CITY OF MBOMBELA

Review date: 29 March 2024

ASSET MANAGEMENT POLICY

Contents

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Abbreviations

Item	Description
ADC	Asset Disposal Committee
AM	Asset Management
AMP	Asset Management Policy
MUNICIPAL MANAGER	Accounting Officer
ASB	Accounting Standards Boards
CFO	Chief Financial Officer
CMIP	Comprehensive Municipal Infrastructure Plan
COGTA	Department of Co-Operative Governance and Traditional Affairs
CRC	Current Replacement Cost
DRC	Depreciated Replacement Cost
EUL	Estimated Useful life
GIAMA	Government-wide Immovable Asset Management Act
GIS	Geographical Information System
GRAP	Generally Recognized Accounting Practice
FAR	Fixed Assets Register
GRAP	Standards of Generally Recognized Accounting Practice
IAMP	Infrastructure Asset Management Plan
IAS	International Accounting Standards
ISO	International Standards Organization
MFMA	Municipal Finance Management Act
PPE	Property, Plant & Equipment
RUL	Remaining Useful Life
RV	Residual value
SCM	Supply Chain Management

1. Purpose of this document

This document indicates the policy of City of Mbombela for the management of its movable and immovable Property Plant and Equipment (PPE), investment property, intangible, biological assets and heritage assets.

The procedures required to implement this policy are provided in a separate document. The policy commits the municipality to establishing and maintaining an asset register that complies with the latest accounting standards, and managing the assets in a way that is aligned with the municipality's strategic objectives and recognized good practice.

2. Scope

This policy applies to all movable and immovable assets (PPE, investment property, intangible, biological assets and heritage assets) under the control of the municipality.

3. Background

3.1 Constitutional and Legal Framework

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

- providing democratic and accountable government for local communities;
- ensuring the provision of services to communities in a sustainable manner;
- promoting social and economic development;
- promoting a safe and healthy environment; and
- Encouraging the involvement of communities and community organizations in matters of local government.

The manner in which a municipality manages its Property, Plant and Equipment (PPE), investment property, intangible assets and heritage assets are central to meeting the above challenges. Accordingly, the Municipal Systems Act, 2000 (MSA) section 2(d) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) requires municipalities to utilize and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal assets with the Municipal Manager (MUNICIPAL MANAGER).

The Occupational Health and Safety Act (OHSA) requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its PPE safe.

3.2 Accounting standards

The MFMA requires municipalities to comply with the Standards of Generally Recognized Accounting Practice (GRAP), in line with international practice.

The Accounting Standards Board (ASB) has approved a number of Standards of GRAP. When compiling the asset register in accordance with the accounting standards, the requirements of GRAP 17 cannot be seen in isolation. Various other accounting standards impact on the recognition and measurement of assets within the municipal environment and should be taken into account during the compilation of a GRAP compliant asset register. The applicable standards of GRAP are noted in section 8.

3.3 Management of infrastructure and community assets

Effective management of infrastructure and community facilities is central to the municipality providing an acceptable standard of services to the community. Infrastructure impacts on the quality of the living environment and opportunities to prosper. Not only is there a requirement to be effective, but the manner in which the municipality discharges its responsibilities as a public entity is also important.

The municipality must demonstrate good governance and customer care, and the processes adopted must be efficient and sustainable. Councilors and officials are custodians on behalf of the public of infrastructure assets, the replacement value of which amounts to several hundred million Rand.

Key themes of the latest generation of national legislation introduced relating to municipal infrastructure management include:

- long-term sustainability and risk management;
- service delivery efficiency and improvement;
- performance monitoring and accountability;
- community interaction and transparent processes;
- priority development of minimum basic services for all; and
- The provision of financial support from central government in addressing the needs of the poor.

Legislation has also entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However, the IDP cannot be compiled in isolation – for the above objectives to be achieved, the IDP needs to be informed by robust, relevant and holistic information relating to the management of the municipality's infrastructure.
There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintaining and renewing existing infrastructure whilst also addressing backlogs in basic services and facing ongoing changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from a number of departments of the municipality.

COGTA has prepared guidelines in line with international practice, that propose that an Infrastructure Asset Management Plan (IAMP) is prepared for each sector (such as potable water, roads etc.). These plans are used as inputs into a Comprehensive Municipal Infrastructure Plan (CMIP) that presents an integrated plan for the municipality covering all infrastructures. The arrangements outlined in the COGTA guidelines are further strengthened by the provision of National Treasury's Local Government Capital Asset Management Guidelines. This is in line with the practice adopted in national and provincial spheres of government in terms of the Government-wide Immoveable Asset Management Act (GIAMA).

Accordingly, the asset register adopted by a municipality must meet not only financial compliance requirements, but also set a foundation for improved infrastructure asset management practice.

Recognized good practice in the management of infrastructure assets from across the globe has been increasingly documented over the past 10 to 15 years. In 2000, the World Bank cited practice in Australasia as representative of best practice and this has been captured in the International Infrastructure Management Manual (IIMM), and regularly updated with case studies from across the globe, including South Africa. In 2008 the British Standards Institute issued PAS 55 (a publicly available specification on asset management). The International Standards Organization (ISO) has drawn on these documents to establish an international standard for infrastructure asset management (ISO 55000 series) which has been issued in January 2014. Progressive entities are expected to set compliance with the proposed ISO as a benchmark for practice.

4. Objective of the Asset Management Policy

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

5. Approval and effective date

The CFO is responsible for the submission of the Policy to Council to consider its adoption after consultation with the Municipal Manager (MUNICIPAL MANAGER). Council shall indicate the effective date for implementation of the policy.

6. Delegations and Key Responsibilities

6.1 Role of the Municipal Manager

The Municipal Manager is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.
The MUNICIPAL MANAGER shall ensure that:

- Ensure implementation of the approved Asset Management Policy as required in terms of section 63 of the Municipal Finance Management Act (MFMA).
- Physical verify assets in possession of the Council annually, during the course of the financial year.
- Keep a complete, accurate and balanced record of all assets in possession of Council.
- Report in writing all asset losses, where applicable, to Council.
- Ensure that assets are valued and accounted for in accordance with a standard of GRAP.
- Establishment of an asset disposal committee
- The Heads of Departments and their teams comply with this policy.

The Municipal Manager of the municipality (MM) shall be the principal custodian of the entire municipality's assets, and shall be responsible for ensuring that this policy is effectively applied on adoption by Council. To this end, the MUNICIPAL MANAGER shall be responsible for the preparation, in consultation with the Chief Financial Officer (CFO) and Head of Departments, of procedures to effectively and efficiently apply this policy.

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

In accordance with the MFMA, the MUNICIPAL MANAGER of the municipality and all designated officials are accountable to him / her. The MUNICIPAL MANAGER is therefore accountable for all transactions entered into by his / her delegates. The overall responsibility of asset management lies with the MUNICIPAL MANAGER. However, the day to day handling of assets should be the responsibility of all officials in terms of delegated authority reduced in writing. The MUNICIPAL MANAGER may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

6.2 Role of the Chief Financial Officer (CFO)

The Chief Financial Officer (CFO) is responsible to the MUNICIPAL MANAGER to ensure that the financial investment in the municipalities' assets are safeguarded and maintained. The CFO shall be the custodian of the fixed asset register of the Municipality, and shall ensure that a complete, accurate and up-to-date computerized fixed asset register is maintained

6.3 Role of Disposal Committee

The asset disposal committee (ADC) shall be established by the Municipal Manager (MUNICIPAL MANAGER) in line with the Supply Chain Management regulations. The committee shall serve for a period not exceeding 12 months and shall be appointed by the Municipal Manager in writing. The committee shall be chaired by the Chief Financial Officer and key Departments will be represented. The disposal committee shall comprise of the following members:

- Chairperson (Chief Financial Officer)
- Senior Manager: Supply Chain Management
- Senior Manager: Legal Services
- Senior Manager: Urban and Rural Development
- Senior Manager: Housing and Properties
- General Manager: Community Services
- General Managers: Technical Services (public works, Water and Sanitation and energy)
- Asset Manager : Asset management

The asset disposal committee shall:

- Receive a consolidated asset disposal list from the Chief Financial Officer
- Verify and confirm that assets on the consolidated disposal list does not contravene with Section 14 of the Municipal Finance Management Act
- Evaluate and recommend on the best disposal method to be used.

