



# ASSET MANAGEMENT POLICY

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## Definitions and Abbreviations

| Item                      | Description  |
|---------------------------|--|
| <b>Asset</b>              | An asset is a resource controlled by the entity which is expected to last more than twelve months and from which future economic benefits or service potential will flow.  |
| <b>Carrying Amount</b>    | The amount at which an asset is included in the statement or financial position after deducting any accumulated depreciation and any impairment losses thereon.  |
| <b>CFO</b>                | Chief Financial Officer  |
| <b>Cost</b>               | The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.   |
| <b>Depreciation</b>       | This is the systematic allocation of the cost of use of an asset over its useful life.   |
| <b>Depreciable amount</b> | The cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.   |
| <b>Fair Value</b>         | The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.   |
| <b>FAR</b>                | Fixed Assets Register  |
| <b>GRAP</b>               | Standards of Generally Recognised Accounting Practice  |
| <b>IAS</b>                | International Accounting Standards   |
| <b>Impairment</b>         | An asset is impaired when the carrying amount exceeds its recoverable amount.  |
| <b>PPE</b>                | Property, Plant & Equipment – These are tangible assets that: <ul style="list-style-type: none"><li>• are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and</li><li>• are expected to be used during more than one reporting period.</li></ul> |

| Item                      | Description   |
|---------------------------|---|
| <b>Residual value</b>     | 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.                                     |
| <b>Recoverable amount</b> | The estimated amount which the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.  |
| <b>SCM</b>                | Supply Chain Management   |
| <b>Useful life</b>        | Useful life is either: <ul style="list-style-type: none"><li>• the period over which an asset is expected to be available for use by the municipality, or</li><li>• the number of production or similar units expected to be obtained from the asset by the municipality.</li></ul> |
| <b>Value in use</b>       | The present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.   |

## **Section 1**

### **Objective of the Asset Management Policies and Procedures**

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

## **Section 2**

### **Role of the Municipal Manager**

As accounting officer of the municipality, the Municipal Manager is the principal custodian of all the municipality's fixed assets, and is responsible for ensuring that the fixed asset management policy is thoroughly applied and adhered to.

The Municipal Manager or his duly delegated representative is responsible for:

- Ensure implementation of the approved Asset Management Policy as required in terms of section 63 of the Municipal Finance Management Act (MFMA)
- Verify assets in possession of the Council regularly, during the course of the financial year
- Keep a complete and balanced record of all assets in possession of the Council
- Report in writing all asset losses, where applicable, to Council
- Ensure that assets are valued and accounted for in accordance with a statement of GRAP.

## **Section 3**

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

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

#### **3.1 Asset Control Section**

- Ensure that complete records of asset items are kept, verified and balanced regularly
- Ensure that all movable assets are properly tagged and accounted for (see also 23.1)
- Conduct an annual audit inventory by scanning selected movable assets and compare this inventory with the department's asset sign offs (see also 23.2)
- The asset verification report will reflect any discrepancies between the articles found during verification and the record referred to in the point above
- Ensure that the FAR is balanced annually with the general ledger and the financial statements
- Ensure adequate bar codes to exercise the function relating to asset control are available at all times
- Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the FAR
- Ensure that all audit queries are resolved in a timely manner
- Ensure that the relevant information relating to the calculation of depreciation is obtained from the departments and provided to the Finance department in the prescribed format.
- Ensure that asset acquisitions are allocated to the correct asset code
- Ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, counter signed by the Asset Control Section, is presented

- Ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from the departments
- Compile a list of the items to be auctioned in accordance with their guidelines in the Supply Chain Management (SCM) Policy
- Compile and circulate a list of unused movable assets to enable other departments to obtain items that are of use to them
- Ensure that the Procurement section is notified of any auctioning or disposing of written-off asset or asset inventory items.

### **3.2 The Manager: Budgets**

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



### **3.3 The Manager: Expenditure section**

- Ensure that invoices authorised for payment are matched to the goods received note before processing such payment
- If any doubt exists as to whether the invoice is in accordance with policy, query the payment with the relevant department and will not process a payment until the invoice meets the policy criteria.

### **3.4 Procurement Section**

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

## **Section 4**

### **Role of other departments**

#### **4.1 Human Resources Department**

The Human Resources Department:

- Ensure that no monies are paid out on termination of service without receiving the relevant asset resignation form signed off by the relevant department(see also 23.6)
- Ensure that every asset resignation form is counter signed by the Asset Control Section before processing the termination of service.

#### **4.2 All Departments**

**Directors:**

- Ensure that employees in their departments adhere to the approved Asset Management Policies Ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in the department. The Asset Control Section must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the director
- Ensure that assets are properly maintained in accordance with their respective asset maintenance policy
- Ensure that the assets of the municipality are not used for private gain
- Ensure that all their movable assets as reflected on the FAR are barcoded where possible.

