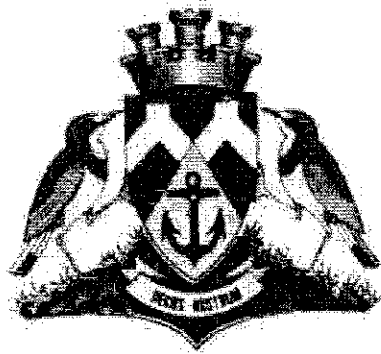


# **OVERBERG**

## **DISTRICT MUNICIPALITY**

### **ASSET MANAGEMENT POLICY**

Reviewed: 30 March 2017



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## **1. BACKGROUND**

- 1.1 Whereas section 14 of the Local Government: Municipal Finance Management Act, (no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services, and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued.
- 1.2 And whereas the municipal council of Overberg District Municipality wishes to adopt a policy to guide the municipal manager in the management of the municipality's assets.
- 1.3 And whereas the municipal manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets in terms of Section 63 of the MFMA.
- 1.4 And whereas these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes.
- 1.5 Now therefore the municipal council of the Overberg District Municipality adopts the asset management policy as set out below.

## **2. PURPOSE**

- 2.1 The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objectives:
- Providing democratic and accountable government for local communities;
  - Ensuring the provision of services to communities in a sustainable manner;
  - Promoting social and economic development;
  - Promoting a safe and healthy environment; and
  - Encouraging the involvement of communities and community organisations in matters of local government.
- 2.2 In terms of the MFMA, the accounting officer is responsible for managing the assets and liabilities of the municipality, including the safeguarding and maintenance of its assets.
- 2.3 The MFMA further requires the accounting officer to ensure that:
- The municipality has and maintains a management, accounting and information system that accounts for its assets and liabilities;

- The municipality's assets are valued in accordance with standards of generally recognised accounting practice; and
  - The municipality has and maintains a system of internal control of assets and liabilities.
- 2.4 The Occupational Health and Safety Act requires the municipality to provide and maintain a safe and healthy working environment, and in particular, to keep its infrastructure assets safe.
- 2.5 The MFMA was introduced with the objective of improving accounting in the municipalities sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector.
- 2.6 With an accrual system the assets are incorporated into the books of accounts and systematically written off over their expected useful lives. This necessitates that a record is kept of the cost of the assets, the assets are verified periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents.
- 2.7 This ensures good financial discipline, and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.
- 2.8 According to the MFMA, the Accounting Officer in the Municipality should ensure:
- That the municipality has and maintains an effective and efficient and transparent system of financial and risk management and internal control;
  - The effective, efficient and economical use of the resources of the municipality;
  - The management (including safeguarding and maintenance) of the assets of the municipality;
  - That the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
  - That the municipality's assets and liabilities are valued in accordance with standards of GRAP; and
  - That the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.
  - The objective of this Asset Management Policy is to ensure that the municipality:
    - Has consistent application of asset management principles;
    - Implements accrual accounting;
    - Complies with MFMA, Treasury Regulations, GRAP and other related legislation;
    - Safeguards and controls the assets of the municipality; and
    - Optimises asset usage.

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

### 3. DEFINITIONS

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

**Agricultural Produce** is the harvested product of the municipality's biological assets. Biological Assets are defined as living animals or plants.

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

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

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

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

**Cost** is the amount of cash or cash equivalents paid excluding VAT, or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP. The cost excludes VAT, unless the municipality is not allowed to claim input VAT paid on purchase of such assets. In such an instance, the cost must include VAT.

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

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

**Disposal** in relation to capital assets, includes-

- (a) The deconstruction, demolition or destruction, of the capital assets; or
- (b) Any other process that leads to a loss of ownership of capital assets, excluding transfer of ownership

**Fair Value** is the amount for which an asset could be exchanged or a liability between knowledgeable, willing parties in an arm's length transaction.

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

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

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

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

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

**MFMA** refers to the Local Government: Municipal Finance Management Act (56 of 2003).

**MSA** refers to the Local Government: Municipal Systems Act (32 of 2000).

**Municipality** refers to the Overberg District Municipality.

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

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

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

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

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

**Useful Life** is:-

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

#### **4. LEGISLATIVE CONTEXT**

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

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

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

#### **5. SCOPE FOR APPLICATION**

This policy applies to all assets of the municipality.

#### **6. RESPONSIBILITIES**

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

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

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

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

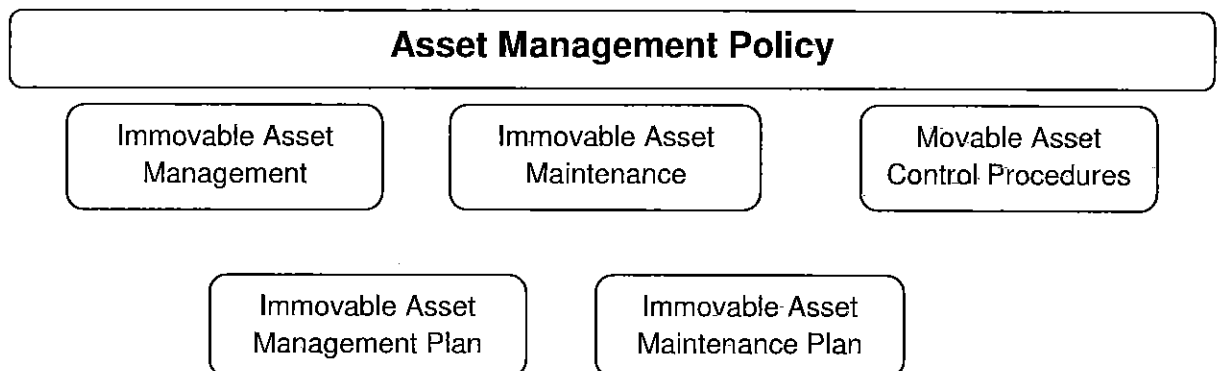
## 7. POLICY FRAMEWORK

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

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

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

This arrangement is summarised in Figure 1.