- Advice Municipal Manager and Council on the disposal and writing off of assets

6.4 Manager Assets and Insurance

- Shall ensure that complete records of asset items are kept, verified and balanced regularly.
- Shall ensure that all movable assets are properly bar coded and accounted for.
- Shall conduct an annual audit inventory by scanning selected movable assets and compare this inventory with the Departments asset sign offs.
- Shall ensure that the FAR is balanced annually with the general ledger and the financial statements.
- Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the FAR.
- Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the departments and provided to the treasury department in the prescribed format.
- Shall ensure that asset acquisitions are allocated to the correct asset code.
- Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, counter signed by the Asset management Section, is presented.
- Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from the departments.
- Shall compile a list of the items to be auctioned in accordance with the Supply Chain Management (SCM) Policy.
- Shall compile and circulate a list of unused movable assets to enable other departments to obtain items that are of use to them.
- Shall ensure that the SCM unit is notified of any disposal of written-off asset or asset inventory items.

6.5 The Manager: Budget

- Shall ensure that the capital budget with funding source as submitted by the departments is approved.

6.6 The Manager: Expenditure section

- Shall ensure that invoices authorized for payment are matched to the goods received note before processing such payment.

- Shall if any doubt exists as to whether the invoice is in accordance with policy, query the payment with the relevant department and shall not process a payment until the invoice meets the policy criteria.

6.7 Role of other departments

6.7.1 Corporate service Department

The Corporate Services Department:

- Shall ensure that no monies are paid out on termination of service without receiving the relevant asset clearance form signed off by the relevant department.
- Shall ensure that every asset clearance form is counter signed by the Asset Management Section before processing the termination of service.

6.7.2 Community Services

The Community Services Section:

- Shall ensure that the necessary security measures are in place to minimize asset losses within Council owned buildings or facilities
- Report to the Asset Management Section of any unauthorized asset movements or transfers

6.7.3 All Departments

General Manager:

- Shall ensure that employees in their departments adhere to the approved AMP.
- Shall ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in the department. The Asset management 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 general manager.
- Shall ensure that all assets under their control are adequately safeguarded and insured
- Shall ensure that assets are properly maintained in accordance with the maintenance policy.
- Shall ensure that the assets of the council are not used for private gain.
- Shall ensure that all their movable assets as reflected on the FAR and are bar coded where possible.

- Shall ensure that the Asset Management Section is notified of any changes in the status of the assets under the department's control.
- Shall certify in writing that they have assessed and identified impairment losses on all assets at year end.
- Shall ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the Asset Management Section without delay.
- Shall ensure that the correct cost element and description are being used before authorizing any requisitions.
- The detailed assets as created in the financial system must be categorized 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
    - Agricultural assets

  - Movable Assets:
    - Aircraft
    - Bins and Containers
    - Emergency Equipment
    - Emergency Vehicles
    - Furniture and Fittings
    - Heritage.
    - Motor Vehicles
    - Office Equipment
    - Plant and Equipment
    - Watercraft
    - Other

7 Policy for Fixed Asset Accounting

Recognition of Movable and immovable assets
(a) Definitions and rules

Definition of an asset
Asset
An asset is defined as a resource controlled by the council as a result of past events and from which future economic benefits or service potential associated with the item will flow to the council.

Fixed Asset
A fixed asset (also referred to as a “non-current asset”) is an asset with an expected useful life greater than 12 months.

PPE
Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, for rentals to others, or for administrative purposes; and are expected to be used during more than one reporting period. This includes items necessary for environmental or safety reasons to leverage the economic benefits or service potential from other assets. Insignificant items may be aggregated. Property, plant and equipment is broken down into groups of assets of a similar nature or function in the municipality’s operations for the purposes of disclosure in the financial statements.

Immovable PPE
Immoveable assets are fixed structures such as buildings, land and infrastructure. Plant that is built-in to the fixed structures and is an essential part of the functional performance of the primary asset is considered an immoveable asset (though it may be temporarily removed for repair).

Movable PPE
Movable assets are the stock of equipment owned or leased by the municipality such as office equipment and furniture, motor vehicles and mobile plant.

Investment property
Investment property is defined as property (land and/or a building, or part thereof) held (by the owner or the lessee under a finance lease) to earn rentals or capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration

purposes or sale in the ordinary course of operations). An example of investment property is office parks that are rented out. There is no asset hierarchy for investment property; each functional item will be individually recorded. Land held for a currently undetermined use is recognized as investment property until such time as the use of the land has been determined.

Intangible assets

Intangible assets are defined as identifiable non-monetary assets, without physical substance. Examples are licenses/ rights, (such as water licenses), servitudes and software.

An asset meets the criterion of being identifiable in the definition of an intangible asset when it:

a) 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

b) arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable and separable from the municipality or from other rights and obligations.

Biological Assets

Biological assets are living animals or plants as per the definition in the GRAP on Agriculture.

Capital Spares (Major Spare Parts)

Spares and materials used on a regular basis in the ordinary course of operations are usually carried as inventory (i.e. they are not usually considered fixed assets) and are expensed when consumed. Major spares that constitute an entire or significant portion of a component type, or a specific component, defined in the immovable PPE asset hierarchy are considered major spare parts and are capital spare parts and are recognized as an item of PPE as they are expected to be used for more than one period or they can only be used in connection with an item of PPE.

Major inspections

A condition of continuing to operate an item of PPE may be to perform regular major inspections for faults regardless of whether parts of the item are replaced (for example, Occupational Health and Safety Act no. 85 of 1993 requires lifting equipment to be inspected once a year). When each major inspection is performed, its cost is recognized in the carrying amount of the item of PPE as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognized. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

Items used irregularly

Tangible items that are used in the production or supply of goods or services on an irregular basis (such as standby equipment) are recognized as items of PPE.

Useful Life

Useful life is defined as the period over which an asset is expected to be available for use by the municipality or the number of production or similar units expected to be obtained from the asset by the municipality.

Control

An item is not recognized as an asset unless the municipality has the capacity to control the service potential or future economic benefit of the asset, is able to deny or regulate access of others to that benefit, and has the ability to secure the future economic benefit of that asset. Legal title and physical possession are good indicators of control but are not infallible.

Past transactions or events

Assets are only recognized from the point when some event or transaction transferred control to the municipality.

Probability of the flow of benefits or service potential

The degree of certainty that any economic benefits or service potential associated with an item will flow to the municipality is based on the judgment. The Municipal Manager shall exercise such judgment on behalf of the municipality, in consultation with the CFO and respective Head of Department.

Economic benefits

Economic benefits are derived from assets that generate net cash inflows.

Service Potential

An asset has service potential if it has the capacity, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality, such as the provision of services.

Leased assets

A lease is an agreement whereby the lessor conveys to the lessee (in this case, the municipality) the right to use an asset for an agreed period of time in return for a payment or series of payments. Leases are categorized into finance and operating leases. A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may not eventually be transferred (substance over form). Where the risks and rewards of ownership of the assets are substantially transferred to the municipality, the lease is regarded as a finance lease and the asset recognized by the municipality. Where there is no substantial transfer of risks and rewards of ownership to the municipality, the lease is considered an operating lease and payments are expensed in the income statement on a systematic basis (straight line basis over the lease term).

<u>Asset custodian)</u>
The department that controls an asset, as well as the individual (asset custodian) that is responsible for the operations associated with such asset in the department, is identified by the respective Head of Department, recorded, and communicated on recognition of the asset.

<u>Reliable measurement</u>
Items recognized are those that possess a cost or fair value that can be reliably measured in terms of this policy.

8. Fixed asset register (FAR)

8.1.1 Format

The FAR shall be maintained in the format determined by the CFO, which format shall comply with the requirements of any accounting requirements which may be prescribed.

