



**dr.jsmlm**

**Dr JS Moroka Local Municipality**

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

The Asset Management Policy provides direction for the management, accounting and control of Property, Plant & Equipment (Fixed Assets) owned or controlled by the municipality.

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

- 2.1 As accounting officer of the municipality, the Municipal Manager is the principal custodian of all the municipality's fixed assets, and is responsible for ensuring that the fixed asset management policy is thoroughly applied and adhered to.
- 2.2 The Municipal Manager or his duly delegated representative is responsible to:
- Ensure implementation of the approved Asset Management Policy as required in terms of section 63 of the Municipal Finance Management Act (MFMA)
  - Verify assets in possession of the Council regularly, during the course of the financial year
  - Keep a complete and balanced record of all assets in possession of the Council
  - Report in writing all asset losses, where applicable, to Council
  - Ensure that assets are valued and accounted for in accordance with a statement of GRAP (Standards of Generally Recognised Accounting Practice)

## **SECTION 3: ROLES OF THE FINANCE DEPARTMENT**

### **3.1 Role of the Chief Financial Officer (CFO)**

- 3.1 The CFO will be the custodian of the Fixed Asset Register (FAR) of the municipality, and will ensure that a complete, accurate and up-to-date computerised FAR is maintained. No amendments, deletions or additions to the FAR will be made other than by the CFO or by an official acting under the written instruction of the CFO.

### **3.2 Asset Control Section**

3.2.1 Ensure that complete records of asset items are kept, verified and balanced regularly:

3.2.2 The Asset Manager shall comply with the requirements of Section 7.3 as relates to the verification of Assets

3.2.3 The Asset Officers shall comply with the requirements of Section 7.3

3.2.4 Ensure that all movable assets are properly tagged and accounted for

3.2.5 The receipt and recording of Assets shall be conducted in the manner as stipulated below:

- All Assets are going to be delivered to the Stores.
- The department ordering the asset is to be informed of its arrival
- The Store Officer must inform the Senior Asset Officer (Accountant) of the asset's arrival so that it can have a barcode tag attached.
- On receipt of the asset, the details of the delivery note and the asset are to be compared to the filed order for inter alia by the Store Officer:
  - Description; number; model type and number; colour and condition,
  - Price if the invoice is present.
- The delivery note is to be signed by the Stores supervisor or staff as evidence of the receipt of the asset.
- The delivery note, invoice and other documentation are to be forwarded to the Finance department for payment.
- The Asset Control section shall ensure compliance with Section 26.6 and 26.7 of this Policy.
- The Senior Asset Officer/Accountant bar-code the Assets and record the Assets on the Computerized Asset Management System.
- The Senior Asset Officer/Accountant inform the Insurance about the New Assets
- The Asset Officer sends a List of that New Assets to the Insurance Company.
- The Asset Officer issuing the Assets by completing the Assets Form
- The Asset Officer shall ensure that the End- user signs the Asset issuing Form Authorized by the Asset Manager as an acknowledge receipt of Assets.
- Asset Officer updates Inventory List for that Office where the Asset is going to be placed.
- Asset Officer makes copies of Supporting Documents and scan.

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- The Asset Manager/Deputy CFO verified and pass the Journal to Asset Capital Account'
- The asset verification report will reflect any discrepancies between the articles found during verification and the record referred to in the point above
- 3.2.6 Ensure that the FAR is balanced annually with the general ledger and the financial statements
- 3.2.7 Ensure adequate bar codes to exercise the function relating to assets control are available at all times
- 3.2.8 Provide the Auditor-General or his personnel, on request, with the Copies of financial records relating to assets belonging to Council as recorded in the FAR
- 3.2.9 Ensure that all audit queries are resolved in a timely manner
- 3.2.10 Ensure that asset acquisitions are allocated to the correct asset votes
- 3.2.11 Ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, counter signed by the Asset Control Section, is presented
- 3.2.12 Ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from the departments
- 3.2.13 Compile a list of the items to be auctioned in accordance with their guidelines in the Supply Chain Management (SCM) Policy
- 3.2.14 The Control and Management of Assets. The following shall be enforced:
  - The Senior Asset Officer/Accountant must ensure that all Assets are safeguarded by keeping them in safe place when is not used.
  - Asset Officer must ensure that Asset inventory list are update.
  - Senior Asset Officer/Accountant must ensure that Asset register are updated.
  - Senior Asset Officer/Accountant must keep the updated list of all Asset Insured from the Insurance Company
  - Senior Asset Officer/Accountant must file the Insurance Contract and Lease Agreement in a safe and secure place.
  - It is the duty of the Asset Manager to ensure that the Asset Register reconciles with the Asset ledger on a monthly basis. This reconciliation should be finalized by the 7th day of each month.
  - The Deputy Chief Financial Officer should verify the correctness and accuracy of the reconciliation as mentioned. The reconciliation should be signed as proof of the

verification performed

3.2.15 Movement of Assets. The following procedure shall be enforced:

- Asset Officer must ensure that the transfer form is completed when the Asset are transferred.
- Senior Asset Officer/Accountant must ensure that the Movement Assets form is completed when there is any movement of Assets
- End- User must make sure that they signed the Laptop Register before they leave with Assets from the Municipal Premises at the Security Gate.
- The Asset Officer must co-sign the Asset Resignation Form with the Human Resource Department.
- Corporate Service Department must inform Asset Officer/Accountant to ensure that the Assets Return form is completed before the Employee leave the Municipality

### **3.3 Finance/ Operating Leases**

3.3.1 The Asset Officer must update the Lease Register on Monthly Basis

3.3.2 The Asset Officer must reconcile the Lease Register by comparing the Payment made/ Ledger and the Lease Register on Monthly Basis Senior Asset Officer/Accountant

3.3.3 The Senior Asset Officer/Accountant must verify the above Verification and submit it to Asset Manager

3.3.4 The Senior Asset Officer/Accountant must Check and Control the Contract of all the providers of the Leased Assets

### **3.4 Project/WIP and donated assets**

3.4.1 The Assets Officer must remain in constant Liaison with Project Management Unit (PMU) about Project Register on Monthly basis

3.4.2 The Asset Officer must keep Copies of all Completion Certificate from PMU.

3.4.3 The Assets Officer must be in constant Liaison with PMU and PMU from Nkangala District Municipality (NDM) for all Donated Assets from NDM The Progress of Assets under construction/ transfer must be obtained from the donating party

3.4.4 The Asset Manager must check the Project List and Donated List on Monthly Basis

3.4.5 The Asset Manager through Deputy CFO and CFO must write a Confirmation on

Donated Assets on Quarterly basis to NDM.

### **3.5 The Manager: Budgets**

- 3.5.1 Ensure that the capital budget as submitted by the departments is approved. A clear description of the funding source is also required
- 3.5.2 Release capital funds only after receiving written authority. A clear and concise description of the item to be purchased as well as an allocated responsible person for this asset is also needed before release
- 3.5.3 Ensure that any changes in the capital budget, with regards to funds transferred or project description changes, are communicated to the Asset Control Section

### **3.6 The Manager: Expenditure section**

- 3.6.1 Ensure that invoices authorised for payment are matched to the goods received note before processing such payment
- 3.6.2 If any doubt exists as to whether the invoice is in accordance with policy, query the payment with the relevant department and will process a payment until the invoice meets the policy criteria.
- 3.6.3 Expenditure Section shall inform Asset Officer after they finalized any Payment of Assets.

### **3.7 Procurement Section**

- 3.7.1 Dispose of assets – via auction – in accordance with the provisions in the SCM Policy
- 3.7.2 The Bid Adjudication / Bid Specification Committee must comply with and be constituted in accordance with the SCM procurement policy.

## **SECTION 4: ROLES OF OTHER DEPARTMENTS**

### **4.1 Human Resources Department**

- 4.1.1 Ensure that no monies are paid out on termination of service without receiving the relevant asset resignation form signed off by the relevant department
- 4.1.2 Ensure that every asset resignation form is counter signed by the Asset Control Section before processing the termination of service.

