



ASSET MANAGEMENT POLICY

Original Council Approval		Amended
Date of Council Approval	29 May 2025	
Resolution Number	M24/25-54	
Effective Date	1 July 2025	

Contents

Definitions and Abbreviations	6
Section 1	8
Objective of the Asset Management Policies and Procedures	8
Section 2	15
Role of the Municipal Manager	15
Section 3	16
Role of the Chief Financial Officer (CFO)	16
3.1 Asset Control Section	16
3.2 The Manager: Budgets	17
3.3 The Manager: Expenditure section	18
3.4 Procurement Section	18
Section 4	19
Role of other departments	19
4.2 All Departments Directors:	19
Section 5	22
Definition of an Asset	22
5.2 Role of Assets	23
Section 6	23
Format of the Fixed Asset Register (FAR)	23
6.2 Different categories within FAR	29
Immovable Assets:	29
• Movable Assets:	30
Rules and Procedure	30
Section 7	31
Classification and Identification of Property, Plant and Equipment (Fixed Assets)	31
Property, Plant and Equipment	31
7.2 Identification	32
7.3 Verification	32
7.4 Safekeeping	33
Section 8 Heritage Assets	34
8.2 Recognition and Disclosure of Heritage assets	34
Section 9 Donated Assets	35
9.2 Disclosure of Donated Assets	35

9.3	Budgetary Requirements.....	35
	Section 10.....	36
	Unbundling of Assets	36
	Section 11 Intangible Assets.....	36
11.2	Recognition and Measurement	38
	Cost Model.....	38
11.3	Useful Life	38
11.4	Retirements and Disposals	39
11.5	Impairment Assessment.....	39
	Section 12 Capitalisation Criteria.....	40
12.2	Group Assets	40
	Maintenance / Refurbishment:.....	42
	Section 14 Residual Values	44
14.2	Determine Residual Value	44
	Section 15 Depreciation of assets.....	45
15.2	Which Assets must be Depreciated.....	45
15.3	Determining Useful Lives of Assets	46
15.4	Depreciation Calculation Tangible Assets	48
	Intangible Assets	49
	Finite Useful Life	49
	Infinite Useful Life	49
15.5	Budget Requirement.....	50
15.6	Offset Depreciation	50
15.7	Disclosure Requirements	50
	On the statement of financial position.....	50
	On the statement of financial performance	51
	In the notes to the statements.....	51
	In Reconciliation note to the financial statements.....	51
	Section 16.....	52
	Revaluation of Fixed Assets – Not applicable.....	52
17.2	Other Write-offs.....	54
17.3	Proceeds /Gain or Loss on Disposal of Assets	54
17.4	Disclosure of Assets Disposed.....	55
	Section 18.....	55
	Recognition of Assets in the Financial Statements.....	55
	Section 19 Funding Sources	57

19.1	Government and Other Conditional Grants	58
19.2	Finance Leases	59
19.3	Donations	59
19.4	Surplus Cash.....	59
Section 20 Impairment Losses		60
The grading system as indicated below has been adopted for many previous years. Condition and risk assessment		62
20.2	Disclosure of Impairment Losses	64
20.3	Reversal of an Impairment Loss	64
Section 21 Investment Property		65
21.2	Initial measurement of Investment Property	67
21.3	Measurement of Investment Property subsequent to Initial Measurement.....	68
21.4	Transfers and Disposals of Investment Properties Transfers.....	69
Disposals		70
21.5	Budget Implications relating to Investment Property	71
21.6	Disclosure.....	71
Section 22 Replacement Strategy		72
Section 23		73
Asset Risk Management		73
23.2	Other Risk Reducing Methods	73
Section 24 Maintenance of Assets		74
24.2	Deferred Maintenance	75
24.3	General Maintenance	75
Section 25		76
General Requirements		76
25.2	Physical Inventory of all Movable Assets.....	77
25.3	Acquisition	78
25.4	Asset Management Responsibilities.....	78
25.5	Additions / Improvements	79
25.6	Termination of Employee's Service	79
25.7	Transfer of Assets.....	80
25.8	Disposal of Assets	80
Annexure A.....		81
Asset Useful Live Guide		81
Annexure B.....		81
Paraphrase of Section 14 of the Municipal Finance Management Act 2004.....		81

Annexure C.....	82
GRAP 13 Definitions of Finance Leases.....	82

DRAFT

Definitions and Abbreviations

Item	Description
Asset	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.
Carrying Amount	The amount at which an asset is included in the statement or financial position after deducting any accumulated depreciation and any impairment losses thereon.
CFO	Chief Financial Officer
Cost	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.
Depreciation	This is the systematic allocation of the cost of use of an asset over its useful life.
Depreciable amount	The cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
Fair Value	The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.
FAR	Fixed Assets Register
GRAP	Standards of Generally Recognised Accounting Practice
IAS	International Accounting Standards
Impairment	An asset is impaired when the carrying amount exceeds its recoverable amount.