Without in any way detracting from the compliance criteria mentioned in the preceding paragraph, the FAR shall 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 within which the assets will be utilized
- the responsible person for this asset
- the title deed number, in the case of fixed property

- the stand number, in the case of fixed property
- an unique identification number
- 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
- the valuer who did the (last) revaluation
- accumulated depreciation to date
- the carrying value of the asset
- whether this is a cash or non-cash generating asset
- the method and, where applicable, the rate of depreciation
- impairment losses
- impairment recovery
- the source of financing
- whether the asset is required to perform basic municipal services;
- the date on which the asset is disposed of
- the disposal proceeds
- the date on which the asset is retired from active use, and held for disposal
- the residual value of each asset
- measurement model

General manager of department under whose control any fixed asset falls shall promptly provide the CFO in writing of any information required to compile the FAR, and shall promptly advise the CFO in writing of any material change which may occur in respect of such information.

A fixed asset shall be capitalized, that is, recorded in the FAR, as soon as it is available for use. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalized as a fixed asset.

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 shall not in itself be a reason for writing-off such an asset.

8.1.2 Different categories within FAR

The following is an outline of the requirements relating to the various types of asset categories that the Council will maintain

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

Movable Assets:

- Office Equipment
- Furniture and Fittings
- Bins and Containers
- Emergency Equipment
- Motor Vehicles
- Aircraft
- Watercraft
- Plant and Equipment
- Capital work-in-progress. Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is available for use.

8.2 Classification and identification of Assets

(a) Definitions and rules

<u>Fixed asset categories</u>

- Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the municipality's operations) (GRAP 17);
- Heritage assets (GRAP 103);
- Intangible assets (GRAP 31);
- Biological assets (GRAP 102/27);

- Capital Finance Lease assets (GRAP 13); and
- Investment property (GRAP 16).

Class of PPE

A class of PPE is defined as a group of assets of a similar nature or function in the municipality's operations. The total balance of each class of assets is disclosed in the notes to the financial statements.

PPE Asset hierarchy

An asset hierarchy is adopted for PPE which enables separate accounting of parts (or components) of the asset that are considered significant to the municipality from a financial point of view, and for other reasons determined by the municipality, including risk management (in other words, taking into account the criticality of components) and alignment with the strategy adopted by the municipality in asset renewal (for example the extent of replacement or rehabilitation at the end of life). In addition, the Municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognizes the functional relationship of assets and components.

PPE: Infrastructure

Infrastructure assets are immoveable assets which are part of a network of similar assets that jointly provide service potential.

PPE: Community Property

Community property assets are immoveable assets contributing to the general well-being of the community, such as parks, libraries, fire stations community halls and recreation facilities.

PPE: Building Property

PPE building property assets are buildings that are used for municipal operations such as administration buildings and rental stock or housing not held for capital gain.

PPE: Other Assets

Movable assets are by nature stand-alone assets which are not directly attached or associated with an item of immovable assets and are utilized in an enabling or assisting role on a day-to-day basis.

Heritage assets

Heritage assets are assets of cultural, historic or environmental significance, such as monuments, nature reserves, and works of art. Some heritage assets have more than one purpose, e.g. a historical building which, in addition to meeting the definition of a heritage asset, is also used as office accommodation. The municipality must use its judgment to make such an assessment. The asset should be accounted for as a heritage asset if, and only if, the definition of a heritage asset is met, and only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. If a significant portion is used for production, administrative purposes or supply of services or goods, the asset shall be accounted for in accordance with the Standard of GRAP on PPE.

Intangible assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. Examples are licenses/rights, (such as water licenses), servitudes, and software.
An asset meets the criterion of being identifiable in the definition of an intangible asset when it:
a) 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
b) arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable and separable from the municipality or from other rights and obligations.

However, if the municipality is of the opinion that even though a servitude may meet the definition of an intangible asset, it is essential to the operation of a tangible asset. For example, where the municipality would not be able to construct or operate infrastructure on land that it does not own without acquiring certain rights from the landowner. Therefore, the municipality may be of the opinion that it would be more appropriate to include the cost of the servitude in the cost of the tangible asset rather than recognizing a separate intangible asset. In such cases servitudes will be accounted for as PPE by applying GRAP 17, and componentization may be required as the values, nature and the useful life of the servitude and the tangible asset are
Different.

Servitudes

Where municipalities establish servitudes as part of the registration of a township, the associated rights are granted in statute and are specifically excluded from the standard on intangible assets. Such servitudes cannot be sold, transferred, rented or exchanged freely and are not separable from the municipality. Consequently, such servitudes are not recognized in the asset register.

Servitudes that are created through acquisition (including by way of expropriation or agreement) can be recognized as an intangible asset at cost. The municipality may include the servitude in the cost of the PPE if it is essential to the construction or operation of the asset (such as in the case of pipes).

Investment property

Investment property is defined as property (land and/or a building, or a part thereof) held (by the owner or 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 administration purposes or sale in the ordinary course of operations). An example of investment property is office parks that are rented out. There is no asset hierarchy for investment property; each functional item will be individually recorded. Land held for a currently undetermined use is recognized as investment property until such time as the use of the land has been determined.

A property is only classified as investment property if the main purpose and most significant use of the property is to earn rental or for capital appreciation. For example, when a municipality owns a building, mainly used for the delivery of social housing but rents out a floor of the building to shops, banks and other external parties, the building should be accounted for as property, plant and equipment as its main purpose and most significant use is the provision of social services. This should be the case irrespective of whether the rental earned from the one floor of the building is significant in relation to the rental earned from the remainder of the building.

8.2.1 Identification of assets

The MM shall ensure that Council maintains a fixed asset identification system which shall be operated in conjunction with its computerized FAR.

The identification system shall be determined by the MM, acting in consultation with the CFO and other General Manager of departments, and shall comply with any legal prescriptions, as well as any requirements of the Auditor-General, and shall be decided upon within the context of the Council's budget.

General Managers of the department shall ensure that the asset identification system approved by Council is scrupulously implemented in respect of all fixed and movable assets controlled or used by the department.

8.2.3 Verification of assets

The Asset Management Section shall at least once during every financial year provide all General Managers of department with a comprehensive list of assets which is registered under their control.
General Managers of departments shall be responsible for verifying this list with the assets under their control and investigate any discrepancies arising out of the asset verification exercise. General Managers of the departments will be required to sign and date a declaration stating that the list of assets verified for his/her department is complete & accurate except for the discrepancies as reported to the Asset Management Section.

8.2.4 Safekeeping of assets
Section 63 of the MFMA (Act no 56 2003) determines that the Municipal Manager of the Council is responsible for the management of the assets of the Council, including the safeguarding and the maintenance of those assets.

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

Every General Manager of a department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by his/her department.

8.3. MEASUREMENT AT RECOGNITION

(a) Definitions and rules

Measurement at recognition of PPE

An item of PPE that qualifies for recognition is measured at cost. Where an asset is acquired through a non-exchange transaction (for example in the case of donated or developer-created assets), its cost is deemed to be its fair value at the date of acquisition. In cases where it is impracticable to establish the cost of an item of PPE, such as on recognizing PPE for which there are no records, or records cannot be linked to specific assets, its cost is deemed to be its fair value.

Measurement at recognition of investment property

Investment property will be measured at cost including transaction cost at initial recognition. However, where an investment property was acquired through a non-exchange transaction (i.e. where the investment property was acquired for no or nominal value), its cost is its fair value at the date of acquisition.

Measurement at recognition of intangible assets

Intangible assets will be measured at cost at initial recognition. Where assets are acquired for no or nominal consideration, the cost is deemed to equal the fair value of the asset on the date acquired.

Measurement at recognition of heritage assets

Heritage assets will be measured at cost at initial recognition. Where assets are acquired for no or nominal consideration, the cost is deemed to equal the fair value of the asset on the date acquired.

If the municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements as follows:

- A description of the heritage asset or class of heritage assets.
- The reason why the heritage asset or class of heritage assets could not be measured reliably.
- On disposal of the heritage asset or class of heritage assets, the compensation received and the amount recognized in the statement of financial performance.

Measurement at recognition of biological assets

Biological assets shall be measured on initial recognition and at each reporting date at its fair value less costs to sell.

Fair value

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market based evidence by appraisal can be used where there is an active and liquid market for assets (for example land and some types of plant and equipment). In the case of specialized buildings (such as community buildings) and infrastructure where there is no such active and liquid market, a depreciated replacement cost (DRC) approach may be used to identify the fair value. The appraisal of the fair value of assets is normally undertaken by a member of the valuation profession, who holds a recognized and relevant professional qualification and has appropriate knowledge and experience in valuation of the respective assets.