*Figure 1: Proposed policy and strategic framework*



## 8. ASSET RECOGNITION

### 8.1 CLASSIFICATION OF CAPITAL ASSETS

#### 8.1.1 General

When accounting for Capital Assets, the municipality must follow the various standards of GRAP relating to the capital assets. An item is recognised in the statement of financial position as a Capital Asset if it satisfies the definition and the criteria for recognition of assets. The first step in the recognition process is to establish whether the item meets the definition of an asset.

Secondly, the nature of the asset must be determined, and thereafter the recognition criterion is applied. Capital Assets are classified into the following categories for financial reporting purposes:

1. Property, Plant and Equipment (GRAP 17)
  - Land and Buildings (land and buildings not held as investment)
  - Infrastructure Assets (immovable assets that are used to provide basic services)
  - Community Assets (resources contributing to the general well-being of the community)
  - Housing Assets (rental stock or housing stock not held for capital gain)
  - Heritage Assets (culturally significant resources)
  - Other Assets (ordinary operational resources)
2. Intangible Assets (GRAP 102)
  - Intangible Assets (assets without physical substance held for ordinary operational resources)
3. Investment Property (GRAP 16)
  - Investment Assets (resources held for capital or operational gain)
4. Biological Assets (GRAP 101)
  - Biological Assets (livestock and plants held)

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

5. Inventory Property (GRAP 12)
  - Inventory Property (land or buildings owned or acquired with the intention of selling such property in the ordinary course of business)

Further asset classification has been defined in GRAP. The classifications used for infrastructure are limited and do not represent all asset types. However, these classifications are used for financial reporting consistency and should be used.

### **8.1.2 Policy**

The asset classification specified by GRAP shall be adhered to as a minimum standard.

The asset classification must be consistently applied to the municipal standard chart of accounts for reporting purposes.

### **8.1.3 Procedures and Rules**

The CFO shall ensure that the classifications specified by National Treasury, GRAP, and those adopted by the municipality are adhered to.

Every Head of Department shall ensure that all fixed assets under their control are classified correctly.

## **8.2 RECOGNITION OF ASSETS**

### **8.2.1 General**

A capital asset should be recognised as an asset in the financial and asset recorded when:

- It is probable that future economic benefits or potential service delivery associated with the item will flow to the municipality;
- The cost or fair value of the item to the municipality can be measured reliably;

- The cost is above any municipal capitalisation threshold (if any); and
- The item is expected to be used during more than one financial year.

Further guidance for the recognition of assets is provided below:

#### Capitalisation Threshold

The capitalisation threshold is a policy decision of the municipality and is the value above which assets are capitalised and reported in the financial statements as tangible or intangible capital assets as opposed to being expensed in the year of acquisition. As a result, the threshold has a significant impact on the size of the asset register and the complexity of asset management. However the capitalisation threshold should be determined annually against materiality and must be determined at a level that will ensure that the municipality do not deviate materially from the requirements of GRAP 17.

The capitalisation threshold should not be applied to the components of an asset, but should be applied to the value of the capital asset as a whole. If the threshold is applied at component level, the asset register would be incomplete in the sense that an asset recorded as such would not be a complete asset.

The municipality should take the following into account when considering a capitalization threshold:

- The impact of the threshold on the financial statements and the decisions/assessments the users of the financial statement may or may not make;
- The cost of maintaining financial and management information on assets when the threshold is very low;
- The impact on comparability and benchmarking cost of services may be difficult if different capitalisation thresholds are applied;

Every Head of Department shall, however, ensure that any movable asset item with a value of less than R500 (Five Hundred rand) is included in the asset register.

#### Calculation of initial cost price

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition must be capitalised. The purchase price exclusive of VAT should be capitalised, unless the

municipality is not allowed to claim input VAT paid on purchase of such assets. In such an instance, the municipality must capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:

- Costs of employee benefits (as defined in the applicable standard on Employee Benefits) arising directly from the construction or acquisition of the item of the Capital Asset;
- The cost of site preparation;
- Initial delivery and handling costs;
- Installation costs;
- Professional fees such as for architects and engineers;
- The estimated cost of dismantling and removing the asset and restoring the site; and
- Interest costs when incurred on a qualifying asset in terms of GRAP 105.

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

#### Subsequent Expenses

Only expenses incurred on the enhancement of an asset (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 an asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of an asset that ensures that the useful operating life of the asset is attained, shall be considered as operating expenses and shall not be capitalised, irrespective of the quantum of the expenses concerned.

#### Leased Assets

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

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

### **8.2.2 Policy**

All assets shall be correctly recognised as assets and capitalised at the correct value. The capitalisation threshold is applicable at the date of adoption of this policy.

### **8.2.3 Procedures and Rules**

Every Head of Department shall ensure that all assets under their control are correctly accounted for and recognised as assets.

The Council shall specify which kinds of leases the municipality may enter into. The CFO must keep a lease register with all the information that is necessary to calculate lease obligations and other reporting purposes, for example, opening balance, acquisitions, disposals, transfers, depreciation, accumulated depreciation, etc.

## **8.3 RECOGNITION OF INVENTORY ITEMS (NON CAPITAL ITEMS)**

### **8.3.1 General**

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

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

Examples of Inventories may include the following:

- Consumable stores;
- Maintenance materials;
- Minor spare parts for plant and equipment other than those dealt with under PPE;
- Work in progress.

Cost of inventories shall comprise of all costs of purchase (i.e. purchase price, import duties, other taxes and transport, handling and other costs attributable to the acquisition of finished goods, materials and supplies), costs of development, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Trade discounts, rebates and other similarities are deducted. Taxes recoverable by the entity from the SARS may not be included.

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

### **8.3.2 Policy**

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

### **8.3.3 Procedures and Rules**

The CFO must record inventories in a dedicated section of the Inventory Register and maintain it for this purpose. The amount of cost of inventories is to be recognised and carried forward until related revenues are recognised.

