DITSOBOTLA LOCAL MUNICIPALITY



**FIXED ASSET MANAGEMENT**

**2023/2024 FINANCIAL YEAR**

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| **1. POLICY AMENDMENT** 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. The CFO in consultation with the MM and respective HODs in this regard shall motivate any proposals. Council shall consider the recommendations of the CFO for adoption.**2. APPROVAL AND EFFECTIVE DATE**The CFO is responsible for the submission of the Policy to Council to consider its adoption after consultation with the MM. Council shall indicate the effective date for implementation of the policy. |

**3. OBJECTIVE**

The objective of this policy is for the municipality to:

* Implement prevailing accounting standards;
* Apply asset management practice in a consistent manner and in accordance with legal requirements and recognised good practice.
* Understanding all costs including acquisition, maintenance, operational and disposal costs therefore developing better plans of minimising the life-cycle cost of an asset;
* Have the ability to communicate effectively with the public about balancing levels of services, risk, and funding and thus inform subsequent policy trade-offs and decisions;
* Support those conversations with real data and analysis, not only anecdotal stories;
* Extending the life of asset by maintenance, rehabilitation and replacement prioritisation based on strong understanding of asset condition deterioration;
* Improved emergency response;
* Secure and safeguard assets;
* Reduce capital expenditure and operational cost; and
* Meet service delivery requirements.

**4. ABBREVIATIONS**

|  |  |
| --- | --- |
| AMP | Asset Management Plan |
| AO | Accounting Officer |
| ASB | Accounting Standards Board |
| CFO | Chief Financial Officer |
| CMIP | Comprehensive Municipal Infrastructure Plan |
| FAR | Fixed Assets Register |
| GRAP  | Generally Recognised Accounting Practice |
| HOD | Head of Department |
| MFMA  | Municipal Finance Management Act |
| MM | Municipal Manager |
| PPE | Property Plant and Equipment |
| RUL | Remaining useful life |

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MANAGEMENT ACT, 2003 (ACT 56 OF 2003)

**1. DEFINITION OF A FIXED ASSET**

A fixed asset shall mean an asset, either movable or immovable, under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year.

To be recognized as a fixed asset, an asset must also meet the criteria referred to in paragraphs 13, 14 and 15 below.

An asset held under a financial lease agreement, if it meets the remaining criteria of a fixed asset, shall be so recognized, as the municipality has control over such an asset even though it does not own the asset.

**1.1 DEFINITION OF AMORTISATION**

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

**1.2 DEFINITION OF ASSET ACQUISITION PLAN**

Asset Acquisition Plan is a plan setting out the asset needs for a particular office which is aligned to the Strategic Plan and the budget for a specific financial year.

**1.3 DEFINITION OF ASSET PERFORMANCE**

Asset Performance is the performance of an asset that is measured in line with the applicable Level of Service.

**1.4. DEFINITION OF CASH-GENERATING ASSETS**

Cash-generating assets are assets held with the primary objective of generating a commercial return.

**1.5 DEFINITION OF COST OF DISPOSAL**

Cost of Disposal is incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expenses. Examples of costs of disposal are stamp duty, legal costs, costs of removing the asset and incremental costs to bring the asset into a condition for its sale.

**1.6 DEFINITION OF CURRENT REPLACEMENT COST**

Current Replacement Cost is a measure of replacement value – the cost of replacing an existing asset with a modern asset of equivalent capacity.

**1.7 DEFINITION OF DISPOSAL**

Disposal is the action required to effectively dispose, decommission, or transfer assets in terms of legal or organisational requirements.

**1.8 DEFINITION OF FINANCE LEASE**

Finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

**1.9 DEFINITION OF INVESTMENT PROPERTY**

Investment property is property that is acquired/ held for economic and capital gains.

**2. ROLE OF MUNICIPAL MANAGER**

The Accounting Officer (AO) is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

The Municipal Manager shall ensure that:

* The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
* The municipality’s assets are valued in accordance with the standard of generally recognised accounting practice;
* That the municipality has and maintains a system of internal control for assets, including an asset register; and
* The HODs and their teams comply with this policy.

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

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

**3. ROLE OF CHIEF FINANCIAL OFFICER**

The Chief Financial Officer (CFO) is responsible to the MM to ensure that the financial investment in the municipality’s assets are safeguarded and maintained.

The CFO, as one of the HODs of the municipality, shall also ensure, in exercising his financial responsibilities that;

Appropriate systems of financial management and internal control are established and carried out diligently;

* The financial and other resources of the municipality are utilised effectively, efficiently, economical and transparently;
* Any unauthorised, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
* All revenue due to the municipality is collected, for example rental income relating to immovable assets;
* The systems, procedures and registers required to substantiate the financial values of the municipality’s assets are maintained to standards sufficient to satisfy the requirements of the Accounting Standards;
* Financial processes are established and maintained to ensure the municipality’s financial resources are optimally utilised through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
* The MM is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
* The HODs and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets; and
* This policy and support procedures are established, maintained and effectively communicated.

