/(deficit) while gains or losses on disposal, based on current values, are credited or charged to the Statement of Financial Performance.

## **SECTION 15 IMPAIRMENT LOSSES**

## **15.1 Impairment**

The carrying amount (book value) of an item or a group of identical items of property, plant and equipment should be reviewed periodically per asset category in compliance to **15.2** below in order to assess whether or not the recoverable amount has declined below the carrying amount.

Recoverable amount is the amount that the Municipality expects to recover in the future from an asset, including its residual value on disposal.

When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation on properties in which case it should be charged to the Revaluation Reserve.

The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification work is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amounts of the smallest grouping of assets for which it is possible to make an assessment of recoverable amounts.

The following may be indicators that an asset has become impaired:

- The item has been damaged,
- The item has become technologically obsolete, or
- The item remains idle for a considerable period of either prior to it being put into use or during its useful life.

## 15.2 Periodic Impairment Tests

The following is a list of all fixed assets showing the assigned periods for impairment testing per class of asset.

	Periodic after every (years)
<b>Infrastructure Assets</b>	
Electricity	4
Roads and Storm water	2
<b>Community Assets</b>	5
<b>Land</b>	4
<b>Buildings</b>	5
<b>Investment Property</b>	1
<b>Heritage Assets</b>	1
<b>Intangible Assets</b>	1
<b>Agricultural assets</b>	1
<b>Other assets</b>	5
<b>Movable assets</b>	1

## 15.3 Disclosure of Impairment Losses

All impairment losses must reflect on the Statement of Financial Performance.

The Financial Statements should also disclose, in the reconciliation of the carrying amount at the beginning and end of the period for each class of property, plant and equipment recognised in the Financial Statements any impairment losses recognised in the statement of financial performance during the period and impairment losses reversed in the statement of financial performance during the period.

Material impairment losses need to be disclosed in the notes to the income statement as a separately disclosable item.

## 15.4 Reversal of an Impairment Loss

- The same procedures as for the identification of impaired assets are followed as to whether there is an indication that impairment may have decreased. If so, the recoverable amount must be added to the carrying value of the asset.
- The life cycle must be adjusted.

- The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised.
- Reversal of an impairment loss is recognised as income in the income statement.
- Depreciation must be adjusted for the remaining life cycle.

## **SECTION 16 INVESTMENT PROPERTY**

### **16.1 Definition of Investment Property**

Investment Property is defined as:

- Property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both, rather than for:
  - Use in the production or supply of goods or services or for administrative purposes; or
  - Sale in the ordinary course of operations.
- Investment Property generates cash flows largely independently of the other assets of the Municipality.

**Investment Property is held to earn rentals or for capital appreciation of both. The following are examples of Investment Property:**

- Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation);
- A building owned by the Municipality (or held by the Municipality under a finance lease) and leased out under one or more operating leases on a commercial basis; and

- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

**The following are examples of items that are not investment property:**

- Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Own-occupied property, including (among other things) property held for future use as own-occupied property, property held for future development and subsequent use as own-occupied property, property occupied by employees such as housing (whether or not the employees pay rent at market rates) and own-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property. GRAP 17 applies to such property until construction or development is complete, at which time the property becomes investment property. However, existing investment property that is being redeveloped for continued future use as investment property remains investment property;
- Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an “Investment Property” and would be accounted for in accordance with GRAP 17; and
- Property held for a purpose which would be accounted for in accordance with GRAP 17.
- Where a property is utilised partly in the ordinary course of operations and partly to generate rentals or for capital appreciation it will only be classified as investment property if a significant portion is utilised to generate investment income.

## **16.2 Initial measurement of Investment Property**

- Investment property is measured initially at its cost (including transaction costs). Where an investment property is acquired at no cost (for example donated assets), or for a nominal cost, its cost is its fair value as at the date of acquisition.
- The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure, such as, professional fees for legal services, property transfer taxes and other transaction costs.
- The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, the Municipality applies the GRAP standard on accounting for PPE. At the completion date, the property becomes investment property and the Standard on Investment Property applies.
- Investment Property is only recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity and the cost or fair value of the investment property can be measured reliably.