- Ensure that the Asset Control Section is notified of any changes in the status of the assets under the department's control. This must be done on the prescribed form and include the following:
  - Movements/disposals which relate to the transfer of assets (inter departmental transfers)
  - Changes in the estimated useful lives of assets for depreciation purposes
  - Changes in depreciation methods to best reflect an assets pattern of use
  - The identification of impairment losses on assets by following the procedures as outlined in section 26 of this policy document
- Certify, in writing, that they have assessed and identified impairment losses on all assets at year end
- Ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the Asset Control Section without delay
- Ensure that the correct cost element and description are being used before authorising any requisitions
- Will only procure assets when the asset number is obtained, asset number allocated. Ensure that assets are bar-coded by the Asset Control Section and insured by the Finance department
- The detailed projects as created must be categorised and clearly identified as follows:
  - Immovable Assets:
    - Infrastructure assets
    - Buildings
    - Land
    - Community assets
    - Heritage assets
    - Recreational facilities
    - Asset under construction (only an asset after completion)
    - Town development
    - Investment properties
    - Intangible assets
    - Agricultural assets

- Movable Assets:
  - Aircraft
  - Bins and containers
  - Emergency equipment
  - Emergency vehicles
  - Furniture and fittings
  - Heritage.
  - Motor vehicles
  - Office equipment
  - Plant and equipment
  - Watercraft
  - Other

## **Section 5**

### **Definition of an Asset**

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

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

The definition has three components, which must all be satisfied in order to be classified as 'an asset' in an accounting sense. They are relevant to all forms of assets:

- The municipality has the capacity to control the service potential or future economic benefits of the asset, that it is control of the economic benefits or service potential of the asset rather than 'physical' control
- The service potential or future economic benefits arose from past transactions or events existing on reporting date (that is future assets cannot be recognised in the financial statements)
- The asset has future service potential or economic benefit for the municipality. The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the municipality. The potential may be a productive one that is part of the operating activities of the municipality. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative process lowers the costs of providing a service
- Service potential is the capacity of an asset, alone or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality

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

## **5.2 Role of Assets**

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

## **Section 6**

### **Format of the Fixed Asset Register (FAR)**

#### **6.1 Format**

The FAR will be maintained in the format determined by the CFO, which complies with the requirements of any accounting requirements prescribed.

Without in any way detracting from the compliance criteria mentioned in the preceding paragraph, the FAR will reflect at least the following information:

- a brief but identifiable description of each asset
- classification of each asset
- the date on which the asset was acquired for use
- the location of the asset
- the departments or cost centre within which the assets will be utilised
- the responsible person for this asset
- 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 7.2 below
- the original cost or fair value if no costs are available
- the (last) effective date of revaluation of the fixed assets subject to revaluation
- the revalued value of such fixed assets
- the valuer who did the (last) revaluation
- accumulated depreciation to date
- the carrying value of the asset
- whether this is a cash or non cash generating asset

- the method and, where applicable, the rate of depreciation
- impairment losses
- impairment recovery
- the source of financing
- the current insurance arrangements
- whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
- maintenance plan referrals
- whether the asset is required to perform basic municipal services
- the date on which the asset is disposed of
- the disposal proceeds
- the date on which the asset is retired from active use, and held for disposal
- the residual value of each asset
- measurement model
- periods when the asset was idle and reason for the idleness.
- The threshold to qualify for an asset is R1000-00(vat-exclusive) and above.

All directors of departments under whose control any fixed asset falls shall promptly provide the CFO in writing of any information required to compile the FAR and of any material change which may occur in respect of such information.

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

A fixed asset shall remain in the FAR for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated must not in itself be a reason for writing-off such an asset.



## **6.2 Different categories within FAR**

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

- The CFO is responsible for ensuring that complete records of asset items are kept, verified and balanced regularly.
- The FAR for the municipality will contain the following types of assets categorized as immovable or movable assets:

### **Immovable Assets:**

- Infrastructure assets:
  - Electricity assets
  - Water networks and related assets
  - Waste water networks and related assets
  - Roads, bridges and storm water
- Land and buildings
- Investment properties
- Community assets
- Heritage assets
- Intangible assets
- Agricultural assets
- Other assets

**Movable Assets:**

- Office equipment
- Furniture and fittings
- Bins and containers
- Emergency equipment
- Motor vehicles
- Aircraft
- Watercraft
- Plant and equipment
- The FAR will consist of all the asset master records of movable assets capitalised. These assets, except for group assets, must be numbered with the approved barcode labels.
- Immovable assets on the FAR will not be physically numbered with barcode labels but will have a unique asset master record number.
- Capital work-in-progress. Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is available for use.

## **Section 7**

### **Classification and Identification of Property, Plant and Equipment (Fixed Assets)**

#### **7.1 Classification**

In compliance with the requirements of National Treasury and accounting standards, the CFO shall ensure that all fixed assets are classified under the headings listed below. The directors of departments shall provide the CFO, in writing, with information and assistance as required to compile a proper classification:

##### **Property, Plant and Equipment**

- Land (not held as investment assets)
- Buildings, excluding buildings classified as investment assets, classified as heritage assets and buildings utilised in contributing to the community's well-being (clinics, libraries etc).
- Infrastructure assets are defined as any asset that is part of a network of similar assets. These assets usually display some or all of the following characteristics:
  - They are part of a system or network
  - They are specialised in nature and do not have alternative uses
  - They are immovable
  - They may be subject to constraints on disposal.

Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks. Infrastructure can be considered as a single asset or more usefully as a collection of different assets. Each individual asset shall be measured at its own cost and own lifespan, which will influence the depreciation of such an asset.

- Community assets are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.
- Heritage assets are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- Capital Finance Lease assets are defined as assets financed by a Finance Lease if it is identified as such in terms of the requirements of GRAP 13.
- Agricultural assets are defined as biological assets which are living animals or plants and agricultural produce which is the harvested product of the biological assets.
- Other assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles, furniture and fittings.

## **7.2 Identification**

The Municipal Manager shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised FAR.

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

Every director of a department shall ensure that the asset identification system approved for the municipality is thoroughly applied in respect of all fixed and movable assets controlled or used by the department in question.

## **7.3 Verification**

The Asset Control Section shall provide all directors of departments with a comprehensive list of assets which is registered under their control at least once every financial year.