### **4.2 All Departments**

#### **4.2.1 Directors:**

- 4.2.1.1 Ensure that employees in their departments adhere to the approved Asset Management Policies Ensure that an employee with delegated authority has been

nominated to implement and maintain physical control over assets in the department. The Asset Control Section must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the director

- 4.2.1.2 Ensure that assets are properly maintained in accordance with their respective asset maintenance plan
- 4.2.1.3 Ensure that the assets of the municipality are not used for private gain
- 4.2.1.4 Ensure that all their movable assets as reflected on the FAR are bar coded where possible
- 4.2.1.5 Ensure that the Asset Control Section is notified of any changes in the status of the assets under the department's control. This must be done on the prescribed form and include the following:
  - 4.2.1.6 Movements/disposals which relate to the transfer of assets (inter departmental transfers)
  - 4.2.1.7 Changes in the estimated useful lives of assets for depreciation purposes
  - 4.2.1.8 Changes in depreciation methods to best reflect an assets pattern of use
  - 4.2.1.9 Ensure that the correct cost element and description are being used before authorising any requisitions
- 4.2.1.10 The detailed projects as created must be categorised and clearly identified as follows:

### **Immovable Assets**

- ❖ Infrastructure assets
- ❖ Buildings
- ❖ Land
- ❖ Community assets
- ❖ Heritage assets
- ❖ Recreational facilities
- ❖ Asset under construction (only an asset after completion)
- ❖ Town development
- ❖ Investment properties

### **Intangible assets**

Computer Software and licenses

### **Movable Assets**

- ❖ Bins and containers
- ❖ Emergency equipment
- ❖ Emergency vehicles
- ❖ Furniture and fittings
- ❖ Heritage assets.
- ❖ Motor vehicles
- ❖ Office equipment
- ❖ Plant and machinery
- ❖ Other

## **SECTION 5: DEFINITION AND ROLES OF AN ASSET**

### **5.1 Definition of an Asset:**

***An asset is a resource controlled by the municipality as a result of past events and from which future economic benefits or service potential is expected to flow to the municipality.***

- The definition has three components, which must all be satisfied in order to be classified as 'an asset' in an accounting sense. They are relevant to all forms of assets:
- The municipality has the capacity to control the service potential or future economic benefits of the asset, that it is control of the economic benefits or service potential of the asset rather than 'physical' control
- The service potential or future economic benefits arose from past transactions or events existing on reporting date (that is future assets cannot be recognised in the financial statements)
- The asset has future service potential or economic benefit for the municipality. The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the municipality. The potential may be a productive one that is part of the operating activities of the municipality. It may also take the form of convertibility into cash or cash equivalents or a capability to

reduce cash outflows, such as when an alternative process lowers the costs of providing a service

- Service potential is the capacity of an asset, alone or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality.

## **5.2 Assets held under finance leases will be accounted for as followed**

- 5.2.1 The leased assets will be capitalised in the financial statements of the lessees at the amount stated in the lease agreement, and
- 5.2.2 The asset will be depreciated over the useful life of the asset to the lessee, unless
- 5.2.3 There is no certainty that the lessee will obtain ownership by the end of the lease term whereby the leased asset will then be depreciated over the shorter of the lease term or its useful life.
- 5.2.4 Adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

## **5.3 Development Costs of An Asset shall be identified and treated as detailed below:**

- 5.3.1 Development cost initially recognised as an expense will not be recognised as an asset in a subsequent period.
- 5.3.2 Development cost recognised, as an asset will not exceed the amount that Council is probable to recover from related future economic benefit or potential service provision, after deducting the following costs:
  - Further development costs,
  - Related production or service delivery costs, and
  - Selling and administrative costs directly incurred in marketing the product
  - Adequate resources exist, or their availability can be demonstrated, to complete the project and market or use the product or process.

## **5.4 Role of Assets**

- 5.4.1 The role of an asset is to support the delivery of a service to the public. Assets should exist to support programme delivery.

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

### **6.1 Format**

- 6.1.1 The FAR will be maintained in the format determined by the CFO, which complies with the requirements of any accounting requirements prescribed.
- 6.1.2 Without in any way detracting from the compliance criteria mentioned in the preceding paragraph, the FAR will reflect at least the following information:
- a brief but identifiable description of each asset
  - classification of each asset
  - the date on which the asset was acquired for use
  - the location of the asset
  - the departments or cost centre within which the assets will be utilised
  - the responsible person for this asset

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- where applicable, the identification number, as determined in compliance with 7.2 below
  - the original cost or fair value if no costs are available
  - the (last) effective date of revaluation of the fixed assets subject to revaluation
  - the revalued value of such fixed assets
  - accumulated depreciation to date
  - the carrying value of the asset
  - whether this is a cash or non-cash generating asset
  - impairment losses
  - the source of financing
  - the date on which the asset is disposed of
  - the date on which the asset is retired from active use, and held for disposal
  - the residual value of each asset
  - measurement model
  - Periods when the asset was idle and reason for the idleness.
- 6.1.3 All directors of departments under whose control any fixed asset falls shall promptly provide the CFO in writing of any information required to compile the FAR and of any material change which may occur in respect of such information.
- 6.1.4 A fixed asset shall be capitalised, that is, recorded in the FAR, as soon as it is acquired and is available for use. If the asset is constructed over a period of time, it must be recorded as work-in-progress until it is available for use, where after it must be appropriately capitalised as a fixed asset.
- 6.1.5 A fixed asset shall remain in the FAR for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated must not in itself be a reason for writing-off such an asset.

## **6.2 Different categories within FAR**

- 6.2.1 The following is an outline of the requirements relating to the various types of asset categories that the municipality will maintain:
- 6.2.2 The CFO is responsible for ensuring that complete records of asset items are kept, verified and balanced regularly.
- 6.2.3 The FAR for the municipality will contain the following types of assets categorized as

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immovable or movable assets:

- Immovable Assets:
  - Infrastructure assets:
  - Electricity assets
  - Water networks and related assets
  - Waste water networks and related assets
  - Roads, bridges and storm water
  - Land and buildings
  - Investment properties
  - Community assets
  - Heritage assets
  - Intangible assets
  - Agricultural assets
  - Other assets
  - Office equipment
  - Furniture and fittings
  - Bins and containers
  - Emergency equipment
  - Motor vehicles
  - Plant and machinery equipment
- 6.2.4 The FAR will consist of all the asset master records of movable assets capitalised. These assets, except for group assets, must be numbered with the approved bar code labels. The Policy on the Electronic Fixed Asset Register is covered in Section 26.
- 6.2.5 Immovable assets on the FAR will not be physically numbered with bar code labels but will have a unique asset master record number.
- 6.2.6 Capital work-in-progress. Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is available for use

## **SECTION 7: CLASSIFICATION AND IDENTIFICATION OF PROPERTY, PLANT AND EQUIPMENT**

### **7.1 Classification**

- 7.1.1 In compliance with the requirements of National Treasury and accounting standards, the CFO shall ensure that all fixed assets are classified under the headings listed below. The directors of departments shall provide the CFO, in writing, with information and assistance as required to compile a proper classification:
- Property, Plant and Equipment
  - Land (not held as investment assets)
  - Buildings, excluding buildings classified as investment assets, classified as heritage assets and buildings utilised in contributing to the community's well-being (clinics, libraries etc).
  - Infrastructure assets are defined as any asset that is part of a network of similar assets. These assets usually display some or all of the following characteristics:
    - They are part of a system or network
    - They are specialized in nature and do not have alternative uses
    - They are immovable
    - They may be subject to constraints on disposal.
- 7.1.2 Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks. Infrastructure can be considered as a single asset or more usefully as a collection of different assets. Each individual asset shall be measured at its own cost and own lifespan, which will influence the depreciation of such an asset.
- 7.1.3 Community assets are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.
- 7.1.4 Heritage assets are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- 7.1.5 Capital Finance Lease assets are defined as assets financed by a Finance Lease if it is identified as such in terms of the requirements of GRAP 13.
- 7.1.6 Agricultural assets are defined as biological assets which are living animals or plants and agricultural produce which is the harvested product of the biological assets.
- 7.1.7 Other assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles, furniture and fittings.

## **7.2 Assets Held for Sale**

- 7.2.1 Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as non-current assets held for sale, and not included in either property, plant and equipment or investment property in the municipality's statement of financial position.
- 7.2.2 Such assets will, however, be recorded in the FAR in the same manner as other fixed assets, but a separate section of the FAR will be maintained for this purpose.

### **7.3 Investment Property**

- 7.3.1 Investment properties are defined as properties that are acquired/held for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.
- 7.3.2 The CFO shall adhere to the classifications indicated in the annexure on fixed asset lives (see Annexure A below). In the case of a fixed asset not appearing in the annexure the classification applicable to the asset most closely comparable to the asset in question will be used.

### **7.4 Identification**

- 7.4.1 The Municipal Manager shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised FAR.
- 7.4.2 The identification system must be determined by the Municipal Manager, acting in consultation with the CFO and other directors of departments, and shall comply with any legal prescriptions, as well as any requirements of the Auditor-General. This shall be decided within the context of the municipality's budget.