Cost of an item of PPE

The capitalization value comprises of:

(i) the purchase price including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and

(ii) any directly attributable costs necessary to bring the asset to its location and condition necessary for it to be operating in the manner intended by the municipality, plus

(iii) an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

VAT is excluded (unless the municipality is not allowed to claim input VAT paid on purchase of such assets - in such an instance, the municipality should capitalize the cost of the asset together with VAT).

Directly attributable costs

Directly attributable costs are defined as:

- Cost of employee benefits arising directly from the construction or acquisition of the item.
- costs of site preparation;
- initial delivery and handling;
- installation and assembly costs;

- commissioning (cost of testing the asset to see if the asset is functioning properly, after deducting the net proceeds from selling any item produced while bringing the asset to its current condition and location);
- professional fees (for example associated with design fees, supervision, and environmental impact assessments) (in the case of all asset classes); and
- Proper transfer taxes (in the case of all asset classes).

Costs associated with heritage assets

Costs incurred to enhance or restore a heritage asset to preserve its indefinite useful life should be capitalized as part of the cost of the asset. Such costs should be recognized in the carrying amount of the heritage asset as incurred.

Depreciated replacement cost

If no evidence is available to determine the market value in an active and liquid market of an item of property, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location. In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. For example, in the event of loss, a parliament building may be reproduced rather than replaced with alternative accommodation because of its significance to the community.

Changes in the existing decommissioning or restoration cost included in the cost of an item

Most PPE are considered assets in perpetuity in that they will generally be renewed or replaced at the end of their useful life. In the event that there is a statutory (and material) obligation to decommission or restore an asset at the end of its useful life (such as at a landfill site), provision has to be made for such costs. Changes in the measurement of an existing decommissioning cost or restoration cost as a result of changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, should be treated as follows:

1. If the cost model is used -
   - Changes in the liability shall be added to or deducted from the cost of the related asset.
   - If the amount deducted from the cost of the asset exceeds the carrying amount of the asset, the excess shall be recognized immediately in surplus or deficit.

- If the adjustment results in an addition to the cost of an asset, the municipality should consider whether this is an indication that the carrying amount may not be recoverable. In this case the municipality should test the asset for impairment.

2. If the revaluation model is used -
- A decrease in the liability shall be credited to the revaluation surplus, except that it shall be recognized in the surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognized in the surplus or deficit; and
- An increase in the liability shall be recognized in surplus or deficit, except that it shall be debited to the revaluation surplus to the extent that any credit balance may exist in the revaluation surplus in respect of the asset.
- If the decrease in liability exceeds the carrying amount that would have been recognized if the asset has been carried under the cost model, the excess shall be recognized immediately in the surplus or deficit.
- If the change in liability is an indication that the asset may have to be re-valued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation shall be taken into account in determining the amounts to be taken to surplus or deficit and net assets as discussed above. If a revaluation is necessary, all assets of that class shall be revalued.
- The change in the revaluation surplus arising from the change in the liability shall be separately identified and disclosed in the face of the statement of changes in net assets.

Exchanged PPE assets

In cases where assets are exchanged, the cost is deemed to be the fair value of the acquired asset and the disposed asset is de-recognized. If the acquired asset is not measured at its fair value, its cost price will be the carrying amount of the asset given up.

Finance leases

A finance lease is recognized by the municipality (the lessee) at the commencement of a lease term as an asset and liability 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 in the lease contract, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct cost of the lessee is added to the amount recognized as an asset.

Self-constructed immovable PPE

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality. All assets that can be classified as immovable assets and that are constructed by the municipality should be recorded in the asset register and each component that is part of this asset should be depreciated over its estimated useful life for that category of asset.

Proper records should be kept such that all costs associated with the establishment of these assets are completely and accurately accounted for as capital under construction, and upon completion of the asset, all costs (both direct and indirect) associated with the construction of the asset are aggregated and capitalized in the asset register.

Construction of future investment property

If property is developed for future use as an investment property, such property shall in every respect be accounted for as investment property.

Borrowing costs

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortization of premiums or discounts associated with such borrowings, amortization of ancillary costs incurred in connection with the arrangement of borrowings; finance charges in respect of finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as an adjustment to interest costs.

The municipality has the option to recognize all borrowing costs as an expense in the period in which they are incurred, or if the allowed alternative is selected, the municipality shall recognize borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset as part of the cost of that asset. Where the municipality adopts the allowed alternative treatment, that treatment shall be applied consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the municipality.

Deferred payment

The cost of an asset is the cash equivalent at the recognition date. If the payment of the cost price is deferred beyond normal credit terms, the difference between the cash price equivalent (the total cost price is discounted to the asset's present value as at the transaction date) and the total payment is recognized as an interest expense over the period of credit unless such interest is recognized in the carrying value of the asset in accordance with the Standard on Borrowing Costs, GRAP 5.

(b) Policy statement

PPE, intangible assets and investment property that qualify for recognition shall be capitalized at cost. Interest on deferred payments will be capitalized to the extent to which it relates to a qualifying asset. Biological assets that qualify for recognition shall be capitalized at fair value less costs to sell.

In cases where complete cost data is not available or cannot be reliably linked to specific assets: -

- The fair value of PPE infrastructure, community facilities, building property shall be adopted on the basis of depreciated replacement cost.
- If the cost of heritage assets cannot be measured reliably, this should be disclosed in the notes to the financial statements together with a description of the nature of the asset.
- Investment property and intangible assets (associated with immovable assets) shall be measured at fair value on date of acquisition. If no fair value can be allocated to the intangible asset, the asset will not be recognized as an asset.

8.4. MEASUREMENT AFTER RECOGNITION

(a) Definitions and rules

<u>Options</u>

Accounting standards allow measurement after recognition of assets as follows:

- PPE, heritage assets and intangible assets: on either a cost or revaluation model; and
- Investment Property: either cost model or the fair value model.

Different models can be applied, providing the treatment is consistent per asset class. asset.

<u>Cost model</u>

When the cost model is adopted, a fixed asset is carried after recognition at its cost less any accumulated depreciation and any accumulated impairment losses.

<u>Revaluation model</u>

When the revaluation model is adopted an asset is carried after recognition at a re-valued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are 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. When revaluations are conducted, the entire class of assets should be re-valued.

If the carrying amount of an asset is increased as a result of a revaluation, the increase shall be credited directly to a revaluation surplus. However, the increase shall be recognized in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognized in surplus or deficit.

If the carrying amount of an asset is decreased as a result of a revaluation, the decrease shall be recognized in surplus or deficit. However, the decrease shall be debited directly in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognized directly in net assets reduces the amount accumulated in net assets under the heading revaluation surplus.

When an asset is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- Restated proportionately with the change in the gross carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to its depreciated replacement cost.
- Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus is transferred to the Accumulated Surpluses/ (Deficits) Account on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such asset before the revaluation in question may be transferred from the Revaluation Reserve to the municipality’s Accumulated Surplus/Deficit Account. An adjustment of the aggregate transfer is made at the end of each financial year.

<u>Investment property</u>

When the fair value model is adopted, all investment property should be measured at its fair value except when the fair value cannot be determined reliably on a continuing basis. The gain or loss from the change in fair value of investment property shall be included in the surplus or deficit for the period in which it arises. The fair value of the investment property shall reflect market conditions at the reporting date. Investment property shall be valued on an annual basis when the fair value model is adopted. All fair value adjustments shall be included in the surplus or deficit for the financial year. If a municipality selects the cost model to measure all of its investment property, it does so in accordance with the Standard of GRAP on Property, Plant and Equipment, i.e., at cost less any accumulated depreciation and any accumulated impairment losses.

<u>Statutory inspections</u>
The cost of a statutory inspection that is required for the municipality to continue to operate immovable PPE is recognized at the time the cost is incurred, and any remaining carrying amount of the cost of the previous inspection is de-recognized.

<u>Major inspection</u>
Major inspections will be recognized at the value of the major inspection

<u>Expenses to be capitalized</u>
Expenses incurred in the enhancement of PPE (in the form of improved or increased services or benefits flowing from the use of such asset), or in the material extension of the useful operating life of assets are capitalized. Such expenses are recognized once the municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) – prior to this, the expenses are recorded as work-in-progress. Expenses incurred in the maintenance or repair (reinstatement) of PPE that ensures that the useful operating life of the asset is attained, are considered as operating expenses and are not capitalized, irrespective of the quantum of the expenses concerned.

