NAMA KHOI MUNICIPALITY

ASSET MANAGEMENT POLICY

2023/24

VERSION 1

CONTENTS

1 PREAMBLE

1.1 Section 14 of the Local Government: Municipal Finance Management Act 56 of 2003 determines that a municipal council may not dispose of municipal assets required to provide minimum services. Within this context, the Municipal Asset Transfer Regulations (GN R878 in GG 31346 of 22 August 2008) have been issued.

1.2 The Local Government: Municipal Finance Management Act 56 of 2003 was introduced with the objective of improving accounting in the local government sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector.

1.3 With the accrual system of accounting, which is applicable to local government, assets are incorporated into the books of accounts and systematically written off over their anticipated useful lives.

1.4 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.

1.5 This ensures good financial discipline, and allows decision makers greater control over the management of assets.

2 PURPOSE

2.1 The purpose of this Policy is to indicate that the Municipality is committed to –

(a) establishing and maintaining an asset register that complies with the latest prescribed accounting standards;

(b) managing the assets in a way that is aligned with the Municipality's strategic objectives and recognised good practice; and

(c) providing municipal services for which the Municipality is responsible, in a transparent, accountable and sustainable manner and in accordance with sound asset management principles.

2.2 This Policy aims at –

(a) promoting efficient and effective management, control and monitoring of the Municipality's assets;

(b) regulating the acquisition, safeguarding, use and maintenance of all municipal assets;

(c) ensuring that municipal assets are protected over their useful life;

(d) regulating the use of municipal assets in the –

(i) in the production or supply of goods and services; or

(ii) for administrative purposes; and

(e) providing guidance to the Municipal Manager, as custodian of municipal assets, in the management, control, use, maintenance and monitoring of municipal assets.

3 SCOPE OF APPLICATION

3.1 This Policy applies to the management, control, use and monitoring of all assets of which the Nama Khoi Municipality is the owner, but excludes the –

(a) the transfer and disposal of immovable property owned by the Nama Khoi Municipality (which is dealt with in the Municipal Land Transfer Policy); and

(b) the management, control, use, maintenance and monitoring of financial assets such as receivables (which is dealt with in the Financial Assets Management Policy).

4 LEGISLATIVE AND POLICY FRAMEWORK

The legislative and policy framework for this Policy includes –

- Constitution of the Republic of South Africa Act, 1996
- Broad-based Black Empowerment Act 53 of 2003
- Deeds Registry Act 47 of 1937
- Disaster Management Act 57 of 2002
- Division of Revenue Act (current year version)
- Housing Act 107 of 1997

- Local Government Capital Asset Management Guideline, 2009
- Local Government: Disciplinary Regulations for Senior Managers, 2010
- Local Government: Municipal Demarcation Act 27 of 1998
- Local Government: Municipal Finance Management Act 56 of 2003
- Local Government: Municipal Property Rates Act 6 of 2004
- Local Government: Municipal Structures Act 117 of 1998
- Local Government: Municipal Systems Act 32 of 2000
- Mineral and Petroleum Resources Development Act 28 of 2002
- Municipal Asset Transfer Regulations (GN R878 in GG 31346 of 22 August 2008)
- Municipal Standard Chart of Accounts (GN R312 in GG 37577 of 22 April 2014)
- Municipal Supply Chain Management Regulations (GN 868 in *GG* 27626 of 30 May 2005)
- Promotion of Access to Information Act 2 of 2000
- Promotion of Administrative Justice Act 3 of 2000
- Spatial Planning and Land Use Management Act 16 of 2013
- Transformation of Certain Rural Areas Act 94 of 1998
- Northern Cape Division of Revenue Act (current financial year version)
- Standards of Generally Recognised Accounting Practices (GRAP), including:
    - GRAP 5 Borrowing Costs
    - GRAP 11 Construction Contracts
    - GRAP 12 Inventories
    - GRAP 13 Leases
    - GRAP 16 Investment property
    - GRAP 17 Property, plant and equipment
    - GRAP 21 Impairment of Non-cash-generating Assets
    - GRAP 26 Impairment of Cash-generating Assets
    - GRAP 31 Intangible Assets
    - GRAP 32 Service Concession Arrangements: Grantor
    - GRAP 100 Non-current Assets held for Sale and Discontinued Operations
    - GRAP 101 Biological Assets
    - GRAP 102 Research And Development
    - GRAP 103 Heritage Assets
    - Any other standards of Generally Recognised Accounting Practices that may be prescribed from time to time
- Nama Khoi Municipality Credit Control and Debt Collection Policy
- Nama Khoi Municipality Delegation Policy
- Nama Khoi Municipality Disaster Management and Emergency Assistance Policy
- Nama Khoi Municipality Indigent Support Policy

- Nama Khoi Municipality Municipal Land Transfer Policy
- Nama Khoi Municipality Property Rates Policy
- Nama Khoi Municipality Supply Chain Management Policy
- Nama Khoi Municipality Tariffs, Credit Control and Debt Collection By-Law
- Nama Khoi Municipality Writing Off of Irrecoverable Debt Policy

5 DEFINITIONS

In this Policy, unless the context dictates otherwise, any word or expression to which a meaning has been assigned in the Local Government: Municipal Finance Management Act 56 of 2003 has that meaning, and –

"accounting officer" means the Municipal Manager appointed in terms of section 82 of the Local Government: Municipal Structures Act 117 of 1998 and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act 32 of 2000;

"accumulated depreciation" means the total depreciation allocations to a certain point with respect to assets still in use;

"adequate notice" means a notice period of not less than 30 days within which representations, comments or objections may be made;

"agricultural produce" means the harvested product of the Municipality's biological assets;

"amortisation" means the systematic allocation of the depreciable amount of an intangible asset over its useful life.

"assets "means any more or all the classes of items referred to as **"capital assets"**;

"biological assets" means living animals or plants;

"borrowing costs" means interest and other expenses incurred by the Municipality in connection with the borrowing of funds;

"capital assets" means items of –

(a) biological assets;

(b) intangible assets;

(c) investment property;

(d) land, property and buildings; and

(e) property, plant or equipment,

as defined in this Policy;

"carrying amount" means the amount at which an asset is included in the Statement of Financial Position after deducting any accumulated depreciation (or amortisation in the case of intangible assets) and accumulated impairment losses thereon, and "book value" has a corresponding meaning;

"chief financial officer" - means an officer of a Municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions, and "CFO" has a corresponding meaning;

"community assets" means any asset that contributes to the community's well-being, including, but not limited to, parks, libraries and fire stations;

"Constitution" means the Constitution of the Republic of South Africa, 1996;

"Council" means the Council of the Nama Khoi Municipality;

"cost" means 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;

"cost of acquisition" means all the costs incurred in bringing an asset item to the required condition and location for its intended use;

"depreciable amount" means the cost of an asset or other amount substituted for cost in the financial statements, less its residual value;

"depreciation" means the systematic allocation of the depreciable amount of an asset (excluding land and heritage assets) over its useful life as a result of the decline in the value of the asset consequent to its use or consumption in the provision of economic benefits or the delivery of services, physical deterioration, normal obsolescence or accidental damage: Provided that during the useful life of the asset, it will be depreciated from its actual cost price to its residual value (which is usually nil);

"development" means the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services prior to the commencement of commercial production or use;

"disaster" means a progressive or sudden, widespread or localised, natural or human-caused occurrence which –

(a) causes or threatens to cause –

(i) death, injury or disease;

(ii) damage to property, infrastructure or the environment; or

(iii) significant disruption of the life of a community; and

(b) is of a magnitude that exceeds the ability of those affected by the disaster to cope with its effects using only their own resources;

"disaster management" means a continuous and integrated multi-sectoral, multi-disciplinary process of planning and implementation of measures aimed at –

(a) preventing or reducing the risk of disasters;

(b) mitigating the severity or consequences of disasters;

(c) emergency preparedness;

(d) a rapid and effective response to disasters; and

(e) post-disaster recovery and rehabilitation;

"disaster risk reduction" means either a policy goal or objective, and the strategic and instrumental measures employed for –

(a) anticipating future disaster risk;

(b) reducing existing exposure, hazard or vulnerability; and

(c) improving resilience;

"disposal", in relation to a capital asset, includes –

(a) the demolition, dismantling or destruction of the capital asset; or

(b) any other process applied to a capital asset which results in loss of ownership of the capital asset otherwise than by way of transfer of ownership;

"exempted capital asset" means a municipal capital asset which is exempted by section 14(6) or section 90(6) of the Local Government: Municipal Finance Management Act 56 of 2003 from the other provisions of that section;

"fair value" means the amount for which an asset could be exchanged or a liability between knowledgeable, willing parties in an arm's length transaction;

"finance lease" means a lease that transfers substantially all the risks and rewards incident of ownership of an asset;

"financial year" means the period starting from the 1st of July in any year and ending on the 30th of June of the following year;

"fixed asset" means an asset with an expected useful life greater than 12 months and includes movable and immovable assets; and **"non-current asset"** has a corresponding meaning;

"Gazette" means the *Government Gazette* of the Republic of South Africa;

"GRAP" means the Standards of Generally Recognised Accounting Practice as determined from time to time by the Accounting Standards Board established by the Public Finance Management Act 1 of 1999;

"**heritage assets**" means culturally significant resources, including, but not limited to, works of art, historical buildings and statues;

"**integrated development plan**" means a plan envisaged in section 25 of the Local Government: Municipal Systems Act 32 of 2000, and "**IDP**" has a corresponding meaning;

"**impairment loss**" means the amount by which the carrying value of an asset exceeds the recoverable amount;

"**Indigent Support Policy**" means the Indigent Support Policy adopted by the Council;