PPE	<p>Property, Plant & Equipment – These are tangible assets that:</p> <ul style="list-style-type: none"> • are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and
------------	--

Item	Description
	<ul style="list-style-type: none"> • are expected to be used during more than one reporting period.
Residual value	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.
Recoverable amount	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.
SCM	Supply Chain Management
Useful life	<p>Useful life is either:</p> <ul style="list-style-type: none"> • the period over which an asset is expected to be available for use by the municipality, or • the number of production or similar units expected to be obtained from the asset by the municipality.
Value in use	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.

Heading	Details
Frequency of Policy review	It is recommended that the Asset management policy be reviewed annually, gets authorised by the council and a latest copy be easily accessible upon request.
PROPERTY, PLANT AND EQUIPMENT: COMMUNITY ASSETS	<p>General</p> <p>Community Assets include a variety of assets used to provide services to the community. These assets include building assets such as aquariums, cemeteries, clinics, hospitals, game reserves, museums, parks, etc. Community assets also include recreational assets such as tennis courts, swimming pools, golf courses, outdoor sports facilities, etc.</p> <p>Policy</p> <p>Community assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives.</p> <p>Community Assets shall be recorded under the following main categories:</p> <ul style="list-style-type: none"><input type="checkbox"/> Recreational Facilities;<input type="checkbox"/> Sporting Facilities; and<input type="checkbox"/> Other Facilities. <p>Procedures and Rules</p>

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

PROPERTY, PLANT AND EQUIPMENT: HOUSING ASSETS	<p>General</p> <p>Housing Assets have their origin from housing units erected in terms of the Housing Act, funded from loans granted by Government and comprise of rental stock or selling stock not held for capital gain.</p> <p>Policy</p> <p>Housing assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Housing Assets shall be recorded under the following main categories;</p> <ul style="list-style-type: none"> <input type="checkbox"/> Rental Schemes; and <input type="checkbox"/> Selling Schemes. <p>Procedures and Rules</p> <p>The CFO, in consultation with the Heads of Department, shall ensure that all housing assets are appropriately recorded and valued in terms of the municipality's policies.</p>
--	--

<p>PROPERTY, PLANT AND EQUIPMENT: OTHER ASSETS</p>	<p>General</p> <p>Other Assets include a variety of assets that are of indirect benefit to the communities they serve. These assets include office equipment, furniture and fittings, computer equipment, bins and containers, emergency equipment, motor vehicles, plant and equipment.</p> <p>Policy</p> <p>Other assets are stated at cost less accumulated depreciation and accumulated impairment losses.</p>
---	--

	<p>Depreciation shall be charged against such assets over their expected useful lives. Other assets are not revalued.</p> <p><i>Other Assets</i> shall be recorded under the following main categories;</p> <ul style="list-style-type: none"> <input type="checkbox"/> Bins and Containers; <input type="checkbox"/> Emergency Equipment; <input type="checkbox"/> Furniture and Fittings; <input type="checkbox"/> Computer Equipment; <input type="checkbox"/> Motor Vehicles; <input type="checkbox"/> Office Equipment; <input type="checkbox"/> Plant and Equipment; <input type="checkbox"/> Specialised Vehicles; <input type="checkbox"/> Other Assets as indicated in the Municipality's accounting policy. <p>Procedures and Rules</p> <p>The CFO, in consultation with the Heads of Department, shall ensure that all other assets are appropriately recorded in terms of the municipality's policies.</p>
--	--

MINOR ASSETS (CAPITAL ASSETS BELOW APPROVED THRESHOLD)	<p>General</p> <p>Minor Assets comprise movable assets not capitalised in terms of the threshold policy of the municipality. They are not capitalised for the number of assets compared to their value does not warrant the complex procedures applicable to asset management, rendering a manageable asset register by concentrating on what is material and significant to the municipality's operation.</p> <p>Policy</p> <p>Minor assets shall be expensed in the Statement of Financial Performance and not be capitalised.</p>
---	--