<u>Spares</u>
The location of capital spares shall be amended once they are placed in service, and re-classified to the applicable immovable PPE asset sub-category. Depreciation on the capital spares will commence once the items are placed in service as this is when they are in the location and condition necessary for them to be capable of operating in the manner intended by management.

b) Policy statement

Measurement after recognition shall be on the following basis: -

- PPE: cost model.
- Heritage assets: cost model.
- Investment property: Cost model
- Intangible assets: cost model.

8.5 DEPRECIATION

(a) Definition and rules

Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its remaining useful life. The amortization of intangible assets is identical.

Land and servitudes are considered to have unlimited life; therefore, they are not depreciated. Heritage assets and are also not depreciated.

Depreciable amount

The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Residual value

The residual value 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 was already of the age and in the condition expected at the end of its useful life.

The residual values of assets are indicated in Annexure C and D in the form of a percentage. In the case of assets measured after recognition on the cost model, the percentage is of the initial cost of acquisition. In the case of assets measured after recognition on the revaluation model, the percentage is of the modern equivalent replacement value.

Depreciation method

Depreciation of PPE is applied at the component level. A range of depreciation methods exist and can be selected to model the consumption of service potential or economic benefit (for example the straight line method, diminishing amount method, fixed percentage on reducing balance method, sum of the year digits method, production unit method). The approach used should reflect the consumption of future economic benefits or service potential, and should be reviewed annually where there has been a change in the pattern of consumption.

Remaining useful life

The remaining useful life of a depreciable PPE asset is the time remaining until an asset ceases to provide the required standard of performance or economic usefulness.

The remaining useful life of all depreciable immovable PPE assets at initial recognition is the same as the expected useful life indicated in Annexure A. These figures have been established using available information on industry norms, experience of local influencing factors (such as climate, geotechnical conditions, and operating conditions), the life-cycle strategy of the municipality, potential technical obsolescence, and any legal limits on the use of the immovable assets.

Intangible assets with an indefinite useful life

An intangible asset with an indefinite useful life will not be amortized. Impairment testing shall be performed on these assets on an annual basis and whenever there is an indication that the assets might be impaired, comparing its recoverable amount with its carrying amount.

Remaining useful life

The remaining useful life (RUL) of a depreciable PPE asset is the time remaining until an asset ceases to provide the required standard of performance or economic usefulness.

The remaining useful life of all depreciable immovable PPE assets at initial recognition is the same as the expected useful life. The remaining useful life of all depreciable movable PPE assets that are new, or are considered to have been renewed, at initial recognition is the same as the expected useful life.

Annual review of remaining useful life

The remaining useful lives of depreciable PPE are reviewed every year at the reporting date. Changes may be required as a result of new, updated or more reliable information being available. Changes may also be required as a result of impairments. Depreciation charges in the current and future reporting periods are adjusted accordingly, and are accounted for as a change in an accounting estimate.

Depreciation method

Depreciation of PPE is applied at the component level. A range of depreciation methods exist and can be selected to model the consumption of service potential or economic benefit (for example the straight line method, diminishing amount method, fixed percentage on reducing balance method, sum of the year digits method, production unit method). The approach used should reflect the consumption of future economic benefits or service potential, and should be reviewed annually where there has been a change in the pattern of consumption.

Depreciation charge

Depreciation starts once an asset is available for use, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an assets ceases at the earlier of the date that the asset is classified as held for sale (in accordance with the standard of GRAP on Non-Current Assets Held for Sale and Discontinued Operations) and the date the asset is derecognized.

Carrying amount

The carrying amount is the cost price / fair value amount after deducting any accumulated depreciation and accumulated impairment losses.

Capital spares

Depreciation on capital spares will commence once the items are placed in service as this is when they are in the location and condition necessary for them to be capable of operating in the manner intended by management.

Finance lease

Depreciable assets financed through a finance lease will give rise to a depreciation expense and finance cost which will occur for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with the policy of depreciable owned assets, and the depreciation recognized shall be calculated in accordance with the Standard on Property, Plant and Equipment, GRAP 17. If there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. If there is certainty that the municipality will obtain ownership by the end of the lease term, the asset will be fully depreciated over the asset's useful life.

(b) Policy statement

All PPE, except land, servitudes and heritage assets, shall be depreciated over their remaining useful lives. All intangible assets, other than intangibles with an indefinite useful life, shall be amortized over their remaining useful lives. All investment property, excluding land, shall be depreciated over their remaining useful lives. The method of depreciation / amortization shall be reviewed on an annual basis, though the straight line basis shall be used in all cases unless Council determines otherwise. The existence, remaining useful lives and residual values shall also be reviewed at each reporting date.

8.6. IMPAIRMENT

(a) Definition and rules

Impairment

Impairment is defined as 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.

Indications of impairment

The municipality must review assets for impairment when one of the indicators below occurs or at least at the end of each reporting period. In assessing whether there is any indication that an asset may be impaired, the municipality shall consider as a minimum the following indicators:

I. External sources of information:

- decline or cessation in demand;
- Significant long-term changes in the technological, legal or government policy environment;
- the carrying amount of the net assets of the municipality is more than its market capitalization; or
- Market interest rates have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- A halt in construction could indicate an impairment. Where construction is delayed or postponed to a specific date in the future, the project may be treated as work in progress and not considered as halted.

ii. Internal sources of information:

- evidence of physical damage;
- evidence of obsolescence;
- significant changes with an adverse effect on the municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or a manner in which, an asset is used or is expected to be used, including an asset becoming idle, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;
- cash flow for acquiring an asset or maintenance cost thereafter is higher than originally budgeted;
- the actual net cash flow or operating profit or loss flowing from an asset are significantly worse than those budgeted;
- a significant decline in budgeted net cash flow or operating profit, or a significant increase in the budget loss, flowing from the asset; or
- Operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

iii. Other indications, such as loss of market value.

Impairment of projects under construction

In assessing whether a halt in construction would trigger an impairment test, it should be considered whether construction has simply been delayed or postponed, whether the intention to resume construction in the near future or whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work in progress and is not considered as halted.

Intangible assets

The municipality must test all intangible assets associated with immovable PPE not yet available for use or which have an indefinite useful life for impairment. This impairment test may be performed at any time during the reporting period provided it is performed at the same time every year.

Investment property on the cost model

Investment property that is measured at cost less any accumulated depreciation and any accumulated impairment losses must be tested for impairment. This impairment test may be performed at any time during the reporting period provided it is performed at the same time every year.

Recoverable amount

This is the estimated amount which the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

The events and circumstances in each instance must be recorded. Where there are indications of impairment, the municipality must estimate the recoverable service amount of the asset and also consider adjustment of the remaining useful life, residual value, and method of depreciation.

Value in use

It is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful lives.

Impairment loss

An impairment loss of a non-cash-generating unit or asset is defined as the amount by which the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount is the higher of the fair value less costs to sell and its value in use.

An impairment loss of a cash-generating unit (smallest group of assets that generate cash inflows) or asset is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and its value in use.

Non-cash-generating units

Non-cash-generating units are those assets (or group of assets) that are not held with the primary objective of generating a commercial return. This would typically apply to assets providing goods or services for community or social benefit. The recoverable amount is the higher of the asset's fair value less cost to sell and its value in use. It may be possible to determine the fair value even if the asset is not traded in an active market. If there is no binding sales agreement or active market for an asset, the fair value less cost to sell is based on the best information available to reflect the amount that the municipality could obtain. However, sometimes it will not be possible to determine the fair value less cost to sell because there is no basis for making reliable estimates of the amount obtainable. For non-cash generating assets which are held on an on-going basis to provide specialized services or public goods to the community, the value in use of the assets is likely to be greater than the fair value less cost to sell. In such cases the municipality may use the asset's value in use as its recoverable service amount. The value in use of a non-cash generating unit/asset is defined as the present value of the asset's remaining service potential.

