Asset management policy

2022/2023

Contents

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 Nama Khoi 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 Nama Khoi 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
OM	District Municipality
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
MFMA	Municipal Finance Management Act
MSA	Municipal Services Act
NT	National Treasury
OHSA	Occupational Health and Safety Act
PPE	Property, Plant and Equipment

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 between knowledgeable, willing parties in an arm's length transaction.

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 - Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

Land and Buildings - are held for purposes such as administration and provision of services.

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 Motor vehicles, 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 valueless 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.

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.

1. PURPOSE OF THIS DOCUMENT

This document indicates the policy of Nama Khoi Local Municipality (NKM) for the management of its assets (which excludes financial assets such as receivables). Detailed procedures are provided in a separate document. The policy commits the municipality to establishing and maintaining an asset register that complies with the latest accounting standards, and managing the assets in a way that is aligned with the municipality's strategic objectives and recognised good practice.

2. REGULATORY FRAMEWORK

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. With the accrual system of accounting, applicable to local government, 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.

2.1. LEGAL BASIS

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 the effective, efficient and economical use of the resources of the municipality, and for managing the assets 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.

2.3. MANAGEMENT OF INFRASTRUCTURE ASSETS

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.

2.4. DELEGATION OF POWERS

This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Municipal Manager and other responsible officials as well as between the Council and the Mayor and the Council and the Municipal Manager. All delegations in terms of this policy must be recorded in writing.

In accordance with the Municipal Finance Management Act, the Municipal Manager is the accounting officer of the Municipality and therefore all designated officials are accountable to him/her. The Municipal Manager is therefore accountable for all transactions entered into by his/her designates.

The overall responsibility of asset management lies with the Municipal Manager. However, the day-to-day handling of assets should be the responsibility of all officials in terms of delegated authority reduced in writing.

2.5. KEY RESPONSIBILITIES

Municipal Manager

The Municipal Manager is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

The Municipal Manager shall ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The municipality's assets are valued in accordance with the standard of generally recognized accounting practice;

  That the municipality has and maintains a system of internal control for assets, including an asset register; and
- The Heads of Departments and their teams comply with this policy.

As Accounting Officer of the municipality, the Municipal Manager shall be the principal custodian of the entire municipality's assets, and shall be responsible for ensuring that this policy is effectively applied on adoption by Council. To this end, the Municipal Manager shall be responsible for the preparation, in consultation with the CFO and Heads of Departments, of procedures to effectively and efficiently apply this policy.

Chief Financial Officer

The Chief Financial Officer (CFO) is responsible to the Municipal Manager to ensure that the financial investment in the municipalities' immovable assets are safeguarded and maintained.

The CFO, as one of the Heads of Departments of the municipality, shall also ensure, in exercising his financial responsibilities, that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The resources of the municipality are utilized effectively, efficiently, economical and transparently;
- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- All revenue due to the municipality is collected, for example rental income relating to immovable assets;
- The systems, procedures and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of the Auditor-General;
- Financial processes are established and maintained to ensure the municipality's resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets.
- The Heads of Departments and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- This policy and support procedures are established, maintained and effectively communicated.

The CFO may delegate or otherwise assign responsibility for performing these functions ~~but will remain~~ accountable for ensuring these activities are performed. The

CFO shall be the asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised asset register is maintained. No amendments, deletions or additions to the asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

Heads of departments

Heads of Departments (the managers directly accountable to the Municipal Manager) shall ensure that:

- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- Procedures are adopted and implemented in conformity with this policy to produce reliable data to be input to the municipal asset register;
- Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
- The asset management system, processes and controls can provide an accurate, reliable and up to date account of assets under their control;
- They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives; and
- Manage the asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.

The Heads of Departments may delegate or otherwise assign responsibility for performing these functions but they shall remain accountable for ensuring these activities are performed.

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 asset management principles.