Inventories shall be measured at the lower of cost and current replacement cost where they are held for:

- Distribution at no charge or for nominal charge, or
- Consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

## **8.4 IDENTIFICATION OF ASSETS**

### **8.4.1 General**

An asset identification system is a means to uniquely identify each asset in the municipality in order to ensure that each asset can be accounted for on an individual basis. These unique numbers are recorded in the asset register together with the unique identification of the asset.

Movable assets are usually identified using a barcode system by attaching a barcode to each item.

Immovable assets are usually identified by means an accurate description of their physical location.

### **8.4.2 Policy**

An asset identification system shall be operated and applied in conjunction with an asset register. Every individual asset shall have a unique identification number.

### **8.4.3 Procedures and Rules**

The CFO shall develop and implement an asset identification system, while acting in consultation with the Heads of Departments.

The Heads of Departments shall ensure that all the assets under their control are correctly identified.

All movable assets must be bar-coded.

Immovable assets must be identified using naming and numbering conventions that enable easy location of the assets in the field.

## **8.5 ASSET REGISTER**

### **8.5.1 General**

An asset register is a database of information related to all the assets under the control of the municipality. The asset register consists of an inventory of all the

assets, with each asset having a unique identifying number. Data related to each asset should be able to be stored in the asset register. The data requirements for the asset register are as follows:

<b>Data Type</b>	<b>Land</b>	<b>Movable</b>	<b>Infrastructure Buildings</b>
<b>Acquisition</b>			
· Date	✓	✓	✓
· Reference	✓	✓	✓
· Amount	✓	✓	✓
<b>Identification</b>			
· Unique identification number	✓	✓	✓
· Unique name	✓	✓	✓
· National Treasury Classification	✓	✓	✓
· Internal Classification	✓	✓	✓
· Descriptive data (make, model, etc.)	✓	✓	✓
· GPS coordinate	✓		✓
· Land reference			✓
· Erf/Registration/Serial number	✓	✓	✓
· Title deed reference	✓		
· Heritage/cultural identifier	✓	✓	✓
· Building Code/Indicator		✓	✓
· Office Code/Indicator		✓	
<b>Accountability</b>			
· Department	✓	✓	✓



Data Type	Land	Movable	Infrastructure Buildings
• Custodian	✓	✓	✓
• Warranties or guarantees	✓	✓	✓
• Insured identifier	✓	✓	✓
• Insurance reference	✓	✓	✓
<b>Performance</b>			
• Age		✓	✓
• Condition		✓	✓
• Remaining Useful life		✓	✓
• Expected Useful Life		✓	✓
• Technical Asset Current Replacement Cost			✓
• Technical Asset Current Value			✓
• Technical Asset Consumed Value			✓
• Technical Asset Residual Value			✓
<b>Design</b>			
• Capacity			✓
• Utilisation of capacity			✓
• Usage			✓
• Criticality			✓
<b>Accounting</b>			
• Historic cost	✓	✓	✓
• Take on value	✓	✓	✓

<b>Data Type</b>	<b>Land</b>	<b>Movable</b>	<b>Infrastructure Buildings</b>
· Take on date	✓	✓	✓
· Revalued amount	✓	✓	✓
· Valuation Difference (for purposes of Valuation Reserve and depreciation)	✓	✓	✓
· Valuation date	✓	✓	✓
· Valuator	✓	✓	✓
· Depreciation method	✓	✓	✓
· Depreciation charge for the current financial year	✓	✓	✓
· Depreciation charge for ensuing year (for purposes on current portion)	✓	✓	✓
· Impairment losses in the current year	✓	✓	✓
· Accumulated depreciation	✓	✓	✓
· Carrying value	✓	✓	✓
· Residual value	✓	✓	✓
· Source of financing	✓	✓	✓
· Insured identifier	✓	✓	✓
· Insurance reference	✓	✓	✓
· Insurance value	✓	✓	✓
· Debt security arrangements	✓	✓	✓
· Date of disposal	✓	✓	✓

Data Type	Land	Movable	Infrastructure Buildings
• Method of disposal	✓	✓	✓
• Amount of disposal	✓	✓	✓
• Net value at disposal	✓	✓	✓

Assets remain in the asset register for as long as they are in physical existence or until being written off. The fact that an asset has been fully depreciated is not in itself a reason for writing off such an asset.

The asset register does not include assets that belong to other third parties. These assets may be included as separable entities for control purposes.

### 8.5.2 Policy

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

### 8.5.3 Procedures and Rules

The CFO must define the format of the asset register in consultation with the Heads of Departments and must ensure that the asset register format complies with legislative requirements.

The CFO must ensure that a defined process and forms exist to update and maintain the asset register.

The Heads of Departments must provide the CFO with the information required to compile and maintain the asset register.

All assets must be depreciated over their useful life as prescribed below:

Roads and Paving 20 – 30 years	Computer equipment 5-15 years
Electricity 20-30 years	other vehicles 20 years
Water 20-30 years	Office equipment 6-25 years
Sewerage 30 years	Furniture and fittings 7-30 years
Housing 100 years	Watercraft 25 years
Bins and containers 25-50 years	Specialised plant and Equipment 5-35 years
Buildings 50-100 years	Recreational Facilities 30-100 years
Security 5-20 years	Other plant and Equipment 5-35years
Landfill-sites 15-120 years	Halls 100 years
Emergency Equipment 5-35 years	Parks and gardens 30-100 years
Finance lease assets over term of lease	Other assets 5-35 years

## 9. ASSET TYPES

### 9.1 PROPERTY, PLANT AND EQUIPMENT: Land and Buildings

#### 9.1.1 General

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

The municipality shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

If the municipality chooses the cost model for its Land and Buildings, then after recognition as an asset, Land and Buildings shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

If the municipality chooses the revaluation model for its Land and Buildings, then after recognition as an asset, Land and Buildings whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

### **9.1.2 Policy**

Land and buildings shall be treated using the cost model. Land shall initially be accounted for at cost price, or fair value in cases where cost price is not known, and shall not be depreciated. Land on which infrastructure and community assets are located shall be listed separately in the land register and not with the infrastructure and community assets. A reference to the land shall be included in the infrastructure and community asset register.