"**indigent**" means any household or category of households, earning a combined gross income, as determined by the Municipality annually in terms of a social and economic analysis of its area, which qualifies for rebates or remissions, support or a services subsidy: Provided that child support grants are not included when calculating such household income;

"**infrastructure assets**" means -any asset that is part of a network of similar assets, including, but not limited to, roads, water reticulation schemes, sewerage purification and trunk mains, municipal transport terminals and municipal car parks;

"**intangible assets**" means identifiable non-monetary assets without physical substance;

"**investment properties**" means property (including, but not limited to land, a building or part of a building) held by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both;

"**land and buildings**" means land and buildings held for purposes such as administration and provision of services, but excludes land and buildings held as investment properties and land inventories;

"**lease**" means an agreement whereby the lessor conveys to the lessee, in return for payment or series of payments, the right to use an asset for an agreed period of time;

"**leased asset**" means an asset which is the subject of a lease;

"**MATR**" means the Municipal Asset Transfer Regulations promulgated in terms of the MFMA and published by GN R878 in Government Gazette 31346 of 22 August 2008;

"MFMA" means the Local Government: Municipal Finance Management Act 56 of 2003, including any Regulations promulgated in terms thereof from time to time;

"MSCMR" means the Municipal Supply Chain Management Regulations promulgated in terms of the MFMA and published by GN 868 in *GG* 2736 of 30 May 2005;

"municipal area" means the geographic area, determined in terms of the Local Government: Municipal Demarcation Act 27 of 1998 as the municipal area pertaining to the Nama Khoi Municipality;

"minor assets" means movable assets below the threshold amount determined in this Policy;

"Municipal Manager" means the Municipal Manager contemplated in section 54A of the Local Government: Municipal Systems Act 32 of 2000;

"MSA" means the Local Government: Municipal Structures Act 117 of 1998, including any Regulations promulgated in terms thereof from time to time;

"mSCOA" means the "Municipal Standard Chart of Accounts" promulgated in terms of the MFMA and published by GN R312 in *GG* 37577 of 22 April 2014, and which provides a uniform and standardised financial transaction classification framework;

"Municipal Systems Act" means the Local Government: Municipal Systems Act 32 of 2000, including any Regulations promulgated in terms thereof from time to time;

"Municipality" means the Nama Khoi Municipality;

"non-exempted capital asset" means a municipal capital asset which is not exempted by section 14(6) or section 90(6) of the Local Government: Municipal Finance Management Act 56 of 2003 from the other provisions of that section;

"other assets" means assets utilised in the normal operations of the Municipality, including, but not limited to, motor vehicles, furniture and fittings;

"organ of state" means –

(a) a national department or national public entity;

(b) a provincial department or provincial public entity;

(c) a Municipality or municipal entity; or

(d) any other organ of state within the meaning assigned to **"organ of state"** in section 239 of the Constitution;

"property, plant and equipment" means-tangible assets that are –

(a) held by the Municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) expected to be used during more than one period,

and" **PPE"** has a corresponding meaning;

"realisable value", in relation to a capital asset, means the amount of cash or cash equivalents that could currently be obtained by transferring the capital asset, less the estimated costs of completion and the estimated costs necessary to make the transfer;

"recoverable amount" means the amount that the Municipality expects to recover from the future use of an asset, including its residual value on disposal;

"recoverable service amount" means the higher of a non-cash generating asset's fair value less cost to sell and its value in use;

"research" means original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding;

"research and development cost" means cost in respect of research and development;

"residual value" means 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;

"subsidiary asset", in relation to a capital asset, means an asset that forms an integral part of the capital asset or of the operation or maintenance of the asset concerned;

"transfer"', in relation to a capital or subsidiary asset, means the transfer of ownership in the asset as a result of a sale or other transaction;

"**unexempted capital asset**" means a municipal capital asset which is not exempted by section 14(6) or section 90(6) of the Local Government: Municipal Finance Management Act 56 of 2003, from the other provisions of that section; and

"**useful life**" means either –

(a) the estimated period of time over which the future economic benefits or future service potential embodied in an asset is expected to be consumed by the Municipality; or

(b) the estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the Municipality.

6 PRINCIPLES

6.1 The implementation of this Policy must ensure that the following principles are realised:

(a) All challenges associated with managing assets are addressed, including, but not limited to, the management, control, use, maintenance, monitoring and disposal of –

(i) movable assets (life-cycle management over a relatively short-term lifespan); and

(ii) immovable assets (life-cycle management over a relatively long-term lifespan).

(b) The proper management of assets forms part of the financial management procedures of the Municipality.

(c) Sound asset management principles are consistently applied, including, but not limited to –

(i) the accurate recording of asset information and movement;

(ii) sufficient asset insurance; and

(iii) asset maintenance.

(d) The accrual accounting system principles are consistently applied, including, but not limited to –

(i) accounting for assets in terms of standards of GRAP and all approved accounting policies; and

(ii) appropriate reporting of assets in the Annual Financial Statements.

(e) Management's awareness of their responsibilities in terms of assets is promoted.

(f) Full compliance with the MFMA, other Acts, all applicable Regulations, the Local Government Capital Management Guideline, 2009, as well as with by-laws and policies of the Municipality, is ensured.

(g) The safeguarding, management, control, use, maintenance, and monitoring of municipal assets is a non-negotiable priority of the highest importance.

(h) The optimisation of municipal asset usage.

6.2 The following policy principles serve as a framework for the achievement of the Policy's objectives:

(a) 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.

(b) Sustainable service delivery: The Municipality strives to provide to its customers services that are technically, environmentally and financially sustainable.

(c) 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 meets the needs of the various customer user groups in the community.

(d) Custodianship: The Municipality strives to be a responsible custodian and guardian of the community's assets for current and future generations.

(e) Transparency and accountability: The Municipality strives to manage its assets in a manner that is transparent and accountable to all its customers, both now and in the future.

(f) Cost-effectiveness and efficiency: The Municipality strives to manage its assets in an efficient and effective manner.

7 KEY RESPONSIBILITIES

7.1 MUNICIPAL MANAGER

7.1.1 The Municipal Manager –

(a) is responsible for the management of the assets of the Municipality, including, but not limited to, the safeguarding and the maintenance of those assets;

(b) as accounting officer –

(i) is the principal custodian of the all the Municipality's assets (as contemplated in section 55(2) of the MSA), and

(ii) is responsible for ensuring that this Policy is effectively applied after adoption by Council. To this end, the Municipal Manager is responsible for the preparation, in consultation with the CFO and Heads of Departments, of procedures to effectively and efficiently apply this Policy;

(c) must ensure that –

(i) the Municipality has and maintains a management, accounting and information system that accounts for the assets of the Municipality;

(ii) the Municipality's assets are valued in accordance with all applicable Standards of Generally Recognised Accounting Practice;

(iii) the Municipality has and maintains a system of internal control for assets, including an asset register; and

(iv) the Heads of Departments and their teams comply with this Policy; and

(d) as head of the municipal administration is –

(i) subject to the policy directions of the Council; and

(ii) responsible and accountable to the Council 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, as contemplated in 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 as contemplated in section 60 of the MFMA.

7.2 CHIEF FINANCIAL OFFICER

7.2.1 The Chief Financial Officer (CFO) –

(a) is accountable to the Municipal Manager;

(b) must ensure that the financial investment in the municipalities' immovable assets is safeguarded and maintained;

(c) as one of the Heads of Department of the Municipality, must ensure, in exercising his financial responsibilities, that –

(i) appropriate systems of financial management and internal control are established and carried out diligently;

(ii) the resources of the Municipality are utilised effectively, efficiently, economically and transparently;

(iii) any unauthorised, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented, and when they occur, that the appropriate accountability and consequence management steps are immediately implemented;

(iv) all revenue due to the Municipality is collected, including, but not limited to, rental income relating to immovable assets;

(v) 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;

(vi) financial processes are established and maintained to ensure the Municipality's resources are optimally utilised through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions; and

(vii) the Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;

(d) must appropriately advise the Heads of Departments and senior management teams on the exercise of their powers and the carrying out of their duties pertaining to the financial administration of assets;

(e) must ensure that support procedures for the full implementation of this Policy are established, maintained and effectively communicated;

(f) may delegate or otherwise assign responsibility for performing finance-related functions, but remains responsible and accountable for ensuring that these activities are efficiently and effectively performed;

(g) is the asset registrar of the Municipality, and

(h) must ensure that –

(i) a complete, accurate and up-to-date computerised Asset Register is established and maintained; and

(ii) that all amendments, deletions or additions to the Asset Register are made by him or her personally or by a municipal official acting under his or her express written instruction.

7.3 HEADS OF DEPARTMENTS

7.3.1 Heads of Departments, who are managers directly accountable to the Municipal Manager –

(a) must ensure that –

(i) the municipal resources assigned to them are utilised effectively, efficiently, economically and transparently;

(ii) procedures are adopted and implemented in conformity with this Policy to produce reliable data to be incorporated into the municipal asset register;

(iii) any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented, and when they occur, that they are immediately in writing reported to the CFO and that appropriate accountability and consequence management steps are immediately implemented;

(iv) the asset management system, processes and controls provide an accurate, reliable and up to date account of assets under their control;

(v) they are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the Municipality's strategic objectives;

(vi) manage the asset life-cycle transactions to ensure that they comply with legislative and municipal requirements any all plans that have been approved by the Municipality; and

(vii) must, at all times, have a signed complete updated register of all immovable and movable assets within their respective departments and a printed signed and dated copy thereof pinned against the wall or door of his or her office; and

(b) may, in writing, delegate or otherwise assign responsibility for performing the above functions or carry out the above duties, but remain responsible and accountable for ensuring that these activities are efficiently and effectively performed.

8 PRINCIPLES OF MANAGEMENT OF INFRASTRUCTURE ASSETS

8.1 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.