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

a) Movable 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 objective of this Asset Management Policy is to ensure that proper management of assets forms part of the financial management procedures of Nama Khoi Municipality and to ensure that the municipality:

a) consistently applies asset management principles, including;

   i. accurate recording of asset information and movementii. sufficient asset insurance iii. asset maintenance

b) applies accrual accounting, including;

   i. accounting for assets in terms of GRAP and approved accounting polices ii. appropriate reporting of assets in the AFS

c) Promote management's awareness of their responsibilities in terms of assets

d) Compliance with the MFMA and other related regulations

e) Safeguards and controls the assets of the municipality, and

f) Optimises asset usage.

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.

3.2.2 Sustainable Service Delivery

The municipality strives to provide to its customers services that are technically, environmentally and financially sustainable.

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.

3.2.4 Custodianship

The municipality strives to be a responsible custodian and guardian of the community's assets for current and future generations.

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.

3.2.6 Cost-effectiveness and Efficiency

The municipality strives to manage its immovable assets in an efficient and effective manner.

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:

4.1.1. Property, Plant and Equipment (GRAP 17)

- Land and Buildings (land and buildings not held as investment)
- Infrastructure Assets (immovable assets that are used to provide basic services)
- Community Assets (resources contributing to the general well-being of the community)
- Housing Assets (rental stock or housing stock not held for capital gain)
- Other Assets (ordinary operational resources)

4.1.2 Investment Property (GRAP 16)

4.1.3 Intangible Assets (GRAP 31)

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

4.1.4 Biological Assets (GRAP 27)

- Biological Assets (livestock and plants held)

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 categories for financial reporting purposes:

4.1.5 Assets classified as Held-for-Sale (GRAP 100)

- Assets Held-for-Sale (assets identified to be sold in the next 12 months and reclassified as Inventory)

4.1.6 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. Examples of infrastructure assets include road networks, sewer systems, water and electricity supply systems and communication networks. To facilitate the practical management of infrastructure assets and asset register data, infrastructure assets have been further classified.

Policy

The asset classification specified by GRAP shall be adhered to as a minimum standard. An extended asset classification has been 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 Heads of Departments.

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**	**Infrustructure/building**
Identification			
Unique identification number or asset mark	√	√	√
Unique name	√	√	√
Internal classification	√	√	√
Descriptive data (make, model, etc.)	√	√	√
Erf/Registration number	√	√	√

Title deed reference	√		
Location	√	√	√
Accountability			
Department	√	√	√
Custodian		√	
Insurance reference		√	√
Performance			
Condition		√	√
Remaining Useful life		√	√
Expected Useful life		√	√
Accounting			
Historic Cost	√	√	√
Take-on value (fair value) if different from historic cost	√	√	√
Acquisition (take-on) date	√	√	√
Disposal date	√	√	√
Re-valued amount (where assets were revalued)	√	√	√
Depreciation method		√	√
Depreciation portion that should be transferred from Revaluation reserve to accumulated depreciation (where assets were re-valued)		√	√

Data	Land	Movable	Infrastructure/building
Depreciation charge for the current financial year		√	√
Impairment losses in the current year		√	√
Accumulated depreciation		√	√
Carrying value	√	√	√
Residual value		√	√
Source of financing	√	√	√

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 is not in itself a reason for writing- off 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 established and maintained for all assets: - The Chief Financial Officer will establish and maintain the Register containing key financial data on each asset item that satisfies the criterion for recognition.

- Functional Managers are responsible for establishing and maintaining any additional register or database required for demonstrating their physical management of their assets.
- Each functional manager is responsible to ensure that sufficient controls exist to substantiate the quantity, value, location and condition of all assets in their registers.

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.

The asset register will be divided into two categories for control purposes, namely a Capitalised register and a Minor Assets Control List:

Capitalised register

The purpose of this register is to record and maintain all assets with a cost (excluding VAT where applicable) exceeding R500 (five hundred rand). Information regarding the value of capitalised assets, acquisitions, write-offs and sources of financing is disclosed in the financial statements.