## **16.3 Measurement of Investment Property subsequent to Initial Measurement**

- Subsequent expenditure relating to an investment property that has already been recognised should be added to the carrying amount of the investment property when it is probable that future economic benefits or service potential over the total life of the investment property, in excess of the most recently assessed standard of performance of the existing investment property, will flow to the entity. All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.
- After initial recognition of the investment property the Municipality choose to reflect the investment property at fair value.
- The fair value of investment property is usually its market value. Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. After initial recognition, the municipality should measure all of its investment property at its fair value at each Statement of Financial Position date. A gain or loss arising from a change in the fair value of investment property should be included in net

surplus/deficit for the period in which it arises. No depreciation will be calculated on this property.

## **16.4 Transfers and Disposals of Investment Properties**

### **16.4.1 Transfers**

- Transfers to, or from, investment property should be made when, and only when, there is a change in use, evidenced by:
  - Commencement of own-occupation, for a transfer from investment property to ownoccupied property;
  - Commencement of development with a view to sale, for a transfer from investment property to inventories;
  - End of own-occupation, for a transfer from other classified property to investment property;
  - Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or
  - End of construction or development, for a transfer from property in the course of construction or development to investment property.
- For a transfer from investment property carried at fair value to own-occupied property or inventories, the property's cost for subsequent accounting under the relevant GRAP Standards on PPE or inventories should be its fair value at the date of change in use.
- If an own-occupied property becomes an investment property that will be carried at fair value, an entity should apply the relevant GRAP standard on PPE up to the date of change in use. The Municipality should treat any difference at that date between the carrying amount of the property and its fair value in the same way as a revaluation under the relevant GRAP Standard on PPE by crediting a reserve.
- For a transfer from inventory to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognised in net surplus/deficit for the period.



- When the Municipality completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognised in net surplus/deficit for the period.

#### **16.4.2 Disposals**

On disposal or permanent withdrawal from use of investment property:

- An investment property should be eliminated from the Statement of Financial Position;
- Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the carrying amount of the asset. For the purposes of display in the Financial Statement, the gain or loss should be included in the Statement of Financial Performance as an item of revenue or expense.

### **16.5 Budget Implications relating to Investment Property**

The following amounts will have to be budgeted for in the operating budget relating to investment properties:

- Gains on the disposal of investment properties that are intended to be sold during the next financial year.
- Fair value gains that are expected to be obtained on investment properties that will be held during the next financial year.
- Depreciation on investment properties that are intended to be transferred to ownoccupied properties during the next financial year.
- The effect of reduced depreciation on own-occupied properties that are intended to be transferred to investment properties during the next financial year.
- Revenue through operating lease income; and

- Fair values gains where the intention to sell a building (inventory) is changed and the inventory is held as an investment property on which rental income and capital appreciation will be earned by the Municipality in the next financial year.

## 16.6 Disclosure

The disclosure requirements to be adhered to disclosing information on investment property reflected at fair value:

- The criteria developed by the Municipality to distinguish investment property from ownoccupied property and from property held for sale in the ordinary course of operations;
- The methods and significant assumptions applied in determining the fair value was supported by market evidence or was more heavily based on other factors (which the entity should disclose) because of the nature of the property and lack of comparable market data;
- The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact should be disclosed;
- The amounts included in the Statement of Financial Performance for:
  - Rental revenue from investment property;
    - Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and
    - Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;
  - The existence and amounts of restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal;
  - Material contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements;

- A reconciliation of the carrying amount of investment property at the beginning and end of the period showing the following:
  - Additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalised subsequent expenditure; Additions resulting from acquisitions through entity combinations; Disposals; Net gains or losses from fair value adjustments; Transfers to and from inventories and owner-occupied property; and Other movements.
- The fair value of the investment property. In the exceptional cases, when the Municipality cannot determine the fair value of the investment property reliably, the entity should disclose:
  - A description of the investment property;
  - An explanation of why fair value cannot be determined reliably; and
  - If possible the range of estimates within which fair value is highly likely to lie.

