

# **CITY OF MATLOSANA**



## **ASSET MANAGEMENT POLICY**

**2024/2025**

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## **PREAMBLE**

Whereas section 14 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services, and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued,

- and whereas the Municipal Council of Matlosana Local Municipality wishes to adopt a policy to guide the municipal manager in the management of the municipality's assets,

- and whereas the Municipal Manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets,

- and whereas these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes,

- now therefore the Municipal Council of the Matlosana Local Municipality adopts the following asset management policy:

## ABBREVIATIONS AND DEFINITIONS

AM	Asset Management
AMS	Asset Management System
AR	Asset Register
CFO	Chief Financial Officer
CRR	Capital Replacement Reserve
GRAP	Standards of Generally Recognised Accounting Practice
IA	Intangible Assets
IAR	Infrastructure Asset Register
IDP	Integrated Development Plan
IIMM	International Infrastructure Management Manual
IP	Investment Property
LM	Local Municipality
MFMA	Municipal Finance Management Act
MSA	Municipal Services Act
NT	National Treasury
OHSA	Occupational Health and Safety Act
PPE	Property, Plant and Equipment
SARS	South African Revenue Service
SDBIP	Service Delivery and Budget Implementation Plan

**Accounting Officer** means the Municipal Manager appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act no. 117 of 1998) and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act 2000 (Act no. 32 of 2000).

**Agricultural Produce** is the harvested product of the municipality's biological assets.

**Biological Assets** are defined as living animals or plants.

**Capital Assets (assets)** are items of Biological Assets, Intangible Assets, Investment Property or Property, Plant or Equipment defined in this Policy.

**Carrying Amount** is the amount at which an asset is included in the statement of financial position after deducting any accumulated depreciation (or amortisation) and accumulated impairment losses thereon.

**Chief Financial Officer (CFO)** means an officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.

**Community Assets** are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.

**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, or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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

**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. The fair value of items of plant and equipment is usually their market value determined by appraisal, while the fair value of land and buildings is usually determined from market-based evidence by appraisal.

**GRAP** are standards of Generally Recognised Accounting Practice.

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

**Infrastructure Assets** are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.

**Intangible Assets** are defined as identifiable non-monetary assets without physical substance.

**Investment Properties** are defined as properties (land or buildings) that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years or vacant stand held for undetermined future use.

**Involuntary Disposals** is the act of accounting for an asset that was lost, stolen, destroyed, or any other form of unplanned alienation, including natural disasters and damage suffered from riot or strike action, without consent, or intention of management or council. There is no intention or decision to generate a profit, discharge a liability or recuperate the value of an asset no longer in use or retired, and there was no exchange of resources.

**Land and Buildings** are defined as a class of PPE when the land and buildings are held for purposes such as administration and provision of services. Land and Buildings therefore exclude Investment properties and Land Inventories.

**MFMA** refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003).

**Other Assets** are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

**Property, Plant and Equipment (PPE)** are tangible assets that:

- (a) Are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- (b) Are expected to be used during more than one period.

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

**Recoverable Service Amount** is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.

**Residual Value** is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

**Voluntary Disposal** is the act of taking a decision to dispose of an asset to generate a profit, discharge a liability or recuperate the value of an asset no longer in use or retired.

**Useful Life is:**

- (a) The period of time over which an asset is expected to be used by the municipality; or
- (b) The number of production or similar units expected to be obtained from the asset by the municipality's accounting officer.

**Write-off** includes the sale, loss, theft, destruction, decommissioning, derecognition or any other form of alienation that is the result of loss of control of the asset in question.

## 1. OBJECTIVE

The MFMA was introduced with the objective of improving accounting in the municipalities sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, but since the adoption of GRAP, entities are required to prepare financial statements using the accrual basis of accounting per GRAP 1.

With an accrual system the assets are incorporated into the books of accounts and systematically written off over their anticipated lives. This necessitates that a record is kept of the cost of the assets, the assets are verified periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline, and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

According to the MFMA, the Accounting Officer in the Municipality should ensure:

- a) that the municipality has and maintains an effective and efficient and transparent system of financial and risk management and internal control;
- b) the effective, efficient and economical use of the resources of the municipality;
- c) the management (including safeguarding and maintenance) of the assets of the municipality;
- d) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
- e) that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and
- f) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

The objective of this Asset Management Policy is to ensure that the municipality:

- a) consistently applies asset management principles;
- b) applies accrual accounting;
- c) complies with the MFMA, GRAP and other related legislation;
- d) safeguards and controls the assets of the municipality; and
- e) optimises asset usage.



## **2. LEGISLATIVE FRAMEWORK**

### **2.1 LEGAL FRAMEWORK**

A municipality exercises its legislative and executive authority by, among others, developing and adopting policies, plans, strategies and programmes, including setting targets for delivery (section 11(3) of the MSA).

Participation by the local community in the affairs of the municipality must take place through, among others, generally applying the provisions for participation as provided for in the MSA (section 17(1) of the MSA).

A municipality must communicate to its community information concerning, among others, municipal governance, management and development (section 18(1) of the MSA).

As head of administration the Municipal Manager is, subject to the policy directions of the municipal council, responsible and accountable for, among others, the following:

- The management of the provision of services to the local community in a sustainable and equitable manner;
- Advising the political structures and political office bearers of the municipality (section 55(1) of the MSA); and
- Providing guidance and advice on compliance with the MFMA to the political structures, political office-bearers and officials of the municipality (section 60 of the MFMA).

As accounting officer of the municipality, the Municipal Manager is responsible and accountable for, among others, all assets of the municipality (section 55(2) of the MSA).

The Municipal Manager must take all reasonable steps to ensure, among others, that the resources of the municipality are used effectively, efficiently and economically (section 62(1) of the MFMA).

### **2.2 RATIONALE FOR MANAGEMENT OF ASSETS**

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objectives:

- Providing democratic and accountable government for local communities;
- Ensuring the provision of services to communities in a sustainable manner;
- Promoting social and economic development;
- Promoting a safe and healthy environment; and
- Encouraging the involvement of communities and community organisations in matters of local government.

In terms of the MFMA, the accounting officer is responsible for managing the assets and liabilities of the municipality, including the safeguarding and maintenance of its assets.

The MFMA further requires the accounting officer to ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for its assets and liabilities;
- The municipality's assets are valued in accordance with standards of generally recognised accounting practice; and
- The municipality has and maintains a system of internal control of assets and liabilities.

The OHSA requires the municipality to provide and maintain a safe and healthy working environment, and in particular, to keep its infrastructure assets safe.

According to the International Infrastructure Management Manual (IIMM), the goal of infrastructure asset management is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers.