Every director of a department will be responsible for verifying this list with the assets under their control and investigate any discrepancies arising out of the asset verification exercise. The director will be required to sign and date a declaration stating that the list of assets verified for his/her department is complete and accurate except for the discrepancies as reported to the Asset Control Section.

## **7.4 Safekeeping**

Section 63 of the Municipal Financial Management Act (Act no 56 2003) determines that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

Section 78 of the Municipal Financial Management Act (Act no 56 2003) determines that each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained to the necessary extent. A senior manager or such official must perform the functions subject to the directions of the accounting officer of the municipality.

Every director of a department will be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.

In exercising this responsibility, every director of a department shall adhere to written directives issued by the Municipal Manager to the department in question, or generally to all departments, in regard to the control or safekeeping of the municipality's fixed assets.

## **Section 8**

### **Heritage Assets**

#### **8.1 Definition**

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

#### **8.2 Recognition and Disclosure of Heritage assets**

The municipality shall choose either the cost model or the revaluation model as its accounting policy. This policy must be applied to an entire class of heritage assets.

Where no evidence is available to determine the market value in an active market of a heritage asset, a valuation technique may be used to determine the fair value. Valuation techniques include using recent arm's length market transactions if available. In the case of specialised heritage buildings and other man-made heritage structures, such as monuments, the municipality may need to determine fair value by using a replacement cost approach.

If the municipality is unable to determine a reliable fair value, due to market-determined prices or values that are unavailable and alternative estimates of fair value are determined to be clearly unreliable, the heritage asset shall be measured using the cost model.

## **Section 9**

### **Donated Assets**

#### **9.1 Definition**

An item donated to the municipality or acquired by means of an exchange of assets between the municipality and one or more other parties shall be recorded in the FAR only if it subscribe to the definition of an asset as set out in section 5 above.

#### **9.2 Disclosure of Donated Assets**

Donated assets will be disclosed in the Statement of Financial Position at fair value less accumulated depreciation at date of acquirement. Fair value can be defined as what an asset would cost in the open market at the date of acquirement. If there is no open market for such assets the depreciated replacement value will be applied to determine fair value.

The transaction of acquirement will reflect on the Statement of Changes to Net Assets as “Assets Donated”.

#### **9.3 Budgetary Requirements**

The same budget requirements as for other fixed assets are applicable.

## **Section 10**

### **Agricultural Assets**

#### **10.1 Definitions**

Biological assets are defined as living animals or plants. Agricultural produce is the harvested product of the biological assets.

#### **10.2 Measurement**

A biological asset shall be measured on initial recognition and at each reporting date at its fair value less estimated cost to sell. This excludes assets with market-determined prices or values which are not available and for which alternative estimates of fair value are unreliable. These assets will be measured at its cost less any accumulated depreciation and any accumulated impairment losses.

Agricultural produce harvested from an entity's biological assets will be measured at its fair value less estimated cost to sell at the point of harvest.

Records of the details of agricultural assets shall be kept in a separate section of the FAR or in a separate accounting record altogether. The municipality must provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets, as appropriate.



### **10.3 General**

- If any agricultural asset is lost, stolen or destroyed, the matter, if material, shall be reported in writing by the director of the department concerned in exactly the same manner as though the asset were an ordinary fixed asset.
- If the municipality's investment in agricultural assets does represent a material part of its financial activities, the CFO, in consultation with the director of the department concerned, shall ensure that expert valuations are done at frequent intervals as the Council deems appropriate. Such valuations shall then account for losses, sales, acquisitions and other changes to the composition of the agricultural assets concerned.
- The department shall insure the municipality's agricultural assets annually, provided the Council considers such insurance desirable and affordable.

## **Section 11**

### **Intangible Assets**

#### **11.1 Definition**

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

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

Examples of intangible items are:

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

## **11.2 Recognition and Measurement**

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

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

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

### **Cost Model**

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

## **11.3 Useful Life**

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

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

## **11.4 Retirements and Disposals**

An intangible asset shall be de-recognised:

- on disposal; or
- when no more future economic benefits or service potential are expected from its use or disposal.

## **11.5 Impairment Assessment**

An intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances indicate any potential impairment indicator.

Once circumstances of an asset with an indefinite useful life changes to that of an asset with a finite useful life, amortisation shall commence.

## **Section 12**

### **Capitalisation Criteria**

#### **12.1 All Asset Acquisitions that Complies with the Definition of PPE.**

All items of PPE acquired that comply with the fixed asset definition must be capitalised in the FAR at cost and be provided for on the capital budget. These items will be bar-coded (when moveable).

#### **12.2 Group Assets**

Group assets are assets of a similar nature and usually purchased as a group.

Group items identified are:

- Water and electricity meters;
- Chairs for community centres and the city hall
- Library books

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

## **Section 13**

### **Calculation of Capitalisation Cost of Assets**

#### **13.1 Initial Cost**

An item of property, plant and equipment that qualifies for recognition as an asset should initially be measured at its cost. The cost of an item of property, plant and equipment comprises its' purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are:

- The cost of site preparation
- Initial delivery and handling costs
- Installation and assembly costs
- Professional fees such as for architects and engineers that is directly applicable to the project
- Feasibility studies will only be capitalised as cost if the capital project, for which this study was applied, will be executed. Up to the starting time of this capital project the cost of this study will be carried as work in progress. If no capital project will flow from this study the cost will be adjusted to the accumulated surplus account
- The initial estimated costs of dismantling and removing the item and restoring the site on which it is located, to the extent that it is recognised as a provision
- Administrative and other general overhead costs are only a component of cost if it can be directly attributed to the acquisition or construction of the asset without which the asset could not have been brought to working condition

- Interest on external loans that are directly attributable to the acquisition, construction or production of a qualifying asset are that interest that would have been avoided if the expenditure on the qualifying asset had not been made.