This can be determined using any of the following approaches:

- the Depreciated Replacement Cost (DRC) approach (and where the asset has enduring and material over-capacity, for example in cases where there has been a decline in demand, the Optimized Depreciated Replacement Cost (ODRC) approach may be used);
- the restoration cost approach (the Depreciated Replacement Cost less cost of restoration) – usually used in cases where there has been physical damage; or
- The service units' approach (which could be used for example where a production units' model of depreciation is used).

Where the present value of an asset's remaining service potential (determined as indicated above) exceeds the carrying value, the asset is not impaired – this will normally be the case unless there has been a significant event as indicated above.

<u>*Cash-generating units*</u>

Cash-generating units are those assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a "commercial return" indicates that the municipality intends to generate positive cash inflows from the asset (or from part of the cash-generating unit of which the asset is a part) and earn a commercial return that reflects the risk involved in holding the asset. When the cost model is adopted, fair value is determined in accordance with the rules indicated for measurement after recognition. Costs to sell are the costs directly attributable to the disposal of the asset (for example agents fees, legal costs), excluding finance costs and income tax expenses. The value in use is determined by estimating the future cash inflows and outflows from the continuing use of the asset and net cash flows to be received or (paid) for the disposal of the assets at the end of its useful life, including factors to reflect risk in the respective cash-flows and the time value of money.

Judgment

The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the asset is a cash generating or non-cash generating asset. An asset may be held with the primary objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset even though it may be breaking even or generating a commercial return during a particular reporting period. In some cases, it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that the asset is a non-cash-generating- or a cash-generating asset. Judgment is needed in these circumstances.

Recognition of impairment

The impairment loss is recognized as an expense when incurred (unless the asset is carried at a re-valued amount, in which case the impairment is carried as a decrease in the Revaluation Reserve, to the extent that such reserve exists). After the recognition of an impairment loss, the depreciation charge for the asset is adjusted for future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

When no future economic benefit is likely to flow from an asset, it is derecognized and the carrying amount of the asset at the time of de-recognition, less any economic benefit from the de-recognition of the asset, is debited to the Statement of Financial Performance as a "Loss on Disposal of Asset".

In the event of compensation received for damages to an item of immovable PPE, the compensation is considered as the asset's ability to generate income and is disclosed under Sundry Revenue; and the asset is impaired/ de-recognized.

Reversing an impairment loss

The municipality must assess each year from the sources of information indicated above whether there is any indication that an impairment loss recognized in previous years may no longer exist or may have decreased. In such cases, the carrying amount is increased to its recoverable amount (providing that it does not exceed the carrying amount that would have been determined had no impairment loss been recognized in prior periods). Any reversal of an impairment loss is recognized as a credit in surplus or deficit.

(b) Policy statement
The municipality considers itself the municipality whose primary objective is to provide goods and services for community or social benefit, and where positive cash flows are generated (such as from sale of trading services such as water services), these are with the view to support the primary objective rather than for financial return to equity holders. Consequently, the municipality adopts the impairment treatment for non-cash generating units in the impairment of its PPE and associated intangible assets.

Impairment of assets shall be recognized as an expense in the Statement of Financial Performance when it occurs or at least at every reporting date. Ad-hoc impairment shall be identified as part of normal operational management as well as scheduled annual inspections of the assets.

9 Disposal of assets

9.1 Basis

Section 14 of the Municipal Finance Management Act (Act No. 56, 2003) states the following:

1. A municipality may not transfer ownership as a result of a sale or other transaction, or otherwise permanently dispose of any capital asset needed to provide a minimum level of basic municipal services.
2. A municipality may transfer ownership or otherwise dispose of a capital asset, other than an asset mentioned above, only after the disposal committee meeting:
   i. Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
   ii. Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

9.2 Planning for disposals

User departments are responsible for the strategic planning for the disposal of assets that cause the municipality not to perform service delivery efficiently and effectively

Planning for disposals must be conducted by the User departments on an annual basis and revised on quarterly basis and must be submitted to the asset management unit for consolidation.
Asset Management unit must submit the consolidated listing of assets earmarked for disposal to the Disposal Committee for final recommendation. The planning should involve a detailed assessment of assets identified as surplus, redundant or obsolete.

Surplus, obsolete or redundant assets include the following:

i. Assets not required for the delivery of services, either currently, or over the longer planning period.
ii. Assets that have become uneconomical to maintain or to operate.
iii. Assets that are not suitable for service delivery.
iv. Assets that have a negative impact on the service delivery of the municipality, the environment or the community.
v. Assets that no longer support the user department’s service objective due to a change in type of service being delivered or the delivery method.
vi. Assets where the use has become uneconomical to continue due to the limited availability of spares or the cost of replacement parts exceed the reasonable value of the item.
vii. Assets where the technology has been outdated.
viii. Assets which can no longer be used for the purpose originally intended.

9.3 Assessing disposals

The Disposal Committee is responsible for assessing the list of assets earmarked for disposals prepared by the asset management section. The Disposal Committee shall also consider the following factors:

i. Whether there are net disposal benefits, either in financial or other forms.
ii. Whether there is secondary service obligations associated with the asset which dictates its retention.
iii. Whether a disposal can be carried out without adverse impacts on the physical environment.

In assessing the benefits of disposal, the advantages and disadvantages for the whole municipality, not just the user department, must be considered.

Disposals need not always be for a financial gain. Other opportunities and gains should also be taken into consideration, for example:

iv. Swapping one asset for another
v. Construction of a facility for the municipality in return for the asset.

Disposal Committee shall be responsible for advising the Municipal Manager and Council on the disposal and writing off of assets after:

vi. Deciding on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
i. Consideration of the fair market value of the asset and the economic and community value to be received in exchange for the asset.

9.4 Method of disposal

Disposal of an asset should be performed in a manner which satisfies the following objectives:

ii. The disposal should take place on an equitable basis. There should be an equal opportunity for all to purchase the asset.
iii. The best possible return for the municipality must be achieved.
iv. Any adverse environmental impacts should be avoided.

The disposal committee should document the basis of the decision taken to dispose of an asset and clear basis of the method of disposal decided upon.

9.5 Disposal management

(1) The system of disposal management for the disposal or alienation of assets, including unserviceable, redundant or obsolete assets, subject to sections 14 and 90 of the Act, is as follows:
(2) The disposal or alienation of assets must:

(a) Be by one of the following methods:
(i) transferring the asset to another organ of state in terms of a provisions for the transfer of assets;
(ii) transferring the asset to another organ of state at market related value or, when appropriate, free of charge;
(iii) the alienation of the asset; or
(iv) destroying the asset, after taking into account re-cycling;

(b) Provided that:
(i) immovable property may be sold only through a competitive bidding process except when the public interest or the plight of the poor demands otherwise and the disposal committee has unanimously agreed on an alternative method, in such a case reasons of different method must be recorded;
(ii) movable assets may be sold either by way of written price quotations, a competitive bidding process, auction or at market related prices, whichever is the most advantageous;
(iii) in the case of the free disposal of computer equipment, the provincial department of education must first be approached to indicate within 30 days whether any of the local schools are interested in the equipment;

(c) Furthermore ensure that immovable property is alienated at market related values, except when the public interest or plight of the poor demands otherwise; and or
(i) Immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise; and
(ii) All fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of immovable property are annually reviewed.

Transfer of fixed assets to other municipalities, municipal entities (whether or not under Council'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.

9.6 Other write offs

A fixed asset even though fully depreciated shall be written off only on the recommendation of the General Manager/ Chief Financial officer of a department controlling or using the asset concerned, and with the final approval of Council.

Every General Manager of a department shall annually report to the CFO on any fixed assets which such director of a department 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.

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

9.7 Proceeds /Gain or Loss on disposal of assets

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

If this asset has an outstanding balance on the Revaluation Reserve this balance must be transferred to the Accumulated Surplus.

9.8 Disclosure of assets disposed of

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

The gain or loss will be reflected in the Statement of Financial Performance as a gain under Revenue or as a loss under Expenditure.

Recognition of assets in the financial statements
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.
Assets are classified into categories as set out in section 7 (Classification of Assets) and the information for each category summarized 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;
- 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.

The failure to recognize such items is not rectified by disclosure of the accounting policies used, or by notes or explanatory material.

To be able to assess the utilization of assets all assets should be listed once the recognition criteria are met.