8.2 The core principles of infrastructure asset management include, but are not limited to, the following:

(a) Taking a life-cycle approach;

(b) Developing cost-effective management strategies for the long-term;

(c) Providing a defined level of service and monitoring performance;

(d) Understanding and meeting the impact of growth through demand management and infrastructure investment;

(e) Managing risks associated with asset failures;

(f) The sustainable use of physical resources; and

(g) continuous improvement in asset management practices.

9 ASSET LIFE CYCLE

9.1 According to the Local Government Capital Asset Management Guideline, 2009, the asset life cycle covers the following phases of an asset's life:

(a) Planning phase: Usually part of the Municipality's IDP process, as well as its budget and asset management plans.

(b) Acquisition phase: Deals with the purchase, construction or manufacturer of new assets.

(c) Operation and maintenance phase: Deals with the operation of the assets, maintenance/refurbishment, enhancement/rehabilitation, depreciation and impairment, and includes activities of a capital and current nature.

(d) Disposal phase: Deals with the timing of and disposal of the assets including the disposal costs and specific requirements for assets, including, but not limited to, dismantling costs, medical equipment and legal requirements.

9.2 An asset's life cycle is determined by its useful life to the Municipality, which might in given cases be shorter than its economic life. Examples include, but are not limited to, instances where the Municipality may decide to sell its traffic police vehicles five years after acquisition on account of the prohibitive costs involved in maintenance.

9.3 See clause 13.5 of this Policy with regard to the Useful Life of Assets.

10 ASSET TYPES AND SUB-TYPES

10.1 PROPERTY, PLANT AND EQUIPMENT (GRAP 17)

10.1.1 PROPERTY, PLANT AND EQUIPMENT (GRAP 17): LAND AND BUILDINGS (PPE: LAND AND BUILDINGS)

10.1.1.1 The following arrangements apply in respect of PPE: Land and Buildings:

(a) PPE: Land and Buildings comprise any land and buildings held by the Municipality as owner, or as lessee under a finance lease, used in the production or supply of goods or for administrative purposes.

(b) Land held for a currently undetermined future use may not be included in PPE: Land and Buildings, but must be included in Investment Properties as there is currently no intention of developing or selling the property in the normal course of business. This subclass includes infrastructure reserves.

(c) Subsequent to initial recognition, the Municipality must apply the revaluation model as the accounting policy for its PPE: Land and Buildings.

(d) PPE: Land and Buildings whose fair value can be measured reliably must be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

(f) All PPE: Land and Buildings recorded in the Municipality's Asset Register must be revalued with the adoption by the Municipality of each new valuation roll.

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

10.1.2.1 The following arrangements apply in respect of PPE: infrastructure Assets:

(a) According to GRAP 17, PPE: Infrastructure Assets usually display some or all of the following characteristics:

(i) They are part of a system or network;

(ii) They are specialised in nature and do not have alternative uses;

(iii) They are immovable; and

(iv) They may be subject to constraints on disposal.

(b) PPE: 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.

(c) The preferred level of detail for the accounting management of PPE: Infrastructure Assets is level 4: Maintenance item level (e.g. a water pump, but not the individual components such as ball bearings).

(d) The Infrastructure Asset Register must ensure complete the presentation of all PPE: Infrastructure Assets types.

(e) Subsequent to initial recognition, the Municipality must apply the cost model as the accounting policy for its PPE: Infrastructure Assets.

(f) PPE: Infrastructure Assets must be valued at cost less accumulated depreciation and accumulated impairment.

(g) However, if cost cannot be established, then PPE: Infrastructure Assets must be valued at depreciated replacement cost, subject to the following:

(i) Depreciation must be charged against such PPE: Infrastructure Assets over their expected useful lives.

(ii) The remaining useful life and residual value of, and the depreciation methods applied to PPE: Infrastructure Assets, must be reviewed regularly, but the cost related to such reviews should be measured against benefits derived to ensure value for money.

10.1.3 PROPERTY, PLANT AND EQUIPMENT: COMMUNITY ASSETS (PPE: COMMUNITY ASSETS)

10.1.3.1 The following arrangements apply in respect of PPE: Community Assets:

(a) PPE: Community Assets are resources contributing to the general well-being of the community and include a variety of assets used to provide services to the community, e.g. cemeteries and parks, as well as recreational assets such as tennis courts, swimming pools, golf courses, outdoor sports facilities, etc.

(b) The Municipality must apply the cost model as the accounting policy for its PPE: Community Assets, thereby valuing these assets at cost less accumulated depreciation and accumulated impairment losses, subsequent to initial recognition.

(c) Depreciation must be charged against such PPE: Community Assets over their expected useful lives.

10.1.4 PROPERTY, PLANT AND EQUIPMENT (GRAP 17): HERITAGE ASSETS (PPE: HERITAGE)

10.1.4.1 The following arrangements apply in respect of PPE: Heritage Assets:

(a) PPE: Heritage Assets are culturally significant resources that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held for the benefit of present and future generations.

(b) PPE: Heritage Assets include, but are not limited to, the following:

(i) Archaeological sites;

(ii) Conservation areas;

(iii) Historical buildings or other historical structures (such as war memorials);

(iv) Historical sites (for example a historical battle site or site of a historical settlement);

(v) Museum exhibits;

(vi) Public statues; and

(vii) Works of art (which include paintings and sculptures).

(c) The Municipality must apply the cost model or, if acquired through a nonexchange transaction, at its fair value, as the accounting policy for its PPE: Heritage Assets, thereby valuing these assets at cost (or as indicated above, at its fair value) less accumulated depreciation losses, subsequent to initial recognition.

(d) If an asset that might be regarded as a PPE: Heritage Asset cannot be reliably measured, relevant and useful information about it must be disclosed in the notes to the financial statements.

(e) PPE: Heritage Assets are not revalued.

10.1.5 PROPERTY, PLANT AND EQUIPMENT (GRAP 17): OTHER ASSETS (PPE: OTHER ASSETS)

10.1.5.1 The following arrangements apply in respect of PPE: Other Assets:

(a) PPE: Other Assets are ordinary operational resources and include resources contributing to the general well-being of the community. PPE: Other Assets consist of a variety of assets that are of indirect benefit to the communities they serve. PPE: Other Assets comprise resources such as equipment, furniture and fittings, bins and containers, emergency equipment, motor vehicles, specialised vehicles, computer equipment and office equipment.

(b) Subsequent to initial recognition the Municipality must apply the cost model as the accounting policy for its PPE: Other Assets. PPE: 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.

(c) Depreciation must be charged against such PPE: Other Assets over their expected useful lives.

(d) PPE: Other Assets assets are not revalued.

10.2 INVENTORY: HOUSING ASSETS

10.2.1 The following arrangements apply in respect of Housing Assets:

(a) Housing Assets are housing units erected in terms of the Housing Act 107 of 1997 and other applicable national housing statutes, funded from loans granted by the RSA Government and comprising rental housing stock or selling housing stock not held for capital gain.

(b) Housing Assets must be recorded in the Inventory Register according to the following categories:

(i) Rental schemes; and

(ii) Selling schemes.

(c) Housing Assets must be valued at cost less accumulated depreciation and accumulated impairment losses.

(d) Depreciation must be charged against such Housing Assets over their expected useful lives.

10.3 INVESTMENT PROPERTY (GRAP 16)

10.3.1 The following arrangements apply in respect of Investment Property:

(a) 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.

(b) Investment Property does not include property –

(i) used in the production or supply of service or for administration;

(ii) that will be sold in the normal course of business; and

(iii) classified as Housing Assets erected in terms of the Housing Act 107 of 1997 and other applicable national housing statutes, funded from loans granted by the RSA Government and comprising rental housing stock or selling housing stock not held for capital gain.

(c) Investment Property includes, but is not limited to –

(i) office parks (which have been developed by the Municipality itself or jointly between the Municipality and one or more other parties);

(ii) shopping centres (developed along similar lines);

(iii) housing developments (developments financed and managed by the Municipality itself, with the sole purpose of selling or letting such houses for profit);

(iv) properties used in the production or supply of service or for administration;

(v) municipal land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations which the Council intends to sell at a beneficial time in the future;

(vi) municipal land held for a currently undetermined future use;

(vii) 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;

(viii) a municipal 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; and

(ix) municipal property that is being constructed or developed for future use as investment property.

(d) The following classes of Municipal Property are not classified as Investment Property:

(i) 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 assets.

(ii) Property being constructed or developed on behalf of the Provincial Government: Housing Department.

(iii) Owner-occupied property which is defined as property which is held (by the Municipality as owner, or as lessee under a finance lease, for use in the production or supply of goods or services or for administrative purposes (in this case GRAP 17, which includes all council buildings used for administration purposes, applies).

(iv) Properties 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 (municipal) property.

(v) Property that is leased to another entity under a finance lease.

(vi) Property held by the Municipality to provide a social service and which also generates cash inflows. For example, if Municipal held housing stock (letting units) is used to provide housing to low income families at below market rental, the properties concerned are held by the Municipality to provide housing services (rather than held for rental or capital appreciation) - and rental revenue so generated is incidental to the purposes for which the property is held by the Municipality.

(vii) Property held by the Municipality for strategic purposes or to meet service delivery objectives rather than to earn rental or for capital appreciation.

(viii) Where the Municipality has properties that are used both for administrative and commercial purposes and part of the properties cannot be sold separately, these properties may not be classified as Investment Properties.

(e) Investment Properties must be accounted for in terms of GRAP 16 and may not be classified as PPE in terms of GRAP 17. However, If the Council resolves to construct or develop a property for future use as an Investment Property, such property must in every respect be accounted for as PPE in terms of GRAP 17 until it is ready for its intended use, whereafter it must be reclassified as Investment Property in accordance with GRAP 16.

(f) At initial recognition, the Municipality must measure Investment Property at cost including transaction costs once it meets the definition of Investment Property.