Minor Assets Control List

The purpose of this register is to record and maintain purchases and monitor physical movements of all assets with a cost (excluding VAT where applicable) equal to or less than R500 (five hundred rand).

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:

- 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.

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 de-recognised.

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 provision 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 categorized 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 mayor 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 statement of financial performance on a systematic basis.

Policy

All capital assets shall be correctly recognised as assets and capitalised at the correct value in its significant components. The capitalisation threshold is set at R500 (five hundred rand), (excluding VAT where applicable), but the application thereof will be determined annually by the municipality.

All assets with a cost (excluding VAT where applicable) equal to or less than the capitalisation threshold and with an estimated useful life of more than one year shall be recorded on a Minor Assets Control List. The existence of items recorded on such a list shall be physically verified from time to time, and at least once in every financial year, and any amendments which are made to such lists pursuant to such asset verifications shall be retained for audit purposes.

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

The Municipality shall choose measurement models for Property, plant and Equipment, Investment property, and Intangible assets, for measurement of assets subsequent to initial recognition.

For Property, plant and Equipment and for Intangible assets either the cost model or there valuation model must be chosen, while for investment property the Municipality must choose between the cost model and the fair value model.

Policy

After initial cost model recognition of Property, plant and Equipment and of Intangible assets, 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 assets will be valued using the revaluation model. When an item of Property, plant and Equipment or Intangible assets is revalued, the entire class to which that asset belongs shall be re-valued.

The Municipality has decided to apply the cost model to value PPE and Intangible assets, except for the PPE class Land and Buildings, for which the revaluation model shall be applied.

When an asset's carrying amount is increased as a result of the revaluation, the increase is credited to a revaluation surplus. However, the increase is recognised as a gain in the statement of financial performance to the extent that it reverses a revaluation decrease of the same asset previously recognised as a loss in the statement of financial performance. When and asset's carrying amount is decreased as a result of revaluation, the decrease should be recognised as an expense in the statement of financial performance. 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.

After initial recognition of Investment property, the municipality values its assets using the fair value model.

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 define 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 I Property held for sale.

Cost of inventories shall comprise of all costs of purchase (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.

5. ASSET TYPES

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

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.

Policy

Subsequent to initial recognition, the Municipality applies the revaluation model as the accounting policy for its Land and Buildings. Land and Buildings whose fair value can be measured reliably shall be carried at a re-valued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

All land and buildings recorded in the Municipality's asset register shall be revalued with the adoption by the Municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another Municipality, with the adoption by such Municipality of each new valuation roil).

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

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. Many 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 very 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. Springbok Water Supply)
- Level 2: Network level (e.g. Springbok Pump Stations)
- Level 3: Facility level (e.g. Springbok Pump Station no 1)
- Level 4: Maintenance item level (e.g. Pump 2 in Springbok Pump Station no 1)
- Level 5: Component level (e.g. Bearing of Pump 2 in Springbok Pump Station no 1)

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

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. Subsequent to initial recognition, the Municipality applies the cost model as the accounting policy for its infrastructure assets. Infrastructure assets are therefore valued at cost less accumulated depreciation and accumulated impairment. If cost can however not be established, then infrastructure assets will be valued at depreciated replacement cost. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value of, and the depreciation methods applied to Infrastructure assets shall be reviewed regularly, but the cost related to such reviews should be measured against benefits derived to ensure value for money.

5.3 PROPERTY, PLANT AND EQUIPMENT (GRAP 17): COMMUNITY ASSETS

General

Community Assets include a variety of assets used to provide services to the community. These assets include assets such as cemeteries and parks, as well as recreational assets such as tennis courts, swimming pools, golf courses, outdoor sports facilities, etc.