### **9.1.3 Procedures and Rules**

CFO shall ensure that all land and buildings are correctly recorded in the asset register and revaluated (if applicable) in terms of the municipality's policies.

The CFO shall ensure the recognition and measurement of Land and Buildings in terms of GRAP 17.

## **9.2 PROPERTY, PLANT AND EQUIPMENT: Infrastructure Assets**

### **9.2.1 General**

Infrastructure Assets comprise assets used for the delivery of infrastructure-based services.

These assets typically include electricity, sanitation, solid waste, storm water, transport, and water assets. Many infrastructure assets form part of a greater facility e.g. a pump in a pump station.

### Level of detail of componentisation

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

- Level 1: Service level (e.g. Solid Waste Landfill Site)
- Level 2: Network level (e.g. Landfill Weighbridge Structure)
- Level 3: Facility level (e.g. Landfill Weighbridge Telemetry Load Cell Units)
- Level 4: Maintenance item level (e.g. Landfill Weighbridge Scale)
- Level 5: Component level (e.g. Landfill Weighbridge Computer)

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

The compilation of a detailed infrastructure asset register in one financial term is a costly and onerous exercise. To ensure the practicality of implementing asset registers (and asset management planning as a whole), the International Infrastructure Management Manual (IIMM) recommends the adoption of a continuous improvement process as a practical implementation approach. This approach recognises the value of limited data above no data and enables the municipalities to slowly, but steadily, increase their knowledge in the assets they own.

The improvement principles of the IIMM recommend starting with complete coverage of the infrastructure types at a low level of detail (e.g. level 2 or 3) and then improving the level of detail over a period of several years, starting with the high risk assets, such as pump stations, treatment works, etc.

### **9.2.2 Policy**

The infrastructure asset register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data

with the benefits of minimising the risks of the municipality. An improvement plan stipulating the level of detail and the timing of improvements shall be prepared. Infrastructure assets should be valued at cost less accumulated depreciation and accumulated impairment. If cost can however not be established, then infrastructure assets will be valued at depreciated replacement cost. Depreciated replacement cost is an accepted fair value calculation for assets where there is no active and liquid market. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value of, and the depreciation methods applied to Infrastructure assets should be reviewed regularly, but the cost related to such reviews should be measured against benefits derived to ensure value for money. Such reviews will have to be performed at least once in a three year cycle.

### **9.2.3 Procedures and Rules**

The CFO shall define the level of detail of the infrastructure asset register in consultation with the Heads of Department.

The CFO shall ensure that all infrastructure assets are revaluated in terms of the municipality's policies.

The CFO shall ensure the recognition and measurement of Infrastructure Assets in terms of GRAP 17.

## **9.3 PROPERTY, PLANT AND EQUIPMENT: Community Assets**

### **9.3.1 General**

Community Assets include a variety of assets used to provide services to the community. These assets include building assets such as aquariums, cemeteries, clinics, hospitals, game reserves, museums, parks, etc. Community assets also include recreational assets such as tennis courts, swimming pools, golf courses, outdoor sports facilities, etc.

### **9.3.2 Policy**

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

Community Assets shall be recorded under the following main categories;

- Recreational Facilities;
- Sporting Facilities; and
- Other Facilities.

### **9.3.3 Procedures and Rules**

The CFO, in consultation with the Heads of Department, shall ensure that all community assets are appropriately recorded and valued in terms of the municipality's policies.

## **9.4 PROPERTY, PLANT AND EQUIPMENT: Housing Assets**

### **9.4.1 General**

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

### **9.4.2 Policy**

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

Housing Assets shall be recorded under the following main categories:

- Rental Schemes; and
- Selling Schemes.

### **9.4.3 Procedures and Rules**

The CFO, in consultation with the Heads of Department, shall ensure that all housing assets are appropriately recorded and valued in terms of the municipality's policies.

## **9.5 PROPERTY, PLANT AND EQUIPMENT: Heritage Assets**

### **9.5.1 General**

A Heritage Asset is an asset that has historical, cultural or national importance and needs to be preserved. The following is a list of some typical heritage assets encountered in the municipal environment:

- Archaeological sites;



- Conservation areas;
- 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);
- Museum exhibits;
- Public statues; and
- Works of art (which will include paintings and sculptures).

### **9.5.2 Policy**

Heritage assets are valued at cost. No depreciation shall be charged against such assets. If the cost price of heritage assets are not known, then the heritage asset will be valued at fair value.

### **9.5.3 Procedures and Rules**

- For reporting purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note in the asset register.
- The CFO, in consultation with the Heads of Department, shall ensure that all heritage assets are appropriately recorded and valued in terms of the municipality's policies.

## **9.6 PROPERTY, PLANT AND EQUIPMENT: Other Assets**

### **9.6.1 General**

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

### **9.6.2 Policy**

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

Other assets are not revalued.

Other Assets shall be recorded under the following main categories:

- Aircraft;

- Bins and Containers;
- Emergency Equipment;
- Furniture and Fittings;
- Motor Vehicles;
- Office Equipment;
- Plant and Equipment;
- Specialised Vehicles;
- Watercraft; and
- Other Assets.

### **9.6.3 Procedures and Rules**

- The CFO, in consultation with the Heads of Department, shall ensure that all other assets are appropriately recorded in terms of the municipality's policies.

## **9.7 INTANGIBLE ASSETS**

### **9.7.1 General**

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

### **9.7.2 Policy**

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset. If an intangible asset is generated internally by the municipality, then a distinction should be made between research and development costs. Research costs should be expensed and development costs may be capitalised if all the criteria set out in GRAP 102 has been met.

### **9.7.3 Procedures and Rules**

The CFO, in consultation with the Heads of Department, shall ensure that all intangible assets are appropriately recorded in terms of the municipality's policies.

## **9.8 INVESTMENT PROPERTY**

### **9.8.1 General**

Investment Property comprise of land or buildings (or parts of buildings) or both, held by the municipality as owner, or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both. Investment property does not include property used in the production or supply of service or for administration. It also does not include property that will be sold in the normal course of business. Typical investment properties include:

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

### **9.8.2 Policy**

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

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.