In terms of section 82 read with section 81(1)(e) of the MFMA the CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

**4. HEAD OF DEPARTMENT (SENIOR OFFICIAL)**

HODs are managers who report directly to the MM shall ensure that:

* The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
* Procedures are adopted and implemented in conformity with this policy to produce reliable data to be input to the municipal fixed asset register;
* Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
* The asset management, processes and controls can provide an accurate, reliable and up to date account of assets under their control;
* They can manage and justify that the asset management framework that include:
	+ Asset Management plans,
	+ IDP, budgets and SDBIP
	+ Demand Management plans including Acquisitions (New, replacement and upgrade of Assets)
	+ Maintenance Plans
	+ Asset Risk Management Plans
	+ Disposal decisions
	+ Optimally achieve the municipality’s strategic objectives; and
* Manage asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.

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

**5. RELATIONSHIP WITH OTHER POLICIES**

This policy, once effective, will replace the pre-existing Asset Management with respect to the scope of assets covered by this policy.

This policy needs to be read in conjunction with other relevant adopted policies of the municipality, including the following:

• Delegation of Powers;

• Accounting Policy;

• Insurance Policy;

• Enterprise Risk Management Policy;

• Disaster Management Policy;

• Supply Chain Management Policy;

• Credit Control and Debt Collection Policy;

• Tariff Policy;

• Property Rates Policy;

• Funding and Reserves Policy;

• Borrowing Policy;

• Cash Management and Investment Policy

• Long Term Financial Plan Policy;

• Infrastructure Investment and Capital Projects Policy;

• Indigents Policy;

• Provision of Free Basic Services Policy;

• Budget Implementation and Monitoring Policy;

• Managing Electricity and Water Distribution Losses; and

• Asset Disposal Policy.

**6. FORMAT OF FIXED ASSET REGISTER**

The fixed asset register shall be maintained in the format determined by the chief financial officer, which format shall comply with the requirements of Generally Recognized Accounting Requirements (GRAP) and any other accounting requirements which may be prescribed.

Without in any way detracting from the compliance criteria mentioned in the preceding paragraph, the fixed asset register shall reflect at least the following information:

* A brief but meaningful description of each asset.
* The date on which the asset was acquired or brought into use.
* The location of the asset.
* The department(s) or vote(s) within which the assets will be used.
* The title deed number, in the case of fixed property.
* The stand number, in the case of fixed property.
* Where applicable, the identification number, as determined in compliance with paragraph 11 below.
* The original cost, or the re-valued amount determined in compliance with paragraph 26 below, or a reasonable value if no costs are available.
* Accumulated depreciation to date.
* The carrying value of the asset.
* The method and rate of depreciation.
* The source of financing.
* The current insurance arrangements.
* Whether the asset is required to perform basic municipal services.
* Whether the asset has been used to secure any debt and, if so, the nature and duration of such security arrangements.

All unit managers under whose control any fixed asset falls, shall prompt provide the Chief Financial Officer in writing with any information required to compile the fixed asset register, and shall prompt advise the Chief Financial Officer 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 fixed assets register, as soon as it is acquired. If the asset is constructed over a period of time it shall be recorded as work-in-progress until it is available for use, whereafter it shall be appropriately capitalized as a fixed asset.

A fixed asset shall remain in the fixed assets register 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 not reflecting such asset.

**7. CLASSIFICATION OF FIXED ASSETS**

1. Definitions and rules

**Fixed asset categories**

* 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);
* Intangible assets (GRAP 31);
* Heritage assets (GRAP 103);
* Biological assets (GRAP 101/27);
* Capital Finance Lease assets (GRAP 13); and
* Investment property (GRAP 16)

**Class of Property Plant and Equipment**

A class of Property Plant and Equipment is defined as a group of assets of a similar nature or function. The total balance of each class of assets is disclosed in the notes to the financial statements.

**Property Plant and Equipment Asset hierarchy**

An asset hierarchy is adopted for Property Plant and Equipment which enables separate accounting of parts (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 recognises the functional relationship of assets and components.

**Property Plant and Equipment: Infrastructure**

Infrastructure assets are immoveable assets which are part of a network of similar assets that jointly provide service potential. These assets usually display some or all of the following characteristics:

(a) they are part of a system or network;

(b) they are specialised in nature and do not have alternative uses;

(c) they are immovable; and

(d) they may be subject to constraints on disposal.

Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

**Property Plant and Equipment: Community Property**

Community property is immoveable assets contributing to the general well-being of the community, such as community halls and recreation facilities.

**Property Plant and Equipment: Land and Buildings**

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

**Property Plant and Equipment: 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 utilised in an enabling or assisting role on a day-to- day basis.

**Heritage assets**

Heritage assets are assets of cultural, environmental, historical, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations, such as monuments, nature reserves, and works of art. Some heritage assets have more than one purpose, e.g. an historical building which, in addition to meeting the definition of a heritage asset, is also used as office accommodation. The CFO, on behalf of the municipality, must use his / her judgement 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 Property Plant and Equipment.