(g) The cost of self-constructed Investment Property is measured at cost.

(h) Where an Investment Property was acquired through a non-exchange transaction (i.e., where the Municipality acquired the Investment Property for no or a nominal value) –

(i) its cost is its fair value as at the date of acquisition; and

(ii) any transaction costs incurred are recognised as part of the cost of the asset.

(i) The cost of self-constructed (by the Municipality) Investment Property is measured at cost.

(j) Transfers are made to or from the class Investment Property only when there is a change in use –

(i) 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; and

(ii) if an owner-occupied property becomes an Investment Property, the Municipality must account for such property in accordance with the policy stated under Property, Plant and Equipment in accordance with GRAP 17 up to the date of change in use.

10.4 INTANGIBLE ASSETS (GRAP 31)

10.4.1 The following arrangements apply in respect of Intangible Assets:

(a) According to GRAP 31, Intangible Assets must satisfy the following three criteria:

(i) Identifiability;

(ii) Control of the asset; and

(iii) Existence of future economic benefits or service potential.

(b) Intangible Assets can be purchased, or can be internally developed by the Municipality, and include, but are not limited to –

(i) computer software;

(ii) website development cost;

(iii) servitudes acquired in terms of an agreement or transaction (but excluding servitudal rights conferred by Statute on the Municipality); and

(iv) mining rights,

used in the production or supply of services or for administration.

(c) Intangible Assets are stated at cost less accumulated amortisation and accumulated impairment losses. Intangible Assets are amortised over the best estimate of the useful life of the intangible asset concerned.

(d) If an intangible asset is generated internally by the Municipality, a distinction must be made between –

(i) research costs (which must be expensed as it is incurred); and

(ii) development costs (which may be capitalised if all the criteria set out in GRAP 31 have been met).

10.5 BIOLOGICAL ASSETS AND AGRICULTURAL PRODUCE (GRAP 27- AGRICULTURE)

10.5.1 The following arrangements apply in respect of Biological Assets:

(a) The provisions of GRAP 27 (Agriculture) regulate Biological Assets (except for bearer plants), and agricultural produce at the point of harvest.

(b) Biological Assets include livestock and crops (e.g. living plants, animals, trees in a plantation or orchard, cultivated plants, sheep and cattle).

(c) Managed agricultural activity include 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.

(d) Future economic benefits must flow to the Municipality from its ownership or control of the Biological Asset concerned.

(e) Biological assets, such as livestock and crops, must be valued annually at fair value less estimated point-of-sales costs, which include, but are not limited to –

(i) commissions to brokers and dealers;

(ii) levies by regulatory agencies and commodity exchanges; and

(iii) transfer taxes and duties,

provided that point-of-sale costs exclude transport and other costs necessary to get assets to the market.

10.6 ASSETS CLASSIFIED AS ASSETS HELD-FOR-SALE (GRAP 100 – NON-CURRENT

ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS)

10.6.1 The following arrangements apply in respect of assets classified as Assets Held-for-Sale:

(a) The provisions of GRAP 100 (Discontinued Operations) apply to non-current assets classified as Assets Held-for-Sale and assets when dispensed of permanently withdrawn from use without any expectation of any future economic benefit or potential service delivery.

(b) A non-current asset must be classified as Assets Held-for-Sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use, provided that –

(i) such 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;

(ii) its sale must be highly probable in the sense that management must be committed to a plan to sell the asset;

(iii) an active programme to locate a buyer and complete the plan must have been initiated, meaning that the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value; and

(iv) the sale should be expected to qualify for recognition as a completed sale within 12 months 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.

(c) Assets Held-for-Sale must 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 Assets Held-for-Sale.

(d) 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 must be classified as Assets Held-for-Sale and transferred from the Home Asset category to the Assets Held-for-Sale category.

10.6.2 The following arrangements apply to assets destined to be retired on account of discontinued operations:

(a) The Municipality may not classify a non-current asset that is to be abandoned as Assets Held-for-Sale as its carrying amount has to be recovered principally through the continuing use of the non-current asset concerned.

(b) GRAP 100 requires the results of discontinued operations to be presented separately in the Statement of Financial Performance with additional disclosures provided in the notes to the financial statements.

10.7 MINOR ASSETS (CAPITAL ASSETS BELOW APPROVED THRESHOLD)

10.7.1 Assets classified as Minor Assets (capital assets below the Municipality's approved threshold of R 500,00 (five hundred Rand) –

(a) comprise movable assets;

(b) may not capitalised in terms of the threshold policy of the Municipality as 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; and

(c) must still be controlled, safeguarded and verified by the Municipality.

10.7.2 Minor Assets –

(a) with an estimated useful life of more than 12 months must be bar-coded for identification purposes and listed in the Minor Asset Inventory Listing;

(b) may 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; and

(c) must be expensed in the Statement of Financial Performance and not be capitalised.

11 FINANCIAL MANAGEMENT

11.1 PROCUREMENT (ACQUISITION) OF ASSETS

11.1.1 The following arrangements apply in respect of the procurement (acquisition) of assets:

(a) A capital budget must be compiled and approved for all capital acquisitions. The capital budget must be drafted in accordance with the MFMA as well as all internal budget-related policies.

(b) Money can only be spent on a project/asset if –

(i) the asset meets the definition of a capital asset (as defined in GRAP 16, GRAP 17, GRAP 27, GRAP 31 and GRAP 103);

(ii) the money has been appropriated in the capital budget, and the future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;

(iii) the project (asset), including the total cost and funding sources, has been approved by the Council;

(iv) the CFO confirms that funding is available for that specific project/asset; and

(v) the Supply Chain Management prescripts and procedures have been adhered to.

(c) An approved capital project plan must be completed.

(d) Capitalisation forms must be completed for each project/asset indicating the source of funding as well as the completion date.

(e) Authorisation for procurement may only be as per the approved delegation of authority and payment for assets must be in accordance with the MFMA, all Financial Policies and the Supply Chain Management Policy.

11.1.2 The following arrangements apply in respect of new infrastructure facilities:

(a) The cost of all new infrastructure facilities (excluding additions to or maintenance of existing infrastructure assets) must be allocated to the separate assets making up such a facility. Individual values may be used as a basis for splitting the construction costs of new infrastructure into its component parts, each of which has an appropriate useful life.

(b) Infrastructure work in progress must be flagged (indicated) as such in the Fixed Asset Register until such time that the facility is completed.

(c) Depreciation commences 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 must be depreciated separately.

11.1.3 The following arrangements apply in respect of new infrastructure facilities being constructed by the Municipality itself or another party in terms of an agreement with the Municipality:

(a) Such facilities must be flagged (indicated) as such in the Fixed Asset Register until such time that the facility concerned is completed.

(b) Depreciation commences 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.

11.1.4 The following arrangements apply in respect of donated assets:

(a) A donated asset is an item that has been given to the Municipality by a third party in government or outside government without the Municipality paying for the item or the actual or implied exchange in respect thereof.

(b) All donated assets must be approved by the Municipal Manager and ratified by the Council prior to acceptance.

(c) Donated assets must be valued at fair value, reflected in the Asset Register, and depreciated as normal assets

11.2 FUNDING SOURCES

11.2.1 Section 19 of the MFMA provides guidelines on how to utilise funds in financing assets.

11.2.2 The Municipality may utilise any of the following funding sources to acquire and/or purchase assets:

(a) Grants, subsidies and public contributions;

(b) Revenue contributions;

(c) Capital Replacement Reserve (CRR);

(d) Cash surplus; and

(e) External donor funds.

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

11.2.4 The CFO must ensure that in respect of –

(a) all assets financed from grants, subsidies or contributions received from other spheres of government, and from the public at large; and

(b) 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 concerned.

11.2.5 The CFO must ensure that in the case of depreciable assets an amount equal to the monthly depreciation expenses of the items concerned are transferred.

11.2.6 The following arrangements apply to the Capital Replacement Reserve:

(a) The Municipality must maintain and annually make contributions to a Capital Replacement Reserve to ensure that the Capital Replacement Reserve remains a capital funding source for the future.

(b) The Municipality must determine its future capital financing requirements and transfer sufficient cash to its Capital Replacement Reserve in terms of this determination, taking into account –

(i) the Municipality's IDP;

(ii) the Municipality's ability to raise external finance; and

(iii) the amount of government grants and subsidies that will be received in future,

when determining the amount that must be transferred to the Capital Replacement Reserve.

(c) The CFO must ensure that –

(i) in respect of all assets financed from the Capital Replacement Reserve whenever an asset (including land) is sold by the Municipality, the proceeds on the sale of the assets are transferred from the Accumulated Surplus to the Capital Replacement Reserve via the statement of changes in net assets; and

(ii) whenever an asset is purchased out of the Capital Replacement Reserve, an amount equal to the cost price of the asset purchased is transferred from the Capital Replacement Reserve into accumulated surplus on the statement of changes in net assets.

11.3 BORROWING COSTS (GRAP 5)

11.3.1 Borrowing costs are interest and other costs incurred by the Municipality from borrowed funds.

11.3.2 According to GRAP 5, borrowing costs may include, but are not limited to, the following:

(a) Amortisation of discounts or premiums relating to borrowings.

(b) Amortisation of ancillary costs incurred in connection with the arrangement of borrowings.

(c) Finance charges in respect of finance leases (in accordance with GRAP 13) and service concession.

(d) Arrangements (in accordance with GRAP 32).

(e) Exchange differences arising from foreign currency borrowings to the extent that it is regarded as an adjustment to interest costs from foreign currency borrowings to the extent that it is regarded as an adjustment to interest costs.

11.3.3 Borrowing costs must be capitalised, if directly attributable to the acquisition, construction or production of an asset, except when it is inappropriate to do so.