	<p>Procedures and Rules</p> <p>The CFO shall ensure that minor assets are expensed.</p>
CREATION OF NEW INFRASTRUCTURE ASSETS	<p>General</p> <p>Creation of new infrastructure assets refers to the purchase and / or construction of totally new assets that has not been in the control or ownership of the municipality in the past.</p> <p>Policy</p> <p>The cost of all new infrastructure facilities (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs of new infrastructure into the component parts, each of which have an appropriate useful life.</p> <p>Work in progress shall be flagged as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition</p>

	<p>necessary for it to operate in the manner intended by management.</p> <p>Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.</p> <p><i>Procedures and Rules</i></p> <p>The Heads of Department shall ensure that a form is completed and submitted to the Asset Control Department that includes the details of the work in progress relating to the work in progress.</p> <p>The Heads of Department shall notify the Asset Control Unit when the works have been completed and the</p>
	<p>assets can be recognised.</p> <p>The Heads of Department shall guide the service provider to submit invoices of work in progress as per the components and classification of assets as in the asset register.</p> <p>SELF-CONSTRUCTED ASSETS</p> <p><i>General</i></p> <p>Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality.</p> <p><i>Policy</i></p> <p>All assets that can be classified as assets and that are constructed by the municipality should be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged as such in the asset register until such</p>

	<p>time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for to operate in the manner intended by management.</p> <p><i>Procedures and Rules</i></p> <p>Heads of Department shall ensure that proper records of staff time, transport and material costs are kept such that all costs associated with the construction of these assets are completely and accurately accounted for.</p> <p><i>Heads of Department shall open a job card for each infrastructure project constructed by the municipality.</i></p> <p><i>On completion of the infrastructure project, the Heads of Department shall ensure that all costs (both direct</i></p> <p><i>and indirect) associated with the construction of the</i></p>
--	---

		<i>assets be summed and be capitalised to the assets that make up the project.</i>
FIXED TREATED INVENTORY	ASSETS AS	<p>Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality's statement of position.</p> <p>Such inventories shall, however, be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.</p>

Section 2

Role of the Municipal Manager

As the municipality's Accounting Officer, the Municipal Manager is the principal custodian of all fixed assets and is responsible for ensuring strict adherence to the Fixed Asset Management Policy.

Key Responsibilities

The Municipal Manager (or a duly delegated representative) must:

1. Implement the Asset Management Policy
 - Ensure compliance with Section 63 of the MFMA.
2. Conduct Regular Asset Verification
 - Physically verify assets held by the Council at least once per financial year.
3. Maintain Accurate Asset Records
 - Keep a complete and up-to-date register of all Council assets.
4. Report Asset Losses
 - Submit written reports to Council on any asset losses without delay.
5. Ensure Proper Valuation & Accounting
 - Value and account for assets in accordance with Generally Recognised Accounting Practice (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 CFO-prescribed format, ensuring compliance with all applicable accounting requirements. In addition to the above, the FAR must include, at a minimum, the following information:

- ◆ Core Asset Identification
 1. Parent Asset No
 2. Sub Asset
 3. Barcode
 4. Serial No
 5. Old Asset No
 6. Old Sub Asset No
 7. Description
- ◆ Acquisition & Usage Details
 8. Acquisition Date
 9. Date In Use / Take-On
 10. Purchase Price
- ◆ Depreciation & Useful Life

- 11. Depreciation Rate
- 12. Original Useful Life (Years)
- 13. Current Useful Life (Years)
- 14. Remaining Useful Life
- 15. Residual Value

- ◆ Asset Movement & Disposal
 - 16. Disposal Date
 - 17. Last Reassessment Date
 - 18. Net Book Value at Beginning of Financial Year

- ◆ Classification and Coding
 - 19. Group Code
 - 20. Group Description
 - 21. Measure Code
 - 22. Measure Description
 - 23. Type Code
 - 24. Type Description
 - 25. Class Code
 - 26. Class Description
 - 27. Category Code
 - 28. Category Description
 - 29. Reporting Class

- ◆ Depreciation Accounting
 - 30. Depreciation Function
 - 31. Depreciation Project
 - 32. Depreciation Cost Centre
 - 33. Depreciation Funding Source