**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). Examples of investment property are 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 recognised as investment property until such time as the use of the land has been determined.

**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 recognised in the asset register.

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

**Biological Assets**

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

**Discontinued Operation**

A component of a municipality comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the municipality. In other words, a component of a municipality will have been a cash-generating unit, a group of cash-generating units or non-cash-generating assets while being held for use.

A discontinued operation’s carrying amount will either be abandoned, transferred or recovered principally through a sale transaction rather than through continuing use. A disposal operation shall be reclassified as a current asset, and its assets will therefore be taken off the Main Asset Register. This provision does not apply to immovable assets that are abandoned.

If the criteria are only met after the reporting date, the municipality shall not classify the immovable asset as held for sale in those financial statements when issued. However, when those criteria are met after the reporting date but before the authorisation date for the financial statements to be issued, the municipality shall disclose a description of the immovable asset; a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of disposal; and if applicable, the segment in which the asset (or disposal group) is presented. Non-current assets held for sale are not similar to inventory. Inventory refers to assets held for trading purposes, assets manufactured or purchased to be sold for a profit. If a management decision has been made to sell a non-current asset, that asset will be classified as a non-current asset held for sale.

1. **Policy statement**

Asset hierarchies shall be adopted for each of the asset groups, separately identifying items of Property Plant and Equipment at component level that are significant from a financial or risk perspective, and, where applicable, grouping items that are relatively insignificant. Investment Property and Intangible assets are not required to be componentised.

Property Plant and equipment shall be disclosed in the financial statements at the sub-category level.

A committee to be nominated by Council will consider the recognition of assets as heritage assets and motivate their recommendation for adoption by Council.

**(c) Responsibilities**

* The CFO shall ensure that the classification of immovable assets adopted by the municipality complies with the statutory requirements.
* The CFO shall consult with the HOD responsible for Property Plant and Equipment to determine an effective and appropriate asset hierarchy for each asset class of Property Plant and Equipment to component level and record such in the asset management procedures document.
* Every HOD shall ensure that all immovable assets under their control are classified correctly within the classification adopted by the municipality.
* Every HOD shall advise the CFO when assets should be re-classified.

**8. INVESTMENT ASSETS**

Investment assets shall be accounted for in terms of GAAP Statement AC 135 and shall not be classified as property, plant and equipment for balance sheet purposes.

Investment assets shall comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a financial lease, to earn rental revenues or for capital appreciation or both.

Investment assets shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value. Investment assets shall be recorded in the balance sheet at such fair value. Adjustments to the previous year’s recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

An expert valuer shall be engaged by the municipality to undertake such valuations.

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 an ordinary fixed asset until it is ready for its intended use – where after it shall be reclassified as an investment asset.

**9. FIXED ASSETS TREATED AS INVENTORY**

Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality’s balance sheet.

Such inventories shall, however, be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

10. RECOGNITION OF HERITAGE ASSETS IN THE FIXED ASSET REGISTER

If no original costs or reasonable values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, if it is believed that the determination of a reasonable value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or reasonable value concerned.

For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

**11. RECOGNITION OF DONATED ASSETS**

Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the fixed asset register at such reasonable value as the Chief Financial Officer assigns to the asset in question.

**12. SAFEGUARDING OF ASSETS**

**(a) Definitions and rules**

The municipality applies controls and safeguards to ensure that assets are protected against improper use, loss, theft, malicious damage or accidental damage.

The existence of assets is physically verified from time-to-time, and measures adopted to control their use, as follows:

* All above ground assets should be verified for existence and any changes in condition at least once a year. These inspections should be formally recorded and signed off and, where possible, shall be worked into the routine maintenance inspections. These inspections may be prioritised on a risk basis to give emphasis to assets approaching the end of their useful life and assets with a high value in relation to total assets (the threshold for high value will be determined by the CFO), whereas a sample basis may be adopted for long life or multiple assets of a similar nature;
* Performance data shall be reviewed for buried assets to identify possible changes in condition; and
* A detailed road condition survey shall be conducted every 5 years.

Every HOD shall at least once during every financial year undertake a comprehensive verification of all movable Property Plant and Equipment controlled by or used by the department concerned. Every HOD shall promptly and fully report in writing to the CFO, in the format determined by the CFO, all relevant results of such verification.

This report in respect of the annual physical verification of movable assets shall:

* Confirm the location of the asset;
* Confirm the physical description of the asset;
* Confirm the level of utilisation of the asset;
* Indicate the assessment of the condition of the asset (Condition Grade);
* Indicate the expected useful life of the asset (RUL); and
* The existence or absence of any physical impairment of the asset.

The municipality may allocate day-to-day duties relating to such control, verification and safekeeping to asset custodians, and record such in the asset register.