The core principles of infrastructure asset management are:

1. Taking a life-cycle approach;
2. Developing cost-effective management strategies for the long-term;
3. Providing a defined level of service and monitoring performance;
4. Understanding and meeting the impact of growth through demand management and infrastructure investment;
5. Managing risks associated with asset failures;
6. Sustainable use of physical resources; and
7. Continuous improvement in asset management practices.

### **3. POLICY FRAMEWORK:**

#### **3.1 POLICY OBJECTIVE**

The municipality is committed to providing municipal services for which the municipality is responsible, in a transparent, accountable and sustainable manner and in accordance with sound infrastructure management principles.

The main challenges associated with managing assets can be characterised as follows:

- a) Moveable assets – controlling acquisition, location, use, and disposal (over a relatively short-term lifespan)
- b) Immovable assets – life-cycle management (over a relatively long-term lifespan).

The policy approach has been to firstly focus on the financial treatment of assets, which needs to be consistent across both the movable and immovable assets, and secondly to focus on the management of immovable assets as a fundamental departure point for service delivery.

#### **3.2 POLICY PRINCIPLES**

The following policy principles serve as a framework for the achievement of the policy objective:

### **3.2.1 Effective Governance**

The municipality strives to apply effective governance systems to provide for consistent asset management and maintenance planning in adherence to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected. To this end, the municipality will:

- Adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- Regularly review and update amendments to the above legislation;
- Review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- Effectively apply legislation for the benefit of the community.

### **3.2.2 Sustainable Service Delivery**

The municipality strives to provide to its customers services that are technically, environmentally and financially sustainable. To this end, the municipality will:

- Identify levels and standards of service that conform to statutory requirements and rules for their application based on the long-term affordability to the municipality;
- Identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- Identify current and future demand for services, and demand management strategies;
- Set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose assets, where applicable in line with national targets;
- Apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- Prepare and adopt an immovable (infrastructure) asset management strategy and immovable (infrastructure) asset management plans to support the achievement of the required performance;
- Prepare and adopt an immovable (infrastructure) asset maintenance strategy and immovable (infrastructure) asset maintenance plans to execute maintenance timeously;
- Allocate budgets that take cognisance of the full life cycle needs of existing and future assets;
- Implement its Tariff and Credit Control and Debt Collection Policies to sustain and protect the affordability of services by the community.

### **3.2.3 Social and Economic Development**

The municipality strives to promote social and economic development in its municipal area by means of delivering municipal services in a manner that meet the needs of the various customer user-groups in the community. To this end, the municipality will:

- Regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- Implement changes to services in response to changing customer needs and expectations where appropriate;
- Foster the appropriate use of services through the provision of clear and appropriate information;
- Ensure services are managed to deliver the agreed levels and standards; and

- Create job opportunities and promote skills development in support of the national EPWP.

### **3.2.4 Custodianship**

The municipality strives to be a responsible custodian and guardian of the community's assets for current and future generations. To this end, the municipality will:

- Establish a spatial development framework that takes cognisance of the affordability to the municipality of various development scenarios;
- Establish appropriate development control measures including community information;
- Cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- Ensure that heritage resources are identified and protected; and
- Ensure a long-term view and life-cycle costs are taken into account in immovable asset management decisions.

### **3.2.5 Transparency**

The municipality strives to manage its immovable assets in a manner that is transparent to all its customers, both now and in the future. To this end, the municipality will:

- Develop and maintain a culture of regular consultation with the community with regard to its management of immovable assets in support of service delivery;
- Clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);
- Avail asset management information on a ward basis; and
- Continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

### **3.2.6 Cost-effectiveness and Efficiency**

The municipality strives to manage its immovable assets in an efficient and effective manner. To this end, the municipality will:

- Assess life-cycle options for proposed new immovable assets;
- Regularly review the actual extent, nature, utilisation, criticality, performance and condition of immovable assets to optimise planning and implementation works;
- Assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of immovable assets;
- Ensure the proper utilisation and maintenance of existing assets;
- Establish and implement demand management plans;
- Timeously renew immovable assets based on capacity, performance, risk exposure, and cost;
- Timeously dispose of immovable assets that are no longer in use;
- Establish documented processes, systems and data to support effective life-cycle immovable asset management;
- Strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and

- Conduct annual assessments to support continuous improvement of immovable asset management practice.

#### **4. ASSET RECOGNITION**

##### **4.1. CLASSIFICATION OF CAPITAL ASSETS**

###### **General**

When accounting for Capital Assets, the municipality should follow the various standards of GRAP relating to the capital assets. An item is recognised in the statement of financial position as a Capital Asset if it satisfies the definition and the criteria for recognition of assets. The first step in the recognition process is to establish whether the item meets the definition of an asset. Secondly, the nature of the asset should be determined, and thereafter the recognition criterion is applied. Capital Assets are classified into the following categories for financial reporting purposes:

###### Property, Plant and Equipment (GRAP 17)

- Land and Buildings (land and buildings not held as investment property)
- Infrastructure Assets (immovable assets that are used to provide basic services)
- Community Assets (resources contributing to the general well-being of the community)
- Other Assets (ordinary operational resources)

###### Investment Property (GRAP 16)

- Investment Assets (resources held for capital or operational gain)

###### Intangible Assets (GRAP 31)

- Intangible Assets (assets without physical substance held for ordinary operational resources)

###### Biological Assets (GRAP 27)

- Biological Assets (livestock and plants held)

###### Heritage Asset (GRAP 103)

- Heritage Assets (assets of a cultural, environmental, historical, natural, scientific, technological or artistic significance)

When accounting for Current Assets (that is of capital nature), the municipality should follow the various standards of GRAP relating to these assets. Current Assets (with a capital nature) are classified into the following category for financial reporting purposes.

###### Land Inventories (GRAP 12)

- Land Inventories (land or buildings owned or acquired with the intention of selling or distributing such property in the ordinary course of business)

Further asset classification has not been defined in GRAP. The examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks. Current

classifications used for infrastructure are limited and do not represent all asset types. To facilitate the practical management of infrastructure assets and asset register data, infrastructure assets have been further classified. The recommended classifications are provided in *Annexure A*.

### **Policy**

The asset classification specified by GRAP shall be adhered to as a minimum standard. The extended asset classification specified in *Annexure A* shall be adopted. The CFO shall ensure that the classifications adopted by the municipality are adhered to.

## **4.2. IDENTIFICATION OF ASSETS**

### **General**

An asset identification system is a means to uniquely identify each asset in the municipality in order to ensure that each asset can be accounted for on an individual basis. Movable assets are usually identified using a barcode system by attaching a barcode to each item. Immovable assets are usually identified by means of an accurate description of their physical location.

### **Policy**

An asset identification system shall be operated and applied in conjunction with an asset register. As far as practicable, every individual asset shall have a unique identification number. The CFO shall develop and implement an asset identification system, while acting in consultation with the Executive Directors.