## **13.2 Costs Incurred on Existing PPE Subsequent to the Initial Recording of the Cost Price**

Assets are often modified during their life. There are two main types of modification:

### **Enhancements / Rehabilitation:**

This is where work is carried out on the asset that increases its service potential. Enhancements normally increase the service potential of the asset or may extend an asset's useful life and result in an increase in value.

These expenses are not part of the life cycle of the asset. These costs normally become necessary during the life of an asset due to a change in use of the asset or technological advances.

Disbursements of this nature relating to an asset, which has already been recognised in the financial statements, should be added to the carrying amount of that asset. The value of the asset is thus increased when it is probable that future economic benefits or service potential will flow to the municipality over the remaining life of the asset.

To be classified as capital spending, the expenditure must lead to at least one of the following economic effects:

- Modification of an item or plant to extend its useful life, including an increase in its capacity
- Upgrading machine parts to achieve a substantial improvement in the quality of output
- Adoption of new production processes enabling a substantial reduction in previously assessed operating costs
- Extensions or modifications to improve functionality such as installing computer cabling or increasing the speed of a lift
- Improve the performance of the asset.

**Maintenance / Refurbishment:**

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

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

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



## **Section 14**

### **Residual Values**

#### **14.1 Definition**

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.

#### **14.2 Determine Residual Value**

Residual value will be determined on PPE where practical in terms of the definition as stated above.

The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

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

## **Section 15**

### **Depreciation of assets**

#### **15.1 Definition**

Depreciation is the accounting process used to allocate the cost to particular accounting periods of 'using up' the service potential of the asset over its useful life.

Note: depreciation is not a method of financing the replacement of assets and is necessary even when assets are revalued every year (excluding valuation of biological assets).

#### **15.2 Which Assets must be Depreciated**

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

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

### **15.3 Determining Useful Lives of Assets**

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

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

- Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
- Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
- Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.
- Legal or similar limits on the use of the asset, such as the expiry dates of related leases.
- The recommendation of the heads of the departments involved.

In the case of a fixed asset which is not listed in this annexure, the CFO will determine a useful operating life. If necessary this will be done in consultation with the director of the department who will control or use the fixed asset in question. This director will be guided in determining such useful life either by the useful lives assigned in the annexure to the fixed asset most closely comparable to the asset in question or by any appropriate statement of generally recognised accounting practice (GRAP).

The useful life of an asset shall be reviewed at least at each reporting date.

The amortisation period for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly.

Only the CFO may amend the useful operating life assigned to any item of property, plant and equipment, and when any material amendments occurs the CFO shall inform the Council of such amendments.

The CFO will amend the useful operating life assigned to any asset –after recommendation from the affected department - if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life cycle will not be attained.

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

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

## **15.4 Depreciation Calculation**

### **Tangible Assets**

The municipality applies three methods of depreciation to best reflect the pattern of use of an asset. These methods are:

- The straight line depreciation method whereby items of property, plant and equipment are depreciated on a constant or uniform amount over their estimated useful life. For example, if a vehicle is purchased and has an estimated useful life of 5 years, each month 1/60th of the vehicle will be depreciated.

- The sum of units method whereby units consumed against total unit consumable for an asset are reflected as depreciation. For example 50 graves have been sold for the month in the cemetery which can produce 1000 graves. The depreciation will then be 50/1000 times the cost of the cemetery capitalised.
- The diminishing balance method whereby a percentage of the cost will be depreciated every year. For example an asset is to be depreciated at 10% per period on the carrying value.

Depreciation is an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the item of property, plant and equipment is used or consumed and should be recognised as such.

Depreciation shall be charged from the calendar month following the month in which an item of property, plant and equipment is available for use and will continue until the accumulated depreciation equals the cost or valuation amount of the respective item of property, plant and equipment or the item is disposed or written off.

When depreciation is calculated, a corresponding accumulated depreciation account is created. The accumulated depreciation account is a statement of financial position item (it is an asset provision). This account balance reflects the depreciation charge that has been expensed or capitalised since the asset was available for use. The balance on the accumulated depreciation account can never exceed the cost or valuation of the specific item of property, plant and equipment to which it relates.

### **Intangible Assets**

Amortisation period and amortisation method.

### **Finite Useful Life**

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

### **Infinite Useful Life**

No amortisation will take place during this phase.

- The amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern.

## **15.5 Budget Requirement**

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

In calculating this provision the following must be taken into consideration:

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

The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of property, plant and equipment.

## **15.6 Offset Depreciation**

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

The principle of government grant and public contribution funded assets is that there should be no capital cost included in tariffs from using this source of financing.

Funding from Government Grants and Public Contributions, equal to the amount used to finance the asset are directly transferred to the operating account as revenue. This transfer will reflect in the accumulated surplus as offset of depreciation against future depreciation charges on these assets.