**(b) Policy statement**

An asset safeguarding plan shall be prepared for all assets indicating measures that are considered effective to ensure that all immovable assets under control of the municipality are appropriately safeguarded from inappropriate use or loss, including the identification of asset custodians for all assets. The impact of budgetary constraints on such measures shall be reported to Council. The existence, condition and location of these assets shall be verified annually (in line with the assessment of impairment).

1. **Responsibilities**
* Each HOD shall prepare and submit to the CFO, upon request, an annual asset safeguarding plan for the assets under the control of their respective departments, indicating the budget required.
* The CFO shall confirm the available budget, and in consultation with the respective HOD, determine the impact of any budget shortfall. The CFO shall report the impacts to the MM for review, and advise Council.
* Each HOD shall implement the safeguarding plan within the resources made available.
* Each HOD shall report, within the time frame indicated by the CFO, the existence, condition, location and appropriate use of assets under the control of their respective departments at the review date.
* Every HOD shall at least once during every financial year undertake a comprehensive verification of all movable Property Plant and Equipment controlled by or used by the department concerned.
* Every HOD shall promptly and fully report in writing to the CFO, in the format determined by the CFO, all relevant results of such movable asset verification.
* Every HOD shall at least once during every financial year undertake a comprehensive verification of all movable Property Plant and Equipment controlled by or used by the department concerned.
* Every HOD shall promptly and fully report in writing to the CFO, in the format determined by the CFO, all relevant results of such movable asset verification.
* Malicious damage, theft, and break-ins must be reported to the AO or delegated person within 48 hours of its occurrence or awareness by the respective HOD.
* The MM must report criminal activities to the South African Police Service.

**13. IDENTIFICATION OF ASSETS**

1. **Definitions and rules**

**Immovable asset coding**

An asset coding system is how the municipality can uniquely identify each immovable asset (at the lowest level in the adopted asset hierarchy) to ensure that it can be accounted for on an individual basis. Refer to Annexure A for asset hierarchy.

**Barcoding system**

A barcoding system will be used for movable assets as how the municipality is able to uniquely identify each movable asset to ensure that it can be accounted for on an individual basis, which will also assist with the subsequent verification process of movable assets.

**(b) Policy statement**

A coding system shall be adopted and applied that will enable each asset of immovable assets (with Property Plant and Equipment at the lowest level in the adopted asset hierarchy) to be uniquely and readily identified. Similarly, a barcoding system shall be adopted for movable assets.

**(c) Responsibilities**

* The MM shall develop and implement an immovable asset coding system in consultation with the CFO and other HODs to meet the policy objectives
* HODs shall ensure that all the immovable assets under their control are correctly coded.
* HODs shall ensure that all the movables assets under their control are barcoded
1. PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION, OR IMPAIRMENT OF FIXED ASSETS

Every Unit Manager shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the Chief Financial Officer, to the Internal Auditor, the Loss Control Officer and, in cases of suspected theft or malicious damage, also to the South African Police Service.

1. CAPITALISATION CRITERIA: MATERIAL VALUE

No item with a cost or reasonable value of less than R5,000 (Five Thousand Rand), or such other amount as the council of the municipality may from time to time determine on the recommendation of the Municipal Manager, shall be recognised as a fixed asset. If the item has a cost lower than this capitalisation bench-mark, it shall be treated as an ordinary operating expense.

Every Unit Manager shall, however, ensure that any item with a value in excess of R250 (Two Hundred and Fifty Rand), and with an estimated useful life of more than one (1) year, shall be recorded on a stocksheet. Every Unit Manager shall moreover ensure that the existence of items recorded on such stocksheets is verified from time to time, and at least once in every financial year, and any amendments which are made to such stock-sheets pursuant to such stock verifications shall be retained for audit purposes.

1. CAPITALISATION CRITERIA: INTANGIBLE ITEMS

No intangible item shall be recognised as a fixed asset, except that the Chief Financial Officer, acting in strict compliance with the criteria set out in the GAAP statement AC129 dealing with research and development expenses, may recommend to Council that specific development costs be recognised as fixed assets.

1. CAPITALISATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OHTER EXPENSES

Only expenses incurred in the enhancement of a fixed asset or in the material extension of the useful operating life of a fixed asset shall be capitalised.

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

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

1. MAINTENANCE PLANS

The Director : Infrastructure shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100,000 (One Hundred Thousand Rand) or more is promptly prepared and submitted to the council of the municipality for approval.

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

The Unit Manager controlling or using the infrastructure asset in question, shall annually report to the Director who shall then report to council, not later than in July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operation life of the asset concerned.

1. DEFERRED MAINTENANCE

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see paragraph 16 above), the Chief Financial Officer 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 of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer shall redetermine the useful operating life of the fixed asset in question, if necessary in consultation with the Unit Manager controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

1. GENERAL MAINTENANCE OF FIXED ASSETS

Every Unit Manager shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with in paragraphs 16 and 17 above) are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

1. DEPRECIATION
2. Definition and rules

Depreciation

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

Land and servitudes are considered to have unlimited life; therefore, they are not depreciated. Heritage assets and investment property 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 and accumulated depreciation.