### 4.3. ASSET REGISTER

#### General

An asset register is a database of information related to all the assets under the control of the municipality. The asset register consists of an inventory of all the assets, with each asset having a unique identifying number. Data related to each asset should be able to be stored in the asset register. The data requirements for the asset register are as follows:

Data	Land	Movable	Infrastructure/ building
<b>Identification</b>			
•Unique identification number or asset mark	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Unique name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Internal Classification	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Descriptive data (make, model, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Erf/registration number	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Title deed reference	<input type="checkbox"/>		
<b>Accountability</b>			
•Department	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Performance</b>			
•Age		<input type="checkbox"/>	<input type="checkbox"/>
•Condition		<input type="checkbox"/>	<input type="checkbox"/>
•Remaining useful life		<input type="checkbox"/>	<input type="checkbox"/>
•Expected useful life		<input type="checkbox"/>	<input type="checkbox"/>
<b>Accounting</b>			
•Historic cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Take-on value	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Take-on date	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Re-valued amount (where assets were re-valued)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Valuation difference (for purposes of revaluation reserve and depreciation)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Depreciation method		<input type="checkbox"/>	<input type="checkbox"/>

Data	Land	Movable	Infrastructure/ building
•Depreciation portion that should be transferred from revaluation reserve to accumulated depreciation (where assets were re-valued)		<input type="checkbox"/>	<input type="checkbox"/>
•Depreciation charge for the current financial year		<input type="checkbox"/>	<input type="checkbox"/>
•Impairment losses in the current year		<input type="checkbox"/>	<input type="checkbox"/>
•Accumulated depreciation		<input type="checkbox"/>	<input type="checkbox"/>
•Carrying value	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Residual value		<input type="checkbox"/>	<input type="checkbox"/>
•Source of financing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Assets remain in the asset register for as long as they are in physical existence or until being written off. The fact that an asset has been fully depreciated, or impaired, is not in itself a reason for derecognising such an asset. The asset register does not include assets that belong to other third parties. These assets may be included as separable entities for control purposes.

**Policy**

An asset register shall be maintained for all assets. In some cases, such as Investment Properties and Intangible Assets, separate asset registers will have to be maintained. The format of the register shall include the data needed to comply with the applicable accounting standards and data needed for the technical management of the assets. The asset register should be continuously updated and asset records should be reconciled to the general ledger on a quarterly basis, where possible.

**4.4. RECOGNITION OF CAPITAL ASSETS: INITIAL MEASUREMENT**

**General**

A Capital Asset should be recognised as an asset in the financial and asset records when:

- The entity has control of the asset;
- It is probable that future economic benefits or potential service delivery associated with the item will flow to the municipality;
- The cost or fair value of the item to the municipality can be measured reliably;
- The cost is above the municipal capitalisation threshold (if any); and
- The item is expected to be used during more than one financial year.

Spare parts and servicing equipment are usually carried as inventory in terms of GRAP 12 on Inventories and are recognised in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the municipality expects to use them during more than one



period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Further guidance for the recognition of assets is provided below:

#### Calculation of initial cost price

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the municipality is not allowed to claim input VAT paid on acquisition of such assets. In such an instance, the municipality should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:

- Costs of employee benefits (as defined in the applicable standard on Employee Benefits) arising directly from the construction or acquisition of the item of the Capital Asset
- The cost of site preparation;
- Initial delivery and handling costs;
- Installation costs;
- Professional fees such as for architects and engineers;
- The estimated cost of dismantling and removing the asset and restoring the site;
- Interest costs when incurred on a qualifying asset in terms of GRAP 5.

When payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.

#### Component approach

The component approach is a GRAP-supported approach where complex assets are split into separate depreciable parts for recording. The key considerations in determining what should become a separately depreciable part (component) are:

- Significant cost; and
- Considerable difference in useful life

If the value of a part of the asset is significant (i.e. material) compared to the value of the asset as a whole and/or has a useful life that is considerably different to the useful life of the asset a whole, it should be recognised as a separately depreciable part (component).

#### Subsequent Expenses

The municipality should not recognise the costs of day-to-day servicing of the item in the carrying amount of an item of capital asset. These costs are recognised as expenditure as and when incurred. Day-to-day costs are primarily the costs of labour and consumables and may include the costs of small parts. The purpose of these expenditures is usually for the 'repair and maintenance' of the capital asset.

Parts of some capital assets may require replacement at regular intervals. For example, a road may need resurfacing every few years. It may be necessary to make less-frequently recurring replacement of parts,

such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle, an entity recognises in the carrying amount of the capital asset the cost of replacing the part of such an item when that cost is incurred if the recognition criteria are met. At the same time the part to be replaced should be derecognised.

#### Rehabilitation/Enhancements/Renewals of capital assets

Expenditure to rehabilitate, enhance or renew an existing capital asset (including separately depreciable parts) can be recognised as capital if:

- The expenditure satisfies the recognition criteria;
- That expenditure is enhancing the service potential of that capital asset beyond its original expectation and either that expenditure:
  - increases the useful life of that capital asset (beyond its original useful life);
  - increases the capital asset capacity (beyond its original capacity);
  - increases the performance of the capital asset (beyond the original performance);
  - increases the functionality of that capital asset;
  - reduces the future ownership costs of that capital asset significantly; or
  - increases the size of the asset or changes its shape.

The expenditure to restore the functionality of the capital asset to its original level is a maintenance or refurbishment expense and will not be capitalised to the carrying value of the capital asset. The rehabilitated or renewed separately depreciable part will be derecognised and the replacement will be recognised. Where the separately identifiable asset is rehabilitated or renewed, the amount incurred will be added to the carrying value of the asset.

#### Leased Assets

A lease is an agreement whereby the lesser conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases are categorised into finance and operating leases:

- A Finance Lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred. Where the risks and rewards of ownership of an asset are substantially transferred, the lease is regarded as a finance lease and is recognised as a Capital asset.
- Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an Operating Lease and payments are expensed in the income statement on a systematic basis.

#### **Policy**

All capital assets shall be correctly recognised as assets and capitalised at the correct value in its significant components. All assets will be capitalised, except those listed as examples in *Annexure B*, but the application thereof will be determined annually by the municipality.

However, the municipality (Municipal Manager or to whom the right is delegated) can determine with an internal memorandum which assets, as mentioned in *Annexure B*, may not be classified as capital assets.

The Council shall specify which kinds of leases the municipality may enter into. A lease register shall be maintained with all the information that is necessary for reporting purposes.

#### **4.5. SUBSEQUENT MEASUREMENT OF CAPITAL ASSETS**

##### **General**

After initial recognition of Property, plant and Equipment, the municipality values its assets using the cost model, unless a specific decision has been taken to revalue a certain class of assets and in such instance the PPE will be valued using the revaluation model. When an item of PPE is revalued, the entire class of property to which that asset belongs, should be re-valued.