- ◆ Cost Reconciliation
 - 34. Original Cost Opening Balance
 - 35. Cost O/Bal Adjustment
 - 36. Adjusted Cost Opening Balance
 - 37. Cost Additions
 - 38. Cost Transfers
 - 39. Cost Fair Value Adjustments
 - 40. Cost Disposal
 - 41. Cost Closing Balance
- ◆ Depreciation Reconciliation
 - 42. Original Depreciation Opening Balance
 - 43. Depreciation Adjustment
 - 44. Adjusted Depreciation Opening Balance
 - 45. Depreciation for the Year
 - 46. Depreciation on Disposal
 - 47. Depreciation Closing Balance
- ◆ Impairment Reconciliation
 - 48. Original Impairment Opening Balance
 - 49. Impairment Opening Balance Adjustment
 - 50. Adjusted Impairment Opening Balance
 - 51. Impairment Movement
 - 52. Impairment on Disposal
 - 53. Impairment Closing Balance
- ◆ Valuation & Losses
 - 54. Net Book Value
 - 55. Profit / (Loss) on Disposal

- 56. (Reversal) / Loss on Impairment
- 57. Depreciation @ Old Estimate
- 58. Depreciation @ New Estimate
- 59. Change in Estimate

- ◆ Location Details

- 60. Room
- 61. Town Name
- 62. Street Name
- 63. Building Name
- 64. Floor Name
- 65. Room Name

- ◆ Responsibility Tracking

- 66. Movable Occupant
- 67. Infrastructure Custodian

- ◆ Component & Additional Identifiers

- 68. Facility ID
- 69. Component ID
- 70. Additional ID
- 71. GPS Coordinate 1
- 72. GPS Coordinate 2

- ◆ Condition Assessment

- 73. Prior Year Condition
- 74. Prior Year Condition Description
- 75. Current Condition
- 76. Current Condition Description

◆ Purchase Information

77. Purchase Function

78. Purchase Item

79. Purchase Project

80. Purchase Costing

81. Purchase Funding

82. Purchase Region

◆ Insurance Information

83. Broker Name

84. Insurance Policy Number

85. Insurance Amount

86. Insurance Effective Date

87. Insurance Active (Y/N)

88. Insurance Category

◆ Specialised Asset Details (e.g. Vehicles)

89. SG Code

90. Make

91. Model

92. Chassis Number

93. Tare

94. Engine Number

95. Registration Number

◆ Creditor / Supplier

96. Creditor Code

97. Creditor Name

◆ For Books / Library Assets

98. Book Author / Title

Reporting Obligations: Directors of departments responsible for fixed assets must promptly notify the CFO in writing of:

- Any information required for FAR compilation; and
- Any material changes to such information.

Capitalization of Fixed Assets: A fixed asset must be capitalized (recorded in the FAR) once acquired and available for use. If constructed over time, it shall be recorded as work-in-progress until ready for use, after which it must be capitalized as a fixed asset.

Retirement & Depreciation: A fixed asset shall remain in the FAR for as long as it is physically in existence. Full depreciation does not, by itself, justify write-off.

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:
 - Roads Infrastructure
 - Solid Waste Infrastructure
 - Electrical Infrastructure
- Land
- Buildings
- Investment properties
- Community assets
- Heritage assets
- Intangible assets
- Capital - Work in Progress

- **Movable Assets:**

- Computer equipment
- Furniture and Office Equipment
- Bins and containers
- Transport Assets
- Machinery and equipment
- Leased assets capitalised

Rules and Procedure

- The FAR will consist of all the asset master records of movable assets capitalised. These assets, except for group assets and immovable 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 and may be impaired.

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.

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

Asset Verification Process

✓ Annual Asset Register Distribution

- The Asset Control Section shall provide each department director with a complete list of registered assets under their control at least once per financial year.

✓ Verification Responsibilities

- Each director must:

- a) Physically verify and assign condition on all assets listed,
- b) Investigate and document all discrepancies, and
- c) Submit findings to the Asset Control Section.

✓ **Certification Requirement**

- Following verification, directors must sign and date a **declaration** confirming:
 - The asset list's completeness and accuracy
 - Any reported discrepancies

✓ **Departmental Accountability**

- User departments and directors bear full responsibility for:
 - Conducting proper asset verification
 - Performing condition assessments
 - Active participation in the entire verification process

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 (Cost) at acquisition 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 financial performance as non-exchange revenue : Donated Assets.