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 were 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 B. 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 revalued cost.

Remaining useful life

The remaining useful life (RUL) of a depreciable Property Plant and Equipment 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 Property Plant and Equipment assets at initial recognition is the same as the expected useful life indicated in Annexure A below. The remaining useful life of all depreciable movable Property Plant and Equipment assets that are new, or are considered to have been renewed, at initial recognition is the same as the expected useful life indicated in Annexure A.

Annual review of remaining useful life

The remaining useful lives of depreciable Property Plant and Equipment 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 (as contemplated in Section of this policy). 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 Property Plant and Equipment 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 date the asset is de-recognised.

Change in depreciation model

Depreciation on assets whose useful lives were changed will be calculated on the diminishing balance method.

Carrying amount

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

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 recognised 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 Property Plant and Equipment, 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 amortised over their remaining useful lives.

The method of depreciation/ amortisation shall be reviewed on an annual basis, though the straight line method / diminishing amount method/ fixed percentage on reducing balance method / sum of the year digits method/ production unit method shall be used in all cases unless Council determines otherwise. Investment Property on the fair value method will also not be depreciated. The existence, remaining useful lives and residual values shall also be reviewed at each reporting date.

(c) Responsibilities

* The HODs shall ensure that a budgetary provision is made for the depreciation of the immovable Property Plant and Equipment in the ensuing financial year, in consultation with the CFO.
* The CFO shall indicate a fixed annual date for the review of the remaining useful life of immovable Property Plant and Equipment under the control of the respective HODs.
* Every HOD shall annually review the remaining useful life as well as the expected useful life and residual values stated in Annexures A and B and the depreciation method of Property Plant and Equipment that are under their control and motivate to the MM and CFO any adjustments if these are required, in the judgement of the HOD.
* Changes should not be made on a continuous basis because the accounting principle of consistency would be violated.
* The CFO shall report changes made to the remaining useful life of immovable Property Plant and Equipment in the asset register to the MM and Council.
* The CFO shall ensure that depreciation charges are debited monthly and that the fixed asset register is reconciled with the general ledger..
1. IMPAIRMENT
2. 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, an entity shall consider as a minimum the following indicators:

External sources of information:

* decline or cessation in demand;
* significant long-term changes in the technological, legal orgovernment policy environment;
* the carrying amount of the net assets of the entity is more than its market capitalisation;
* 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; or
* 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.

Internal sources of information:

* evidence of physical damage;
* evidence of obsolescence;
* significant changes with an adverse effect on the entity 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 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.

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 Property Plant and Equipment 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 fair value model

Investment property that is measured at fair value is specifically excluded from the scope of GRAP 21 and GRAP 26 (impairment standards). Any impairment would be reflected in the annual review of fair value.

Recoverable amounts

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 consider adjustment of the remaining useful life, residual value, and method of depreciation.

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 unit

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 service 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 an entity 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 specialised 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 Optimised 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.

Cash-generating unit

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 an entity 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.

Judgement

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 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 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. Judgement is needed in these circumstances.

Recognition of impairment

The impairment loss is recognised 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 de-recognised 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 Property Plant and Equipment, the compensation is considered as the asset’s ability to generate income and is disclosed under Sundry Revenue; and the asset is impaired/ de-recognised.

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 recognised 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 recognised in prior periods). Any reversal of an impairment loss is recognised as a credit in surplus or deficit.

(b) Policy statement

Impairment of assets shall be recognised 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.

All assets relating to these assets which are held with the primary objective of generating a commercial return. Consequently, the municipality adopts the impairment treatment for cash generating units in the impairments of its Property Plant and Equipment and associated intangible assets that relate to these assets.

All these assets whose primary objective is to provide goods and services for community or social benefit, and where positive cash flows are generated, 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 impairments of its Property Plant and Equipment and associated intangible assets that relate to these asset classes.

(c) Responsibilities

* The CFO shall indicate a fixed annual date for the review of any impairment that may have occurred on assets under the control of the respective HODs.
* The HODs shall review any impairment on the Property Plant and Equipment under their control at the annual review date, and from time to time as a result of any events that come to their attention that may have a material negative effect on the performance of these assets. The HOD shall motivate to the CFO proposed changes to the performance of such assets and the necessary impairments that needs to be recognised on such assets.
* The HOD should evaluate all the immovable Property Plant and Equipment for impairment, taking into consideration any discussions with the senior accountants and operating managers.
* The Asset register administrator should update the fixed asset register with the information received, relating to the impairment, from the financial management system where the impairment journals have been processed.

The CFO shall report changes made to the carrying values of these assets in the asset register to the MM and Council.

1. RATE OF DEPRECIATION

The Chief Financial Officer shall assign a useful operating life to each depreciable asset recorded on the municipality’s fixed asset register. In determining such a useful life the Chief Financial Officer shall adhere to the useful lives set out in the annexure to this document (see paragraph 33 below).