When an asset's carrying amount is increased as a result of the revaluation, the increase should be credited to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

When an asset's carrying amount is decreased as a result of devaluation, the decrease should be recognised as an expense in the annual financial statements. However, the decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

#### **4.6. RECOGNITION OF INVENTORY ITEMS (NON-CAPITAL ITEMS)**

##### **General**

Inventories encompass finished goods purchased or produced, or work in progress being produced by the municipality. They also include materials and supplies awaiting use in the production process and goods purchased or produced by the municipality, which are for distribution to other parties for no charge or for a nominal charge. GRAP 12.7 defines Inventories as assets:

- In the form of materials or supplies to be consumed in the production process;
- In the form of materials or supplies to be consumed or distributed in the rendering of services;
- Held for sale or distribution in the ordinary course of operations; or
- In the process of production for sale or distribution.

Examples of Inventories may include the following:

- Ammunition
- Consumable stores;
- Maintenance materials;
- Spare parts for plant and equipment other than those dealt with under PPE;
- Strategic stockpiles (e.g. Water reserves);
- Work in progress; and
- Land / Property held for sale or development (and where plans have been approved)

Cost of inventories shall comprise of all costs of purchase (i.e. purchase price, import duties, other taxes and transport, handling and other costs attributable to the acquisition of finished goods, materials and

supplies), costs of development, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Trade discounts, rebates and other similarities are deducted. Taxes recoverable by the entity from the SARS may not be included.

Costs of development for housing or similar developments which are acquired or developed for resale will include costs directly related to the development – e.g. purchase price of land acquired for such developments, surveying, conveyance costs and the provision of certain infrastructure. Infrastructure costs relating to extending the capacity of existing infrastructure are excluded. The costs of inventories of a service provider consisting of direct labour and other costs of personnel directly engaged in providing the service and other attributable overheads are included.

### **Policy**

Assets acquired or owned by the municipality for the purpose of selling or developing such assets with the intention to sell it or utilising the asset in the production process or in the rendering of services shall be accounted for in the municipality's financial statements as inventory items and not as property, plant and equipment.

Inventories are recorded in a dedicated section of the Inventory Register and it is maintained for this purpose. The amount of cost of inventories is recognised and carried forward until related revenues are recognised.

Inventories are measured at the lower of cost and current replacement cost where they are held for distribution at no charge or for nominal charge, or for consumption in the production process of goods to be distributed at no charge or for a nominal charge.

In cases where the above does not apply, inventories are measured at lower of cost and net realisable value.

#### **4.7. RECOGNITION AND DERECOGNITION OF LAND (iGRAP 18)**

##### **General**

iGRAP 18 was early adopted and will subsequently be used in the recognition and derecognition of land. iGRAP 18 can be applied to clarify the treatment of land where the building is owned by another party including, but not limited to:

- Formal RDP houses
- Informal RDP houses (without council permission)
- Schools, clinics, churches and similar
- Private properties on municipal land

It will also assist in confirming the treatment of the following assets regardless of ownership of the land:

- Infrastructure assets
- Community assets
- Vacant stands registered at the title deeds office
- Vacant stands not registered at the title deeds office

##### **Policy**

The control of land is evidenced by the following criteria:

- (a) legal ownership; and/or
- (b) the right to direct access to land, and to restrict or deny the access of others to land.

In assessing the control criteria, any binding arrangements over properties will be considered. Binding agreements can be in written form, a verbal agreement, or the result of past practice.

The loss of control will result in the derecognition of the property, despite legal title, while assets over which the entity does not hold the legal title may be recognized as an asset if control over the property has been established.

## 5. ASSET TYPES

### 5.1 PROPERTY, PLANT AND EQUIPMENT: LAND AND BUILDINGS (GRAP 17)

#### General

Land and Buildings comprise any land and buildings held (by the owner or by the lessee under a finance lease) by the municipality to be used in the production or supply of goods or for administrative purposes. Land held for a currently undetermined future use, should not be included in PPE: Land and Buildings, but should be included in Investment Properties. For this class of Land and Buildings there is no intention of developing or selling the property in the normal course of business. This land and buildings include infrastructure reserves.

The municipality has chosen the cost model as its accounting policy and shall apply this policy to an entire class of property, plant and equipment.

After recognition as an asset, Land and Buildings shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses. The remaining useful life and residual value applied to Building assets shall be reviewed on an indication bases as per the guidance of GRAP 17.

Land is not depreciated as it is deemed to have an indefinite useful life.

### 5.2 PROPERTY, PLANT AND EQUIPMENT: INFRASTRUCTURE ASSETS (GRAP 17)

#### General

Infrastructure Assets comprise assets used for the delivery of infrastructure-based services. These assets typically include electricity, sanitation, solid waste, storm water, transport, and water assets. Most infrastructure assets form part of a greater facility e.g. a pump in a pump station.

#### Level of detail of componentisation

For the technical management of infrastructure, the most effective level of management is at the maintenance item level. It is at this level that work orders can be executed and data collected. This data is useful for maintenance analysis to improve infrastructure management decision making. This level, in most cases, coincides with the level that means the accounting criteria of different effective lives and materiality. However, the collection of data at this level of detail can be very costly when dealing with assets that are numerous in nature e.g. water meters, street signs, street lights, household connections, etc. It is therefore prudent to balance the value of the information with the cost of collecting the data. The different levels of detail are shown below:

- Level 1: Service level (e.g. Prieska Water Supply)
- Level 2: Network level (e.g. Prieska Pump Stations)
- Level 3: Facility level (e.g. Prieska Pump Station)
- Level 4: Maintenance item level (e.g. Pump 1 in Prieska Pump Station)
- Level 5: Component level (e.g. Bearing of Pump 1 in Prieska Pump Station)

The preferred level of detail for the accounting and technical management of infrastructure is level 4 above.

The compilation of a detailed infrastructure asset register in one financial term is a costly and onerous exercise. To ensure the practicality of implementing asset registers (and asset management planning as a whole), the International Infrastructure Management Manual (IIMM) recommends the adoption of a continuous improvement process as a practical implementation approach. This approach recognises the value of limited data above no data and enables the municipalities to slowly, but steadily, increase their knowledge in the assets they own. The improvement principles of the IIMM recommend starting with complete coverage of the infrastructure types at a low level of detail (e.g. level 2 or 3) and then improving the level of detail over a period of several years, starting with the high-risk assets, such as pump stations, treatment works, etc.