11.3.4 The capitalisation of borrowing costs must 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.

11.3.5 During extended periods in which development of an asset is interrupted or suspended, the borrowing costs incurred over that period must be recognised as an expense when incurred.

11.3.6 The capitalisation of borrowing costs must cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

11.4 DISASTER

11.4.1 According to the Disaster Management Act 57 of 2002 –

(a) the cost of repairing or replacing municipal infrastructure must be borne by the Municipality as it is responsible for the maintenance of such infrastructure;

(b) national and provincial organs of state, as well as local organs of state (e.g. the Namakwa District Municipality) may contribute financially to –

(i) response efforts, and

(ii) post-disaster recovery and rehabilitation.

11.4.2 The Municipality must take all reasonable steps to implement appropriate disaster risk reduction and disaster management steps to minimise the impact of disasters.

11.4.3 The Municipality must comply with both the Namakwa District Municipality and its own Disaster Management Plans for the prevention and mitigation of disaster in order to be able to attract disaster management contributions during and after a disaster.

11.4.4 The Municipality must ensure that it complies with the Municipality's Disaster Management and Emergency Assistance Policy.

11.5 FUNDING PERIOD OF CAPITAL PROJECTS/ASSETS

11.5.1 The acquisition of an asset may not be funded over a period longer than the useful life of that asset.

11.6 TRANSFER AND DISPOSAL OF ASSETS

11.6.1 The transfer and disposal of assets must be dealt with in accordance with the MFMA and the Municipality's Asset Transfer and Disposal Policy.

11.7 LOSS, THEFT, DESTRUCTION OR IMPAIRMENT OF ASSETS

11.7.1 Heads of Department must ensure that –

(a) any incident of loss, theft, destruction, or material impairment of any asset controlled or used by the department concerned is promptly reported in writing to the CFO, the Municipality's internal auditor, and in cases of suspected theft or malicious damage, also to the South African Police Service;

(b) all the required insurance claim documentation, reports and information is promptly submitted to the CFO in terms of the prescribed claims procedures, including but not limited to –

(i) a full report of the incident;

(ii) asset/bar code numbers;

(iii) South African Police case number (in the case of theft); and

(iv) quotations to establish the extent and value of the damage and the costs involved in the repair or replacement of the item;

(c) Asset risk management must be performed by the Municipality's established Asset Risk Management Committee (unit). In absence of such committee, the Municipality's Management Team must assume the responsibilities of an Asset Risk Management Committee; and

(d) When it is suspected that an employee abuses assets, the alleged abuse must be reported to the Asset Risk Management Committee. An investigation must be done, followed by a hearing, to determine if this is the case. If found guilty the employee should be subject to the procedure as described in terms of the Standard Conditions of Service.

11.8 REPLACEMENT OF ASSETS

11.8.1 The following arrangements apply in respect of the replacement of assets:

(a) Each Head of Department is responsible for motivating (while taking into account the useful lives of the different asset types) the possible replacement of motor vehicles, furniture and fittings, computer equipment and any other appropriate operational items.

(b) This includes the replacement of fixed assets which are required for service delivery, but which have become uneconomical to maintain.

(c) Requests for replacement must be handled during the capital budget process where Council, the Budget Committee and relevant officials are involved.

12 INTERNAL CONTROLS

12.1 SAFEKEEPING OF ASSETS

12.1.1 The following arrangements apply in respect of the safekeeping of assets:

(a) Every Head of Department is personally responsible for the physical safekeeping of any fixed asset controlled for use by the department in question.

(b) In exercising this responsibility, every Head of Department must adhere to any written directives issued by the Municipal Manager to the department concerned, or generally to all departments, with regard to the control of or safekeeping of the Municipality's fixed assets.

(c) All assets must be kept in a secure location, maintained regularly, insured against theft or destruction, and utilised economically and efficiently.

12.2 VERIFICATION OF FIXED ASSETS (PHYSICAL CONTROL)

12.2.1 The following arrangements apply in respect of asset verification (physical control):

(a) Every Head of Department must at least once during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

(b) Every Head of Department must promptly and fully report in writing to the CFO in the format determined by the CFO, all relevant results of such fixed asset verification, provided that –

(i) each such asset verification must be undertaken and completed as closely as possible to the 31st of May of the year in question; and

(ii) the resultant report, accompanied by a Statement of Existence (SOE) of assets declaring that all assets listed are on hand and are in a useful working condition, must be submitted for external verification to the CFO not later than the 31st of May of the year in question.

(c) All fixed assets used by an employee leaving the employment of the Municipality must be verified on the day such employee leaves. To this effect the Human Resources Department must inform the Asset Management Unit in writing of any persons leaving the employment of the Municipality.

12.3 MOVEMENT/MONITORING OF ASSETS

12.3.1 The following arrangements apply in respect of the movement/monitoring of assets:

(a) Any disposal, movement, impairment or any change in the nature of the asset must be monitored and communicated to the Asset Management Unit and other officials as the communication channel may prescribe.

(b) As regards movable items, the Non-fixed Asset Register must list the movement thereof, and the monitoring thereof must take place on a computerised system.

(c) The responsible official must sign off on the assets under his or her control, resulting in becoming the custodian thereof and imposing an obligation of such official to communicate any movement of or changes to the list of items concerned to the Asset Management Unit.

(d) Assets that are used by employees outside of their workplace (e.g. Laptops taken home) must be approved in writing by the relevant Head of Department and listed in the Non-fixed Asset Register.

12.4 INSURANCE COVER

12.4.1 The following arrangements apply in respect of the replacement of assets:

(a) The Municipal Manager must 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 related risks.

(b) If the Municipality operates a self-insurance reserve (in the event that such a reserve is allowed in terms of national legislation and approved by Council by way of resolution), the CFO must annually –

(i) determine the premiums payable by the departments after having received a list of the fixed assets and insurable values of all relevant fixed assets from the Heads of Department concerned; and

(ii) submit a report to the Council on any reinsurance cover, which it is deemed necessary to procure for the Municipality's self-insurance reserve.

(c) The Municipal Manager must, after consulting with the CFO, recommend to the Council the basis of the insurance to be applied to each type of fixed asset, being either the carrying value or the replacement value of the fixed assets concerned, provided that such a recommendation must take due cognisance of the Municipality's budgetary resources.

12.5 MAINTENANCE OF ASSETS

12.5.1 The following arrangements apply in respect of asset maintenance plans:

(a) Every Head of Department must ensure that a maintenance plan in respect of every new infrastructure asset with a value of R 50 000,00 (fifty thousand Rand) or more is promptly prepared and submitted to the Council for approval.

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

(c) The Head of Department controlling or using the infrastructure asset concerned must annually report to the Council, not later than the 30th of June, 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 asset concerned.

12.5.2 The following arrangements apply in respect of deferred maintenance:

(a) 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 CFO must disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements, provided that such note must also indicate any plans which the Council have approved in order to redress such deferral of the maintenance requirements concerned.

(b) If no such plans referred to in clause 12.5.1 have been formulated or are likely to be implemented, the CFO must –

(i) redetermine the useful operating life of the fixed asset in question, after consultation with the Head of Department controlling or using such asset; and

(ii) recalculate the annual depreciation expenses accordingly.

12.5.3 Every Head of Department is personally responsible for ensuring that all assets (other than infrastructure assets which are dealt with in clauses 8 and 10.1.2 of this Policy) are properly maintained in a manner which will ensure that such assets attain their useful operating lives.

12.6 ASSET REGISTER

12.6.1 The Municipality's Asset Register is a database of information related to all the assets under the control of the Municipality.

12.6.2 The Asset Register consists of an inventory of all the assets, with each asset having a unique identifying number.

12.6.3 The CFO must –

(a) establish and maintain a complete, accurate and up-to-date computerised Asset Register that contains key financial data on each asset item that satisfies the criterion for recognition; and

(b) ensure that all amendments, deletions or additions to the Asset Register are made by him or her personally or by a municipal official acting under his or her express written instruction.

12.6.4 Heads of Departments are responsible for –

(a) establishing and maintaining additional registers and/or databases required in terms of this Policy for demonstrating their physical management of their assets; and

(b) ensuring that sufficient controls exist to substantiate the quantity, value, location and condition of all assets in their registers.

12.6.5 Data related to each asset must be of a quality and format that it is able to be stored in the Asset Register.

12.6.6 The format of the Asset Register must include the data needed to comply with the applicable standards of GRAP and all additional prescripts as well the requirements of the data needed for the technical management of the assets.

12.6.7 The Fixed Asset Register must reflect the following information:

(a) a brief but meaningful description of each asset;

(b) the date on which the asset was acquired or brought into use;

(c) the location of the asset;

(d) the department(s) within which the assets will be used;

(e) the title deed number, in the case of fixed property;

(f) the stand number, in the case of fixed property;

(g) where applicable, the identification number;

(h) the original cost, the revalued amount or the fair value if no costs are available;

(i) the (last) revaluation date of the fixed assets subject to revaluation;

(j) the revalued value of such fixed assets;

(k) accumulated depreciation to date;

(l) the depreciation charge for the current financial year;

(m) the carrying value of the asset;

(n) the method and rate of depreciation;

(o) impairment losses incurred during the financial year (and the reversal of such losses, where applicable);

(p) the date on which the asset is disposed of;

(q) the disposal price; and

(r) the date on which the asset is retired from use, if not disposed of.