In the case of a fixed asset which is not listed in this annexure, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the Unit Manager who shall control or use the fixed asset in question, and shall be guided in determining such useful lifes either by the useful lives assigned in the annexure to the fixed asset most closely comparable to the asset in question or by any appropriate statement of generally accepted accounting practice (GAAP).

1. AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS

Only the Chief Financial Officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the Chief Financial Officer shall inform the council of the municipality of such amendment.

The Chief Financial Officer shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or impropertly maintained to such an extent that its useful operating life will not be attained.

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

Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off in the fixed asset register.

In all the foregoing instances, the additional depreciation expenses shall be debited to the unit or vote controlling or using the fixed asset in question.

If any of the foregoing events arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalized at a value other than a purely nominal value, such fixed asset shall be partially or fully depreciated, as the case may be, as though it were an ordinary depreciable asset, and the unit or vote controlling or using the fixed asset in question shall bear the full depreciation expenses concerned.

1. ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES

The Chief Financial Officer may employ the sum-of-units method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services.

The Chief Financial Officer shall only employ this method of depreciation if the Unit Manager controlling or using the fixed asset in question gives a written undertaking to the Municipal Manager to provide:

* Estimates of statistical information required by the Chief Financial Officer to prepare estimates of depreciation expenses for each financial year; and
* actual statistical information for each financial year.

The Unit Manager concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the Chief Financial Officer.

Where the Chief Financial Officer decides to employ the sum-of-units method of depreciation and the requirements set out in the preceding paragraph have been adhered to, the Chief Financial Officer shall inform the council of the municipality of the decision in question.

1. CREATION OF NON-DISTRIBUTABLE RESERVES FOR FUTURE DEPRECIATION

The Chief Financial Officer shall ensure that in respect of all fixed assets financed from the municipality’s asset financing reserve, or from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of fixed assets donated to the municipality, a non-distributable reserve for future depreciation is created equal in value to the capitalised value of each fixed asset in question.

The Chief Financial Officer shall thereafter ensure that in the case of depreciable fixed assets, an amount equal to the monthly depreciation expenses of the fixed asset concerned is transferred each month from such non-distributable reserve to the municipality’s appropriation account. Where there is a difference between the budgeted monthly depreciation expenses and the actual total depreciation expenses for each financial year, the Chief Financial Officer shall appropriately adjust the aggregate transfer from the non-distributable reserve for the year concerned.

1. CARRYING VALUES OF FIXED ASSETS

All fixed assets shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or reasonable value less any accumulated depreciation.

The only exceptions to this rule shall be revalued assets (see 26 below) and heritage assets in respect of which no value is recorded in the fixed asset register (see paragraph 8 above).

1. REVALUATION OF FIXED ASSETS

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

The Chief Financial Officer shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll.

The Chief Financial Officer shall also, where applicable, create a revaluation reserve for each such fixed asset equal to the difference between the value as recorded in the valuation roll and the carrying vaklue of the fixed asset before the adjustment in question.

The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its re-valued amount, over its remaining useful oeprating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the department or vote controlling or using the fixed asset in question.

The Chief Financial Officer shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the municipality’s appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary (see paragraph 24 above).

If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the fixed asset register, the Chief Financial Officer shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll. Such additional depreciation expenses shall form an immediate additional charge against the department or vote controlling or using the asset in question.

Revalued land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation (in the case of buildings).

1. VERIFICATION OF FIXED ASSETS

Every Unit Manager shall at least once during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department/unit concerned.

Every Unit Manager shall promptly and fully report in writing to the Chief Financial Officer all relevant results of such fixed asset verification, provided that each such asset verification shall be undertaken and completed as closely as possible to the end of each financial year, and that the resultant report shall be submitted to the Chief Financial Officer not later than 30 June of the year in question.

1. ALIENATION OF FIXED ASSETS

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality’s supply chain management policy.

Every Unit Manager shall report in writing to the Chief Financial Officer on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department/unit concerned which such Unit Manager wishes to alienate by public auction or public tender. The Chief Financial Officer shall thereafter consolidate the requests received from the various units, and shall promptly report such consolidated information to the Director or the Municipal Manager, recommending the process of alienation to be adopted.

The council shall delegate to the Municipal Manager the authority to approve the alienation of any fixed asset with a carrying value less than R5,000 (five thousand rand).

The council shall ensure that the alienation of any fixed asset with a carrying value equal to or in excess of R5,000 (five thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004 (see 34 below).

Once the fixed asset is alienated, the Chief Financial Officer shall delete the relevant records from the fixed asset register.

If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the income statement of the unit or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the differnece shall be recognised as a gain in the income statement of the unit or vote concerned.

All gains realised on the alienation of fixed assets shall be appropriated annually to the municipality’s asset financing reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the income statement of the unit or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any unit or vote, only the nett gain (if any) on the alienation of such fixed assets shall be appropriated.