After initial recognition, all investment property shall be measured at fair value, except in the cases described in GRAP 16.61. The fair value of investment property shall be determined annually at reporting date in terms of the municipality's Accounting Policy. The fair value should reflect market conditions and circumstances as at the reporting date. A gain or loss arising from changes in the fair value of investment property should be included in the net surplus/deficit for the period in which it arises.

### **9.8.3 Procedures and Rules**

The CFO shall ensure that investment assets are recorded in an Investment Property register.

The CFO shall ensure that an appropriately qualified valuator undertake such valuations on an annual basis.

The CFO shall ensure the recognition and measurement of Investment Property in terms of GRAP 16.

## **9.9 BIOLOGICAL ASSETS**

### **9.9.1 General**

Biological Assets are living plants and animals such as trees in a plantation or orchard, cultivated plants, sheep and cattle. Managed agricultural activity such as raising livestock, forestry, annual or perennial cropping, fish farming that are in the process of growing, degenerating, regenerating and / or procreating which are expected to eventually result in agricultural produce. Such agricultural produce is recognised at the point of harvest. Future economic benefits must flow to the municipality from its ownership or control of the asset. Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to the market.

Where the municipality is unable to measure the fair value of biological assets reliably, a biological asset should be measured at cost less any accumulated depreciation and accumulated impairment losses.

### **9.9.2 Policy**

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

### **9.9.3 Procedures and Rules**

The CFO, in consultation with the Heads of Department, shall ensure that all biological assets obtained from a managed agricultural activity, such as livestock and crops, are valued at 30 June each year by a recognised valuator in the line of the biological assets concerned.

The CFO shall ensure the recognition and measurement of Biological Assets in terms of GRAP 101.

## **9.10 ASSETS CLASSIFIED AS HELD-FOR-SALE**

### **9.10.1 General**

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

For the sale to be highly probable, management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated.

Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

### **9.10.2 Policy**

Assets identified for disposal by way of a sale transaction, be it by public auction, bidding process or sales agreement, within 12 months of the date of identification shall be classified as assets held-for-sale and transferred from the home asset category to held-for-sale category.

Such assets shall be measured at the lower of its carrying amount and fair value less costs to sell and is not depreciated any further upon classification as held-for-sale.

The municipality shall not classify a non-current asset that is to be abandoned as held-for-sale because its carrying amount will be recovered principally through continuing use.

### **9.10.3 Procedures and Rules**

The CFO shall ensure that assets held-for-sale are recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

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

### **9.11.1 General**

Inventory Property comprises any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business.

### **9.11.2 Policy**

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

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

### **9.11.3 Procedures and Rules**

The CFO shall ensure that inventory properties are recorded in the Inventory register.

The CFO shall ensure the recognition and measurement of Inventory Property in terms of GRAP 12.

## **9.12 MINOR ASSETS (CAPITAL ASSETS BELOW APPROVED THRESHOLD)**

### **9.12.1 General**

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

### **9.12.2 Policy**

Minor assets shall be expensed in the Statement of Financial Performance and not be capitalized. These assets shall not be depreciated or tested for impairment and shall not generate any further transactions, except in the cases where losses are recovered by means of insurance claims or recoveries from disciplinary actions.

### **9.12.3 Procedures and Rules**

The CFO shall ensure that minor assets are recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

## **10. ASSET ACQUISITION**

### **10.1 ACQUISITION OF ASSETS**

#### **10.1.1 General**

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing.

#### **10.1.2 Policy**

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

- The purpose for which the asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it;
- The asset fit the definition of a Capital Asset (as defined in GRAP 16, GRAP 17, GRAP 101 and GRAP 102)
- The asset has been budgeted for;
- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;

- The asset is appropriate to the task or requirement and is cost-effective over the life of the asset.
- The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
- Space and other necessary facilities to accommodate the asset are in place; and
- The most suitable and appropriate type, brand, model, etc. has been selected.

### **10.1.3 Procedures and Rules**

The CFO shall ensure that the Supply Chain Management Policy makes provision for these principles.

## **10.2 CREATION OF NEW INFRASTRUCTURE ASSETS**

### **10.2.1 General**

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

### **10.2.2 Policy**

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

Work in progress shall be flagged as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for to operate in the manner intended by management.

Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.



### **10.2.3 Procedures and Rules**

The Heads of Department shall ensure that a form is completed and submitted to the Asset Control Department that includes the details of the work in progress relating to the work in progress.

The Heads of Department shall notify the Asset Control Unit when the works have been completed and the assets can be recognised.

The Heads of Department shall guide the service provider to submit invoices of work in progress as per the components and classification of assets as in the asset register.

## **10.3 SELF-CONSTRUCTED ASSETS**

### **10.3.1 General**

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

### **10.3.2 Policy**

All assets constructed by the municipality must be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged as such in the asset register until such time that the facility is completed. Work in progress will not be depreciated. Depreciation will commence when the construction of the asset is finalized and the asset is in the condition necessary for to operate in the manner intended by management.

### **10.3.3 Procedures and Rules**

Heads of Department shall ensure that proper records of staff time, transport and material costs are kept such that all costs associated with the construction of these assets are completely and accurately accounted for.

Heads of Department shall open a job card for each infrastructure project constructed by the municipality.

On completion of the infrastructure project, the Heads of Department shall ensure that all costs (both direct and indirect) associated with the construction of the assets be summed and be capitalised to the assets that make up the project.

## **10.4 DONATED ASSETS**

### **10.4.1 General**

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

### **10.4.2 Policy**

Donated assets should be valued at fair value, reflected in the asset register, and depreciated as normal assets.

### **10.4.3 Procedures and Rules**

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

Management of the municipality must evaluate the future operational costs of donated assets and the effect it might have on future tariffs and taxes, before a donated asset is accepted by the municipality.

The conditions associated with the donation must be agreed upon and signed by the Municipal Manager.