## **Verification**

- 7.4.3 All items of property, plant and equipment must be physically verified in detail annually with spot checks being performed bi-annually.
- 7.4.4 The Asset Manager must draw a Plan of Asset Verification which contains Dates, Places and Verification Process prior to the verification of assets.
- 7.4.5 The Asset Manager through the Deputy CFO/CFO will request Staff from other Department to Assist with Asset Verification
- 7.4.6 The Asset Manager must appoint Team and Team Leaders who will conduct Asset Verification through the Deputy CFO and CFO
- 7.4.7 The Asset Manager must invite the Internal Auditors to Oversee the Asset Verification through Deputy CFO and CFO.
- 7.4.8 The Senior Asset Officer/Accountant will be responsible for Asset Verification.
- 7.4.9 After Verification Asset Officer will Compile Verification Report
- 7.4.10 Asset Manager will check the Report and submit it to Deputy CFO
- 7.4.11 After the physical verification process the following items of property, plant and equipment will be identified:
  - 7.4.12 Items of property, plant and equipment that could not be verified,
  - 7.4.13 Items of property, plant and equipment that were capitalised and added to the fixed asset register, but the unique asset number could not be found.
  - 7.4.14 New items of property, plant and equipment that were not numbered and added to the asset register yet, and
  - 7.4.15 Damaged items of property, plant and equipment that should be written off.
- 7.4.16 When the physical verification process is completed and the issues above are cleared, new lists of property, plant and equipment, per location and department must be handed out to the relevant Head of Departments for control purposes.
- 7.4.17 Items of property, plant and equipment that could not be found
- 7.4.18 These items of property, plant and equipment must be summarised per location and department.
- 7.4.19 These summaries must then be circulated to the relevant Head of Departments for confirmation and written explanations.

- 7.4.20 If the assets could not be found and these assets were not sold an Asset Scraping Form must be completed as described above.
- 7.4.21 The fixed asset register and the general ledger must be updated with any items of property, plant and equipment that could not be found.
- 7.4.22 Items of property, plant and equipment which could not be identified due to a lack of an unique asset number

## **7.5 Safekeeping**

- 7.5.1 Section 63 of the Municipal Financial Management Act (Act no 56 2003) determines that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets
- 7.5.2 Section 78 of the Municipal Financial Management Act (Act no 56 2003) determines that each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained to the necessary extent. A senior manager or such official must perform the functions subject to the directions of the accounting officer of the municipality
- 7.5.3 Every director of a department will be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question
- 7.5.4 In exercising this responsibility, every director of a department shall adhere to written directives issued by the Municipal Manager to the department in question, or generally to all departments, in regard to the control or safekeeping of the municipality's fixed assets.

## **7.6 RECOGNITION AND DERECOGNITION OF LAND (iGRAP 18)**

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

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

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

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

### 7.6.3 **Policy**

7.6.4 The control of land is evidenced by the following criteria:

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

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

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

## **SECTION 8: HERITAGE ASSETS**

### **8.1 Definition**

8.1.1 Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. Examples are works of art, conservation areas, historical buildings and statues.

- 8.1.2 Recognition and Disclosure of Heritage assets
- 8.1.3 The municipality shall choose either the cost model or the revaluation model as its accounting policy. This policy must be applied to an entire class of heritage assets.
- 8.1.4 Where no evidence is available to determine the market value in an active market of a heritage asset, a valuation technique may be used to determine the fair value. Valuation techniques include using recent arm's length market transactions if available. In the case of specialised heritage buildings and other man-made heritage structures, such as monuments, the municipality may need to determine fair value by using a replacement cost approach.
- 8.1.5 If the municipality is unable to determine a reliable fair value, due to market determined prices or values that are unavailable and alternative estimates of fair value are determined to be clearly unreliable, the heritage asset shall be measured using the cost model.

## **SECTION 9: DONATED ASSETS**

### **9.1 Definition**

- 9.1.1 An item donated to the municipality or acquired by means of an exchange of assets between the municipality and one or more other parties shall be recorded in the FAR only if it subscribes to the definition of an asset as set out in section 5 above.
- 9.1.2 Disclosure of Donated Assets: Donated assets will be disclosed in the Statement of Financial Position at fair value less accumulated depreciation at date of acquirement. Fair value can be defined as what an asset would cost in the open market at the date of acquirement. If there is no open market for such assets the depreciated replacement value will be applied to determine fair value.
- 9.1.3 The transaction of acquirement will reflect on the Statement of Changes to Net Assets as "Assets Donated".
- 9.1.4 Budgetary Requirements: The same budget requirements as for other fixed assets are applicable

## **SECTION 10: INTANGIBLE ASSETS**

### **10.1 Definition**

10.1.1 Items belonging to the category 'intangible' do not have a physical form and meet the identification criteria in the definition of an intangible asset when it:

- is separable i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- Arises from contractual or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

10.1.2 Examples of intangible items are:

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

10.1.3 Recognition and Measurement: Intangible items are initially recorded at their cost price. Where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at date of acquisition.

10.1.4 After initial recognition, the municipality shall choose either the cost model or the revaluation model as its accounting policy.

10.1.5 If an intangible asset, in a class of revalued intangible assets, cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortisation and impairment losses.

10.1.6 Cost Model

- An intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

10.1.7 Useful Life

- The municipality shall assess whether the useful life or service potential of an intangible asset is finite or indefinite. If finite the length of, or number of production or similar units constituting that useful life, shall be determined. An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential for the

entity.

10.1.8 An intangible asset with a finite useful life is amortised as an intangible asset with an indefinite useful life is not.

10.1.9 Retirements and Disposals

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

10.1.10 Review of Useful Life Assessment

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

## **SECTION 11: CAPITALISATION CRITERIA**

11.1 All Asset Acquisitions that Complies with the Definition of PPE.

11.2 All items of PPE acquired that comply with the fixed asset definition must be capitalised in the FAR at cost and be provided for on the capital budget.

11.3 Group Assets

- Group assets are assets of a similar nature and usually purchased as a group.
- Group items identified are:
- Water and electricity meters
- Chairs for community centres and the city hall
- Library books

11.4 All group asset purchases will not be tagged but must be capitalised on the FAR as a group and provided for on the capital budget.

## **SECTION 12: CALCULATION OF CAPITALISATION COST OF ASSETS**

### **Initial Cost**

12.1 An item of property, plant and equipment that qualifies for recognition as an asset should initially be measured at its cost. The cost of an item of property, plant and

equipment comprises its' purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are:

- The cost of site preparation
- Initial delivery and handling costs
- Installation and assembly costs
- Professional fees such as for architects and engineers that is directly applicable to the project
- Feasibility studies will only be capitalised as cost if the capital project, for which this study was applied, will be executed. Up to the starting time of this capital project the cost of this study will be carried as work in progress. If no capital project will flow from this study the cost will be adjusted to the accumulated surplus account
- The initial estimated costs of dismantling and removing the item and restoring the site on which it is located, to the extent that it is recognised as a provision
- Administrative and other general overhead costs are only a component of cost if it can be directly attributed to the acquisition or construction of the asset without which the asset could not have been brought to working condition
- Interest on external loans that are directly attributable to the acquisition, construction or production of a qualifying asset are that interest that would have been avoided if the expenditure on the qualifying asset had not been made.
  
- Costs Incurred on Existing PPE Subsequent to the Initial Recording of the Cost Price
- Assets are often modified during their life. There are two main types of modification:
- Enhancements / Rehabilitation:
- This is where work is carried out on the asset that increases its service potential. Enhancements normally increase the service potential of the asset or may extend an asset's useful life and result in an increase in value.
- These expenses are not part of the life cycle of the asset. These costs normally become necessary during the life of an asset due to a change in use of the asset or technological advances.
- Disbursements of this nature relating to an asset, which has already been recognised

in the financial statements, should be added to the carrying amount of that asset. The value of the asset is thus increased when it is probable that future economic benefits or service potential will flow to the municipality over the remaining life of the asset.

- To be classified as capital spending, the expenditure must lead to at least one of the following economic effects:
- Modification of an item or plant to extend its useful life, including an increase in its capacity
- Upgrading machine parts to achieve a substantial improvement in the quality of output
- Adoption of new production processes enabling a substantial reduction in previously assessed operating costs
- Extensions or modifications to improve functionality such as installing computer cabling or increasing the speed of a lift
- Improve the performance of the asset.