An asset item should be recognized in the financial statements if it meets the:

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

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

An item that possesses the essential characteristics of an asset but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes, explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is considered to be relevant to the evaluation of the financial position, performance and changes in financial position of the Council by the users of financial statements.

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

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

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

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

10. Funding Sources

The main sources of finance utilized to acquire assets are:

- Government and other conditional grants.
- Conditional grants, Subsidies and Public Contributions and Donations
- Cash surplus.

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

10.1 Government and other conditional grants

Whenever a conditional government or other grant for the acquisition of an asset is received a grant liability 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 liability to the Statement of Financial Performance as revenue.

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 utilization of these funds:

- The cash which backs up the grant is invested until it is utilized.
- 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 recognized 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.
- 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.
- 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.

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.

10.2 Finance leases

A lease is classified as a finance lease if it meets the recognition requirements as per GRAP 13 (Annexure C)

At the commencement of the lease term, the Council shall recognize 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 Council's incremental borrowing rate shall be used. Any initial direct costs of the Council are added to the amount recognized as an asset.

10.3 Donations

The fair value of donated assets must be determined and at receipt or transfer of the assets be allocated to the accumulated surplus account.

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.

10.4 Surplus cash

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.

11 Replacement Strategy

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

This strategy should take into consideration:

- The nature of the asset
- The usage of the asset
- Priorities
- Available funding
- Operational and maintenance costs
- Operational skills

- Future expected developments
- Technology
- Outsourcing
- Private sector partnerships

12 Asset Risk Management

12.1 Insurance

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

This decision will depend on the amount of excess the Council are prepared to carry, the types of risks they insure against, taking due cognisance of the budgetary constraints of the Council.

Complete property, plant and equipment identification and valuation may prevent the Council 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.

12.2 Other risk reducing methods

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 minimize risk. Examples are as follows:

- Only authorized personnel should be allowed in areas where expensive equipment is kept;
- Only authorized personnel should be allowed to operate plant or vehicles;
- The keys for office vehicles should be controlled in a central office during the day, and employees should sign when they take the keys;
- Ensure that drivers or operators have the necessary qualifications and licenses;

- It should be part of service conditions that employees incur personal liability if they drive while under the influence of alcohol, drugs, medication, and so forth; or if they leave the vehicle unattended and unlocked;
- Physical access to buildings, or areas within buildings, should be restricted, especially after hours.

13 Maintenance of assets

13.1 Maintenance plans

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

Every General Manager of a Department shall ensure that a maintenance plan in respect of infrastructural asset is prepared and submitted to Council for approval.

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

The General Manager 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 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.

13.2 Deferred Maintenance

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructural asset (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.

If no such plans have been formulated or are likely to be implemented, the General Manager 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

Management Section, and the Asset Management Section shall recalculate the annual depreciation expenses accordingly.

13.3 General maintenance

Every General Manager 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.

14 General Requirements

14.1 Bar coding

Bar coding means to place a control number on a piece of equipment or property.
All movable assets must be bar code if probable.

The primary purpose of bar coding is to maintain a positive identification of assets.
Bar coding 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

Fixed property and plant is not bar coded; such as:

- Buildings (record legal description in asset record),
- Land (record legal description in asset record),
- Infrastructural assets.

Consistently place asset bar codes in the same location on each similar type asset. If possible, the bar codes 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.

14.2 Physical inventory of all movable assets

The Asset Management 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 minimize the time demanded of them.

The designated officials in the different Departments within Council must execute the functions listed below.

- 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.
- Complete the asset movement form when transfers occur and forward the completed original form to Asset Management Section.
- Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained.
- Asset Management Section must be notified by the relevant Department of any of the following possible movements:
- Donations
- Additions / Improvements
- Departmentally manufactured items
- Loss or damage
- Transfers
- Terminations
- Land Sales

14.3 Acquisition

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

- The purpose for which the fixed asset is required is in keeping with the objectives of Council 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.
- Departments should ensure that on acquisition of office furniture cost are contained to minimal, avoiding elaborate and expensive furniture or equipment.

14.4 Asset management responsibilities

- Utilization - All assets should be used for the purposes they were acquired.
- Asset performance should be regularly reviewed to identify under-utilized 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 Council's assets.

14.5 Additions / Improvements

Depending upon the type of addition or improvement to a specific asset the responsible official in the Department must notify the Asset Management 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.

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.

When any changes to vacant land or land and buildings are effected 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 Management Section.

14.6 Termination of employee's service

At the termination of an employee's service, the applicable Department representative must complete the asset clearance form and forward the original to the Asset Management 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.

14.7 Transfer of Assets

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

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 Management Section.

Annexure A

15. Asset Useful Live Guide

Infrastructure Assets

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

Component Type	**Expected Useful Life**
Actuator	80
Aerator	9 - 30
Air Blower	9 - 15
Air conditioning	20 - 30
Analyser	10
Anchored wall	50
Automated electricity meter	10
Auto-recloser	50
Baler	15
Ballasts	80
Basketball court	20
Batteries	3 - 20
Battery Charger	10 - 50
Billboard	15
Boiler	60
Boiler feed pump	15
Bowling green	20
Box Termination	45
Capacitor bank	5 - 50
Carport	7
Cast iron	50
Cathodic protection	15
Cats eyes	9
Channel	5 - 50
Chemical Toilet	10
Chiller	20
Chlorinator	10 - 30
Communal standpipe	5 - 10

Communication cable	15
Communications switch	10
Commuter shelter	15
Compactor	15
Compressor	10 - 20
Condenser	30
Connection Box	45
Control Cable	20 - 50
Control Panel	10 - 50
Conventional electricity meter	10 - 25
Conveyor	9 - 15
Conveyor belt	10
Crane	10 - 80
Crawl Beam	10
Culvert	50 - 60
Current Transformer	20 - 45
Degritter	9 - 50
Distributed control system	15 - 30
Doser	15 - 20
Earth Structure	10 - 50
Earthworks	50 - 100
Economiser	50
Electrical installation (building)	30
Electrical service connection	45 - 60
Electricity bulk meter	10
Electricity Servitude	0
Electricity transmission reserve	0
Engine	15
Engine - gas	20
Erosion Protection	15 - 50
Exciter	20
External furniture	20 - 30
External lighting	10 - 45
Extraction blower	15
Fabricated steel	5 - 40
Fan	15
Fibre-optic cable	50

Filter media	5 - 50
Finishes, fixtures and fittings	15
Fire protection	15 - 30
Flare stack	30
Floor	50 - 60
Footpath	20
Gabions	50 - 80
Gasometer	15
Gearbox	15
Generator	10 - 30
Generator breaker	50
Generator busbar	50
Generator transformer	50
GIS busbar	50
GIS switchgear	50
Golf course	50
Grid inlet	20 - 80
Guard rail	10 - 20
Heat exchanger	30
High mast	5 - 50
High mast light	5 - 50
HV Busbar Indoor	50 - 60
HV Busbar Outdoor	50 - 60
HV Cable	20 - 50
HV circuit breaker	30 - 50
HV compact circuit breaker, isolator, and current transformer unit	30 - 50
HV earth switch	30 - 50
HV isolator	30 - 50
HV Overhead Line Conductor	30 - 50
HV Overhead Line Support structure	30 - 50
HV transformer	30 - 50
Hydrant	20
Internal Road	9 - 50
IP Phone	5
Irrigation	10
Jukskei court	20

Kerb	20 - 60
Kerb Inlet	20 - 60
Land	0
Landfill restoration	50
Landscaping	30 - 50
Lifts	30
Lightning mast and shield wiring	50
Lightning Protection	10
Lining – landfill	50
Load Control Set	20 - 30
LV Cable	25 - 60
LV circuit breaker	30
LV kiosk	45
LV Overhead Line	30 - 45
LV pole top box	20
Masonry Structure	10 - 80
Mini roundabout	20
Mini Sub Enclosure	45
Mini-Sub	15 - 45
Mixer	9 - 25
Motor	5 - 75
Multiplexer	10
MV Busbar Indoor	60
MV Cable	15 - 50
MV circuit breaker	5 - 45
MV compact circuit breaker, isolator and current transformer unit	30 - 50
MV earth switch	50
MV isolator	5 - 30
MV Overhead Line	20 - 45
MV Switchgear	45
MV Transformer	30 -50
Network control kiosk	10
Oil burner	30
Other Electrical Equipment	10 - 20
PABX	10
Paving	20