Municipal officials must first get approval from the Municipal Manager prior to accepting any donation.

## **11. ASSET MAINTENANCE**

### **11.1 USEFUL LIFE OF ASSETS**

#### **11.1.1 General**

Useful Life of assets is defined in paragraph 3 of the Policy and is basically the period or number of production units for which an asset can be used economically by the municipality.

The calculation of useful life is based on a particular level of planned maintenance and specifically based on provisions of GRAP 17 as amended from time to time.

#### **11.1.2 Policy**

The remaining useful life of assets shall be reviewed annually. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

#### **11.1.3 Procedures and Rules**

Every Head of Department must determine the reasonable remaining useful lives of the assets under their control. Changes in remaining useful lives must be approved by the CFO.

The CFO shall ensure that remaining useful lives, and changes thereof, are properly recorded and accounted for in the asset register and the general ledger.

The CFO shall ensure that the Remaining Useful Life of an asset shall be reviewed at each reporting date.

### **11.2 RESIDUAL VALUE OF ASSETS**

#### **11.2.1 General**

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

#### **11.2.2 Policy**

Residual values should be determined upon the initial recognition (capture) of assets.

However, this will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles.

Assets typically not sold by the municipality are infrastructure and community assets, which assets will have a residual value of zero, allowing the asset to be fully depreciated over its useful life cycle.

The residual value of assets shall be reviewed annually at reporting date. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

### **11.2.3 Procedures and Rules**

Every Head of Department must determine the reasonable residual values of the assets under their control. Changes in residual values must be approved by the CFO.

The CFO shall ensure that residual values, and changes thereof, are properly recorded and accounted for in the asset register and the general ledger.

The CFO shall ensure that the residual value of an asset shall be reviewed at each reporting date.

## **11.3 DEPRECIATION OF ASSETS**

### **11.3.1 General**

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity.

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

The depreciation method used must reflect the pattern in which economic benefits or service potential of a Capital Asset is consumed by the municipality.

The following are the allowed alternative depreciation methods that can be applied by the municipality:

- Straight-line;
- Sum of the Units.

### **11.3.2 Policy**

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

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed. Depreciation of an asset should begin when the asset is ready to be used, i.e. the asset is in the location and condition necessary for it to be able to operate in the manner it is intended by management. Depreciation of an asset ceases when the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under certain methods of depreciation the depreciation charge can be zero while there is no production.

In the case of intangible assets being included as assets, the procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other assets.

### **11.3.3 Procedures and Rules**

Every Head of Department must ensure that a budgetary provision is made for the depreciation of the assets under their control in the ensuing financial year.

Every Head of Department must determine the reasonable useful life of the asset classifications under their control. Deviations from the standards of useful life must be motivated in writing to the Municipal Manager and provided to the CFO.

In the case of an asset which is not listed in the asset classification list, the Head of Department shall determine a useful operating life, in consultation with the CFO, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

Alternative depreciation methods may be used in exceptional cases, if motivated by the Head of Department controlling the asset to the Municipal Manager and in consultation with the CFO. The Head of Department must then provide the CFO with sufficient statistical information to make estimates of depreciation expenses for each financial year.

The CFO shall ensure that depreciation shall be up to date on a monthly basis and be reconciled between the asset register and the general ledger.

The CFO shall ensure that the residual value, useful life and depreciation method of an asset shall be reviewed at each reporting date.

## **11.4 IMPAIRMENT LOSSES**

### **11.4.1 General**

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. For example:

- Significant decline in market value;
- Carrying amount of an asset far exceeds the recoverable amount or market value;
- There is evidence of obsolescence (or physical damage);
- The deterioration of economic performance of the asset concerned; and
- The loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (such as through inadequate maintenance).

The impairment amount is calculated as the difference between the carrying value and the recoverable service value. The recoverable service value is the higher of the asset's value in use or its net selling price. Where the recoverable service amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at revalued amount.

If the asset is carried at a revalued amount (in the case of investment property, infrastructure and community assets) the impairment should be recorded as a

decrease in the revaluation reserve. Where immovable property, plant and equipment surveys are conducted, the recoverable service value is determined using the depreciated replacement costs method by assessing the remaining useful life.

#### **11.4.2 Policy**

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

#### **11.4.3 Procedures and Rules**

The CFO shall ensure that impairment losses, or reversals thereof, are properly recorded and accounted for in the asset register and the general ledger.

### **11.5 MAINTENANCE OF ASSETS AND THE ASSET REGISTER**

#### **11.5.1 General**

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

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

- If a future renewal of the entire asset will include the renewal of the section that is now maintained, then the renewal of the section is treated as maintenance.
- If a future renewal of the entire asset will retain the section that is now renewed, then the renewal of the partial section is treated as renewal and the linear asset is split into separate assets for the purposes of the asset register.

The splitting of linear infrastructure has a data management implication, but it is the easiest method that maintains the data integrity over time.

Maintenance analysis is an essential function of infrastructure management to ensure cost-effective and sustainable service delivery. In order to analyse

maintenance data, maintenance actions undertaken against individual infrastructure assets should be recorded against such assets.

#### **11.5.2 Policy**

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

#### **11.5.3 Procedures and Rules**

All Heads of Department responsible for the control and utilisation of infrastructure assets shall monitor maintenance actions and budget for the operation and maintenance needs of each asset or class of assets under their control. Operating expenses must include all labour and material costs for the repair and maintenance of the assets. This includes both contracted services and services performed by employees.

Heads of Department shall ensure that the operating expenses are expended against the operating budget and not the capital budget.

The Heads of Department shall report to the Council annually on the likely effects that maintenance budgetary constraints may have on the useful operating life of the infrastructure asset classes.

### **11.6 RENEWAL OF ASSETS**

#### **11.6.1 General**

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



### **11.6.2 Policy**

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

### **11.6.3 Procedures and Rules**

The CFO, in consultation with Heads of Department, must ensure that processes are in place to capture renewals data against specific assets and to capitalise it correctly.

Heads of Department shall ensure that renewals expenditure are correctly budgeted for in the capital budget and expensed against this budget.