## 12.2 Maintenance / Refurbishment:

12.2.1 Maintenance is an expenditure, relating to repairs or maintenance of property, plant and equipment, which are made to restore or maintain the future economic benefits or service potential that a municipality can expect from the asset

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

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

## **SECTION 13: RESIDUAL VALUES**

### **13.1 Definition**

13.1.1 The residual value of an asset is the estimated amount that the municipality would currently obtain from disposal of the asset, after deducting the estimated costs of

disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

### 13.2 Determine Residual Value

13.2.1 Residual value will be determined on Movable Assets where practical in terms of the definition as stated above. The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

13.2.2 The residual value and an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate

## **SECTION 14: DEPRECIATION OF ASSETS**

### **14.1 Definition**

14.1.1 Depreciation is the accounting process used to allocate the cost to particular accounting periods of 'using up' the service potential of the asset over its useful life. Note: depreciation is not a method of financing the replacement of assets and is necessary even when assets are revalued every year (excluding valuation of biological assets).

14.1.2 All assets, except land, heritage assets and biological assets, shall be depreciated - or amortised in the case of intangible assets.

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

### **14.2 Determining Useful Lives of Assets**

14.2.1 The CFO shall assign a useful operating life to each depreciable asset recorded on the municipality's FAR. In determining such a useful life, the CFO shall adhere to the useful lives set out in the annexure to this document (refer Annexure A).

14.2.2 The useful lives in Annexure A will be determined considering all the following factors:

- 14.2.3 Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
- 14.2.4 Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
- 14.2.5 Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.
- 14.2.6 Legal or similar limits on the use of the asset, such as the expiry dates of related leases.
- 14.2.7 The recommendation of the heads of the departments involved.
- 14.2.8 In the case of a fixed asset which is not listed in this annexure, the CFO will determine a useful operating life. If necessary this will be done in consultation with the director of the department who will control or use the fixed asset in question. This director will be guided in determining such useful life either by the useful lives assigned in the annexure to the fixed asset most closely comparable to the asset in question or by any appropriate statement of generally recognised accounting practice (GRAP).
- 14.2.9 The useful life of an asset shall be reviewed at least at each financial year-end.
  - 14.2.9.1 The amortisation period for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly.
  - 14.2.9.2 Only the CFO may amend the useful operating life assigned to any item of property, plant and equipment, and when any material amendments occurs the CFO shall inform the Council of such amendments.
  - 14.2.9.3 The CFO will amend the useful operating life assigned to any asset –after recommendation from the affected department - if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life cycle will not be attained.
  - 14.2.9.4 If the value of an item of property, plant and equipment has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be fully depreciated in the financial year in which such

diminution in value occurs. If the condition of an asset is very poor but however the asset is still in use, the CFO and the applicable department will assess whether the assets might need to be replaced, replenished or repaired. While the assets are being investigated, a maximum of 2 years will be added to the expected useful life of such assets until a conclusion is reached.

- 14.2.9.5 The additional depreciation expenses shall be debited to the department's expense vote controlling or using the fixed asset in question.

### **14.3 Depreciation calculation**

#### **14.3.1 Tangible Assets**

- The municipality applies straight method depreciation to best reflect the pattern of use of an asset. These methods are:
- The straight-line depreciation method whereby items of property, plant and equipment are depreciated on a constant or uniform amount over their estimated useful life. For example, if a vehicle is purchased and has an estimated useful life of 5 years, each month 1/60th of the vehicle will be depreciated.
- Depreciation is an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the item of property, plant and equipment is used or consumed and should be recognised as such.
- Depreciation shall be charged from the calendar month following the month in which an item of property, plant and equipment is available for use and will continue until the accumulated depreciation equals the cost or valuation amount of the respective item of property, plant and equipment or the item is disposed or written off.
- When depreciation is calculated, a corresponding accumulated depreciation account is created. The accumulated depreciation account is a statement of financial position item (it is an asset provision). This account balance reflects the depreciation charge that has been expensed or capitalised since the asset was available for use. The balance on the accumulated depreciation account can never exceed the cost or valuation of the specific item of property, plant and equipment to which it relates.

#### **14.3.2 Intangible Assets**

- Amortisation period and amortisation method.

*Finite Useful Life*

- The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the municipality. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless another standard permits or requires it to be included in the carrying amount of another asset.

#### *Infinite Useful Life*

- No amortisation will take place during this phase.
- The amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern.

#### **14.3.3 Budget Requirement**

- Each director of a department, acting in consultation with the CFO, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable assets controlled or used by the department in question or expected to be so controlled or used during the ensuing three financial years.

#### **14.3.4** In calculating this provision, the following must be taken into consideration:

- Assets in commission with useful life that will span the budget period or a portion thereof:
- Full 12 months per budget year unless fully depreciated before the final budget year
- Expected assets that will be commissioned in the current year of operations:
- Full 12 months per budget year unless fully depreciated before the final budget year;
- Expected assets that will be commissioned in the ensuing three years:
- Pro rata for commission year and full 12 months for ensuing years on commission year.
- For ensuing years 1 January of each year will be regarded as date of commissioning.<sup>i</sup>
- The procedures to be followed in accounting and budgeting for the amortisation of

intangible assets shall be identical to those applying to the depreciation of property, plant and equipment.

#### 14.3.5 **OFFSET DEPRECIATION**

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

- The principle of government grant and public contribution funded assets is that there should be no capital cost included in tariffs from using this source of financing.
- Funding from Government Grants and Public Contributions, equal to the amount used to finance the asset are directly transferred to the operating account as revenue. This transfer will reflect in the accumulated surplus as offset of depreciation against future depreciation charges on these assets.

##### 14.3.6 Assets Re-Valued

- An amount equal to the annual depreciation portion of the re-valued assets should be transferred from the revaluation reserve to the accumulated surplus or deficit.

##### 14.3.7 Disclosure Requirements

##### 14.3.8 In the accounting policy notes

- The depreciation methods used and the depreciation rates or useful lives.

##### 14.3.9 On the statement of financial position

- The depreciation is part of the Net Property, Plant and Equipment amount.

##### 14.3.10 On the statement of financial performance

- The depreciation charged in arriving at the net surplus or deficit disclosed in the income statement.

##### 14.3.11 In the notes to the statements

- The gross carrying amount and the accumulated depreciation at the beginning and end of the period in respect of each class of property, plant and equipment, together with all the other movements on the asset accounts.

##### 14.3.12 In Annexure B and C to the financial statements

- These annexures disclose a more detailed analysis of the various classes of assets (Annexure B) as well as a detailed analysis on the allocation of assets to the various departments and functions (Annexure C). These annexures must show a reconciliation of the carrying amount at the beginning and end of the period showing:
  - Additions
  - Disposals

- Acquisitions through business combinations
- Increases or decreases resulting from revaluations
- Reductions in carrying amount (impairment losses)
- Depreciation
- Other movements
- When property, plant and equipment is disposed of by selling or destroyed the asset values must be offset against the proceeds, if any. This will result in a profit or loss on the particular item of property, plant and equipment. If this item was previously revalued and there is still a balance left regarding this item on the revaluation reserve, this balance must then be transferred to the accumulated surplus/deficit account.

## **SECTION 15: REVALUATION OF FIXED ASSETS**

15.1 The municipality must adopt the cost or revaluation method at re-measuring PPE. In adopting the revaluation method, the following will be relevant:

### **REVALUATION PROCESS**

15.2 In adopting the revaluation method a class of PPE, after initial recognition, whose fair value can be measured reliably, shall 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.

15.3 Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

### **Revaluation Reserve**

15.4 The CFO shall also, where applicable, create a revaluation reserve for fixed assets equal to the difference between the value as recorded in the valuation roll and the carrying value of the fixed asset before the adjustment in question.

### **Depreciation of Revalued Property**

15.5 The fixed asset concerned shall, in the case of buildings, be depreciated on the basis of its revalued amount, over its remaining useful operating life. Such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the department's vote controlling or using the fixed asset in question.

15.6 The CFO shall ensure that an amount equal to the difference between the new

(enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary

### **Disclosure of Revalued Property**

15.7 Revalued PPE shall be carried in the FAR, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation.

## **SECTION 16: DISPOSAL ASSETS**

### **Disposal**

- 16.1 In compliance with the principles and prescriptions of the MFMA the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's SCM policy.
- 16.2 Every director of a department shall report in writing to the CFO annually on all fixed assets controlled or used by the department concerned which the director wishes to dispose of by public auction or public tender within the period up to 30 June of the next financial year. The CFO shall thereafter consolidate the requests received from the various departments and shall promptly report such consolidated information to the Disposal Committee prior to being reported to the Council or the Municipal Manager as the case may be, recommending the process of disposal to be adopted.
- 16.3 Any items declared obsolete or damaged will be handed in to the Asset Control Section for safekeeping. No items will be received by the Asset Control Section without a completed asset disposal form counter signed by the Asset Control Section, describing the status of the item and the reason for writing-off the item.
- 16.4 Each department must take the necessary steps to ensure that all their obsolete or damaged assets are disposed of in the correct and approved manner. It is the responsibility of each department to ensure that all such assets to be disposed of are delivered to and received at the Asset Control Section.
- 16.5 The Council shall ensure that the disposal of any fixed asset takes place in compliance with Section 14 of the MFMA 2004 and the SCM Policy.
- 16.6 Every director of a department shall ensure that any incident of loss, theft, destruction,

or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the Insurance Section, the Asset Control Section, the internal auditor, and, in cases of suspected theft or malicious damage, also to the South African Police Services. Once the fixed assets are disposed of, the CFO shall remove the relevant records from the FAR.