### **Assets Re-Valued**

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

## **15.7 Disclosure Requirements**

### **In the accounting policy notes**

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

### **On the statement of financial position**

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



**On the statement of financial performance**

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

**In the notes to the statements**

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

**In *Annexure B* and *C* to the financial statements**

- These annexures disclose a more detailed analysis of the various classes of assets (***Annexure B***) as well as a detailed analysis on the allocation of assets to the various departments and functions (***Annexure C***). These annexures must show a reconciliation of the carrying amount at the beginning and end of the period showing:
  - Additions
  - Disposals
  - Acquisitions through business combinations
  - Increases or decreases resulting from revaluations
  - Reductions in carrying amount (impairment losses)
  - Depreciation
  - Other movements

When property, plant and equipment is disposed of by selling or destroyed the asset values must be offset against the proceeds, if any. This will result in a profit or loss on the particular item of property, plant and equipment. If this item was previously revalued and there is still a balance left regarding this item on the revaluation reserve, this balance must then be transferred to the accumulated surplus/deficit account.

## **Section 16**

### **Revaluation of Fixed Assets**

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

#### **16.1 Revaluation Process**

In adopting the revaluation method a class of PPE, after initial recognition, whose fair value can be measured reliably, shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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.

#### **16.2 Revaluation Reserve**

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

### **16.3 Depreciation of Revalued Property**

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

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

### **16.4 Disclosure of Revalued Property**

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

## **Section 17**

### **Disposal of Assets**

#### **17.1 Disposal**

In compliance with the principles and prescriptions of the MFMA the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's SCM policy.

Every director of a department shall report in writing to the CFO annually on all fixed assets controlled or used by the department concerned which the director wishes to dispose of by public auction or public tender within the period up to 30 June of the next financial year. The CFO shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Disposal Committee prior to being reported to the Council or the Municipal Manager (by 30 April of the financial year), as the case may be, recommending the process of disposal to be adopted.

Any items declared obsolete or damaged will be handed in to the Asset Control Section for safekeeping. No items will be received by the Asset Control Section without a completed asset disposal form counter signed by the Asset Control Section, describing the status of the item and the reason for writing-off the item.

Each department must take the necessary steps to ensure that all their obsolete or damaged assets are disposed of in the correct and approved manner. It is the responsibility of each department to ensure that all such assets to be disposed of are delivered to and received at the Asset Control Section.

The Council shall ensure that the disposal of any fixed asset takes place in compliance with Section 14 of the MFMA 2004 and the SCM Policy.

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

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

All assets to be disposed of in the next financial period is to be transferred to the non-current assets held for sale account, revalued to the lower of cost and expected selling price and to be disclosed on the statement of Financial Position as non-current assets held for sale under current assets and not as property, plant and equipment under non-current assets.

## **17.2 Other Write-offs**

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

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

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

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

When assets are disposed of, whether by disposal or written off, the asset values needs to be readjusted and offset against the proceeds. If the proceeds of the disposal are less than the carrying value recorded in the FAR, such difference shall be recognised as a loss in the cost centre of the department concerned. If the proceeds of the disposal, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the cost centre of the department concerned.

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

## **17.4 Disclosure of Assets Disposed**

The carrying value of the asset disposed of is removed from the records and will not reflect on the statement of Financial Position as part of the balance on property, plant and equipment under non - Current assets

The gain or loss will be reflected in the statement of Financial Performance as a gain under revenue or as a loss under expenditure.



## **Section 18**

### **Recognition of Assets in the Financial Statements**

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

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

- a note to the financial statements
- with a detailed disclosure as an annexure reflecting the movements for the financial year by category and subcategory
- movements are also reflected on an annexure per department
- the net value (carrying value at year-end) for all categories is added together and reflected as a single line item in the statement of financial position.

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

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

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

- Probability criteria (it is probable that any future economic benefits or service potential associated with the asset will flow to the municipality)

- Measurement criteria (the asset has a cost or value that can be measured with reliability).

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

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

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

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

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

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

## **Section 19**

### **Funding Sources**

The main sources of finance utilised to acquire assets are:

- Government and other conditional grants
- Finance leases
- Conditional grants, subsidies and public contributions and donations
- Cash surplus.

The sources of finance that may be utilised to finance assets are utilised in accordance with the provisions of Section 19 of the MFMA.

#### **19.1 Government and Other Conditional Grants**

Whenever a conditional government or other grant for the acquisition of an asset is received a grant creditor is created on receipt of the funds. Once the asset is bought, an amount equal to the cost of the asset is transferred from the unspent grant creditor to the statement of Financial Performance as revenue.

Unspent conditional grants are reflected on the statement of Financial Position under current liabilities as unspent conditional grants. These funds always have to be backed by cash. The following conditions are set for the creation and utilisation of these funds:

- The cash which backs up the grant is invested until it is utilised
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If the conditions are silent on investment interest it is recognised as interest earned in the statement of Financial Performance and might be allocated, through the statement of Changes in Net Assets, in part or fully to the unspent portion of the grant if it is so stated in the accounting policy
- Whenever an asset is acquired from a conditional grant an amount equal to the cost of the asset is transferred from the unspent grant creditor to the statement of Financial Performance as revenue.
- The amount spent from this grant, meeting the condition, is transferred to an operational revenue account and reflected on the statement of Financial Performance. It will then increase the surplus for the year and the accumulated surplus representing an offset depreciation surplus.

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

## **19.2 Finance Leases**

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

At the commencement of the lease term, the municipality shall recognise finance leases as assets and liabilities in the statement of Financial Position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit to the lease, if this is

practicable to determine; if not, the municipality's incremental borrowing rate shall be used.  
Any initial direct costs of the municipality are added to the amount recognised as an asset.

### **19.3 Donations**

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

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

### **19.4 Surplus Cash**

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

## **Section 20**

### **Impairment Losses**

#### **20.1 Impairment**

The carrying amount (book value) of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.

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

When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation on properties in which case it should be charged to the Revaluation Reserve.

The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification work is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.