### **Policy**

The infrastructure asset register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimising the risks of the municipality. Infrastructure assets are valued at cost (or, if acquired through a non-exchange transaction, the cost of the asset at recognition is measured as the fair value of the asset) less accumulated depreciation and accumulated impairment. If cost can however not be established, then infrastructure assets will be valued at depreciated replacement cost. Depreciated replacement cost is an accepted fair value calculation for assets where there is no active and liquid market. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value applied to Infrastructure assets shall be reviewed on an indication base as per the guidance of GRAP 17.

Infrastructure Assets shall be recorded under the main categories listed in *Annexure A*;

## **5.3 PROPERTY, PLANT AND EQUIPMENT: OTHER ASSETS**

### **General**

Other Assets include a variety of assets that are of indirect benefit to the communities they serve. These assets include equipment, furniture and fittings, bins and containers, emergency equipment, motor vehicles, specialised vehicles, computer equipment and office equipment.

### **Policy**

Other assets are carried at cost (or, if acquired through a non-exchange transaction, the cost of the asset at recognition is measured as the fair value of the asset) less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Other assets are not re-valued. The remaining useful life and residual value of applied to other assets shall be reviewed on an indication bases as per the guidance of GRAP 17.

Other Assets (general assets) shall be recorded under the main categories listed in *Annexure A*.

## 5.4 HERITAGE ASSETS (GRAP 103)

### General

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. Heritage assets include the following:

- Archaeological sites;
- Conservation areas;
- Historical buildings or other historical structures (such as war memorials);
- Historical sites (for example a historical battle site or site of a historical settlement);
- Museum exhibits;
- Public statues; and
- Works of art (which will include paintings and sculptures).

### Policy

Heritage assets are stated at cost (or, if acquired through a non-exchange transaction, the cost of the asset at recognition is measured as the fair value of the asset) less accumulated impairment losses. Heritage assets are not re-valued. If an asset that might be regarded as a heritage asset cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

## 5.5 INTANGIBLE ASSETS (GRAP 31)

### General

Intangible Assets can be purchased, or can be internally developed, by the municipality and includes, but are not limited to, computer software, website development cost, servitudes and mining rights.

### Servitudes

#### Creation of servitudes through the exercise of legislation

In terms of legislation, municipalities are granted certain rights regarding the creation of servitudes. For example, in proclaiming townships, a municipality may declare that servitudes are to be registered over certain parts of the land falling within the boundaries of the proclaimed township so that it is able to install infrastructure to provide basic services.

A key feature of servitudes created using rights granted in legislation is that no compensation is paid to the landowner for the acquisition of these rights. Costs may however be incurred to register the servitude with the Deeds Office.

Servitudes granted under these conditions do not meet the ‘identifiably’ criteria above for the following reasons:

- They cannot be sold, transferred, rented or exchanged freely and are not separable from the entity.
- They arise from rights granted to the entity in statute and are specifically excluded from GRAP 31 as they are “internally generated rights”.



### **Creation of servitudes through acquisition (including by way of expropriation or agreement)**

An entity may need to acquire the rights associated with a specific piece of land, e.g. to span power cables related to an electricity distribution network. When an entity acquires rights associated with land, and registers a servitude, the landowner is usually compensated. Servitudes granted under these conditions are distinguished from those that are created through the exercise of legislation. These servitudes meet the definition of an “identifiable” intangible asset because they arise from contractual or other legal rights that are acquired through a specific arrangement, rather than through rights conferred on an entity in statute. In these instances, an entity would recognise the servitude as an intangible asset at cost. The cost of these servitudes on initial recognition is usually the transaction price, i.e. the compensation paid to the landowner and any other costs that can be capitalised to the cost of the asset in terms of GRAP 31.

### **Policy**

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset. If an intangible asset is generated internally by the municipality, then a distinction should be made between research and development costs. Research costs should be expensed and development costs may be capitalised if all the criteria set out in GRAP 31 has been met.

## **5.6 INVESTMENT PROPERTY (GRAP 16)**

### **General**

Investment Property comprise of 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 property does not include property used in the production or supply of service or for administration. It also does not include property that will be sold in the normal course of business. Typical investment properties include:

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

### **Policy**

Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality’s Statement of Financial Position. Investment Property is initially measured at its cost. Transaction costs shall be included in this initial measurement. Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition. 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 PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.

**RECOGNITION:** Investment property recognised at cost, if acquired through a non-exchange transaction, the cost is measured as the fair value of the asset.

**COST:** After initial recognition, all investment property shall be measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the asset. Land has an indefinite useful life thus it is acceptable practice that no depreciation is calculated on land parcels.

A gain or loss arising from a change in the fair value of investment property shall be included in surplus or deficit for the period in which it arises.

Investment assets are recorded in an Investment Property register.

The following classes of Municipal Property will be classified as Investment Property:

- a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations which council intends to sell at a beneficial time in the future.
- b) Land held for a currently undetermined future use.
- c) 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.
- d) A building that is currently vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.
- e) Property that is being constructed or developed for future use as investment property.

The following classes of Municipal Property will not be classified as Investment Property:

- a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale. This property is treated as inventory.
- b) Property being constructed or developed on behalf of the Provincial Government: Housing Department.
- c) Owner-occupied property which is defined as property which is held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes as per definition criteria of GRAP 17 which includes all council buildings used for administration purposes.
- d) Property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) are also regarded to be owner-occupied property.
- e) Property that is leased to another entity under a finance lease.
- f) Property held by council for strategic purposes or to meet service delivery objectives rather than to earn rental or for capital appreciation. The decision should be documented and approved through a resolution.
- g) Where council has properties that are used both for administrative and commercial purposes and part of the properties cannot be sold separately these properties will not be classified as investment properties.

## **5.7 BIOLOGICAL ASSETS (GRAP 27)**

### **General**

Biological Assets are living plants and animals such as trees in a plantation or orchard, cultivated plants, sheep and cattle. Managed agricultural activity such as raising livestock, forestry, annual or perennial

cropping, fish farming that are in the process of growing, degenerating, regenerating and / or procreating which are expected to eventually result in agricultural produce. Such agricultural produce is recognised at the point of harvest. Future economic benefits must flow to the municipality from its ownership or control of the asset.

Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to the market. Where the municipality is unable to measure the fair value of biological assets reliably, a biological asset should be measured at cost less any accumulated depreciation and accumulated impairment losses.

### **Policy**

Biological assets, such as livestock and crops, shall be valued annually at fair value less estimated point-of-sales costs.

## **5.8 INVENTORY PROPERTY (GRAP 12)**

### **General**

Inventory Property comprises 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.

### **Policy**

Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the municipality's asset register or Statement of Financial Position. Inventory property shall be valued annually at reporting date at the lower of carrying value or net realisable value, except where they are held for:

- a) distribution at no charge or for a nominal charge, or
- b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge, then they shall be measured at the lower of cost and current replacement cost.

Inventory properties shall be recorded in the Inventory register.