12.6.8 The following table serves as an example of a Fixed Asset Register:

DATA	MOVABLE	LAND	INFRASTRUCTURE / BUILDING
IDENTIFICATION			
Unique identification number or asset mark	√	√	√
Unique name	√	√	√
Internal classification	√	√	√

DATA	MOVABLE	LAND	INFRASTRUCTURE / BUILDING
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	√	√	√
Revalued amount (where assets were revalued)	√	√	√
Depreciation method		√	√
Depreciation portion that should be transferred from Revaluation Reserve to accumulated depreciation (where assets were revalued)		√	√
Depreciation charge for the current financial year		√	√
Impairment losses in the current financial year		√	√
Accumulated depreciation		√	√
Carrying value	√	√	√
Residual value		√	√

DATA	MOVABLE	LAND	INFRASTRUCTURE / BUILDING
Source of financing	√	√	√

12.6.9 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.

12.6.10 The Asset Register does not include assets that belong to other third parties. These assets must be included as separable entities for control purposes.

12.6.11 Asset records must be reconciled to the general ledger on a quarterly basis.

12.6.12 The Asset Register must be divided into two categories for control purposes, namely a Capitalised Register and a Minor Assets Control List (Register):

(a) Capitalised Register: The purpose of the Capitalised Register is to record and maintain all assets with a cost (excluding VAT where applicable) exceeding R 500,00 (five hundred Rand). Information regarding the value of capitalised assets, acquisitions, write-offs and sources of financing must be disclosed in the Municipality's Annual Financial Statements.

(b) Minor Assets Control List (Register): The purpose of the Minor Assets Control List (Register) is to record and maintain purchases and monitor the physical movements of all assets with a cost (excluding VAT where applicable) equal to or less than the capitalisation benchmark of R 500,00 (five hundred Rand).

13 ACCOUNTING FOR ASSETS

13.1 ASSET CLASSIFICATION, IDENTIFICATION AND RECOGNITION

13.1.1 CLASSIFICATION OF CAPITAL ASSETS

13.1.1.1 Capital assets are classified into the following categories for purposes of financial reporting:

(a) Property, Plant and Equipment (PPE) (GRAP 17), which includes –

(i) land and buildings (land and buildings not held as investment);

(ii) infrastructure assets (immovable assets that are used to provide basic services, and are part of a network of similar assets);

(iii) community assets (resources contributing to the general well-being of the community);

(iv) housing assets (rental stock or housing stock not held for capital gain);

(v) heritage assets (culturally significant resources); and

(vi) other assets (ordinary operational resources).

(b) Investment property (GRAP 16) (investment assets – resources held for capital or operational gain).

(c) Intangible assets (GRAP 31) (assets without physical substance held for ordinary operational resources).

(d) Biological assets (GRAP 27) (livestock and plants held).

(e) Assets classified as Held-for-Sale (GRAP 100) (assets identified to be sold in the next 12 months and reclassified as Inventory).

(f) Land inventories (GRAP 12) (land or buildings owned or acquired with the intention of selling or distributing such property in the ordinary course of business, and includes housing as rental or housing stock not held for capital gain).

13.1.1.2 The asset classification specified by GRAP must be adhered to as a minimum standard. An extended asset classification must be adopted by Council within a period not exceeding three months after commencement of this Policy and included in this Policy as a Schedule.

13.1.1.3 The CFO must ensure that the applicable Standards of GRAP and additional classifications adopted by the Council are adhered to.

13.1.2 IDENTIFICATION OF ASSETS

13.1.2.1 Each asset must be uniquely identified in order to ensure that it can be accounted for on an individual basis:

(a) movable assets are usually identified by means of a barcode system by attaching a barcode to each individual item; and

(b) immovable assets are usually identified by means of an accurate description of the physical location of each individual immovable asset.

13.1.2.2 The CFO must develop and implement an asset identification system in consultation with the Heads of Departments, which must be operated and applied in conjunction with the Municipality's Asset Register.

13.1.2.3 The Municipal Manager must ensure that the Municipality maintains a fixed asset identification system which must be operated in conjunction with its computerised Fixed Asset Register.

13.1.2.4 The identification system must –

(a) be determined by the Municipal Manager after consultation with the CFO and Heads of Departments;

(b) comply with the MFMA, other legal prescripts, and all recommendations made by the Auditor-General (as indicated in the Municipality's annual audit report(s); and

(c) take into account the Municipality's budgetary and human resources.

13.1.2.5 Every Head of Department, acting in conjunction with the Asset Management Unit, must ensure that the asset identification system approved for the Municipality is meticulously applied in respect of all fixed assets controlled or used by the department concerned.

13.1.2.6 A fixed assets and inventory register must be maintained, and all fixed assets must be tagged for reference to the Fixed Assets Register.

13.1.3 RECOGNITION OF CAPITAL ASSETS: INITIAL MEASUREMENT

13.1.3.1 A capital asset must be recognised as an asset in the Asset Register and the financial records when –

(a) it is probable that future economic benefits or potential service delivery associated with the item will flow to the Municipality;

(b) the cost or fair value of the item to the Municipality can be measured reliably;

(c) the cost is above the municipal capitalisation threshold (if any); and

(d) the item is expected to be used during more than one financial year.

13.1.3.2 Capitalisation of assets must be dealt with in the following manner:

(a) All capital assets must be correctly recognised as assets and capitalised at the correct value in its significant components.

(b) The capitalisation threshold is set at R 500,00 (five hundred Rand), (excluding VAT where applicable), but the application thereof must be determined annually by the Council.

(c) 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 must be recorded on the Minor Assets Control List.

(d) The existence of items recorded on the Minor Assets Control List must be physically verified from time to time (at least once in every financial year), and any amendments that are made to such Minor

Assets Control List pursuant to such asset verification must be retained for audit purposes.

13.1.3.3 Calculation of initial cost price must be dealt with in the following manner:

(a) Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition may be capitalised.

(b) The purchase price exclusive of VAT must be capitalised. However, in the event that the Municipality is not allowed to claim input VAT paid on acquisition of such assets, it must capitalise the cost of the asset together with VAT.

(c) Any trade discounts and rebates are deducted in arriving at the purchase price.

(d) The following non-exhaustive list contains examples of such directly attributable costs:

(i) Costs of employee benefits (as defined in the applicable Standard of GRAP on Employee Benefits) arising directly from the construction or acquisition of the capital asset;

(ii) The cost of site preparation;

(iii) Initial delivery and handling costs;

(iv) Installation costs;

(v) Professional fees for, amongst others, architects and engineers;

(vi) The estimated cost of dismantling and removing the asset and restoring the site; and

(vii) Interest costs when incurred on a qualifying asset in terms of GRAP 5.

(e) 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.

13.1.3.4 The component approach must be dealt with in the following manner:

(a) The component approach is a GRAP-supported approach where complex assets are split into separate depreciable parts for recording in the Asset Register and financial records.

(b) The key considerations in determining what should be categorised as a separately depreciable part (component) are –

(i) significant cost; and

(ii) considerable differences in useful life.

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

13.1.3.5 Subsequent expenses must be dealt with in the following manner:

(a) The Municipality may 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.

(b) 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.

(c) Parts of a capital item may require replacement –

(i) at regular intervals (e.g. a road may need resurfacing every few years);

(ii) less frequently (e.g. replacing interior walls of a building); or

(iii) on a non-recurring (once-off) basis,

provided that, under the recognition principle, the Municipality must –

- if the recognition criteria are met, recognise in the carrying amount of the capital asset the cost of replacing the part of such an item when that cost is incurred; and
- derecognise at the same time the part to be replaced.

13.1.3.6 Rehabilitation/enhancements/renewals of existing capital assets must be dealt with in the following manner:

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

(i) the expenditure satisfies the recognition criteria; and

(ii) such expenditure is enhancing the service provision of the capital asset concerned beyond its original expectation and that such 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.

(b) The expenditure to restore the functionality of the capital asset to its original level is a maintenance or refurbishment expense and may not be capitalised to the carrying value of the capital asset.

(c) The rehabilitated or renewed separately depreciable part must be derecognised and the replacement must be recognised.

(d) Where the separately identifiable asset is rehabilitated or renewed, the amount incurred must be added to the carrying value of the asset.

13.1.3.7 Leased Assets must be dealt with in the following manner:

(a) A lease is an agreement whereby the lessor 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.

(b) Leases are categorised into finance and operating leases:

(i) A Finance Lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Where the risks and rewards of ownership of an asset are substantially transferred, the lease is regarded as a finance lease and must be recognised as a capital asset.

(ii) Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an Operating Lease and payments must be expensed in the Statement of Financial Performance on a systematic basis.

(c) A Lease Register must be maintained with all the information that is necessary for reporting purposes.

(d) The Council must on annual basis specify which kinds of leases the Municipality may enter into.

13.1.4 RECOGNITION OF CAPITAL ASSETS: SUBSEQUENT MEASUREMENT

13.1.4.1 The following measurement models for the measurement of the various classes of assets subsequent to their initial recognition must be applied by the Municipality:

(a) Property, Plant and Equipment (PPE): the cost model, unless a specific decision has been taken to revalue a certain class of assets and in such instance the assets must be valued using the revaluation model, provided that when an item of Property, Plant and Equipment is revalued, the entire class to which that asset belongs must be revalued.

(b) Intangible Assets: 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, provided that when an item of Intangible Assets is revalued, the entire class to which that asset belongs must be revalued.

(c) The PPE class Land and Buildings: the revaluation model.

(d) Investment property: the fair value model.

13.1.4.2 When an asset's carrying amount is –

(a) increased as a result of the revaluation, the increase is credited to a revaluation surplus. However, the increase must be 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; and

(b) decreased as a result of the revaluation, the decrease must be recognised as an expense in the Statement of Financial Performance. However, the decrease must be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

13.1.5 RECOGNITION OF INVENTORY ITEMS (NON-CAPITAL ITEMS) (GRAP 12)

13.1.5.1 GRAP 12.7 defines Inventories as assets –

(a) in the form of materials or supplies to be consumed in the production process;

(b) in the form of materials or supplies to be consumed or distributed in the rendering of services;

(c) held for sale or distribution in the ordinary course of operations; or

(d) in the process of production for sale or distribution.