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

1. OTHER WRITE-OFFS OF FIXED ASSETS

A fixed asset, even though fully depreciated, shall be written off only on the recommendation of the Unit Manager controlling or using the asset concerned, and with the approval of the council of the municipality.

Every Unit Manager shall report to the Chief Financial Officer on 31 October and 30 April of each financial year on any fixed assets which such Unit Manager wishes to have written off, stating in full the reason for such recommendation. The Chief Financial Officer shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off.

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

In every instance where a not fully depreciated fixed asset is written off, the Chief Financial Officer shall immediately debit to such unit or vote, as additional depreciation expenses, the full carrying value of the asset concerned (see also paragraph 22).

1. REPLACEMENT NORMS

The Municipal Manager, in consultation with the Chief Financial Officer and other Unit Managers, shall formulate norms and standards for the replacement of all normal operational fixed assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the council of the municipality for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain.

1. INSURANCE OF ASSETS

(a) Definition and rules

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

Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury. The municipality can however elect to insure certain infrastructure risks, though approval must be obtained from the Council.

The CFO must conduct a risk assessment of all assets and after considering the risks involved, report to Council, which assets must be insured. The risk assessment must be based on a loss probability analysis and if there is no capacity within the municipality to conduct the analysis, the CFO should be authorised to obtain external professional assistance.

The municipality may elect to operate a self-insurance reserve, in which case the CFO shall annually determine the premiums payable by the departments or votes after having received a list of assets and insurable values of all relevant assets from the HODs concerned. This will be reflected in the accumulated surplus and will be cash backed.

Assets must be insured internally or externally and coverage must be based on the loss probability analysis. All insurance claims must be assessed by an official, charged with the responsibility for the insurance of assets, to determine whether the damage to the assets can be recovered from possible third parties involved. If the damage was caused by an identifiable third party the CFO should compile a report advising the MM of the facts thereof and any possible further action.

(b) Policy statement

The municipality should adhere to the disaster management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster. The Council shall decide on insurance cover for assets each financial year based on the recommendation from the MM after consultation with the CFO.

(c) Responsibilities

* The MM will consult with the CFO on the basis of insurance to be applied to each type of asset: either the carrying value or the replacement value of the immovable asset concerned. The approach shall take due cognisance of the budgetary resources of the municipality, and where applicable asset classes shall be prioritised in terms of their risk exposure and value.
* The MM shall advise Council on the insurance approach taken.
* In the event that the CFO is directed by Council to establish a self-insurance reserve, the CFO shall annually submit a report to the Council on any reinsurance cover which it is deemed necessary to procure for the municipality’s self-insurance reserve.
1. DISPOSAL OF MOVABLE ASSETS

All assets earmarked to be written off must be sold by public auction or tender after the following steps have been followed: -

* A notice of the intention of the municipality to sell the asset has been published in a local newspaper;
* In the case of a public auction, the municipality has appointed an independent auctioneer to conduct the auction; and
* In the case of a tender, the prescribed tender procedures of the municipality have been followed
1. RESIGNATION OF OFFICIALS

When an official resigns, a termination of service form is received from Human Resources. A list of assets allocated to the official is printed from the system and forwarded to the appropriate department. This should be signed by the official and supervisor as proof that the assets have been handed over in good order. This should then be returned to the asset section.

1. POLICY IMPLEMENTATION

Procedures should be prepared and adopted by the MM, in consultation with the CFO and HODs, to give effect to this policy.

1. RESPONSIBILITIES AND ACCOUNTABILITIES OF THE MUNICIPAL MANAGER MUST:

ALL COUNCIL EMPLOYEES

* Every employees of the council must take all reasonable steps to ensure that;
* Assets assigned to them are safeguarded and utilised effectively, efficiently, economically and transparently;
* Assets of the council are not used for private gain;
* They notify the asset management division of all obsolete, damaged and stolen assets, without delay;
* Assets under their possession are properly bar-coded;
* Any discrepancies in the asset stock take report are followed up; and
* They comply with the operational procedure manual.

1. BIOLOGICAL ASSETS (AGRICULTURAL ASSETS)

Accounting for biological assets shall take place in accordance with the requirements of GAAP statement AC137.

The Chief Financial Officer, in consultation with the Directors concerned, shall ensure that all biological assets, such as livestock and crops, are annually valued for balance sheet purposes at their market-related prices. Such valuation shall be undertaken by a recognised valuer in the line of the biological assets concerned. Any losses on such valuation shall be debited to the department or vote concerned as an operating expense, and any increase in the valuation shall be credited to the department or vote concerned as an operating revenue.

Unless the biological assets concerned represent a material part of the municipality’s financial activities, proceeds from the sale of such assets shall be debited to cash and credited to an appropriate revenue line-item in the department or vote concerned, without the balance sheet value of the biological assets being adjusted.

If any biological asset is lost, stolen or destroyed, the matter - if material - shall be reported in writing by the Unit Manager concerned in exactly the same manner as though the asset were an ordinary fixed asset.