9.3 Budgetary Requirements

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

Section 10

Unbundling of Assets

- ✓ Methodology: Asset unbundling shall be performed using the bill of quantities as the primary reference document.
- ✓ Implementation: The process must:
 - Systematically identify and separate composite assets into their measurable components
 - Align with the municipality's asset classification framework
 - Maintain accurate records of all unbundled components
- ✓ Documentation: All unbundling activities must be:
 - Properly documented in the asset register
 - Supported by the original bill of quantities
 - Verified by the responsible department

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
-
- even though a servitude and Licensing rights meets the definition of an intangible asset, if they are essential to the operation of a tangible asset and therefore municipality must include the cost of the servitude and Licensing rights in the cost of the tangible asset.

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.

Licensing rights and Servitudes that are necessary to bring a tangible asset to its expected use are capitalised within the relevant property plant and equipment

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:

Enhancements or rehabilitation work refers to expenditures that improve an asset beyond its original capacity by increasing its service potential, extending its useful life, or upgrading its functionality due to technological advances or operational needs.

Unlike routine maintenance, these costs are not part of the asset's normal lifecycle and are instead capitalized—added to the asset's book value—when they meet specific criteria.

To qualify as capital expenditure, the investment must result in measurable improvements, such as extending the asset's lifespan, boosting output quality, reducing operating costs, or enhancing performance (e.g., upgrading machinery or infrastructure).

These expenditures are only recognized if they demonstrably increase future economic benefits for the municipality.

Otherwise, costs are treated as operating expenses.

Maintenance / Refurbishment:

Maintenance refers to expenditures incurred to repair or preserve property, plant, and equipment (PPE) to restore or sustain the asset's original service potential or expected future economic benefits.

Operating Expense Recognition: Costs are recorded as an operating expense in the statement of financial performance when they:

- Do not extend the asset's useful life beyond its original estimate
- Merely restore performance to the level initially expected

Refurbishment Expenditure: Refurbishment covers necessary works that do not enhance functionality or prolong the asset's life but ensure it achieves its originally planned lifespan.

No increase in asset value, Costs treated as an operating expense (not capitalized)

Expenditure is capitalized only if it:

- Extends the asset's useful life
- Improves performance beyond original specifications
- Increases future economic benefits

Otherwise, it is classified as an operating expense.

Due to fiscal constraints preventing compliance with National Treasury's 8% maintenance budget requirement, the municipality work on an Ad-Hock approach to asset maintenance. Critical assets essential for service delivery or posing safety risks will receive priority, while non-urgent maintenance will be deferred.

The Municipal Manager and Infrastructure Director will approve interventions based on available funding,

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, Investment properties 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.

At least Fixed assets with a remaining useful life of less than 366 days will undergo a reassessment of their useful life based on the physical condition evaluated during asset verification. To determine the adjustment to the estimated useful life, the original estimated useful life will be multiplied by the percentage rating corresponding to the asset's current condition.

This process ensures that the depreciation schedule accurately reflects the actual condition and utility of each asset.

15.4 Depreciation Calculation

Tangible Assets

The municipality applies 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.

Depreciation is an expense both calculated and debited monthly 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

Intangible assets with finite useful lives must be amortized systematically over their estimated lifespan. Amortization begins when the asset is ready for use—meaning it is properly located and prepared to function as intended—and ends when the asset is either designated for sale or derecognized. The amortization method must align with the asset's expected consumption of economic benefits; if no clear pattern exists, the straight-line method applies. All amortization expenses are recorded in the profit or loss unless another accounting standard mandates their inclusion in a different asset's carrying value. This ensures accurate financial reporting while reflecting the asset's diminishing value over time.

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.

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.

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 Reconciliation note to the financial statements

- The Reconciliation note disclose a more detailed analysis of the various classes of assets
The Reconciliation note 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.

Section 16

Revaluation of Fixed Assets – Not applicable

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 will consolidate departmental requests and report to the Disposal Committee before reporting to the Council or Municipal Manager by 30 April, recommending the disposal process.

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.

Assets not physically found during asset verification shall be flagged for investigation. The Accounting Officer shall ensure a detailed investigation is conducted to determine whether the asset:

- Still exists but was not physically located (e.g., due to relocation or access issues),
- Has been disposed of or lost (and appropriate loss control procedures initiated), or
- Was erroneously recorded in the asset register.

Only after such investigation, the asset may be de recognised. Where appropriate, adjustments shall be made in the financial records, supported by documentation and Council approval where required.

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
- 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

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- a) Cessation, or near cessation, of the demand or need for services provided by the asset.
- b) Significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.
- c) The item has become technologically obsolete.
- d) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- e) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

Internal sources of information

- a) Evidence is available of obsolescence or physical damage of an asset.
- b) Significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date and reassessing the useful life of an asset as finite rather than indefinite.
- c) A decision to halt the construction of the asset before it is complete or in a usable condition.