13.1.5.2 Inventories include, but are not limited to –

(a) finished goods purchased or produced, or work in progress being produced by the Municipality; and

(b) 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.

13.1.5.3 Examples of inventories include, but are not limited to –

(a) consumable stores;

(b) maintenance materials;

(c) spare parts for plant and equipment other than those dealt with under PPE;

(d) strategic stockpiles (e.g. water reserves);

(e) work in progress; and

(f) land and/or property held for sale.

13.1.5.4 An asset acquired or owned by the Municipality for the purpose of –

(a) selling or developing such assets with the intention to sell such assets; or

(b) utilising the asset in the production process or in the rendering of services,

must be accounted for in the Municipality's financial statements as inventory items and not as Property, Plant and Equipment.

13.1.5.5 Costs of inventories include –

(a) 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);

(b) costs of development, which consist of –

(i) costs of housing or similar developments that are acquired or developed for the purpose of resale include costs directly related to the development (e.g. the purchase price of land acquired for such developments, surveying costs, conveyance costs and the provision of specific infrastructure): Provided that infrastructure costs relating to extending the capacity of existing infrastructure are excluded from the costs of development;

(ii) costs of a service provider consisting of direct labour and other costs of personnel directly engaged in providing the service and other attributable overheads in the costs of development; and

(iii) costs of conversion;

(c) other costs incurred in bringing the Inventory Registers to their present location and condition; and

(d) trade discounts, rebates and other similarities,

provided that taxes recoverable by the entity from the SARS may not be included.

13.1.5.6 Inventories are measured at the lower of cost and current replacement cost when they are held for –

(a) distribution at no charge or for a nominal charge; or

(b) for consumption in the production process of goods to be distributed at no charge or for a nominal charge,

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

13.1.5.7 Inventories are recorded in a dedicated section of the Inventory Register, which must be maintained for this purpose.

13.1.5.8 The amount of cost of inventories is recognised and carried forward until related revenues are recognised.

13.1.6 RECOGNITION OF FIXED ASSETS

13.1.6.1 A fixed asset is an asset with a useful life of more than one year and is used in the business of the Municipality.

13.1.6.2 A fixed asset is defined in GRAP 17 as a tangible item of property, plant or equipment held by a Municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and which is expected to be used during more than one reporting period (financial year).

13.1.6.3 The following are characteristics of a depreciable fixed asset:

(a) It is estimated that the asset will be used for more than one financial period;

(b) It has a limited useful life;

(c) It is used in a process of delivering services;

(d) It should provide future economic benefits;

(e) The future economic benefits should accrue to the Municipality;

(f) The event giving rise to the Municipality's right to the resource and control over the future economic benefits must already have occurred; and

(g) It should be possible to determine the cost of the asset reliably.

13.1.6.4 To be recognised as a fixed asset, an asset must also meet the criteria referred to in clause 13.1 of this Policy.

13.1.6.5 A fixed asset is thus an asset, either movable or immovable, under the control of the Municipality, and from which the Municipality derives economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year.

13.1.7 RECOGNITION OF (FINANCIAL) LEASES

13.1.7.1 An asset held under a finance lease, must be recognised as a fixed asset, as the Municipality has control over such an asset even although it does not own the asset.

13.1.7.2 The following are examples of situations that would normally lead to a lease being classified as finance lease:

(a) The lease transfers ownership of the asset to the Municipality as lessee by the end of the lease term.

(b) The Municipality as lessee has the option to purchase the asset at a price which is expected to be significantly lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised.

(c) The lease term is for the major part of the economic life of the asset even if title is not transferred.

(d) At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset.

13.1.7.3 Indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease are if –

(a) the Municipality as lessee may cancel the lease, the lessor's losses associated with the cancellation are born by the Municipality as lessee;

(b) gains or losses from the fluctuation in the fair value of the residual fall to the Municipality as lessee (for example in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and

(c) the Municipality as lessee has the ability to continue the lease for a secondary period at a rental that is substantially lower than market rental.

13.2 MEASUREMENT OF ASSETS

13.2.1 COST OF AN ASSET

13.2.1.1 The cost of a fixed asset includes the cost of activities (cash or equivalent) necessarily incurred to bring the fixed asset to the condition and location essential for its intended use (e.g. purchase price plus transport and installation).

13.2.1.2 The following are examples of costs that should be capitalised if it can be directly attributed to the acquisition of the asset or bringing the asset to its working condition:

(a) Administration and other general overhead costs;

(b) Start-up and other pre-production costs;

(c) Interest paid if part of a capital project; and

(d) Any trade discount and rebates are to be deducted in arriving at the purchase price.

13.2.1.3 Contract costs comprise –

(a) costs that relate directly to the specific contract, e.g. –

(i) site labour costs, including site supervision;

(ii) costs of materials used in construction;

(iii) depreciation of plant and equipment used on a contract;

(iv) costs of moving plant, and equipment to and from the contract site;

(v) costs of hiring plant and equipment;

(vi) costs of design and technical assistance that is directly related to the contract;

(vii) the estimated costs of rectification and guarantee work, including expected warranty costs; and

(viii) claims from third parties;

(b) costs that relate directly to contract activity in general and that can be allocated to the contract, e.g. –

(i) insurance;

(ii) cost of design and technical assistance that are not directly related to a specific contract, and

(iii) construction overheads; and

(c) such other costs are specifically chargeable to the customer under the terms of the contract.

13.2.1.4 Research costs should be recognised as an expense in the period in which they are incurred and should not be recognised as an asset. Examples of activities typically included in research are –

(a) activities aimed at obtaining new knowledge;

(b) the search for applications of research findings or other knowledge;

(c) the search for product or process alternatives; and

(d) the formulation and design of possible new or improved product or process alternatives.

13.2.1.5 The development costs of a project should be recognised as an expense in the period in which they are incurred, unless all the following criteria are met:

(a) The product or process is clearly defined and the costs attributable to the product or process can be separately identified and reliable measured.

(b) The technical feasibility of the produce and market or use the product or process.

(c) The existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the enterprise can be demonstrated.

(d) Adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

13.2.1.6 Examples of activities typically included in development are –

(a) the evaluation of product or process alternatives;

(b) the design, construction and testing of pre-production prototypes and models;

(c) the design of tools, jigs, moulds and dies involving new technology; and

(d) the design, construction and operation of a pilot plant that is not of a scale that is economically feasible for commercial production.

13.2.2 CHANGES IN ACCOUNTING ESTIMATES

13.2.2.1 As a result of the uncertainties inherent in municipal activities, many financial items cannot be measured but can only be estimated.

13.2.2.2 The estimation process is based on judgments based on the latest financial information available. Estimates may be required, for example, for bad debts, inventory obsolescence or the useful lives or expected pattern of consumption of economic benefits or depreciable assets.

13.2.2.3 An estimate may need to be revised if changes occur regarding the circumstances on which the estimate was based or as a result of new information, more experience or subsequent developments.

13.2.2.4 In practice, the Head of Department concerned may decide to revise the useful life of an asset or a group of assets due to certain circumstances.

13.2.2.5 The effect of a change in accounting estimate must be included in the determination of net profit or loss in –

(a) the period of the change if the change affects the period only, or

(b) the period of change and future periods, if the change affects both.

13.3 THRESHOLD FOR RECOGNITION (CAPITALISATION BENCHMARK)

13.3.1 Assets with an initial cost of more than the capitalisation benchmark of R 1 000,00 (one thousand Rand) must be recognised as Property, Plant and Equipment (PPE). All items above R 1 000,00 must be capitalised.

13.3.2 Items with a cost between R 500,00 (five hundred Rand) and R 1 000,00 may be capitalised at the discretion of the CFO.

13.3.3 Fixed assets with a value of less than R 1 000,00 (except in the case where the CFO has judged otherwise (clause 13.3.2 of this Policy) must –

(a) be regarded as inventory and not recorded for financial purposes in the Fixed Asset Register;

(b) be marked or identified for control purposes and indicated as such in an inventory list/sheet; and

(c) in respect of their existence and location, be verified from time to time (and at least once a year by not later than 31st of May) by the Head of Department concerned, provided that any amendments which are made to such inventory list/sheet pursuant to such verification must be retained for audit purposes.

13.4 CAPITALISATION (NORMAL AND SUBSEQUENT EXPENDITURE)

13.4.1 NORMAL EXPENDITURE

13.4.1.1 No item with an initial cost or fair value of less than the capitalisation benchmark of R 1 000,00 (one thousand Rand) – or such other amount as the Council may from time to time determine on the recommendation of the Municipal Manager – may be recognised as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark of R 1 000,00 (one thousand Rand), it must be treated as an ordinary operating expense.

13.4.1.2 Every Head of Department must ensure that any item with a value of less than the capitalisation benchmark of R 1 000,00 (one thousand Rand) with an estimated useful life of more than one year –

(a) is recorded on an inventory list/sheet; and

(b) in respect of its existence and location, is verified from time to time (and at least once a year by not later than 31st of May), provided that any amendments which are made to such inventory list/sheet pursuant to such verification must be retained for audit purposes.

13.4.2 SUBSEQUENT EXPENDITURE

13.4.2.1 Subsequent expenditure relating to an asset must be capitalised to the net book value in every instance where it is determined that the asset has been enhanced.

13.4.3 INTANGIBLE ITEMS

13.4.3.1 Intangible assets must be recognised and measured in accordance with GRAP 102.

13.4.4 ENHANCEMENT, MAINTENANCE, REINSTATEMENT AND ANCILLARY EXPENSES

13.4.4.1 Only expenses incurred in the –

(a) enhancement of a fixed asset (in the form of improved or increased services or economic benefits flowing from the use of such asset); or

(b) material extension of the useful operating life of such fixed asset,

may be capitalised.