Heads of Department must ensure that renewals expenditure data are correctly captured against the assets and the expected lives adjusted.

## **11.7 REPLACEMENT OF ASSETS**

### **11.7.1 General**

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

### **11.7.2 Policy**

Assets that are replaced shall be written off at their carrying value. The replacement asset shall be accounted for as a separate new asset. All costs incurred to replace the asset shall be capitalised against the new asset.

### **11.7.3 Procedures and Rules**

The CFO, in consultation with Heads of Department, must ensure that processes are in place to capture replacement data against specific assets and to capitalise it correctly.

Heads of Department shall ensure that replacement expenditure are correctly budgeted for in the capital budget and expensed against this budget.

## **12. ASSET DISPOSAL**

### **12.1 TRANSFER OF ASSETS**

#### **12.1.1 General**

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

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

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

#### **12.1.2 Policy**

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

#### **12.1.3 Procedures and Rules**

The Head of Department must ensure that all asset transfer information is passed on to the relevant section.

The CFO must ensure that a process is in place to capture and record asset transfer data.

Staff of the Municipality, except for duly authorised staff, shall not move rented assets, such as photocopy machines.

No person shall transfer any IT equipment without the knowledge and written consent of the IT Department.

The Head of a Department must immediately report to the CFO of any damages caused to an asset and will be held responsible to investigate the cause or nature of such damage.

Municipal staff required to remove equipment from the building, i.e. computer equipment, furniture, etc. for repair or any other reason need to obtain a permit from a delegate of the CFO. Failure to produce such a permit will result in the unauthorized removing of equipment.

## **12.2 EXCHANGE OF ASSETS**

### **12.2.1 General**

According to GRAP 17.33 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

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

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

### **12.2.2 Policy**

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

### **12.2.3 Procedures and Rules**

An item of PPE may be acquired in exchange for a similar asset that has a similar use in the same line of operations and which has a similar fair value or may be sold in exchange for an equity interest in a similar asset. No gain or loss is recognised in both cases.

The CFO shall approve all asset exchanges in consultation with the relevant Head of Department.

## **12.3 DISPOSAL OF ASSETS**

### **12.3.1 General**

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

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

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

### **12.3.2 Policy**

There are various methods of disposal. Different disposal methods will be needed for different types of assets. Before deciding on a particular disposal method, the following should be considered:

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

Appropriate means of disposal may include:

- Public auction
- Public tender
- Transfer to another institution
- Sale to another institution
- Letting to another institution
- Trade-in
- Controlled dumping (for items that have low value or are unhygienic)

Alienated assets shall be written-off in the asset register.

### **12.3.3 Procedures and Rules**

Every Head of Department shall report in writing to the Asset Manager on 31 October and 28/29 February or any other specific time determine by the CFO of each financial year on all assets which they wish to alienate and the proposed method of disposal.

The Disposal Committee shall consolidate the requests received from the various departments, and shall promptly report the consolidated information to the Municipal Manager of the municipality, recommending the process of disposal to be adopted.

The Council shall delegate to the Municipal Manager the authority to approve the disposal of any asset with a carrying value less than R50 000 (Fifty thousand rand).

The Council shall ensure that the disposal of any asset takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004. The Act states that the municipality may not alienate any capital asset required to provide a minimum level of service. The municipality may alienate any other capital asset, provided the Council has considered the fair market value and the economic and community value to be received in exchange for the asset.

Selling: Assets to be sold shall be sold in terms of paragraph 9.4 below.

Donations: Donations may be considered as a method of disposal, but such requests must be motivated to the Municipal Manager for approval.

Destruction: Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.

Scrapping: Scrapping of assets that cannot be alienated otherwise may be considered as a method of disposal, but such requests must be motivated to the Municipal Manager.

Once the assets are alienated, the CFO shall write-off the relevant assets in the asset register.

The letting of immovable property, excluding municipal housing for officials and political office bearers, must be done at market-related tariffs, unless the relevant Treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.

The CFO must review, at least annually when finalising the budget, all fees, charges, rates, tariffs or scales of fees or other charges relating to the letting of municipal property to ensure sound financial planning and management.

## **12.4 SELLING OF ASSETS**

### **12.4.1 General**

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

### **12.4.2 Policy**

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

- A notice of the intention of the municipality to sell the asset shall be published in a local newspaper;
- The municipality shall appoint an independent appraiser to fix a minimum selling price if necessary;
- In the case of a public auction, the municipality shall appoint an independent auctioneer to conduct the auction; and
- In the case of a tender, the prescribed tender procedures of the municipality shall be followed.

***In the case of direct negotiations the Accounting Officer may embark on direct negotiations with existing tenants and/or effected owners to permanently dispose of the property where Council is of the opinion that public competition would not serve a useful purpose and that the disposed is aligned with Council's strategic objectives and in the interest of the Community. The disposal of the asset must be advertised for public comment.***

Sold assets shall be written-off in the asset register.

### **12.4.3 Procedures**

A request for assets to be sold must be submitted to the Municipal Manager and approved by Council. The request must be accompanied by a list of assets to be sold and the reasons for sale as described in paragraph 9.3 above.

Assets earmarked for sale shall be reclassified as Assets Held-for-Sale.

Auctioneers may be engaged either on a quotation basis or by tender depending on the goods to be alienated.

Bidding: Bidders are afforded the opportunity to make an offer on identifiable items. Bids are compared and the highest bidder is awarded the bid.

Tenders: Tenders shall be invited according to the municipality's tender procedures.

Once the assets are sold, the CFO shall write-off the relevant assets in the asset register.

If the proceeds of the sales are less than the carrying value recorded in the asset register, such difference shall be recognised as a loss for the department or vote concerned in the Statement of Financial Performance. If the proceeds of the sales, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain for the department or vote concerned in the statement of financial performance.

Transfer of assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of disposal shall be by private treaty.

## **12.5 WRITING-OFF OF ASSETS**

### **12.5.1 General**

The write-off of assets is the process to permanently remove the assets from the asset register.