Pedestrian bridge railing	50 - 80
Pedestrian bridge substructure	50 - 80
Pedestrian bridge superstructure	50 - 80
Perimeter Protection	5 - 50
Pipe − fuel	25
Pipe – gas	20
Pipe – sewer	15 - 100
Pipe − steam	15
Pipe – storm water	50 -80
Pipe − water	15 - 80
Pipe - water (incl valves & hydrants, excl meters)	15 - 80
Pipe bridge abutment	50
Pipe bridge railing	50
Pipe bridge substructure	50
Pipe bridge superstructure	50
Plumbing	20
Points (rail)	15 - 30
Pole	20 - 30
Pole Transformer	25 - 50
Pond	50
Power Factor Equipment	30 - 60
Precipitator	30
Prepaid electricity meter	10
Pressure vessel	60
Process instrumentation	15
Pulveriser	20
Pump – hand	15
Pump − sewer	5 -15
Pump − submersible	5 - 30
Pump − water	5 - 80
Radio infrastructure	50
Rail bridge abutments	80
Rail bridge side barrier	80
Rail bridge substructure	80
Rail bridge superstructure	80
Rail lines	50
Rail reserve	0

RC Structure	5 - 80
Reactor	50
Reheater	50
Retaining wall	50 - 80
Ring Main Unit	25 - 50
Road bridge abutment	80
Road bridge side barrier	80
Road bridge substructure	80
Road bridge superstructure	20 - 80
Road reserve	0
Road Sign Pole	15
Road structural layer	5 - 80
Road surface	5 - 50
Roof	5 - 60
Router	10
SCADA	25
Screen	9 - 15
Seat Rails	20
Sectionaliser	45
Security system	10
Sensor	10 - 30
Septic Tank	40
Server	10
Service connections on site	50
Sewerage Servitude	0
Sign – general	7 - 50
Sign – regulatory	7 - 15
Signalling	15
Sluice Gate	9 - 30
Small building/enclosure	20 - 50
Spectator stand	50
Speed hump	50
Sports field	15 - 30
Spot Lights	45
Squash court	15
Station earthing − mat and electrodes	50
Steel Pole	10

Steel structure	20 - 80
Storage Area Network	10
Storm-water reserve	0
Storm-water Servitude	0
Street lights	15 - 45
Street rubbish bin	10
Subsoil drain	50 - 80
Super heater	60
Surge Arrestor	30
Swimming pool	20
Switchgear	9 - 54
Tank	5 - 60
Telemetry	5 - 45
Telephone installation	30
Tennis court	15
Timber pole structure	15
Traffic island	30
Traffic signal units	15 - 30
Transformer NECRT	30 - 50
Transformer NER	50
Trolley	10
Tunnel bore structure	80
Turbine	45
Uninterrupted power supply	15
Valve − fuel	25
Valve − gas	20
Valve − steam	15
Valve – water	5 - 80
Vending station	10 - 15
VIP latrine (excluding structure)	10
Voltage Transformer	25 - 50
Walls	10 - 60
Water Meter	5 -50
Water Servitude	0
Weighbridge	15
Well	30
Winch	15

Wireless Access Point	10
Wood Pole	15

Community Assets

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

- Buildings and other assets
  - Agriculture (30)
  - Ambulance stations (30)
  - Aquariums (30)
  - Beachfront developments (30)
  - Care centers (30)
  - Cemeteries (30)
  - Civic theatres (30)
  - Clinics and hospitals (30)
  - Community centers (40)
  - Fire stations (30)
  - Game reserves and rest camps (30)
  - Indoor sports (30)
  - Libraries (40)
  - Museums and art galleries (30)
  - Parks (40)
  - Public conveniences and bath houses (40)
  - Recreation centers (40)
  - Sports and related stadiums (40)
  - Zoos (30)
- Recreational facilities
  - Bowling greens (30)
  - Tennis courts (30)
  - Swimming pools (30)
  - Golf courses (30)
  - Jackie pitches (30)
  - Outdoor sports facilities (30)
  - Organs (that is, pipe organs that are Fixtures in a municipal hall or other Centre) (30)
  - Lakes and dams (30)
  - Fountains (30)

Floodlighting (20)

Heritage Assets

The following is a list of at least some typical heritage assets encountered in the 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 (30)
- Housing developments (that is, developments (40)

Other Assets

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

- Buildings

Abattoirs	(30)
Asphalt plant	(30)
Caravan parks	(30)
Compost	(30)
Compacting stations	(30)
General	(30)
Hawker Facilities	(30)
Hostels used to accommodate the public or tourists	(30)
Hostels for municipal employees	(30)

Housing schemes		(30)
Kilns	(30)	
Laboratories	(30)	
Fresh produce and other markets		(30)
Nurseries	(30)	
Office buildings	(40)	
Old age homes	(30)	
Quarries	(30)	
Recycling Centers	(30)	
Tip sites	(30)	
Training centers		(30)
Transport facilities		(30)
Waste Cells	(30)	
Workshops and depots	(30)	
Office equipment		
Computer hardware		(3-15)
Computer software	(5-20)	
Office machines	(5-15)	
Air Conditioners	(5-15)	
• Furniture and fittings		
Chairs	(7-15)	
Tables and desks	(7-15)	
General	(7-15)	
Cabinets and cupboards	(7-15)	
• Bins and containers		
Household refuse bins		(15)
Bulk refuse containers	(10-20)	
• Emergency equipment		
Fire hoses	(15)	
Other fire-fighting equipment	(15)	
Emergency lights	(5)	
• Motor vehicles		
Ambulances		(5-10)
Fire engines		(20)

Tankers	(20)
Mobile Libraries	(15)
Buses	(15)
Trucks and light delivery vehicles	(5-15)
Ordinary motor vehicles	(5-15)
Motor cycles	(3)
• Plant and equipment	
Chlorination Equipment	(5)
Compactors	(15)
Electronic Equipment	(5)
Fire Hoses	(5)
General	(15)
Generators	(15)
Graders	(10-20)
Horticultural Equipment	(5)
Mobile Pumps	(5)
Other Fire Fighting Equipment	(10)
Pumps	(5)
Tractors	(10-20)
Trailers	(15)
Mechanical horses	(10-15)
Farm equipment	(5)
Lawn mowers	(10)
Compressors	(20)
Laboratory Equipment	(5)
Radio Equipment	(5)
Firearms	(20)
Telecommunication equipment	(15)
Irrigation systems	(15)
Cremators	(15)
Lathes	(15)
Conveyors	(15)
Feeders	(15)
Tippers	(20)
Workshop Equipment	(15)
Pulverizing mills	(15)
• Airports	
Aircraft	(15)

Aprons (20)
Runways (20)
Taxiways (20)
Airports/Radio beacons (20)

- Gas

Meters (20)
Mains (20)
Storage tanks (20)
Supply/reticulation (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:

- 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
- 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 the 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,
- the leased assets are of a such a specialized 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 equaling 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.

16. Policy Review

This policy should be reviewed annually to ensure continued compliance with the relevant legislation and accounting standards. Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the CFO in consultation with the MM and respective Heads of Department. The recommendations of the CFO shall be considered for adoption by Council.

17. References

The following references were observed in compiling this document:

- Asset Management Framework, National Treasury, 2004
- Guidelines for Infrastructure Asset Management in Local Government, Department of Provincial and Local Government, 2006
- Municipal Finance Management Act, 2003
- Disaster Management Act, 2002
- Municipal Systems Act, 2000
- Municipal Structures Act, 1998
- Accounting Standards Board
- MFMA Circular 18 & 44
- Local Government Capital Asset Management Guidelines, National Treasury, 2008
- Government Gazettes (30013 & 31021)
- Generally, Recognized Accounting Practice (1-14, 16, 17, 19, 21, 23-27, 31 and 100-104)
- Interpretations of the standards of GRAP issued by the Accounting Standards Board (ASB) (IGRAP 1- 17)
- Directives issued by the Accounting Standards Board (ASB)
- Accounting guideline issued by National Treasury relating to intangible assets
- Municipal transfer and disposal regulations, Government Gazette no.31346
- Government Gazette, 30 May 2005, No. 27636 on disposal