## **SECTION 17 REPLACEMENT STRATEGY**

The Municipal Manager, in consultation with the Chief Financial Officer and other HOD's of Municipal Departments shall formulate strategies and standards for the replacement of all operational property, plant and equipment. Such strategies and standards shall be incorporated in a formal policy, which shall be submitted to the Council for approval. This policy shall cover the replacement of infrastructure and operational movable vehicles and equipment.

This strategy should take into consideration:

- The nature of the asset
- The usage of the asset

- Priorities
- Available funding
- Operational and maintenance costs
- Operational skills
- Future expected developments
- Technology
- Outsourcing
- Private sector partnerships

## **SECTION 18 ASSET RISK MANAGEMENT**

### **18.1 Insurance**

Municipal Departments are responsible for managing the risks associated with their activities.

The Municipal Manager shall ensure that all movable fixed assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

The Chief Financial Officer shall annually determine the premiums payable by the departments or votes after having received a list of the fixed assets and insurable values of all relevant fixed assets from the heads of departments concerned.

The Municipal Manager shall recommend to the Council of the municipality, after consulting with the Chief Financial Officer, the basis of the insurance to be applied to each type of fixed asset; either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

The Chief Financial Officer shall annually submit a report to the Council of the municipality on any insurance cover which is deemed necessary to procure for the municipality.

## **18.2 Other risk reducing methods**

Departmental regulations or “operating policies” can also reduce risks. Departments should investigate their operations and set operating policies as to how personnel should operate and use property, plant and equipment to minimize risk. Examples are as follows:

- Only authorised personnel should be allowed in areas where expensive equipment is kept;
- Only authorised personnel should be allowed to operate plant or vehicles;
- The keys for office vehicles should be controlled in a central office during the day, and employees should sign when they take the keys;
- Ensure that drivers or operators have the necessary qualifications and licences;
- It should be part of service conditions that employees incur personal liability if they drive while under the influence of alcohol, drugs, medication, and so forth; or if they leave the vehicle unattended and unlocked;
- Physical access to buildings, or areas within buildings, should be restricted, especially after hours.

## **SECTION 19 MAINTENANCE OF ASSETS**

### **19.1 Maintenance Plans**

Regular maintenance can prevent unplanned and expensive breakdowns. Maintenance plans must therefore be drawn up to ensure minimum maintenance standards and execution to achieve the optimum use of assets as planned.

Every Head of Department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000.00 (One Hundred Thousand Rand) or more is promptly prepared and submitted to the Council of the municipality for approval.

If so directed by the Municipal Manager, the maintenance plan shall be submitted to Council prior to any approval being granted for the acquisition or construction of new infrastructural assets.

The HOD of Municipal Departments controlling or using the infrastructure asset in question, shall budget for the executing of the approved plan and will annually report to Council, not later than 31 March, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance and/or budgetary constraints may have on the useful operating life of the asset concerned.

### **19.2 Deferred Maintenance**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructural asset, the CFO shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the Council has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the HOD of a Municipal Department controlling or using such asset shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the Asset Management Unit, and the Asset Management Unit shall recalculate the annual depreciation expenses accordingly.

### **19.3 General Maintenance**

Every HOD of a Municipal Department shall be directly responsible for ensuring that all assets that are in his/her care are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

## **SECTION 20 GENERAL REQUIREMENTS**

### **20.1 Tagging**

Tagging means to place a control number on a piece of equipment or property.

All movable assets must be tagged.

The primary purpose of tagging is to maintain a positive identification of assets. Tagging is important to:

- Provide an accurate method of identifying individual assets
- Aid in the physical inventory
- Control the location of all physical assets
- Aid in maintenance of fixed assets

Fixed property and plant is not tagged; such as:

- Buildings (record legal description in asset record),
- Land (record legal description in asset record),
- Infrastructural assets,
- Items with vehicle licensing details (number plates/VIN).

Consistently place asset tags in the same location on each similar type asset. If possible, the tags shall be accessible for viewing. Place the tag where the number can be seen easily and identified without disturbing the operation of the item, which will aid in taking inventory.

### **20.2 Physical Inventory of all Movable Assets**

A physical inventory of movable assets is taken to verify assets recorded in the Asset register. Inventories are taken on a quarterly basis and shall be completed prior to the financial reporting due date.