## **6. ASSET ACQUISITION**

### **6.1. ACQUISITION OF ASSETS**

#### **General**

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing. The date of acquisition of assets is deemed to be the time when control passes to the municipality.

#### **Policy**

Should the municipality decide to acquire a capital asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset:

- The purpose for which the asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it;
- The asset meets the definition of a Capital Asset (as defined in GRAP 16, GRAP 17, GRAP 27, GRAP 31 and GRAP 103)
- The asset has been budgeted for;
- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
- The asset is appropriate to the task or requirement and is cost-effective over the life of the asset.
- The 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; and
- The most suitable and appropriate type, brand, model, etc. has been selected.

### **6.2. CREATION OF NEW INFRASTRUCTURE ASSETS**

#### **General**

Creation of new infrastructure assets refers to the purchase and/or construction of totally new assets that has not been in the control or ownership of the municipality in the past.

#### **Policy**

The cost of all new infrastructure facilities (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs of new infrastructure into the component parts, each of which have an appropriate useful life.

Work in progress shall be flagged (indicated) as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for it to operate in the manner intended by management. Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

### **6.3. SELF-CONSTRUCTED ASSETS**

#### **General**

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality.

#### **Policy**

All assets that can be classified as assets and that are constructed by the municipality should be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged (indicated) as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for it to operate in the manner intended by management.

### **6.4. DONATED ASSETS**

#### **General**

A donated asset is an item that has been given to the municipality by a third party in government or outside government without paying or actual or implied exchange.

#### **Policy**

Donated assets shall be valued at fair value, reflected in the asset register, and depreciated as normal assets. All donated assets shall be approved by the Municipal Manager and ratified by Council as part of acceptance.

## **7. ASSET MAINTENANCE**

### **7.1. USEFUL LIFE OF ASSETS**

#### **General**

Useful Life of assets is defined in “ABBREVIATIONS AND DEFINITIONS” of the Policy and is basically the period or number of production units for which an asset can be used economically by the municipality.

Although National Treasury (NT) guidelines exist that includes directives for useful lives of assets, municipalities must use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for particular classes of assets. The calculation of useful life is based on a particular level of planned maintenance.

#### **Policy**

The remaining useful life of assets shall be reviewed on indication bases as per the guidance of GRAP. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3. During annual physical verification of movable assets, an assessment of condition and use shall determine the appropriateness of the remaining useful lives, while for infrastructure assets, the useful lives shall be deemed to be appropriate unless an event has occurred or conditions of use have changed, which may have an effect on the remaining useful lives of these assets. Please refer to *Annexure A*.

### **7.2. RESIDUAL VALUE OF ASSETS**

#### **General**

The Residual Value of an asset is the estimated amount that the municipality would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The residual values of most assets are however considered to be insignificant and therefore immaterial in the calculation of the depreciable amount. The reason is that the majority of assets are hardly ever recovered through sale, but rather through use of the asset until the end of its useful life, after which insignificant amounts, if any, are expected to be obtained, as these assets will most probably be replaced in its entirety.

Assets typically not sold by the municipality are land, buildings, infrastructure and community assets, which assets will have a residual value of zero, allowing the asset to be fully depreciated over its useful life cycle. Residual values will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. Past experiences of municipal auctions held revealed that furniture, computer equipment and other movable assets does not reach selling prices that are material.

#### **Policy**

Residual values shall be determined upon initial recognition of assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. The basis of the residual value estimates shall be determined by the results of past sales of vehicles at auctions when it reaches the end of its useful lives. The residual value of assets shall be reviewed on an indication

base as per the guidance of GRAP. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

### **7.3. DEPRECIATION OF ASSETS**

#### **General**

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value. The depreciation method used must reflect the pattern in which economic benefits or service potential of a Capital Asset is consumed by the municipality. The following are the allowed alternative depreciation methods that can be applied by the municipality:

- a. Straight-line;
- b. Diminishing Balance; and
- c. Sum of the Units.

#### **Policy**

All PPE assets except land shall be depreciated over their reasonable useful lives. The residual value and the useful life of an asset shall be reviewed on an indication basis. The depreciation method applied shall be reviewed at each reporting date. Reasonable budgetary provisions shall be made annually for the depreciation of all applicable assets controlled or used by the municipality, or expected to be so controlled or used during the ensuing financial year.

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. Depreciation of an asset shall begin when the asset is ready to be used, i.e. the asset is in the location and condition necessary for it to be able to operate in the manner intended by management. Depreciation of an asset ceases when the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under certain methods of depreciation the depreciation charge can be zero while there is no production. In the case of intangible assets being included as assets, 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 assets.

### **7.4. IMPAIRMENT LOSSES**

#### **General**

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. The following serve as examples of impairment indicators:

- Carrying amount of an asset far exceeds the recoverable amount or market value;
- During routine physical inspection of the asset there was evidence of physical damage (or obsolescence);
- The asset is not being used, or access to the asset is restricted, due to structural damage.

- The asset is not able to perform at the planned or required level and as a result is not meeting service delivery targets.
- During routine physical inspection of the asset it was identified that the asset deteriorated faster than expected, or was subject to damage, which will result in replacement or significant maintenance earlier than expected.

The entity will designate its assets as either non-cash generating or cash generating in accordance with GRAP 21.

Designation is based on the entities objective of using the asset at initial recognition for:

- Delivery of service (service assets) or
- Generating commercial return (profit assets)

It is expected that some assets may have a dual-purpose.

A dual-purpose asset is only classified as cash-generating (profit assets) if the purpose to create a profit clearly stands out and the service delivery aspect is incidental. If the purpose is not clear, the assets are presumed to be non-cash-generating (service assets)

The designation has to be done on an asset or cash-generating unit.

In the designation process assets are first designated using a group of assets and any remaining assets are then designated on an individual asset basis. The designation is applied to individual assets.

An asset could comprise a group of assets that are part of a system or network, that is, infrastructure assets.

Examples of a cash-generating unit (group of assets):

- Administrative / owner-occupied assets
- Infrastructure – Roads
- Infrastructure – Water
- Infrastructure – Electricity
- Infrastructure – Sewer
- Infrastructure – Waste Management
- Community Assets – Swimming Pool
- Community Assets – Community Hall

For non-cash generating assets GRAP 21 will be applied.

For cash generating assets GRAP 26 will be applied.

The impairment amount is calculated as the difference between the carrying value and the recoverable value.

#### Non-cash generating assets

The recoverable value is the higher of the asset's value in use or its fair value less cost to sell.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

#### Cash generating assets

The recoverable value is the higher of the asset's value in use or its fair value less cost to sell.



Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

Where the recoverable amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at re-valued amount.

If the asset is carried at a re-valued amount the impairment should be recorded as a decrease in the revaluation reserve. Where immovable property, plant and equipment surveys are conducted, the recoverable service value is determined using the depreciated replacement costs method by assessing the remaining useful life.