The following may be indicators that an asset has become impaired:

- The item has been damaged
- The item has become technologically obsolete
- The item remains idle for a considerable period either prior to it being put into use or during its useful life
- Land is purchased at market value and is to be utilised for subsidised housing developments, where the subsidy is less than the purchase price.

## **20.2 Example:**

An example of where the municipality has suffered an impairment loss is the purchase of land for an amount of R5,000,000. The land will be utilised for new subsidised housing developments. If at year end the expectation is that the municipality will receive only R1,000,000 by way of subsidies an impairment loss of R4,000,000 needs to be recognised. The recoverable amount (R1,000,000) is calculated as being the larger of:

- Net Selling Price of the land which is the amount obtainable from the sale of the market in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal
- Value in use of the land which is the present value of the estimated future net cash inflows expected from the continuing use of the asset and from its disposal at the end of its useful life.

## **20.3 Disclosure of Impairment Losses**

All impairment losses must reflect on the statement of Financial Performance.



The financial statements should also disclose, in the reconciliation of the carrying amount at the beginning and end of the period for each class of property, plant and equipment recognised in the financial statements any impairment losses recognised or reversed in the statement of Financial Performance during the period.

Material impairment losses need to be disclosed in the notes to the income statement as a separately disclosable item.

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

- The same procedures as for the identification of impaired assets are followed as to whether there is an indication that impairment may have decreased. If so, the recoverable amount must be added to the carrying value of the asset
- The life cycle must be adjusted
- The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised
- Reversal of an impairment loss is recognised as income in the income statement
- Depreciation must be adjusted for the remaining life cycle.

## **Section 21**

### **Investment Property**

#### **21.1 Definition of Investment Property**

Investment property is defined as:

Property (land or a building — or part of a building — or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- Use in the production or supply of goods or services or for administrative purposes; or
- Sale in the ordinary course of operations.
- Investment property generates cash flows largely independently of the other assets of the municipality.

Investment property is held to earn rentals or for capital appreciation or both.

The following are examples of investment property:

- Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations
- Land held for a currently undetermined future use (if the municipality has not determined that it will use the land for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation)

- A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

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

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

- Where a property is utilised partly in the ordinary course of operations and partly to generate rentals or for capital appreciation it will only be classified as investment property if a significant portion is utilised to generate investment income.

## **21.2 Initial measurement of Investment Property**

- Investment property is measured initially at its cost (including transaction costs). Where an investment property is acquired at no cost (for example donated assets), or for a nominal cost, its cost is its fair value as at the date of acquisition.
- The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure, such as, professional fees for legal services, property transfer taxes and other transaction costs.
- The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, the municipality applies the GRAP standard on accounting for PPE (GRAP 17). At the completion date, the property becomes investment property and the standard on investment property applies (GRAP 16).
- Investment property is only recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality and the cost or fair value of the investment property can be measured reliably.

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

- Subsequent expenditure relating to an investment property that has already been recognised should be added to the carrying amount of the investment property when it is probable that future economic benefits or service potential over the total life of the investment property, in excess of the most recently assessed standard of performance of the existing investment property, will flow to the municipality. All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.

For example, if a municipality purchases a building as an investment property and will incur renovation costs, the renovation cost may be capitalised if it improves the condition of the asset over its most recently assessed standard of performance. Assume that before the renovation the building can earn R5, 000 per month rental income, but after the renovation it will earn R7, 000 per month rental income. In this case the renovation cost will be added to the carrying amount of the investment property.

- After initial recognition of the investment property the municipality may choose to reflect the investment property at fair value or at cost less accumulated depreciation
- The fair value of investment property is usually its market value. Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. After initial recognition, a municipality that chooses the fair value model should measure all of its investment property at its fair value at each statement of Financial Position date. A gain or loss arising from a change in the fair value of investment

property should be included in net surplus/deficit for the period in which it arises. No depreciation will be calculated on this property.

For Example, the municipality purchases four houses at a cost of R200, 000 each for purposes of leasing them out to senior managers of the municipality at market related rates. The legal fees and transport duties relating to the transaction amount to R16, 000. At the end of the financial year the fair value of the houses is determined to be R900,000. This means that the municipality will recognise a fair value gain in the statement of Financial Performance for the year of R84 000 (R900,000 – R816,000).

- If, after initial recognition, the municipality chooses the cost model it should measure all of its investment property using the guidelines for normal assets that is, at cost less any accumulated depreciation and accumulated impairment losses.

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

### **Transfers**

Transfers to, or from, investment property should be made when, and only when, there is a change in use, evidenced by:

- Commencement of owner-occupation, for a transfer from investment property to owner-occupied property
- Commencement of development with a view to sale, for a transfer from investment property to inventories
- End of owner-occupation, for a transfer from other classified property to investment property
- Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or
- End of construction or development, for a transfer from property in the course of construction or development to investment property.

For a transfer from investment property carried at fair value to owner-occupied property or inventories, the property's cost for subsequent accounting under the relevant GRAP on PPE (GRAP 17) or inventories should be its fair value at the date of change in use.

If an owner-occupied property becomes an investment property that will be carried at fair value, a municipality should apply GRAP 17 up to the date of change in use. The municipality should treat any difference at that date between the carrying amount of the property and its fair value in the same way as a revaluation under GRAP 17 by crediting a reserve.

For a transfer from inventory to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognised in net surplus/deficit for the period.

When the municipality completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognised in net surplus/deficit for the period.