Policy

The Municipality applies the cost model as the accounting policy for its community assets, thereby valuing these assets at cost less accumulated depreciation and accumulated impairment losses, subsequent to initial recognition. Depreciation shall be charged against such assets over their expected useful lives.

5.4 PROPERTY, PLANT AND EQUIPMENT: HOUSING ASSETS

General

Housing Assets have their origin from housing units erected in terms of the Housing Act, funded from loans granted by Government and comprise of rental stock of selling stock not held for capital gain.

Policy

Housing assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives.

Housing Assets shall be recorded under the following main categories;

- Rental Schemes; and
- Selling Schemes.

5.5 PROPERTY, PLANT AND EQUIPMENT (GRAP 17): 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

Subsequent to initial recognition the Municipality applies the cost model as the accounting policy for its other assets. Other assets are stated at cost (or, if acquired through a non- exchange transaction, at its fair value) 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.

5.6 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 nonexchange transaction, at its fair value) 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.

5.7 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 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.

5.8 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 sale 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. 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.

At initial recognition, the Municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition. The cost of self-constructed investment property is measured at cost.

Where an asset is acquired through a non-exchange transaction, any transaction cost incurred are recognised as part of the cost of the asset.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use

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 to provide a social service and which also generates cash inflows. For example, if council held housing stock (letting units) 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.

g) Property held by council for strategic purposes or to meet service delivery objectives rather than to earn rental or for capital appreciation.

h) 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.

5.9 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 I 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.

5.10 ASSETS CLASSIFIED AS HELD-FOR-SALE (GRAP 100)

General

A non-current asset shall be classified as Assets Held-far-Sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

For the sale to be highly probable, management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Policy

Assets identified for disposal by way of a sale transaction, be it by public auction, bidding process or sales agreement, within 12 months of the date of identification shall be classified as assets held-far-sale and transferred from the home asset category to held-far-sale category. Such assets shall be measured at the lower of its carrying amount and fair value less costs to sell and is not depreciated any further upon classification as held-far-sale. The municipality shall not classify a noncurrent asset that is to be abandoned as held-far-sale because its carrying amount will be recovered principally through continuing use.

5.11 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 its 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, they shall be measured at the lower of cost and current replacement cost. Inventory properties shall be recorded in the Inventory register.

5.12 MINOR ASSETS (CAPITAL ASSETS BELOW APPROVED THRESHOLD)

General

Minor Assets comprise movable assets not capitalised in terms of the threshold policy of the municipality. However, these assets must still be controlled, safeguarded and verified by the municipality. They are not capitalised for the number of assets compared to their value does not warrant the complex procedures applicable to asset management, rendering a manageable asset register by concentrating on what is material and significant to the municipality's operation.

Policy

Minor assets shall be expensed in the statement of financial performance and not be capitalised. However, all assets with values less than the capitalisation threshold and with an estimated useful life of more than one year shall be bar-coded for identification purposes and listed in the Minor Asset Inventory Listing, These assets shall not be depreciated or tested for impairment and shall not generate any further transactions, except in the cases where losses are recovered by means of insurance claims or recoveries from disciplinary actions.

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 or legal title 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 costeffective 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 prior to acceptance.

7. ASSET MAINTENANCE

7.1 USEFUL LIFE OF ASSETS

General

Useful Life of assets is defined in section 2 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 annually. 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.

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 and earthmoving equipment. The basis of the residual value estimates shall be determined by the results of past sales of these types of assets at auctions when it reaches the end of its useful lives. The residual value of assets shall be reviewed annually at reporting date. 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 allowed depreciation methods that can be applied by the municipality are the Straight-line method, the Diminishing Balance method and the Sum of the Units method.