- 16.7 Transfer of fixed assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of disposal shall be by private treaty.
- 16.8 All assets to be disposed of in the next financial period is to be transferred to the non-current assets held for sale account, revalued to the lower of cost and expected selling price and to be disclosed on the statement of Financial Position as non-current assets held for sale under current assets and not as property, plant and equipment under non-current assets.

#### **Other Write-offs**

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

16.10 Every director of a department shall annually report to the CFO on any fixed assets which such director wishes to have written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports and shall promptly submit a recommendation to the Council on the fixed assets to be written off.

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

**Proceeds /Gain or Loss on Disposal of Assets**

- 16.12 When assets are disposed of, whether by disposal or written off, the asset values needs to be readjusted and offset against the proceeds. If the proceeds of the disposal are less than the carrying value recorded in the FAR, such difference shall be recognised as a loss in the cost centre of the department concerned. If the proceeds of the disposal, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the cost centre of the department concerned.
- 16.13 If this asset has an outstanding balance on the Revaluation Reserve this balance must be transferred to the Accumulated Surplus.

**Disclosure of Assets Disposed of**

- 16.14 The carrying value of the asset disposed of is removed from the records and will not reflect on the statement of Financial Position as part of the balance on property, plant and equipment under non - Current assets
- 16.15 The gain or loss will be reflected in the statement of Financial Performance as a gain under revenue or as a loss under expenditure.

**DISPOSAL COMMITTEE:**

16.16 Disposal Committee must be appointed in writing by the Municipal Manager.

16.17 The disposal committee should consist of the following members:

- The chairperson of the committee
- At least four other members appointed in writing by the Accounting Officer
- If the chairperson is not from Supply chain Management then at least one of the members should be from supply Chain Management who has such Knowledge and competency.
- The chairperson may also Co-Opt additional members in writing who have specialised knowledge

16.18 Role of the disposal committee

- The committee has to make recommendation to Accounting officer regarding the disposal of the immovable and all other movable Assets
- The disposal Committee should coordinate the disposal process
- In the case of the vehicle disposal, it is important to keep in mind that an official who is directly responsible for vehicles may not serve as the member of the committee, but has to withdraw from the meetings when the committee has to take decisions on the disposal of vehicles
- All the members of the committee should at all times objectively evaluate the items that are identified for disposal.

**SECTION 17: RECOGNITION OF ASSETS IN THE FINANCIAL STATEMENTS**

17.1 Recognition is the process of incorporating in the statement of Financial Position or statement of Financial Performance, an item that meets the definition and satisfies the criteria for recognition.

17.2 Assets are classified into categories as set out in section 7 (Classification of Assets) and the information for each category summarised in a table format is disclosed as:

- a note to the financial statements
- with a detailed disclosure as an annexure reflecting the movements for the financial year by category and subcategory

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- movements are also reflected on an annexure per department
  - The net value (carrying value at year-end) for all categories is added together and reflected as a single line item in the statement of financial position.
- 17.3 The failure to recognise such items is not rectified by disclosure of the accounting policies used, or by notes or explanatory material.
- 17.4 To be able to assess the utilisation of assets all assets should be listed once the recognition criteria are met.
- 17.5 An asset item should be recognised in the financial statements when:  
Future economic benefits or service potential associated with the asset will flow to Council  
The asset has a cost or value that can be measured with reliability
- 17.6 To satisfy the above criteria the following must be appropriate:
- All risks and rewards relating to an item of property, plant and equipment have passed to Council, therefore Council must control the item of property, plant and equipment,
  - A valid invoice to Council or other purchase document must exist.
  - A self-constructed item of property, plant and equipment's cost will be obtained from the transactions with parties external to Council. These transactions will be for the acquisition of materials and labour used during the construction process.
  - Spare parts and servicing equipment will be carried as inventory and recognised as an expense as consumed. However, major spare parts and stand-by equipment that is to be used for more than 12 months will qualify as property, plant and equipment and will be capitalised if all other criteria (as stated above) is met.
- 17.7 An item of property, plant and equipment that is made of different component parts which have different useful lives, will be accounted for in the following way:
- The total expenditure on the item of property, plant and equipment will be allocated to the different component parts and therefore,
  - Each component part will be capitalised separately, and
  - Depreciation will be calculated over each component parts useful live.
  - This will result in the use of different depreciation rates for different component parts. For example, a sewerage purification works and the sewerage reticulation network will be treated as separate depreciable assets if they have different useful lives.
- 17.8 Property, plant and equipment acquired for safety or environmental reasons will be capitalised if these items increase the future economic benefits or potential service

provision from the related items of property, plant and equipment if they had not been acquired.

## **SECTION 18: FUNDING SOURCES**

- 18.1 The main sources of finance utilised to acquire assets are:
- Government and other conditional grants
  - Finance leases
  - Conditional grants, subsidies and public contributions and donations
  - Cash surplus.
- 18.2 The sources of finance that may be utilised to finance assets are utilised in accordance with the provisions of Section 19 of the MFMA.
- 18.3 Government and Other Conditional Grants
- Whenever a conditional grant or other grant for the acquisition of an asset is received a grant creditor is created on receipt of the funds. Once the asset is bought, an amount equal to the cost of the asset is transferred from the unspent grant creditor to the statement of Financial Performance as revenue.
- 18.4 Unspent conditional grants are reflected on the statement of Financial Position under current liabilities as unspent conditional grants. These funds always have to be backed by cash. The following conditions are set for the creation and utilisation of these funds:
- 18.5 The cash which backs up the grant is invested until it is utilised
- 18.6 Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If the conditions are silent on investment interest it is recognised as interest earned in the statement of Financial Performance and might be allocated, through the statement of Changes in Net Assets, in part or fully to the unspent portion of the grant if it is so stated in the accounting policy
- 18.7 Whenever an asset is acquired from a conditional grant an amount equal to the cost of the asset is transferred from the unspent grant creditor to the statement of Financial Performance as revenue.
- 18.8 The amount spent from this grant, meeting the condition, is transferred to an operational revenue account and reflected on the statement of Financial Performance.

It will then increase the surplus for the year and the accumulated surplus representing an offset depreciation surplus.

- 18.9 Once the asset is available for use, it is included in the FAR and depreciation is calculated based on the relevant useful life of the asset. Depreciation on the asset is then charged to the statement of Financial Performance as an expense.

### **Finance Leases**

- 18.10 A lease is classified as a finance lease if it meets the recognition requirements as per GRAP 13 (Annexure C).
- 18.11 At the commencement of the lease term, the municipality shall recognise finance leases as assets and liabilities in the statement of Financial Position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit to the lease, if this is practicable to determine; if not, the municipality's incremental borrowing rate shall be used. Any initial direct costs of the municipality are added to the amount recognised as an asset.

### **Donations**

- 18.12 The fair value of donated assets must be determined and at receipt or transfer of the assets be allocated to the accumulated surplus account.
- 18.13 Once the asset is available for use, it is included in the FAR and depreciation is calculated based on the relevant useful life of the asset. Depreciation on the asset is then charged to the statement of Financial Performance as an expense.

### **Surplus Cash**

- 18.14 If there is sufficient surplus cash available assets can be financed directly by allocating this cash for the acquisition of assets. Depreciation charges on these assets will not be offset.

**SECTION 19: IMPAIRMENT LOSSES**

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

- Carrying amount of an asset far exceeds the recoverable amount or market value;
- During routine physical inspection of the asset there was evidence of physical damage (or obsolescence);
- The asset is not being used, or access to the asset is restricted, due to structural damage.
- The asset is not able to perform at the planned or required level and as a result is not meeting service delivery targets.
- During routine physical inspection of the asset, it was identified that the asset deteriorated faster than expected, or was subject to damage, which will result in replacement or significant maintenance earlier than expected.