### **Policy**

Assets shall be reviewed annually for all assets with impairment indicators. Impairment of assets shall be recognised as an expense, unless it reverses a previous revaluation in which case it should be charged to the Revaluation Surplus. The reversal of previous impairment losses recognised as an expense is recognised as income.

## **7.5. MAINTENANCE OF ASSETS AND THE ASSET REGISTER**

### **General**

Maintenance refers to all actions necessary for retaining an asset as near as practicable to its original condition in order for it to achieve its expected useful life, but excludes rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance.

For linear infrastructure assets, such as pipes, cables and roads, the following test is applied to differentiate between maintenance and renewal when partial sections of linear assets are renewed:

- If a future renewal of the entire pipe will include the renewal of the partial section that is now renewed, then the renewal of the partial section is treated as maintenance.
- If a future renewal of the entire pipe will retain the partial section that is now renewed, then the renewal of the partial section is treated as renewal and the pipe is split into two separate assets.

Maintenance analysis is an essential function of infrastructure management to ensure cost-effective and sustainable service delivery. In order to analyse maintenance data, maintenance actions undertaken against individual infrastructure assets should be recorded against such assets.

### **Policy**

Maintenance actions performed on infrastructure assets shall be recorded against the individual assets that are identified in the asset register.

## **7.6. RENEWAL OF ASSETS**

### **General**

Asset renewal is restoration of the service potential of the asset. Asset renewal is required to sustain service potential from infrastructure beyond the initial or original life of the asset. If the service provided by the asset is still required at the end of its useful life, the asset must be renewed. However, if the service is no longer required, the asset should not be renewed. Asset renewal projections are generally based on forecast renewal by replacement, refurbishment, rehabilitation or reconstruction of assets to maintain desired service levels.

**Policy**

Assets renewal shall be accounted for against the specific asset. The renewal value shall be capitalised against the asset and the expected life of the asset adjusted to reflect the new asset life.

**7.7. REPLACEMENT OF ASSETS**

**General**

This paragraph deals with the complete replacement of an asset that has reached the end of its useful life so as to provide a similar or agreed alternative level of service.

**Policy**

Assets that are replaced shall be derecognised at their carrying value. The replacement asset shall be accounted for as a separate new asset.

Costs incurred to replace the asset shall be split between costs to dispose of the old asset, which shall be expensed as part of the derecognition, and costs to install the new asset, which shall be capitalised against the new asset.

## **8. ASSET DISPOSAL**

### **8.1 TRANSFER OF ASSETS**

#### **General**

The processes and rules for the transfer of a capital asset to another municipality, municipal entity or national/provincial organ of state are governed by an MFMA regulation namely “the Local Government: Municipal Asset Transfer Regulations”.

Transfer of assets or inventory items refers to the internal transfer of assets within the municipality or from the municipality to another entity. Procedures need to be in place to ensure that the Asset Control Department can keep track of all assets and ensure that the asset register is updated with all changes in asset locations. These procedures must be followed and apply to all transfers of assets from:

- One Department to another Department;
- One location to another within the same department;
- One building to another; and
- One entity to another.

#### **Policy**

The transfer of assets shall be controlled by a transfer process and the asset register shall be updated.

### **8.2 EXCHANGE OF ASSETS**

#### **General**

According to GRAP 17.29 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

- the exchange transaction lacks commercial substance; or
- the fair value of neither the asset received nor the asset given up is reliably measurable.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

#### **Policy**

The cost of assets acquired in exchange for another asset shall be measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred.

## 8.3 ALIENATION / DISPOSAL OF ASSETS

### General

Alienation / Disposal is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality, or no owner in the case of destruction of the asset. This includes voluntary and involuntary disposals.

The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the voluntary disposal of capital assets.

Specifically:

- A municipality may not ...” permanently dispose of a capital asset needed to provide the minimum level of basic municipal services”
- Where a municipal council has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the municipality’s supply chain management policy.

In addition, the MFMA section 75 (1)(h) requires that the accounting officer of a municipality places on the municipality’s website an information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14(2) or (4) during the previous quarter.

### Policy

The disposal of an item of property, plant or equipment must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management and the Supply Chain Management Policy of the municipality.

Different disposal methods will be necessary for different types of assets. Before deciding on a particular disposal method, the following shall be considered:

- The nature of the asset
- The potential market value
- Other intrinsic value of the asset
- Its location
- Its volume
- Its trade-in price
- Its ability to support wider Government programmes;
- Environmental considerations
- Market conditions
- The asset’s life

Appropriate means of disposal may include:

- Public auction
- Public tender
- Transfer to another institution

- Sale to another institution
- Letting to another institution under finance lease
- Trade-in
- Controlled dumping (for items that have low value or are unhygienic)

Other means of alienation include:

- **Donations:** Donations may be considered as a method of alienation, but such requests must be motivated to the Municipal Manager for approval.
- **Destruction:** Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.
- **Scrapping:** Scrapping of assets that cannot be alienated otherwise may be considered as a method of alienation, but such requests must be motivated to the Municipal Manager.
- **The letting of immovable property, excluding municipal housing for officials and political office bearers, must be done at market-related tariffs, unless the relevant treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.**

All involuntary disposals should be reported to the Chief Financial Officer on a regular basis. This report should include the investigation into the reason for the involuntary disposal per asset and advise if any remediation or recovery could be made. The involuntary disposal of assets, together with the supporting investigations should be presented to council to determine if the involuntary disposal was due to negligence, and if so, to instruct recoveries where possible. Where the involuntary was not due to negligence, council shall determine if there is a correcting or mitigating control that may be put in place to ensure future losses are limited.

Once the fixed assets are disposed, the asset shall be removed from the accounting records and the asset register. All gains and losses realised on the disposal of assets shall be accounted for as revenue or expense in the Statement of Financial Performance.

## **8.4 SELLING OF ASSETS**

### **General**

Selling of assets refers to the public sale of municipal assets approved for alienation.

### **Policy**

All assets earmarked for sale must be sold by public auction or tender and the following steps shall be followed:

- A notice of the intention of the municipality to sell the asset shall be published in a local newspaper;
- The municipality shall appoint an independent appraiser to fix a minimum selling price;
- In the case of a public auction, the municipality shall appoint an independent auctioneer to conduct the auction; and
- In the case of a tender, the prescribed tender procedures of the municipality shall be followed.
- The municipality will obtain council/municipal manager approval for all disposals according to delegation of powers where applicable

Sold assets shall be derecognised in the asset register once control and all rights and obligations of the asset has been transferred.