Assets may be written-off after submission of and approval by the Municipal Manager or Council, depending on the amount. The report must indicate that:

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

### **12.5.2 Policy**

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

### **12.5.3 Procedures and Rules**

Every Head of Department shall report to the Asset Manager of each financial year on any assets which such Head of 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 Disposal Committee who will make a recommendation for the writing off and the method of disposal.

An asset, even though fully depreciated, shall be written-off only on the recommendation of the Head of Department controlling or using the asset concerned and with the approval of the Municipal Manager.

In every instance where a not fully depreciated asset is written off with no proceeds for the asset being obtained, the CFO shall immediately debit to such



department or vote the full carrying value of the asset concerned as impairment expenses.

Assets that are replaced should be written-off and removed from the asset register.

## **13. ASSET PHYSICAL CONTROL**

### **13.1 PHYSICAL CONTROL / VERIFICATION**

#### **13.1.1 General**

Movable assets require physical control and verification of existence.

#### **13.1.2 Policy**

All movable assets shall be actively controlled, including an annual verification process.

#### **13.1.3 Procedures and Rules**

All movable assets that are supposed to be bar-coded must have a visible bar code in a universal manner as determined by the Municipal Manager.

Annual verification of movable assets should be conducted under the direction of an individual who neither has responsibility for the custody of fixed assets nor maintains asset records. This procedure would enable the municipality to identify discrepancies and dispositions and properly investigate and record the transactions.

Procedures should be established to adequately identify assets owned by others or subject to reclamation by donors.

The CFO shall co-ordinate and control regular physical checks, and all discrepancies are to be reported immediately to the CFO.

Registers must be kept for those assets allocated to staff members. The individuals are responsible and accountable for the assets under their control.

These registers should be updated when the assets are moved to different locations or allocated to a different staff member in order to facilitate control and physical verification.

Where a change in person in direct control of equipment takes place, a handing-over certificate shall be completed and a copy retained for record purposes. If surpluses or deficiencies are found, the certificates shall be dealt with as with stock-taking reports.

If for any reason the person from whom the asset is being taken over is not available, an asset manager should assist the person taking over with the checking of the equipment and the certification of any discrepancies.

In case of failure to comply with the requirements of a handing-over certificate, the person taking over shall be liable for any shortages, unless it can be established that the shortages existed prior to their taking over.

Any losses of and damage to equipment, excluding discrepancies at stocktaking of losses resulting from normal handing or reasonable wear and tear, shall be reported to the CFO.

Independent checks from asset records shall be conducted to ensure that the assets physically exist, especially those that could be disposed of without a noticeable effect on operations.

Yearly physical inspections of assets shall be performed to identify items which are damaged, not in use or are obsolete due to changed circumstances, to ensure that they are appropriately repaired, written off or disposed of.

All newly acquired assets shall be bar-coded by the procurement section and the person requiring the asset shall sign for the acceptance thereof.

All officials taking charge of a movable asset shall sign for accepting responsibility for the asset.

## **13.2 INSURANCE OF ASSETS**

### **13.2.1 General**

Insurance provides selected coverage for the accidental loss of the asset value.

### **13.2.2 Policy**

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

### **13.2.3 Procedures and Rules**

The insurance of all assets shall be reviewed annually by the relevant department.

## **13.3 SAFEKEEPING OF ASSETS**

### **13.3.1 General**

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

### **13.3.2 Policy**

Heads of Department are responsible for the safekeeping of all assets allocated to them.

### **13.3.3 Procedures and Rules**

The Municipal Manager must issue directives that detail the safekeeping of assets.

The Heads of Department must ensure that safekeeping directives are adhered to.

Any damage, theft, and break-ins must be reported to the Municipal Manager or delegated person within 48 hours of its occurrence or awareness, after

which an investigation will take place and responsible persons will be subjected to disciplinary procedures.

The Municipal Manager must report criminal activities to the South African Police Service.

If any biological asset is lost, stolen or destroyed, the matter shall be reported in writing by the Head of Department concerned in exactly the same manner as though the asset were an ordinary asset.

## **14 ASSET FINANCIAL CONTROL**

### **14.1 BORROWING COSTS (GRAP 5)**

#### **14.1.1 General**

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

The capitalisation of borrowing costs should take place when borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress.

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

Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

#### **14.1.2 Policy**

Borrowing costs shall be capitalised, if related to the construction of an asset, when the construction of an asset is expected to take a substantial period of time to get ready for its intended use or resale and an outside agency is used to finance the project.

### **14.1.3 Procedures and Rules**

The CFO should reconcile the borrowing cost to be capitalised with the amount that has been capitalised on a monthly basis.

## **14.2 FUNDING SOURCES**

### **14.2.1 General**

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

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

## **15. PRINCIPLES OF ASSET MANAGEMENT**

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

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

## **16. POLICY PRINCIPLES**

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

### **16.1 Effective Governance**

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

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

### **16.2 Sustainable Service Delivery**

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

- Identify levels and standards of service that conform with statutory requirements and rules for their application based on the long-term affordability to the municipality;
- Identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- Identify current and future demand for services, and demand management strategies;
- Set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose assets, where applicable in line with national targets;
- Apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- Implement its Tariff and Credit Control and Debt Collection Policies to sustain and protect the affordability of services by the community.

### **16.3 Social and Economic Development**

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

- Regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- Implement changes to services in response to changing customer needs and expectations where appropriate;
- Foster the appropriate use of services through the provision of clear and appropriate information;
- Ensure services are managed to deliver the agreed levels and standards; and
- Create job opportunities and promote skills development in support of the national extended public work program.

### **16.4 Custodianship**

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

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

### **16.5 Transparency**

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

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

### **16.6 Cost-effectiveness and Efficiency**

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

To this end, the municipality will:

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



## **17. RELATED POLICIES**

The following policies are related to this policy:

17.1 Supply chain management policy

## **18. REVIEW**

18.1 This policy will be reviewed at least annually and updated if needed.

## **19. EFFECTIVE DATE**

This policy shall come into effect on 1 July 2017.