The Asset Management Unit in liaison with all Municipal Departments will conduct a quarterly physical inventory of movable assets. They will require the co-operation of departmental personnel in accomplishing the physical inventory task and will attempt to minimize the time demanded of them.

### **20.3 Acquisition**

Acquisition – In making the decision to acquire an asset the following fundamental principles should be carefully considered:

- The purpose for which the fixed asset is required is in keeping with the objectives of the Municipality and will provide significant, direct and tangible benefit to it.
- The fixed asset has been budgeted for.
- The purchase is absolutely necessary as there is no alternative Municipality asset that could be upgraded or adapted.
- The fixed asset is appropriate to the task or requirement and is cost effective over the life of the asset.
- The fixed asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources.
- Space and other necessary facilities to accommodate the asset are in place.
- The most suitable and appropriate type, brand, and model etc. has been selected.

### **20.4 Asset Management Responsibilities**

- Utilisation – All assets should be used for the purposes they were acquired.



- Asset performance should be regularly reviewed to identify under-utilised and underperforming assets. The reasons for this should be critically examined and appropriate action taken.
- Disciplinary action must be taken against individuals if there is misuse of Council's assets.

The designated officials in the different Municipal Departments within the Municipality must execute the functions listed below:

- Complete the asset movement form when transfers occur and forward the completed original form to Asset Management Unit.
- Ensure that the bar code number and location number are reflected on the asset movement form by the relevant official on the receipt of the asset. Where applicable, the serial number or registration number should be included.
- Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained.
- Asset Management Unit must be notified by the relevant Municipal Department within 14 days of any of the following possible movements:
  - Donations    ○ Additions / Improvements
  - Departmentally manufactured items
  - Loss or damage
  - Transfers
  - Terminations
  - Land Sales

## **20.5 Additions / Improvements**

Depending upon the type of addition or improvement to a specific asset the responsible official in the Municipal Department must notify the Asset Management Unit of the change in status. The asset master record will be amended on receipt of the required asset acquisition form from the responsible Departments.

When capital expenditure is incurred for any enhancement / improvement of an asset, the Municipal Department shall complete the necessary asset acquisition form and forward it to the Asset Management Unit.

The AMU will correlate this information with the Expenditure listings supplied by the SCM Unit on a monthly basis.

When any changes to vacant land or land and buildings are effected such as subdivision, transfer to another Departments, extent or holders title, the current owner must complete the relevant asset movement form and forward it to the Asset Management Unit.

## **20.6 Termination of Employee's Service**

At the termination of an employee's service, the applicable Municipal Department representative must complete the asset resignation form and forward the original to the Asset Management Unit. This form is a statement that the inventory and assets entrusted to the employee to execute his/her daily duties are in good order and handed in where necessary. A copy of this form is forwarded to the HR Department or the relevant Municipal Department for further investigation in the case of missing assets.

## **20.7 Transfer of Assets**

When a Municipal Department transfers an asset or inventory item within the Departments, the asset movement form must be completed and forwarded to the Asset Management Unit. The copy of this form must be forwarded to the party receiving the asset or inventory item.

When a Municipal Department transfers an asset or inventory item to another Department, the transferring Municipal Department must approve the transfer. After approval has been granted the asset movement form must be completed and forwarded to the Asset Management Unit.

## **20.8 Sale of Land and Buildings**

The applicable Manager dealing with the sales, must submit the properly completed asset disposal forms together with copies of all relevant approvals, for the sale of the land and buildings, to the Asset Management Unit.

## **ANNEXURE A FIXED ASSET LIVES**

### **INFRASTRUCTURE ASSETS**

The following is the list of infrastructure assets, with the estimated useful life in years indicated in the corresponding column in each case.