## **8.5 WRITING-OFF OF ASSETS**

### **General**

The write-off of assets is the process to permanently remove the assets from the asset register. Assets can be written-off after approval of the Municipal Manager of a report indicating that:

- The useful life of the asset has expired;
- The asset has been destroyed;
- The asset is out-dated;
- The asset has no further useful life;
- The asset does not exist anymore;
- The entity has lost control of the asset
- The asset has been sold; and
- Acceptable reasons have been furnished leading to the circumstances set out above.

### **Policy**

Reasons for writing off assets, other than the sale of such assets during the process of alienation, shall be the loss, theft, destruction, or decommissioning of the asset in question.

## **9. PHYSICAL CONTROL (MOVABLE ASSETS)**

### **9.1. PHYSICAL CONTROL / VERIFICATION**

#### **General**

Movable assets require physical control and verification of existence.

Assets that cannot be physically verified, may indicate loss of control of the asset and as such, should be treated in line with paragraph 8.5 of this policy for the disposal of assets.

#### **Policy**

All movable assets shall be actively controlled, including an annual verification process. Annual physical inspections of assets shall be performed to identify items which are missing, damaged, not in use or are obsolete due to changed circumstances, to ensure that they are appropriately repaired, impaired, written off or disposed of.

Registers shall be kept for those assets allocated to staff members. The individuals are responsible and accountable for the assets under their control. These registers should be updated when the assets are moved to different locations or allocated to a different staff member in order to facilitate control and physical verification.

### **9.2. INSURANCE OF ASSETS**

#### **General**

Insurance provides selected coverage for the accidental loss of the asset value. Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury.

### **Policy**

Assets that are material in value and substance shall be insured at least against destruction, fire and theft. All municipal buildings shall be insured at least against fire and allied perils.

## **9.3. SAFEKEEPING OF ASSETS**

### **General**

Asset safekeeping is the protection of assets from damage, theft, and safety risks.

### **Policy**

Directives for the safekeeping of assets shall be developed and the safekeeping of assets shall be actively undertaken.

## **10. ASSET FINANCIAL CONTROL**

### **10.1. BORROWING COSTS (GRAP 5)**

### **General**

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of premiums or discounts associated with such borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance charges in respect of finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as an adjustment to interest costs. The capitalisation of borrowing costs should take place when borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. During extended periods in which development of an asset is interrupted, the borrowing costs incurred over that time period should be recognised as an expense when incurred. Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

It is inappropriate to capitalise borrowing costs when there is clear evidence that it is difficult to link a borrowing requirement directly to the nature of the expenditure to be funded, i.e. Capital or Current.

### **Policy**

Borrowing costs shall be capitalised, if directly attributable to the acquisition construction or production of an asset over a significant period, except when it is inappropriate to do so.

### **10.2. FUNDING SOURCES**

### **General**

The Municipal Finance Management Act (MFMA) provides guidelines on how to utilize funds in financing assets (Section 19 of MFMA). The municipality shall utilise any of the following sources to acquire and / or purchase assets:

- Grants, Subsidies and Public Contributions;
- Revenue Contributions;
- Capital Replacement Reserve;
- Cash Surplus; and / or
- External / Donor Funds.

### **Policy**

The annual capital budget must be funded and the sources of finance must be disclosed as part of the Council's budget.

## **10.3. DISASTER**

### **General**

In terms of the Disaster Management Act, 2002, Disaster means a progressive or sudden, widespread or localised, natural or human – caused occurrence which causes or threatens to cause:

- death, injury or disease;
- damage to property, infrastructure or the environment; or
- disruption of life of community; and
- is of a magnitude that exceeds the ability of those affected by the disaster to cope with its effects using only their own resources.

In terms Section 56 (b) of the Disaster Management Act, 2002 the cost of repairing or replacing public sector infrastructure should be borne by the organ of state responsible for the maintenance of such infrastructure. The National, Provincial and Local organs of state may contribute financially to response efforts and post – disaster recovery and rehabilitation.

### **Policy**

The Municipality will correspond with the Provincial organs to gain funds for repairing assets damaged in disaster events. The municipality must adhere to the disaster management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster.



## ANNEXURE A: ASSET CATEGORY AND USEFUL LIFE

Buildings	Buildings	Buildings	25 – 50 years
Heritage assets	Heritage assets	Heritage assets	Not depreciated
Infrastructure	Civil structures	Civil structures	15 – 50 years
Infrastructure	Electricity	Distribution and cables	40 – 50 years
Infrastructure	Electricity	Equipment	15 – 45 years
Infrastructure	Electricity	Public lighting	30 – 40 years
Infrastructure	Mechanical equipment	Mechanical equipment	10 – 20 years
Infrastructure	Other	External facilities	7 – 30 years
Infrastructure	Roads	Bridges	30 – 80 years
Infrastructure	Roads	Furniture	8 – 80 years
Infrastructure	Roads	Structure	10 – 50 years
Infrastructure	Roads	Traffic management	10 – 15 years
Infrastructure	Sewerage	Pipelines	40 – 50 years
Infrastructure	Sewerage	Pump stations	10 – 55 years
Infrastructure	Solid waste	Bins and disposal	10 – 20 years
Infrastructure	Sports- and playgrounds	Sports- and playgrounds	10 – 40 years
Infrastructure	Stormwater	Drainage constructed	50 – 70 years
Infrastructure	Stormwater	Drainage unlined	10 – 15 years
Infrastructure	Water	Dams and reservoirs	50 – 80 years
Infrastructure	Water	Other	15 – 20 years
Infrastructure	Water	Pipes and grids	50 – 90 years
Infrastructure	Water	Pumps and tanks	15 – 20 years
Intangible assets	Intangible assets	Computer software	3 – 5 years
Intangible assets	Intangible assets	Rights	Not depreciated

Intangible assets	Intangible assets	Systems (annual license)	Not capitalised
Investment property	Investment property	Investment property	Not depreciated
Land	Land	Land	Not depreciated
Land	Quarry	Quarry	Per expert report
Other assets	Emergency equipment	Emergency equipment	5 – 10 years
Other assets	Furniture and fittings	Furniture and fittings	5 – 7 years
Other assets	Motor vehicles	Motor vehicles	5 – 15 years
Other assets	Office furniture	Office furniture	4 – 15 years
Other assets	Plant and equipment	Plant and equipment	4 – 15 years

## **ANNEXURE B: ASSET TYPES NOT CAPITALISED DUE TO BEING UTILISED LESS THAN 12 MONTHS**

- Kitchenware, e.g. Kettles, toasters, two-plate stove, etc.
- Stationery equipment, e.g. Punches (not heavy duty), staplers (not heavy duty), etc.
- Garden equipment, e.g. Brooms, rakes, spade, etc.
- Machines (not heavy duty), e.g. Spanners, screw drivers, etc.
- Electrical equipment, e.g. Extension lead, multi plug, etc.
- Mattresses
- Cutlery & crockery
- Other, as may be determined by management