Policy

All PPE items except land shall be depreciated on a straight-line basis over their reasonable useful lives. The municipality shall assess at each reporting date whether there is any indication that the municipalities expectations about the residual value and the useful life of an asset have changed since the preceding 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. The following will apply regarding the rate of depreciation (estimated useful lives):

- The Chief Financial Officer shall assign a useful operating life to each depreciable asset item recorded on the Municipality's 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. - In the case of an asset item which is not listed in this annexure, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the Head of Department who shall control or use the item in question, and shall be guided in determining such useful life by the likely pattern in which the item's economic benefits or service potential will be consumed.

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:

- Significant decline in market value;
- Carrying amount of an asset far exceeds the recoverable amount or market value;
- There is evidence of obsolescence (or physical damage);
- The deterioration of economic performance of the asset concerned; and

- 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 (such as through inadequate maintenance).

The impairment amount is calculated as the difference between the carrying value and the recoverable service value. The recoverable service value is the higher of the asset's value in use or its net selling price. Where the recoverable service 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 an 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 excluding 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 could be 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. In this regard the following will apply:

Maintenance Plans

- Every Head of Department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the Council for approval.

- If so directed by the Municipal Manager, the maintenance plan shall be submitted to the Council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.

- The Head of Department controlling or using the infrastructure asset in question, shall annually report to the Council, not later than in

July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non- compliance may have on the useful operating life of the item concerned.

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 infrastructure asset, the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the budget. 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 Chief Financial Officer shall re-determine the useful operating life of the asset in question, if necessary in consultation with the Head of Department controlling or using such item, and shall recalculate the increased annual depreciation expenses accordingly.

- If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer shall re-determine the useful operating life of the asset in question, if necessary in consultation with the Head of Department controlling or using such item, and shall recalculate the increased annual depreciation expenses accordingly.

General Maintenance of assets

Every Head of Department shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with above) are properly maintained and in a manner which will ensure that such item attain their useful operating lives.

7.6 RENEWAL OF ASSETS

General

Asset Renewal is restoration of the service potential of the asset. Asset renewal is required to sustain service provision 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 written off at their carrying value. The replacement asset shall be accounted for as a separate new asset. All costs incurred to replace the asset shall be capitalised against the new asset.

8. ASSET DISPOSAL

8.1 ALIENATION/DISPOSAL OF ASSETS

General

Alienation/Disposal (alienation) is the process of disowning assets by transferring ownership or title to another owner, which is external to the municipality.

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

Council will delegate the authority for disposal of assets not exceeding a carrying value of R50 000 to the Municipal Manager, and will ensure that disposal, including transfer of assets with a value exceeding R50 000 occurs in accordance with the MFMA.

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.

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.

8.2 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 section 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.

8.3 EXCHANGES OF ASSETS

General

According to GRAP 17.29 and GRAP 16.34 an asset may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

If the fair value of either the asset received or the asset given up can be determined reliably, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.
If the acquired asset 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.

8.4 SELLING OF ASSETS

General

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

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.

Assets earmarked for sale, shall be reclassified as Assets Held-for-Sale in terms of section 5.10 of this Policy and shall not attract any further depreciation. Sold assets shall be written-off in the asset register.

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 asset has been sold; and
- Acceptable reasons have been furnished leading to the circumstances set out above.

Policy

When an asset was damaged or destroyed in circumstances beyond the control of the municipality, the municipal manager must ascertain whether third parties or a municipal employee was involved and whether the municipality has any right of recourse against such third party or employee.

Policy

The only reasons for writing off assets, other than the sale or transfer of such assets during the process of alienation, shall be the loss, theft, destruction, material impairment, or decommissioning of the asset in question. In this regard:

- An asset item, even though not fully depreciated, shall be written off when it can no longer be used, in consultation with the Head of Department controlling or using the item concerned.
- Every Head of Department shall report to the Chief Financial Officer on 30 April of each financial year on any asset item which such Head of 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 notify the Council on the assets to be written off.
- An asset is written off at the value reflected in the asset register of the municipality less any proceeds received.
- The resulting profit or loss is recognised as a gain or loss on disposal in the statement of financial performance.