- d) Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.
- e) Asset condition grade change by skipping one stage from one year to another and the new condition is either Poor, very poor or broken then this will be considered as an impairment indicator since the assets is depreciating at a faster rate than normal wear and tear.

This indicates a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (i.e. the impairment is an unexpected decrease in the future economic benefits or service potential).
- f) Land is purchased at market value and is to be utilised for subsidised housing developments, where the subsidy is less than the purchase price.

The carrying amount of an item or a group of identical items of property, plant and equipment should be reviewed periodically to assess whether the recoverable amount has declined below the carrying amount. Only for assets where there are indicators for impairment.

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,

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.

The grading system as indicated below has been adopted for many previous years.

Condition and risk assessment

The purpose of this condition assessment is to determine if a movable asset will achieve its estimated useful life. Where the assessment indicates that the remaining useful life will most likely not be achieved, a decision has to be taken on the type of intervention to be adopted.

The condition grading is based on National treasury guidelines on asset management to ensure that the approach adopted for determining condition needs to:

- be standardised so that it can be consistently applied across all municipalities to enable effective benchmarking, trend monitoring, and data aggregation.
- be cost effective, repeatable and objective.
- be linked to the expected failure pattern of the specific assets
- align with existing industry norms in each sector.
- support robust valuation; and
- support the modelling of renewal budget needs.

Grade	Condition	Description
1	Very Good	Excellent condition; strong structure; no maintenance needed.
2	Good	Fully functional with minor wear; only routine maintenance required.
3	Fair	Functioning but showing clear wear and tear; regular maintenance required.
4	Poor	Functional but requires significant maintenance.
5	Very Poor	Major deterioration; impairment of function; requires major repairs. Asset may run to fail
6	Broken	Completely non-functional; unusable and requires replacement.
7	Not Found	Asset not located during verification.
8	Not Used	Asset exists but is decommissioned or not in use.

The following Table is used to test for impairment and determine the recoverable service amount based on indicative RUL.

Condition	Description	Indicative RUL (Immovables)	Indicative RUL (movables)
1	Very Good	100%	100%
2	Good	70%	80%
3	Fair	45%	60%
4	Poor	25%	40%
5	Very Poor	10%	20%
6	Broken	0%	0%
7	Not Used	0%	0%

The percentage rating reflects the remaining or economic service life of the asset based on its current condition. For instance, an asset classified as "Broken" is expected to be fully depreciated, meaning its remaining service life is effectively zero.

The assumption underlying this approach is that the asset's useful life is directly proportional to its condition. Accordingly, the remaining useful life of an asset in perfect condition is its estimated useful life. For an asset depreciating faster than expected, the remaining useful life is adjusted based on the condition rating.

Depreciated replacement cost (DRC) often results in a higher recoverable amount than the carrying amount due to factors such as the replacement cost being updated to current prices while the carrying amount is based on historical cost less accumulated depreciation. To address this issue, use the historical cost of the asset and adjust the remaining useful life based on the asset's condition to accurately reflect its current service potential.

By multiplying the historical cost with the condition rating, the result is the adjusted carrying amount of the asset, which represents its recoverable service amount. This adjusted carrying amount reflects the remaining service potential of the asset based on its condition, providing a more realistic and practical measure for impairment testing.

The condition rating is an average rating that accounts for the remaining service potential of the asset, ensuring that the depreciation allowance reflects the actual wear and tear or obsolescence experienced by the asset.

20.2 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.

20.3 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
- Asset condition grade change by skipping one stage from one year to another and the new condition is either fair, good or very good then this will be considered as an impairment reversal indicator.

- 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. 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.

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 practical. 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

Fixed property and plant is not tagged but allocated coordinates for identification ; 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.

All non-movables assets shall be allocated coordinates for easy identification.

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. The departmental personnel will assist in identifying complex assets and reviewing the condition of the asset.

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

Item	Useful life
Land	Indefinite
Buildings	3 - 80 years
Community	2 - 75 years
Computer Equipment	5 - 30 years
Electrical Infrastructure	5 - 50 years
Furniture and Office Equipment	3 - 30 years
Leased assets capitalised	2 - 12 years
Machinery and Equipment	2 - 20 years
Roads Infrastructure	2 - 80 years
Solid Waste Infrastructure	3 - 40 years
Transport Assets	2 - 12 years

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.