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

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

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

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

19.5 The designation has to be done on an asset or cash-generating unit. In the designation process assets are first designated using a group of assets and any remaining assets

are then designated on an individual asset basis. The designation is applied to individual assets. An asset could comprise a group of assets that are part of a system or network, that is, infrastructure assets.

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

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

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

For cash generating assets GRAP 26 will be applied.

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

**19.9 Non-cash generating assets**

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

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

**19.10 Cash generating assets**

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

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

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

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

### **19.11 Policy**

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

### **Impairment**

<b>Example:</b>
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An example of where the municipality has suffered an impairment loss is the purchase of land for an amount of R5, 000,000. The land will be utilised for new subsidised housing developments. If at year end the expectation is that the municipality will receive only R1,000 000, Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. The following serve as examples of impairment indicators:

- Carrying amount of an asset far exceeds the recoverable amount or market value;
- During routine physical inspection of the asset there was evidence of physical damage (or obsolescence);

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

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

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

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

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

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

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

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

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

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

- Administrative / owner-occupied assets
- Infrastructure – Roads
- Infrastructure – Water
- Infrastructure – Electricity

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- Infrastructure – Sewer
- Infrastructure – Waste Management
- Community Assets – Swimming Pool
- Community Assets – Community Hall

For non-cash generating assets GRAP 21 will be applied.  
For cash generating assets GRAP 26 will be applied.

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

### Non-cash generating assets

The recoverable value is the higher of the asset's value in use or its fair value less cost to sell. Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

### Cash generating assets

The recoverable value is the higher of the asset's value in use or its fair value less cost to sell. Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

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

amount.

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

### **Policy**

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

From the 5,000,000 by way of subsidies an impairment loss of R4, 000,000 needs to be recognised. The recoverable amount (R1, 000,000) is calculated as being the larger of:  
Net Selling Price of the land which is the amount obtainable from the sale of the market in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal  
Value in use of the land which is the present value of the estimated future net cash inflows expected from the continuing use of the asset and from its disposal at the end of its useful life.

### **Disclosure of Impairment Losses**

- 19.1 All impairment losses must reflect on the statement of Financial Performance.
- 19.2 The financial statements should also disclose, in the reconciliation of the carrying amount at the beginning and end of the period for each class of property, plant and equipment recognised in the financial statements any impairment losses recognised or reversed in the statement of Financial Performance during the period.
- 19.3 Material impairment losses need to be disclosed in the notes to the income statement as a separately disclosable item.

### **Reversal of an Impairment Loss**

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

The life cycle must be adjusted

19.5 The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised.

19.6 Reversal of an impairment loss is recognised as income in the income statement

19.7 Depreciation must be adjusted for the remaining life cycle.

## **SECTION 20: INVESTMENT PROPERTY**

### **Definition of Investment Property**

20.1 Investment property is defined as:

- Property (land or a building — or part of a building — or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:
  - Use in the production or supply of goods or services or for administrative purposes; or
  - Sale in the ordinary course of operations.
- Investment property generates cash flows largely independently of the other assets of the municipality
- Investment property is held to earn rentals or for capital appreciation or both. The following are examples of investment property:
  - Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations
  - Land held for a currently undetermined future use (if the municipality has not determined that it will use the land for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation)
  - A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis
  - A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

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

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

### **20.3 Initial measurement of Investment Property**

- Investment property is measured initially at its Cost.
- Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

- The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure, such as, professional fees for legal services, property transfer taxes and other transaction costs.
- The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, the municipality applies the GRAP standard on accounting for PPE (GRAP 17). At the completion date, the property becomes investment property and the standard on investment property applies (GRAP 16).
- Investment property is only recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality and the cost of the investment property can be measured reliably.

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

- Subsequent expenditure relating to an investment property that has already been recognised should be added to the carrying amount of the investment property when it is probable that future economic benefits or service potential over the total life of the investment property, in excess of the most recently assessed standard of performance of the existing investment property, will flow to the municipality. All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.
- For example, if a municipality purchases a building as an investment property and will incur renovation costs, the renovation cost may be capitalised if it improves the condition of the asset over its most recently assessed standard of performance. Assume that before the renovation the building can earn R5, 000 per month rental income, but after the renovation it will earn R7, 000 per month rental income. In this case the renovation cost will be added to the carrying amount of the investment property.
- Subsequent to initial recognition of the investment property the municipality will measure its investment properties using cost model. Until such time that there is an existence of market which may allow a change to fair value model in in terms of GRAP 59.

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

### 20.5.1 Transfers

- Transfers to, or from, investment property should be made when, and only when, there is a change in use, evidenced by:
- Commencement of owner-occupation, for a transfer from investment property to owner-occupied property
- Commencement of development with a view to sale, for a transfer from investment property to inventories
- End of owner-occupation, for a transfer from other classified property to investment property
- Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or
- End of construction or development, for a transfer from property in the course of construction or development to investment property
- For a transfer from investment property carried at fair value to owner occupied property or inventories, the property's cost for subsequent accounting under the relevant GRAP on PPE (GRAP 17) or inventories should be its fair value at the date of change in use.
- If an owner-occupied property becomes an investment property that will be carried at fair value, a municipality should apply GRAP 17 up to the date of change in use. The municipality should treat any difference at that date between the carrying amount of the property and its fair value in the same way as a revaluation under GRAP 17 by crediting a reserve.
- For a transfer from inventory to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognised in net surplus/deficit for the period
- When the municipality completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognised in net surplus/deficit for the period.

### 20.5.2 Disposals

- On disposal or permanent withdrawal from use of investment property:
- An investment property should be eliminated from the statement of Financial Position

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

#### 20.5.3 Budget Implications relating to Investment Property.

- The following amounts will have to be budgeted for in the operating budget relating to investment properties:
- Gains on the disposal of investment properties that are intended to be sold during the next financial year
- Fair value gains that are expected to be obtained on investment properties that will be held during the next financial year
- Depreciation on investment properties that are intended to be transferred to owner-occupied properties during the next financial year
- The effect of reduced depreciation on owner-occupied properties that are intended to be transferred to investment properties during the next financial year
- Revenue through operating lease income
- Fair value gains where the intention to sell a building (inventory) is changed and the inventory is held as an investment property on which rental income and capital appreciation will be earned by the municipality in the next financial year.

The disclosure requirements adhered disclosing information on investment property is to be done in accordance with the requirements as per the relevant GRAP statement.

## **SECTION 21: REPLACEMENT STRATEGY**

21.1 The Municipal Manager, in consultation with the CFO and other directors of departments shall formulate strategies and standards for the replacement of all operational property, plant and equipment. Such strategies and standards shall be incorporated in a formal policy, which shall be submitted to the Council for approval. This policy shall cover the replacement of infrastructure and operational movable vehicles and equipment.

21.2 This strategy should take into consideration:

- The nature of the asset
- The usage of the asset
- Priorities
- Available funding
- Operational and maintenance costs
- Operational skills
- Future expected developments
- Technology
- Outsourcing
- Private sector partnerships

## **SECTION 22: ASSET RISK MANAGEMENT**

### **Insurance**

22.1 Departments are responsible for managing the risks associated with their activities. This decision will depend on the amount of excess the municipality are prepared to carry, the types of risks they insure against, taking due cognisance of the budgetary constraints of the municipality.

22.2 Complete property, plant and equipment identification and valuation may prevent the municipality from being over or under insured. Specific supportable insurable values are defined in the insurance policy in effect and should be reviewed regularly. In some instances, an in-house estimate of cost or insurable value may not be sufficient to substantiate the amount of a loss. Rather, an appraisal by an independent third party may be required.

22.3 In terms of IT movable assets e.g., laptops, tablets, cameras etc. If an employee loses

the equipment and the insurance refuse to pay the claim because of not reporting the case on time, not proving the forceful entry, negligence or reckless etc, which lead for the assets to be disposed or written off, the remaining value of assets (carrying value) after depreciation must be settled by the employee. The method of payment is once off payment once the investigation is complete.

22.4 Other Risk Reducing Methods the accounting officer must appoint the assets management committee, the assets management committee to deal with assets loss, investigations, disposal and other matters of asset's loss.

22.5 In the event of a loss incident the matter must immediately be reported to SAPS within 24 hours and there after to be reported to assets management division for promptly recording of such incident for insurance purpose.