### **Disposals**

On disposal or permanent withdrawal from use of investment property:

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

## **21.5 Budget Implications relating to Investment Property.**

The following amounts will have to be budgeted for in the operating budget relating to investment properties:

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

## **21.6 Disclosure**

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



## **Section 22**

### **Replacement Strategy**

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

This strategy should take into consideration:

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

## **Section 23**

### **Asset Risk Management**

#### **23.1 Insurance**

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

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

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

#### **23.2 Other Risk Reducing Methods**

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

- Only authorised personnel should be allowed in areas where expensive equipment is kept
- Only authorised personnel should be allowed to operate plant or vehicles

- The keys for office vehicles should be controlled in a central office during the day, and employees should sign when they take the keys
- Ensure that drivers or operators have the necessary qualifications and licenses
- It should be part of service conditions that employees incur personal liability if they drive while under the influence of alcohol, drugs, medication, and so forth; or if they leave the vehicle unattended and unlocked
- Physical access to buildings, or areas within buildings, should be restricted, especially after hours.

## **Section 24**

### **Maintenance of Assets**

#### **24.1 Maintenance Plans**

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

Every director of a department shall ensure that a maintenance plan in respect of infrastructural asset is prepared and submitted to the Council of the municipality for approval.

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

The director of a department controlling or using the infrastructure asset in question, shall budget for the executing of the approved plan and will annually report to Council, not later than 31 March, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance and / or budgetary constraints may have on the useful operating life of the asset concerned.

## **24.2 Deferred Maintenance**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructural asset (see 18 above), the CFO shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the Council has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the director of a department controlling or using such asset shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the Asset Control Section, and the Asset Control Section shall recalculate the annual depreciation expenses accordingly.

## **24.3 General Maintenance**

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

## **Section 25**

### **General Requirements**

#### **25.1 Tagging**

Tagging means to place a control number on a piece of equipment or property. All movable assets must be tagged if probable. The primary purpose of tagging is to maintain a positive identification of assets.

Tagging is important to:

- Provide an accurate method of identifying individual assets
- Aid in the annual physical inventory
- Control the location of all physical assets
- Aid in maintenance of fixed assets

Fixed property and plant is not tagged; such as:

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

Consistently place asset tags in the same location on each similar type asset. If possible, the tags shall be accessible for viewing. Place the tag where the number can be seen easily and identified without disturbing the operation of the item, which will aid in taking inventory.

## **25.2 Physical Inventory of all Movable Assets**

The Asset Control Section will conduct a physical inventory of movable assets annually. They will require the cooperation of departmental personnel in accomplishing the physical inventory task and will attempt to minimise the time demanded of them.

The designated officials in the different departments within the municipality must execute the functions listed below.

- Ensure that the bar code number and location number are reflected on the asset movement form by the relevant official on the receipt of the asset. Where applicable, the serial number or registration number should be included
- Complete the asset movement form when transfers occur and forward the completed original form to Asset Control Section
- Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained
- Asset Control Section must be notified by the relevant department within 14 days of any of the following possible movements:
  - Donations
  - Additions / Improvements
  - Departmentally manufactured items
  - Loss or damage
  - Transfers
  - Terminations
  - Land Sales

## **25.3 Acquisition**

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

- The purpose for which the fixed asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it
- The fixed asset has been budgeted for
- The purchase is absolutely necessary as there is no alternative municipality asset that could be upgraded or adapted
- The fixed asset is appropriate to the task or requirement and is cost effective over the life of the asset
- The fixed asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources
- Space and other necessary facilities to accommodate the asset are in place.
- The most suitable and appropriate type, brand, and model etc. has been selected.

## **25.4 Asset Management Responsibilities**

- Utilisation - all assets should be used for the purposes they were acquired
- Asset performance should be regularly reviewed to identify under-utilised and under-performing assets. The reasons for this should be critically examined and appropriate action taken
- Disciplinary action must be taken against individuals if there is misuse of the municipality's assets.

## **25.5 Additions / Improvements**



Depending on the type of addition or improvement to a specific asset the responsible official in the department must notify the Asset Control Section of the change in status. The asset master record will be amended on receipt of the required asset acquisition form from the responsible department.

When capital expenditure is incurred for any enhancement/improvement of an asset, the department shall complete the necessary asset acquisition form and forward it to the Asset Control Section.

When any changes to vacant land or land and buildings are effected such as subdivision, transfer to another department, extent or holders title, the current owner must complete the relevant asset movement form and forward it to the Asset Control Section.

## **25.6 Termination of Employee's Service**

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

## **25.7 Transfer of Assets**

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

When a department transfers an asset or inventory item to another department, the transferring department must approve the transfer. After approval has been granted the asset movement form must be completed and forwarded to the Asset Control Section.

## **25.8 Disposal of Assets**

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

## **Annexure A**

### **Asset Useful Live Guide**

#### **Infrastructure Assets**

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

- **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) |
| Substations                      | (20) |
| Festive Lighting                 | (10) |
  
- **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) |
| Parking Meters   | (15) |
| Parking Areas  | (10) |
| Guidance Signs   | (10) |
| Pedestrian Facilities  | (10) |
| Sidewalks  | (10) |
| Taxi Facilities  | (20) |
| <br>   |      |
| • <b>Water</b>   |      |
| Mains  | (20) |
| Supply and reticulation networks   | (20) |
| Reservoirs and storage tanks   | (20) |
| Rights (that is, the right to draw water from<br>a particular source belonging to another party) | (20) |
| Meters   | (15) |
| Water Treatment Works  | (20) |
| Dams   | (20) |
| <br>   |      |
| • <b>Sewerage</b>  |      |
| Sewer mains  | (20) |
| Outfall sewers   | (20) |
| Sewage purification works  | (20) |
| Sewerage pumps   | (15) |
| Sludge machines  | (15) |
| <br>   |      |
| • <b>Pedestrian Malls</b>  |      |
| Footways   | (20) |

|                        |      |
|------------------------|------|
| Kerbing                | (20) |
| Paving                 | (20) |
| <b>• Security</b>      |      |
| Access control systems | (5)  |
| Security systems       | (5)  |
| Security fencing       | (10) |
| Security lighting      | (3)  |