- **Electricity**

High Voltage Overhead lines	50
High voltage substations	10-50
High voltage underground cables	50
Low voltage street lighting	50
Medium voltage ground mounted transformers	50
Medium voltage mini substations	50
Medium voltage overhead line	50
Medium voltage substations	10
Medium voltage underground cables	50
Medium voltage pole mounted transformer	50
Medium voltage ring main unit	45

- **Roads**

Overhead Gantry	100
Concrete Roads	30-80
Flexible roads	15-60
Unpaved roads	5-25
Structures	50-100
Signalised intersections	15
Airport runway	40
Other roads	10-30

- **Stormwater**

Major culverts	50
Minor culverts	50-120

Kerb inlets	25
Manholes	25
Open channels	50
Reticulation	20-25
Head and wing-walls	25

- **Security**

Access control systems	5
Security systems	5
Security fencing	10
Security lighting	10

## COMMUNITY ASSETS

The following is a list of community assets, showing again the assigned or estimated useful lives in years in brackets:

- **Buildings and Other Assets**

Cemeteries	5-50
Civic Theatres	5-50
Clinics and hospitals	5-50
Community centres	30
Fire Stations	5-50
Game Reserves and Rest Camps	5-50
Indoor Sports	5-50
Libraries	5-50
Museums and art galleries	5-50
Parks	5-50
Public Conveniences and Bath houses	5-50
Recreation centres	10-18
Sports and related stadiums	20-30
Zoos	5-50

- **Recreational Facilities**

Bowling Greens	5-50
Tennis Courts	5-50
Swimming pools	5-50
Golf Courses	5-50
Outdoor sports facilities	5-50
Organs (that is, pipe organs that are fixtures in a municipal hall or other centre)	20
Fountains	5-50
Floodlighting	10

## **HERITAGE ASSETS**

The following is a list of at least some typical heritage assets encountered in the municipal environment (no asset lives are given, of course, as no ordinary depreciation will be charged against such assets):

- Museum Exhibits
- Works of Art (which will include paintings and sculptures)
- Public statues
- Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement)

## **INVESTMENT ASSETS**

It is not possible to provide an exhaustive list of investment assets, as the actual list will depend very much on the local circumstances of each Municipality. However, the following will be among the most frequently encountered:

Office parks (which have been developed by the Municipality itself or jointly between the Municipality and one or more other parties)	5-50
Shopping centres (again developed along similar lines)	5-50
Housing developments (that is, developments financed and managed by the Municipality itself, with the sole purpose of selling or letting such houses for profit)	5-50

## **OTHER ASSETS**

The following is a list of other assets, again showing the estimated useful life in years:

- **Buildings**

Housing Schemes	5-50
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Kilns	5-50
Fresh produce and other markets	5-50
Nurseries	5-50
Office buildings	5-50
Old Age homes	5-50
Tip sites	5-50
Training centres	5-50
Transport facilities	5-50
Workshops and depots	5-30

- **Office equipment**

Computer hardware	3-8
Computer software	3-8
Office machines	3-8
Air conditioners	3-5

- **Furniture and Fittings**

Chairs	5 - 20
Tables and desks	7-20
General	7-20
Cabinets and cupboards	7-20

- **Bins and containers**

Household refuse bins	5
Bulk refuse containers	10

- **Emergency Equipment**

Fire hoses	5
Other fire-fighting equipment	15
Emergency lights	5

- **Motor Vehicles**

Ambulances	5-10
Fire engines	20
Tankers	20
Mobile Libraries	15
Buses	15
Trucks and light delivery vehicles	5-7
Ordinary motor vehicles	5-7
Motor cycles	3

- **Plant and Equipment**

Chlorination Equipment	5
Compactors	5
Electronic Equipment	5
Fire Hoses	5
General	5
Generators	5-10
Graders	10-15
Horticultural Equipment	5
Mobile Pumps	5
Other Fire Fighting Equipment	5
Pumps	5
Tractors	10-15
Trailers	5
Mechanical horses	10-15
Farm Equipment	5
Lawn mowers	5
Compressors	5
Laboratory equipment	5
Radio Equipment	5
Firearms	5
Telecommunication equipment	5
Irrigation systems	15
Cremators	15
Lathes	15
Conveyors	15
Feeders	15



Tippers	15
Workshop Equipment	5
Pulverising mills	15

- **Airports**

Aprons	20
Runways	20
Taxiways	20
Airports / Radio beacons	20

## **ANNEXURE B**

### **PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT**

**2004**

A Municipality may not dispose of any capital asset required to provide a minimum level of basic municipal services.

A Municipality may dispose of any other capital asset, provided that:

- The Council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services; and
- The Council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.