9. PHYSICAL CONTROL (MOVABLE ASSETS)

9.1 PHYSICAL CONTROL/VERIFICATION

General

Movable assets require physical control and verification of existence.

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. In this regard:

- Every Head of Department shall at least once during every financial year undertake a comprehensive verification of all movable PPE items controlled or used by the department concerned.
- 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 PPE verification, provided that each such item of PPE verification shall be undertaken and completed during the month of June of each financial year, and that the resultant report shall be submitted to the Chief Financial Officer not later than 15 July of the year in question.

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.

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 movements of PPE (including inventory items) within 5 working days after movement of such item.

Policy

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. In this regard:

- The Municipal Manager shall ensure that all movable assets are insured at least against fire and theft, and that all Municipal buildings are insured at least against fire and allied perils.
- If the Municipality operates a self-insurance reserve (assuming such reserve to be allowed), the Chief Financial officer shall annually determine the premiums payable by the departments or votes after having received a list of the assets and insurable values of all relevant items from the Heads of Departments concerned.
- The Municipal Manager shall recommend to the Council, after consulting with the Chief Financial Officer, the basis of the insurance to be applied to each type of asset - either the carrying value or the replacement value of the item 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 on any reinsurance cover which it is deemed necessary to procure for the Municipality's self-insurance reserve.

9.3 SAFEKEEPING OF ASSETS

General

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

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

Policy

10. ASSET FINANCIAL CONTROL

10.1 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 (CRR);
- Cash Surplus; and I 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. In this regard:

- The Chief Financial Officer shall ensure that in respect of all assets financed from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of assets donated to the Municipality, a grants reserve or public contribution reserve for future depreciation is created equal in value to the capitalised value of each asset item in question.
- The Chief Financial Officer shall thereafter ensure that in the case of depreciable assets an amount equal to the monthly depreciation expenses of the items concerned are transferred.

It is the policy of Council to maintain and annually make contributions to a CRR to ensure that the CRR remains a capital funding source for the future. The municipality will determine its future capital financing requirements and transfer sufficient cash to its CRR in terms of this determination. The IDP, the municipality's ability to raise external finance and the amount of government grants and subsidies that will be received in future will need to be taken into account in determining the amount that must be transferred to the CRR. In this regard:

- The Chief Financial Officer shall ensure that in respect of all assets financed from the CRR whenever an asset (including land) is sold by the municipality, the proceeds on the sale of the asse are transferred from the Accumulated Surplus to the CRR via the statement of changes in r assets, and whenever an asset is purchased out of the CRR an amount equal to the cost price the asset purchased, is transferred from the CRR into accumulated surplus on the statement changes in net assets.

10.2 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, except when it is inappropriate to do so.

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.

11. POLICY AMENDMENT

Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the CFO in consultation with the Municipal Manager and respective Heads of Departments. The recommendations of the CFO shall be considered for adoption by Council.

Annexure A: Asset classification and estimated useful lives

Asset Class	
Land Asset Life	Indefinite
Buildings	
Improvements	5 - 50
Infrastructure	
Electricity	10 - 50
Railways	30
Roads and Paving	5 - 80
Sanitation	10 - 55
Sewerage / Solid Waste	5 - 80
Water	5 - 80
Community Assets	
Community Facilities	5 - 50
Recreational Facilities	10 - 40
Other Assets	
Computer Equipment	5 - 10
Emergency Equipment	5 -10
Furniture and Fittings	5 - 15
Motor Vehicles	7 - 10
Office Equipment	5 - 15
Plant and Equipment	2 - 15

Specialist Vehicles	10 - 15
Other Assets	5 -15
Intangible Assets	
Computer Software	3-5

APPROVED AND IMPLEMENTATION OF POLICY

COUNCIL APPROVAL:	IMPLEMENTATION DATE: 01 July 2022
______________________ R KRITZINGER SPEAKER	DATE: ____________2022