22.6 Department regulations or "operating policies" can also reduce risks. Department managers should investigate their operations and set operating policies as to how personnel should operate and use property, plant and equipment to minimise risk. Examples are as follows:

22.7 Only authorised personnel should be allowed in areas where expensive equipment is kept

22.8 Only authorised personnel should be allowed to operate plant or vehicles

22.9 The keys for office vehicles should be controlled in a central office during the day, and employees should sign when they take the keys

22.10 Ensure that drivers or operators have the necessary qualifications and licenses

22.11 It should be part of service conditions that employees incur personal liability if they drive while under the influence of alcohol, drugs, medication, and so forth; or if they leave the vehicle unattended and unlocked

22.12 Physical access to buildings, or areas within buildings, should be restricted, especially after hours

## **SECTION 23: MAINTENANCE OF ASSETS**

### **Maintenance Plans**

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

23.2 Every director of a department shall ensure that a maintenance plan in respect of

infrastructural asset is prepared and submitted to the Council of the municipality for approval.

- 23.3 If so directed by the Municipal Manager, the maintenance plan shall be submitted to Council prior to any approval being granted for the acquisition or construction of new infrastructural assets.
- 23.4 The director of a department controlling or using the infrastructure asset in question, shall budget for the executing of the approved plan and will annually report to Council, not later than 31 March, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance and / or budgetary constraints may have on the useful operating life of the asset concerned.

### **Deferred Maintenance**

- 23.5 If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructural asset (see 18 above), the CFO shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the Council has approved in order to redress such deferral of the maintenance requirements concerned.
- 23.6 If no such plans have been formulated or are likely to be implemented, the director of a department controlling or using such asset shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the Asset Control Section, and the Asset Control Section shall recalculate the annual depreciation expenses accordingly.

### **General Maintenance**

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

## **SECTION 24: GENERAL REQUIREMENTS**

## Tagging

- 24.1 Tagging means to place a control number on a piece of equipment or property. All movable assets must be tagged if probable. The primary purpose of tagging is to maintain a positive identification of assets.
- 24.2 Tagging is important to:
- Provide an accurate method of identifying individual assets
  - Aid in the annual physical inventory
  - Control the location of all physical assets
  - Aid in maintenance of fixed assets
- 24.3 Immovable asset are not physical barcoded, instead the location of the assets, permanent marking and stencils, As Built Drawings ,cadastral and GPS Coordinates , where available will used for Identification such as:
- Buildings
  - Land
  - Infrastructural assets
- 24.4 Consistently place asset tags in the same location on each similar type of asset on movables. If possible, the tags shall be accessible for viewing. Place the tag where the number can be seen easily and identified without disturbing the operation of the item, which will aid in taking inventory
- 24.5 The Unique Numbers for the bins will be engraved instead of Normal Barcode for identification on all Movable Assets
- 24.6 The Asset Control Section will conduct a physical inventory of movable assets annually. They will require the cooperation of departmental personnel in accomplishing the physical inventory task and will attempt to minimise the time demanded of them.
- 24.7 The designated officials in the different departments within the municipality must execute the functions listed below
- 24.8 Ensure that the bar code number and location number are reflected on the asset movement form by the relevant official on the receipt of the asset. Where applicable, the serial number or registration number should be included
- 24.9 Complete the asset movement form when transfers occur and forward the completed original form to Asset Control Section

- 24.10 Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained
- 24.11 Asset Control Section must be notified by the relevant department within 14 days of any of the following possible movements:
- Donations
  - Additions / Improvements
  - Departmentally manufactured items
  - Loss or damage
  - Transfers
  - Terminations
  - Land Sales

#### Acquisition

- 24.12 In making the decision to acquire an asset the following fundamental principles should be carefully considered:
- The purpose for which the fixed asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it
  - The fixed asset has been budgeted for
  - The purchase is absolutely necessary as there is no alternative municipality asset that could be upgraded or adapted
  - The fixed asset is appropriate to the task or requirement and is cost effective over the life of the asset
  - The fixed asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources
  - Space and other necessary facilities to accommodate the asset are in place.
  - The most suitable and appropriate type, brand, and model etc. has been selected
  - Asset Management Responsibilities
  - Utilisation - all assets should be used for the purposes they were acquired
  - Asset performance should be regularly reviewed to identify underutilised and under-performing assets. The reasons for this should be critically examined and appropriate action taken
  - Disciplinary action must be taken against individuals if there is misuse of the municipality's assets.

#### Additions / Improvements

- 24.13 Depending on the type of addition or improvement to a specific asset the responsible official in the department must notify the Asset Control Section of the change in status. The asset master record will be amended on receipt of the required asset acquisition form from the responsible department.
- 24.14 When capital expenditure is incurred for any enhancement/improvement of an asset, the department shall complete the necessary asset acquisition form and forward it to the Asset Control Section.
- 24.15 When any changes to vacant land or land and buildings are affected such as subdivision, transfer to another department, extent or holders title, the current owner must complete the relevant asset movement form and forward it to the Asset Control Section.

#### Termination of Employee's Service

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

#### Transfer of Assets

- 24.17 When a department transfers an asset or inventory item within the department, the asset movement form must be completed and forwarded to the Asset Control Section. The copy of this form must be forwarded to the party receiving the asset or inventory item.
- 24.18 When a department transfers an asset or inventory item to another department, the transferring department must approve the transfer. After approval has been granted the asset movement form must be completed and forwarded to the Asset Control Section.

#### Disposal of Assets

- 24.19 All departments must submit the properly completed asset disposal forms together with copies of all relevant approvals for the disposal of assets to the Asset Control Section.

#### MISSING / LOST Assets

- 24.20 The End User must report the Missing/Lost Assets to the SAPS (South Africa Police Services) the same day Assets get Lost/missing.
- 24.21 The End – user must inform their Section Head not later than two (2) working days after the Accident happen.
- 24.22 The Sectional Head must inform the Asset Manager and the CFO not later than three (3) working days after Accident happen about any missing of Assets in writing.
- 24.23 The Senior Asset Officer/Accountant must inform the Insurance about the missing Assets not later than two (2) working days after receiving the Report.
- 24.24 Should the assets be lost as a result of negligent use/handling by the user and in the case of Laptops/I-Pad where there is no Force Entry/Broke-in where the Laptop Kept , the user will pay an amount equivalent to the remaining cost value after all depreciation costs of that asset
- 24.25 The Asset Manager through Deputy CFO and CFO must submit request to Write-off the missing Assets from the Asset Register to Council for Approval

#### **Heritage Assets**

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

- Museum exhibits
- Works of art (which will include paintings and sculptures)
- Public statues
- Historical buildings or other historical structures (such as war memorials)
- Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement)

#### **Investment Assets**

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

Office parks (which have been developed by the municipality itself or jointly between the

municipality and one or more other parties) (30)

Shopping centres (again developed along similar lines) (30)

Housing developments (that is, developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit) (30)

## **Annexure B**

Paraphrase of Section 14 of the Municipal Finance

Management Act 2003

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

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

The Council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services, and

The Council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

## **Annexure C**

GRAP 13 Definitions of Finance Leases

A lease must meet one of the following criteria to be classified as a finance lease:

- the lease transfers ownership of the asset to the lessee by the end of the lease term,
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for a major part of the economic life of the asset even if title is not transferred,
- 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,

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- the leased assets are of a such a specialised nature that only the lessee can use them without major modifications, and
- the leased assets cannot easily be replaced by another asset.
- if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee,
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease), and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

## ◆K50ANNEXURE A

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Air conditioning	Standard installation (wall or split units)		5	0
Air conditioning	Standard installation (wall or split units)		5	0
Anchored wall			50	0
Billboards			5	0
Carports	Shade net		5	0
Channel	Lined open (lined area)		30	0
Channel	Unlined open		5	0
Compressor	Workshop type - fixed		7	0
Commuter shelter			15	0
RC Structure	Above ground structure		50	0
RC Structure	Below ground structure		50	0
RC Structure	Mass concrete		50	0

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Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
RC Structure	Shuttered RC eng structure - water retaining		50	0
Control panel	Equipment control panel		50	0
Culvert			40	0
Current Transformer			45	10
Electrical installation			30	0
Engine	Petrol / diesel		10	0
Erosion Protection	Gabions		40	0
Erosion Protection	Rip Rap		20	0
Earth Structure			50	50
Earthworks	Arterial / Distributor Road		50	50
Earthworks	Canals		100	50
Earthworks	Collector / Access Road		100	50
Earthworks	Construction platform		100	50
External furniture			20	0
Fabricated steel	Galvanised steel		20	0
Fabricated steel	Mild steel	Aggressive exposure	10	0
Fabricated steel	Mild steel	Mild exposure	20	0