### **Community Assets**

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

|                                     |      |
|-------------------------------------|------|
| <b>• Buildings and other assets</b> |      |
| Agriculture                         | (30) |
| Ambulance stations                  | (30) |
| Aquariums                           | (30) |
| Beachfront 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) |
| <br>   |      |
| • <b>Recreational facilities</b>   |      |
| 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<br>fixtures in a municipal hall or other centre) | (20) |
| Lakes and dams   | (20) |
| Fountains  | (20) |
| Floodlighting  | (20) |

### **Heritage Assets**

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

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

### **Investment Assets**

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

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

### **Other Assets**

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

- **Buildings**
  - Abattoirs (30)
  - Asphalt plant (30)
  - Caravan parks (30)
  - Compost (30)
  - Compacting stations (30)
  - General (30)
  - Hawker Facilities (30)
  - Hostels used to accommodate the public or tourists (30)
  - Hostels for municipal employees (30)
  - Housing schemes (30)
  - Kilns (30)
  - Laboratories (30)

|                                 |        |      |
|---------------------------------|--------|------|
| Fresh produce and other markets | (30)   |      |
| Nurseries                       | (30)   |      |
| Office buildings                | (30)   |      |
| Old age homes                   | (30)   |      |
| Quarries                        | (30)   |      |
| Recycling Centres               | (30)   |      |
| Tip sites                       | (30)   |      |
| Training centres                | (30)   |      |
| Transport facilities            | (30)   |      |
| Waste Cells                     | (30)   |      |
| Workshops and depots            | (30)   |      |
| <br>                            |        |      |
| • <b>Office equipment</b>       |        |      |
| Computer hardware               | (3-5)  |      |
| Computer software               | (3-5)  |      |
| Office machines                 | (3-5)  |      |
| Air Conditioners                | (3-5)  |      |
| <br>                            |        |      |
| • <b>Furniture and fittings</b> |        |      |
| Chairs                          | (7-10) |      |
| Tables and desks                | (7-10) |      |
| General                         | (7-10) |      |
| Cabinets and cupboards          | (7-10) |      |
| <br>                            |        |      |
| • <b>Bins and containers</b>    |        |      |
| Household refuse bins           | (5)    |      |
| Bulk refuse containers          | (10)   |      |
| <br>                            |        |      |
| • <b>Emergency equipment</b>    |        |      |
| Fire hoses                      | (5)    |      |
| Other fire-fighting equipment   |        | (15) |



|                                    |         |
|------------------------------------|---------|
| Emergency lights                   | (5)     |
| <b>• Motor vehicles</b>            |         |
| Ambulances                         | (5-10)  |
| Fire engines                       | (20)    |
| Tankers                            | (20)    |
| Mobile Libraries                   | (15)    |
| Buses                              | (15)    |
| Trucks and light delivery vehicles | (5-7)   |
| Ordinary motor vehicles            | (5-7)   |
| Motor cycles                       | (3)     |
| <b>• Plant and equipment</b>       |         |
| Chlorination Equipment             | (5)     |
| Compactors                         | (5)     |
| Electronic Equipment               | (5)     |
| Fire Hoses                         | (5)     |
| General                            | (5)     |
| Generators                         | (5)     |
| Graders                            | (10-15) |
| Horticultural Equipment            | (5)     |
| Mobile Pumps                       | (5)     |
| Other Fire Fighting Equipment      | (5)     |
| Pumps                              | (5)     |
| Tractors                           | (10-15) |
| Trailers                           | (5)     |
| Mechanical horses                  | (10-15) |
| Farm equipment                     | (5)     |
| Lawn mowers                        | (5)     |
| Compressors                        | (5)     |
| Laboratory Equipment               | (5)     |

|                             |      |
|-----------------------------|------|
| Radio Equipment             | (5)  |
| Firearms                    | (5)  |
| Telecommunication equipment | (5)  |
| Irrigation systems          | (15) |
| Cremators                   | (15) |
| Lathes                      | (15) |
| Conveyors                   | (15) |
| Feeders                     | (15) |
| Tippers                     | (15) |
| Workshop Equipment          | (5)  |
| Pulverising mills           | (15) |
| <br>                        |      |
| • <b>Airports</b>           |      |
| Aircraft                    | (15) |
| Aprons                      | (20) |
| Runways                     | (20) |
| Taxiways                    | (20) |
| Airports/Radio beacons      | (20) |
| <br>                        |      |
| • <b>Gas</b>                |      |
| Meters                      | (20) |
| Mains                       | (20) |
| Storage tanks               | (20) |
| Supply/reticulation         | (20) |

## **Annexure B**

### **Paraphrase of Section 14 of the Municipal Finance Management Act 2004**

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

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

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

## **Annexure C**

### **GRAP 13 Definitions of Finance Leases**

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

- the lease transfers ownership of the asset to the lessee by the end of the lease term,
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for the major part of the economic life of the asset even if title is not transferred,
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset,
- the leased assets are of a such a specialised nature that only the lessee can use them without major modifications, and
- the leased assets cannot easily be replaced by another asset.
- if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee,
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease), and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.