13.4.4.2 Expenses incurred in the maintenance or reinstatement of a fixed asset –

(a) must be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained; and

(b) may not be capitalised, irrespective of the quantum of the expenses concerned.

13.4.4.3 Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised as part of such fixed asset. Such expenses include, but are not limited to, import duties, forward cover costs, transportation costs, installation, assembly and communication costs.

13.5 USEFUL LIFE OF ASSETS

13.5.1 The parameters determined for the useful lives of assets are based on the resolution of the Council to adopt the best practice framework as issued by National Treasury in the Local Government Asset Management Guideline, provided that –

(a) the Council made by resolution adapt the above Guideline for the useful lives of assets based on past experience and specific l preferences relevant to the Municipality;

(b) the useful life set out for a specific asset will determine the depreciation of the asset; and

(c) it may be necessary to review the useful life annually of assets as the original estimate of useful life may become inappropriate. Such an adjustment is deemed to be a change in estimate, with the result that the depreciation charge for the current and future periods must be adjusted.

13.5.2 See clause 9 of this Policy with regard to the Asset Life Cycle.

13.5.3 See attached Annexure A for the Useful Life table.

13.6 DEPRECIATION

13.6.1 DEPRECIATION OF FIXED ASSETS

13.6.1.1 All fixed assets, except land and heritage assets, must be depreciated, or, in the case of intangible assets, amortised.

13.6.1.2 Depreciation generally takes the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department in which the asset is used or consumed.

13.6.1.3 Depreciation must initially be calculated from the commissioning date of the asset (as per the electronic Fixed Asset Register (GRAP 17). Thereafter, deprecation charges must be calculated monthly.

13.6.1.4 Each Head of Department, acting in consultation with the CFO, must ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets –

(a) controlled or used by the department concerned; or

(b) expected to be so controlled or used,

during the ensuing financial year.

13.6.1.5 As regards intangible assets, the procedures that must be followed in accounting and budgeting for the amortisation thereof are identical to those applying to the depreciation of other fixed assets.

13.6.2 RATE OF DEPRECIATION (OVER USEFUL LIFE)

13.6.2.1 The CFO must assign a useful operating life to each depreciable asset recorded on the Municipality's Fixed Asset Register. In determining such a useful life, the CFO must adhere to the useful lives set out in the annexure to this Policy (see Annexure A).

13.6.2.2 In the case of a fixed asset that is not listed in Annexure A, the CFO must determine a useful operating life in consultation with the Head of Department who will –

(a) control or use the fixed asset concerned, and

(b) be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

13.6.3 METHOD OF DEPRECIATION

13.6.3.1 Except in cases specifically identified in clause 13.6.5 below, the CFO must depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

13.6.4 AMENDMENT OF ASSET USEFUL LIVES AND DIMINUTION IN VALUE OF FIXED ASSETS

13.6.4.1 Only the CFO may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs, the CFO must inform the Council of such amendment.

13.6.4.2 The CFO must amend the useful operating life assigned to any fixed asset –

(a) if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or

(b) any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.

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

13.6.4.4 If a fixed asset has been lost, stolen or damaged beyond repair, it must be fully depreciated/impaired in the financial year in which such event occurs; Provided that in the event that the fixed asset has physically ceased to exist, it must be removed (excluded) from the Fixed Asset Register.

13.6.4.5 If any of the above-mentioned events (clause 13.6.4.1 to 13.6.4.4) arise –

(a) the additional depreciation expenses must be debited to the Department controlling or using the fixed asset concerned; and

(b) in the case of a normally non-depreciable fixed asset, and such non-depreciable fixed asset has been capitalised at a value other than a purely nominal value, such non-depreciable fixed asset must be partially or fully impaired, as the case may be, as though it was an ordinary depreciable asset, and the Department controlling or using the fixed asset in question must bear the full depreciation expenses concerned.

13.6.5 ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES

13.6.5.1 The CFO may employ the sum-of-units method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services: Provided that the CFO may only employ this method of depreciation if the Department controlling or using the fixed asset concerned gives a written undertaking to the Municipal Manager to submit –

(a) estimates of statistical information required by the CFO to prepare estimates of depreciation expenses for each financial year; and

(b) actual statistical information, for each financial year,

at the specific times stipulated by the CFO.

13.6.5.2 Where the CFO decides to employ the sum-of-units method of depreciation and the requirements set out in the preceding paragraph have been adhered to, the CFO must inform the Council of such decision.

13.7 CREATION OF NON-DISTRIBUTABLE RESERVES FOR FUTURE DEPRECIATION

NOTE: This has been prepared on the assumption that these reserves are allowed.

13.7.1 The CFO must ensure that in respect of all fixed 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 fixed assets donated to the Municipality, a non-distributable reserve for future depreciation is created equal in value to the capitalised value of each fixed asset concerned.

13.7.2 The CFO must –

(a) ensure that in the case of depreciable fixed assets an amount equal to the monthly depreciation expenses of the fixed asset concerned is transferred each month from such non-distributable reserve to the Municipality's appropriation account; and

(b) where there is a difference between the budgeted monthly depreciation expenses and the actual total depreciation expenses for each financial year, appropriately adjust the aggregate transfer from the non-distributable reserve for the year concerned.

13.8 CARRYING VALUES OF FIXED ASSETS

13.8.1 All fixed assets must be carried in the Fixed Asset Register, and appropriately recorded in the Annual Financial Statements, at their original cost, deemed cost or fair value less any accumulated depreciation.

13.8.2 The only exceptions to 13.8.1 are –

(a) revalued assets; and

(b) heritage assets in respect of which no value is recorded in the Fixed Asset Register.

13.9 IMPAIRMENT (RECOVERABLE AMOUNTS)

13.9.1 The carrying amount (book value) of an item or a group of identical items of Property, Plant and Equipment (PPE) must be reviewed periodically in order to assess whether the recoverable amount has declined below the carrying amount.

13.9.2 The recoverable amount is the amount that the Municipality expects to recover from the future use of an asset, including its residual value on disposal. When such a decline has occurred, the carrying amount must be reduced to the recoverable amount. The amount of the reduction must immediately be recognised as an expense.

13.9.3 The recoverable amount of individual assets, or groups of identical assets, is determined separately. This followed by reducing, on an individual asset or group of identical assets basis, the carrying amount to the recoverable amount.

13.9.4 There may be circumstances when it may not be possible to assess the recoverable amount of an asset on the above-mentioned basis (see clause 13.9.3), for example when all the recognised assets in a roads network are used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of the recoverable amount.

13.9.5 The following may be indicators that an item of PPE has become impaired:

(a) The asset has been damaged.

(b) The asset has become technologically obsolete.

(c) The asset remains idle for a considerable period either prior to it being put into use or during its useful life.

(d) Land is purchased at market value and is to be utilised for subsidised housing developments, where the subsidy is less than the purchase price.

14 LAND REFERRED TO IN THE TRANSFORMATION OF CERTAIN RURAL AREAS ACT 94 OF

1999 ("TRANCRAA LAND")

14.1 The Municipality may not allocate any rights (ownership, use, position and/or any other real or personal rights) in respect of land referred to in the Transformation of Certain Rural Areas Act 94 of 1999, as the national Minister responsible for land reform has the exclusive power to allocate rights in respect of such land.

14.2 The Municipality does not own, control, use, or receive any economic or financial benefit from, the land referred to in clause 14.1.

14.3 The land referred to in clause 14.1 may not be –

(a) recognised as an asset;

(b) valued;

(c) listed in the Fixed Asset Register; and

(d) reflected in the Annual Financial Statements, except by means of a note to such Annual Financial Statements

14.4 The Municipality may provide municipal services to the occupants of land referred to in the Transformation of Certain Rural Areas Act 94 of 1999, in which event the recipients of such municipal services must pay the appropriate amounts as set out in the Municipality's Tariff Policy.

15 MISCONDUCT

15.1 If there is evidence of any misconduct, dishonesty or intentional wrongdoing with regard to any provision of this Policy, the Municipality must institute disciplinary proceedings in terms of the disciplinary procedure in the collective agreement or the Disciplinary Regulations for Senior Managers, as the case may be.

16 CONFLICT

16.1 In the event of a conflict between –

(a) this Policy; and

(b) the Auditor-General's findings and/or recommended remedial actions as contained in the Municipality's Management Report, the MSA, the Municipal Systems Act, the MFMA, the Standards of Generally Recognised Accounting Practices (GRAP), the MATR, the MSCMR or the Municipality's Supply Chain Management Policy, as the case may be,

the latter prevails.

17 DELEGATIONS

17.1 The delegation of any power, function or duty provided for in this Policy must be performed in terms of the Delegation Policy.

18 RESPONSIBILITY FOR IMPLEMENTATION

18.1 The Municipal Manager accepts overall responsibility for the implementation of this Policy.

19 MONITORING AND EVALUATION

19.1 The Council must carry out the monitoring and evaluation of this Policy's implementation.

20 REVIEW AND AMENDMENTS

20.1 The Council –

(a) must review this Policy on an annual basis; and

(b) may amend this Policy during the course of any specific year.

21 EFFECTIVE DATE

21.1 This Policy becomes effective upon approval thereof by the Council.

22 POLICY APPROVAL

Authorised by Municipal Manager:

Signature:

Date:

Recommended by Portfolio Committee on Finance:

Signature:

Date:

Approved by Council:

Signature:

Date: 01 July 2023

ANNEXURE A

ASSET CLASSIFICATION AND ESTIMATED USEFUL LIVES

ASSET CLASS	ESTIMATED USEFUL LIVES (IN YEARS)
LAND	
Land	Indefinite
BUILDINGS	
Improvements	5-50
INFRASTRUCTURE	
Electricity	10-50
Roads and paving	5-80
Sanitation	10-55
Sewerage	5-80
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