If the municipality’s investment in biological assets does represent a material part of its financial activities, the Chief Financial Officer, in consultation with the Unit Manager concerned, shall ensure that expert valuations are done at such more frequent intervals as the council of the municipality shall deem appropriate. Such valuations shall then obviously account for losses, sales, acquisitions and other changes to the composition of the biological assets concerned.

Records of the details of biological assets shall be kept in a separate section of the fixed assets register or in a separate accounting record altogether, and such details shall reflect the information which the Chief Financial Officer, in consultation with the Unit Manager concerned and the Internal Auditor, deems necessary for accounting and control pruposes.

The Chief Financial Officer shall annually insure the municipality’s biological assets, in consultation with the Directors concerned, provided the council of the municipality considers such insurance desirable and affordable

1. ANNEXURE: FIXED ASSET LIVES
	* + - 1. INFRASTRUCTURE ASSETS

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

|  |
| --- |
| * Electricity

Power-stations (30)Cooling towers (30)Transformer kiosks (30)Meters (20)Load control equipment (20)Switchgear (20)Supply and reticulation networks (20)Mains (20)* Roads

Motorways (15)Other roads (10)Traffic islands (10)Traffic lights (20)Street lights (25)Overhead bridges (30)Stormwater drains (20)Bridges, subways and culverts (30)Car parks (20)Bus terminals (20)* Water

 Mains (20) Supply and reticulation networks (20) Reservoirs and storage tanks (20) Meters (15) Rights (that is, the right to draw water from a particular source belonging to another party) (20)* Gas

 Supply and reticulation networks (20) Storage tanks (20) Mains (20) Meters (20) |
|  |

|  |
| --- |
| * Sewerage

 Sewer mains (20) Outfall sewers (20) Sewerage purification works (20) Sewerage pumps (15) Sludge machines (15)* Pedestrian malls

 Footways (20) Kerbing (20) Paving (20)* Airports

 Runways (20) Aprons (20) Taxiways (20) Airport and radio beacons (20) |
|  |
| * Security Measures

 Access control systems (5) Security systems (5) Security fencing (3) |

**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

 Ambulance stations (30) Aquariums (30) Beach developments (30) Care centres (30) Cemeteries (30)#  Civic theatres (30) Clinics and hospitals (30) Community centres (30) Fire stations (30) Game reserves and rest camps (30) Indoor sports (30) Libraries (30) Museums and art galleries (30) Parks (30) Public conveniences and bath houses (30) Recreation centres (30) Sports and related stadiums (30) Zoos (30)* Recreation facilities

 Bowling greens (20) Tennis courts (20) Swimming pools (20) Golf courses (20) Jukskei pitches (20) Outdoor sports facilities (20) Organs (that is, pipe organs that are  fixtures in a municipal hall or other centre) (20) Lakes and dams (20) Fountains (20) Flood lighting (20) |
|  |

#Sum-of-units method of depreciation may be preferred.

**HERITAGE ASSETS**

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

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

**INVESTMENT ASSETS**

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

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| --- |
| * Office parks (which have been developed by the municipality itself or

 jointly between the municipality and one or more other parties) (30)* Shopping centres (again developed along similar lines) (30)
* Housing developments (that is, developments financed and

 managed by the Municipality itself, with the sole purpose of selling or letting such houses for profit) (30) |

**OTHER ASSETS**

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

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| * Buildings

 Abattoirs (30) Asphalt plant (30) Cable stations (30) Caravan parks (30) Compacting stations (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 (30) Old age homes (30) Quarries (30)# Tip sites (30)# Training centres (30) Transport facilities (30) Workshop and depots (30)* Office Equipment

 Computer hardware (5) Computer software (3-5) Office machines (3-5) Air conditioners (5-7)* Furniture and fittings

 Chairs (7-10) Tables and desks (7-10) Cabinets and cupboards (7-10)* Bins and containers

 Household refuse bins (5) Bulk refuse containers (10)* Emergency Equipment

 Fire hoses (5) Other fire-fighting equipment (10) Emergency lights (5) |

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| * Motor vehicles

 Ambulances (5-10) Fire engines (20) Buses (15) Trucks and light delivery vehicles (5-7) Ordinary motor vehicles (5-7) Motor cycles (3)* Plant and Equipment

 Graders (10-15) Tractors (10-15) Mechanical horses (10-15 Farm equipment (5) Lawn mowers (2) Compressors (5) Laboratory equipment (5) Radio equipment (5) Firearms (5) Telecommunication equipment (5) Cable cars (15) Irrigation systems (15) Cremators (15) Lathes (15) Filling equipment (15) Conveyors (15) Feeders (15) Tippers (15) Pulverising mills (15)* Other

 Aircraft (15) Watercraft (15) |

#Sum-of-units may be preferred.

1. **ANNEXURE: PARAPHRASE OF SECTIION 14 OF THE MUNICPAL FINANCE MANAGEMENT ACT 2003**

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

A municipality may alienate any other capital asset, but provided:

* the council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services; and
* the council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.