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Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Fabricated steel	Stainless steel	Aggressive exposure	20	0
Fabricated Steel	Stainless steel	Mild exposure	40	0
Filter media	Silica sand		10	0
Finishes, fixtures & fittings			15	0
Fire protection			20	0
External lighting	Floodlights		40	0
External lighting	Streetlight with its network		40	0
Floor			50	0
Paving	Paved area		20	0
Gearbox	Drive motor		15	0
Generator			20	0
Golf course	Municipal		50	0
Grid Inlet			30	0
Guard rail	Steel		20	0
Guard rail	Wood		15	0
High mast			40	0
Speed hump			40	0
Hydrant			20	0

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Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Irrigation			10	0
Kerb Inlet			20	0
Kerb	Barrier kerb	Arterial / Distributor	50	0
Kerb	Barrier kerb	Collector / Access	50	0
Kerb	Mountable kerb	Arterial / Distributor	50	0
Kerb	Mountable kerb	Collector / Access	50	0
Land			N/A	N/A
Landfill restoration	Restored area		N/A	N/A
Landscaping			30	0
Lining - landfill			50	0
Masonry Structure			50	0
Mini round-about			20	0
Motor	Sewer		15	0
Motor	Water		15	0
Pedestrian bridge			50	0

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Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
superstructure				
Pedestrian bridge			50	0
substructure				
Communal standpipe - Pedestal			10	0
Power factor equipment	single phase, 20 min battery back-up		30	0
Pipe - sewer	Clay		80	0
Pipe - sewer	Concrete		40	0
Pipe - sewer	Steel		40	0
Pipe - sewer	uPVC		80	0
Pipe - water	AC		40	0
Pipe - water	Galvanised		40	0
Pipe - water	GRP		80	0
Pipe - water	HDPE		80	0
Pipe - water	Steel		80	0
Pipe - water	uPVC		80	0
Plumbing	standard installation		20	0
Pump - hand			10	0

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Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Pump - sewer			10	0
Pump - water			10	0
Pump - submersible			10	0
Perimeter Protection	diamond mesh		25	0
Perimeter Protection	brick wall		25	0
Perimeter Protection	Concrete palisade fencing		25	0
Perimeter Protection	Precast concrete wall		25	0
Perimeter Protection	Steel palisade fencing		25	0
Pipe – storm water	Concrete		50	0
Road bridge abutments			80	0
Road bridge side barrier			80	0
Road bridge sub-structure			50	0
Road marking			2	0
Road reserve			N/A	N/A
Road bridge super-structure			50	0
Retaining wall			60	0
Roof	Sheet metal		30	0
Roof	Thatch		30	0

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Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Roof	Tiled		40	0
Roof	flat concrete (170mm thick)		40	0
Small building / enclosure	Brick, block walls & concrete roof slab		50	0
Small building / enclosure	Steel shed		20	0
Security system	Security and access control		5	0
Septic Tank			40	0
Servitude	Agricultural holdings		N/A	N/A
Sign - general			15	0
Sign - regulatory			7	0
Sports field	Cricket		30	0
Sports field	Netball / basketball		15	0
Sports field	Rugby / soccer		30	0
Squash court	Regulation size - indoor		15	0
Road surface	Bituminous (Medium)	Collector	9	0
Road surface	Bituminous (Thick)	Arterial / Distributor	12	0
Road surface	Bituminous (Thin)	Access	7	0

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Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Road surface	Concrete block surface		15	0
Road surface	Concrete		20	0
Road surface	Gravel		5	0
Sub-soil drain	Dewatering sub-soil drain		50	0
Stadium	Brick structure with roof and terraces		30	0
Stadium	Open structure with stepped terraces		30	0
Stadium	Structure with roof and stepped terraces		30	0
Street Light			40	0
Street rubbish bin			10	0
Road structural layer	Access		80	0
Road structural layer	Arterial / Distributor		30	0
Road structural layer	Collector		50	0
Swimming pool			20	0
Tank	Galvanised steel panel		30	0
Tank	Plastic		10	0
Communal standpipe –			5	0

DR JS MOROKA ASSETS MANAGEMENT POLICY

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Tap				
Telemetry	Standard system		10	0
Tennis court			15	0
Timber structure			15	0
Traffic island			50	0
Traffic signal	C1 - 3 head		15	0
Valve	Air release		15	0
Valve	Butterfly		20	0
Valve	Non-return		15	0
Valve	Pressure Reducing		15	0
Valve	Resilient seal		20	0
VIP Latrine	Double		10	0
Walls	Fibre cement board, timber frame, plaster board		60	0
Walls	Metal sheet , plaster board		30	0
Walls	Plastered brick		60	0
Weigh bridge			15	0
Well	Well & lining		30	0
Water Meter			10	0

DR JS MOROKA ASSETS MANAGEMENT POLICY

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)

## **HERITAGE ASSETS**

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

- - Museum exhibits
- - Works of art (which will include paintings and sculptures)
- - Public statues
- - Historical buildings or other historical structures (such as war memorials)
- - Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement)

## **Investment Assets**

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

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties) (30)
- - Shopping centres (again developed along similar lines) (30)
- - Housing developments (that is, developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit) (30)

**OTHER ASSETS**

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

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Computer hardware	Computer Equipment		(3-5)	(0 -20)
Computer software	Computer Equipment		(3-5)	(0 -20)
Office machines	Office Equipment		(3-5)	(0 -20)
Air Conditioners	Office Equipment		(3-5)	(0 -20)
Office refuse bins	Office Equipment		(5)	(0 -20)
Chairs	Furniture and Equipment		(7-10)	(0 -20)
Tables and desks	Furniture and Equipment		(7-10)	(0 -20)
General	Furniture and Equipment		(7-10)	(0 -20)
Cabinets and cupboards	Furniture and Equipment		(7-10)	(0 -20)
Fire hoses	Emergency Equipment		(5)	(0 -20)
Other fire-fighting equipment	Emergency Equipment		(15)	(0 -20)
Emergency lights	Emergency Equipment		(5)	(0 -20)
Ambulances	Motor Vehicles		(5-10)	(0 -20)
Fire engines	Motor Vehicles		(20)	(0 -20)

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Tankers	Motor Vehicles		(20)	(0 -20)
Mobile Libraries	Motor Vehicles		(15)	(0 -20)
Buses	Motor Vehicles		(15)	(0 -20)
Trucks and light delivery vehicles	Motor Vehicles		(5-7)	(0 -20)
Ordinary motor vehicles	Motor Vehicles		(5-7)	(0 -20)
Motor cycles	Motor Vehicles		(3)	(0 -20)
Chlorination Equipment	Plant and Equipment		(5)	(0 -20)
Compactors	Plant and Equipment		(5)	(0 -20)
Electronic Equipment	Plant and Equipment		(5)	(0 -20)
Fire Hoses	Plant and Equipment		(5)	(0 -20)
General	Plant and Equipment		(5)	(0 -20)
Generators	Plant and Equipment		(5)	(0 -20)
Graders	Plant and Equipment		(10-15)	(0 -20)
Horticultural Equipment	Plant and Equipment		(5)	(0 -20)
Mobile Pumps	Plant and Equipment		(10)	(0 -20)
Other Fire Fighting Equipment	Plant and Equipment		(5)	(0 -20)
Pumps	Plant and Equipment		(10)	(0 -20)

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Tractors	Plant and Equipment		(10-15)	(0 -20)
Trailers	Plant and Equipment		(5)	(0 -20)
Mechanical horses	Plant and Equipment		(10-15)	(0 -20)
farm equipment	Plant and Equipment		(5)	(0 -20)
Lawn mowers	Plant and Equipment		(5)	(0 -20)
Compressors	Plant and Equipment		(7)	(0 -20)
Laboratory Equipment	Plant and Equipment		(5)	(0 -20)
Radio Equipment	Plant and Equipment		(5)	(0 -20)
Firearms	Plant and Equipment		(5)	(0 -20)
Telecommunication equipment	Plant and Equipment		(5)	(0 -20)
Irrigation systems	Plant and Equipment		(15)	(0 -20)
Cremators	Plant and Equipment		(15)	(0 -20)
Lathes	Plant and Equipment		(15)	(0 -20)
Conveyors	Plant and Equipment		(15)	(0 -20)
Feeders	Plant and Equipment		(15)	(0 -20)
Tippers	Plant and Equipment		(15)	(0 -20)
Workshop Equipment	Plant and Equipment		(5)	(0 -20)
Pulverising mills	Plant and Equipment		(15)	(0 -20)

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Meters	Gas		(20)	(0 -20)
Mains	Gas		(20)	(0 -20)
Storage tanks	Gas		(20)	(0 -20)
Supply/reticulation	Gas		(20)	(0 -20)

## ANNEXURE B

### PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2004

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

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

- The Council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services, and

The Council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset