



**ASSET MANAGEMENT POLICY  
2018/2019  
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## ABBREVIATIONS

AMP	Asset Management Plan
ASB	Accounting Standards Board
CFO	Chief Financial Officer
CMIP	Comprehensive Municipal Infrastructure Plan
COGTA	Department of Co-operative Governance and Traditional Affairs
CRC	Current Replacement Cost
DRC	Depreciated Replacement Cost
EPWP	Expanded Public Work Program
EUL	Estimated Useful Life
GIAMA	Government-wide Immoveable Asset Management Act
GIS	Geographical Information System
GRAP	Generally Recognised Accounting Practice
IAMP	Infrastructure Asset Management Plan
IDP	Integrated Development Plan
IIMM	International Infrastructure Management Manual
ISO	International Standards Organisation
MFMA	Municipal Finance Management Act
MM	Municipal Manager
MSA	Municipal Systems Act
ODRC	Optimised Depreciated Replacement Cost
OHSA	Occupational Health and Safety Act
PPE	Property, Plant and Equipment
RUL	Remaining Useful Life
RV	Residual Value
SDBIP	Service Delivery and Budget Implementation Plan
VAT	Value Added Tax

## **1 PURPOSE OF THIS DOCUMENT**

This document indicates the policy of Lesedi Local Municipality for the management of its movable and immovable Property Plant and Equipment (PPE), Investment Property, Intangible, and Heritage Assets.

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

## **2 SCOPE**

This policy applies to all movable and immovable Property Plant and Equipment (PPE), Investment Property, Intangible and Heritage Assets under the control of the municipality.

### **3 OBJECTIVES**

The objective of this policy is for the municipality to:

- Comply with prevailing accounting standards; and
- Apply asset management practice in a consistent manner and in accordance with legislative requirements and recognised good practice.



## **4 BACKGROUND**

### **4.1 CONSTITUTIONAL AND LEGAL FRAMEWORK**

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

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

The manner in which a municipality manages its Property, Plant and Equipment (PPE), Investment Property, Intangible assets and Heritage Assets are central to meeting the above challenges. Accordingly, the Municipal Systems Act, 2000 (MSA) section 2(d) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal assets with the Accounting Officer (AO) and the Chief Financial Officer (CFO).

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

### **4.2 ACCOUNTING STANDARDS**

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

. When compiling the asset register in accordance with the accounting standards, the requirements of GRAP 17 cannot be seen in isolation. Various other accounting standards impact

on the recognition and measurement of assets within the municipal environment and should be taken into account during the compilation of a GRAP compliant asset register. The applicable standards of GRAP are noted in **section 9**.

### **4.3 MANAGEMENT OF INFRASTRUCTURE AND COMMUNITY ASSETS**

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

The municipality must demonstrate good governance and customer care, and the processes adopted must be efficient and sustainable. Councillors and officials are custodians on behalf of the public of infrastructure assets..

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

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

Legislation has also entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However, the IDP cannot be compiled in isolation – for the above objectives to be achieved, the IDP needs to be informed by robust, relevant and holistic information relating to the management of the municipality's infrastructure.

There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintaining and renewing existing infrastructure whilst also addressing backlogs

in basic services and facing ongoing changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from a number of departments of the municipality, including infrastructure, community services, financial planning, and corporate services.

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

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

## **5. APPROVAL AND EFFECTIVE DATE**

The CFO is responsible for the submission of the Policy to Council to consider its adoption after consultation with the Accounting Officer. Council shall indicate the effective date for implementation of the policy.

## 6 DELEGATIONS AND KEY RESPONSIBILITIES

### **Accounting Officer**

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

The Accounting Officer shall ensure that:

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

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

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

In accordance with the MFMA, the Accounting Officer of the municipality and all designated officials are accountable to him / her. The Accounting Officer is therefore accountable for all transactions entered into by his / her delegates. The overall responsibility for asset management lies with the Accounting Officer. However, the day to day handling of assets should be the

responsibility of all officials in terms of delegated authority reduced in writing. The Accounting Officer may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

### **Chief Financial Officer**

The Chief Financial Officer (CFO) is responsible to the Accounting Officer to ensure that the financial investment in the municipalities' assets are safeguarded and maintained.

The CFO, as one of the Heads of Department of the municipality, in exercising his/her financial responsibilities shall also ensure that:

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

In terms of section 82 read with section 81(1)(e) of the MFMA the CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed. The CFO shall be responsible for the fixed asset register of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained. No amendments, deletions or additions to the fixed asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

### **Heads of Department**

Heads of Department (the executive managers directly accountable to the Accounting officer) shall ensure that:

- The municipal resources assigned to them are utilised effectively, efficiently, economically and transparently;
- Procedures are adopted and implemented in conformity with this policy to produce reliable data to be input to the municipal fixed asset register;
- Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
- The asset management system, processes and controls can provide an accurate, reliable and up to date account of movable and immovable assets under their control;
- They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives; and
- Manage the asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.

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

### **Information Technology Manager**

The Information Technology Manager shall ensure that:

- The functionality of the asset register system is maintained and that the data is secure.

## **7 POLICY AMENDMENT**

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



## 8 RELATIONSHIP WITH OTHER POLICIES

**Comment [SY1]:** Please confirm the policies listed below.

This policy, once effective, will replace the pre-existing Fixed Asset Management Policy.

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

- Accounting Policy;
- Asset Disposal Policy;
- Budget Implementation and Monitoring Policy;
- Credit Control and Debt Collection Policy;
- Delegation of Powers;
- Disaster Management Policy;
- Enterprise Risk Management Policy;
- Funding, Borrowing and Reserves Policy;
- Infrastructure Investment Policy;
- Insurance Policy;
- Long Term Financial Planning Policy;
- Managing Electricity and Water Distribution Losses;
- Property Rates Policy;
- Supply Chain Management Policy; and
- Tariff, Indigent and Free Basic Services Policy

## 9 REFERENCES

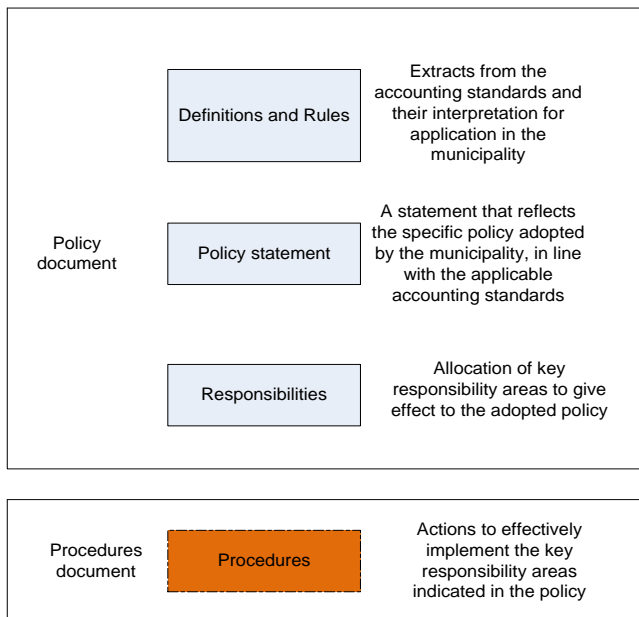
The following references were observed in compiling this document:

- Asset Management Framework, National Treasury, 2004
- Guidelines for Infrastructure Asset Management in Local Government, Department of Provincial and Local Government, 2006
- Municipal Finance Management Act, 2003
- Disaster Management Act, 2002
- Municipal Systems Act, 2000
- Municipal Structures Act, 1998
- MFMA Circular 18 & 44
- Local Government Capital Asset Management Guidelines, National Treasury, 2008
- Government Gazettes (30013 & 31021)
- Generally Recognised Accounting Practice as issued by the Accounting Standards Board (1-14, 16, 17, 19, 21, 23-27, 31, 100-104)
- Interpretations of the standards of GRAP issued by the Accounting Standards Board (ASB) (IGRAP 1- 17)
- Directives issued by the ASB
- Accounting guideline issued by National Treasury relating to Intangible assets
- Municipal transfer and disposal regulations, Government Gazette 22 August 2008, No.31346
- Government Gazette, 30 May 2005, No. 27636 on disposals

## 10 POLICY FORMAT

**Figure 1** gives an overview to the format of presentation of this policy document, and how it links to a separate document that provides the procedures. Procedures should be prepared and adopted to give effect to this policy.

**Figure 1 - Interaction between the policy and the procedures**



## 11 POLICY FOR FIXED ASSET ACCOUNTING

### 11.1 RECOGNITION OF MOVABLE AND IMMOVABLE ASSETS

#### *(a) Definitions and rules*

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

it is probable that future economic benefits or service potential associated with the item will flow to the entity, and  
the cost or fair value of the item can be measured reliably.

#### Asset

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

#### Fixed Asset

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

#### PPE

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

#### Immovable PPE

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

### Movable PPE

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

### Investment Property

Investment Property is defined as property (land and/or a building, or part thereof) held (by the owner or the lessee under a finance lease) to earn rentals or capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operations). An example of Investment Property is office parks that are rented out. There is no asset hierarchy for Investment Property; each functional item will be individually recorded. Land held for a currently undetermined use is recognised as Investment Property until such time as the use of the land has been determined.

### Intangible assets

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

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

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

### Biological Assets

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

### Capital Spares (Major Spare Parts)

Spares and materials used on a regular basis in the ordinary course of operations are usually carried as inventory (i.e. they are not usually considered fixed assets) and are expensed when consumed. However, major spares that are available for use and constitute an entire or

significant portion of a component type, or a specific component, defined in the immovable PPE asset hierarchy are considered capital spare parts and are recognised as an item of PPE if they are expected to be used for more than one period or they can only be used in connection with an item of PPE.

#### Major inspections

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

#### Items used irregularly

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

#### Useful Life

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

#### Control

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

#### Past transactions or events

Assets are only recognised from the point when some event or transaction transferred control to an entity.

#### Probability of the flow of benefits or service potential

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

#### Economic benefits

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

#### Service Potential

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

#### Leased assets

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

#### Asset custodian

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

Reliable measurement

Items are recognised that possess a cost or fair value that can be reliably measured in terms of this policy.

**(b) Policy statement**

The municipality shall recognise all movable and immovable assets existing at the time of adoption of this policy and the development of new, upgraded and renewed assets on an on-going basis. Such assets shall be capitalised in compliance with prevailing accounting standards on an on-going basis.

**(c) Responsibilities**

- The CFO, in consultation with the Accounting Officer and Heads of Department, shall determine effective procedures for the recognition of existing and new assets.
- Every Head of Department shall ensure that all assets under their control are correctly recognised as assets.
- The CFO shall keep a lease register with the following minimum information: name of the lessor, type of lease (operating or finance), description of the asset, fair value of the asset at inception of the lease, lease commencement date, lease termination date, economic useful life of the asset, lease payments, and any restrictions in the lease agreement.

**11.2 CLASSIFICATION OF ASSETS**

**(a) Definitions and rules**

Fixed asset categories



- Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the municipality's operations);
- Heritage assets;
- Intangible assets;
- Capital Finance Lease assets; and
- Investment Property.

#### Class of PPE

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

#### PPE Asset Hierarchy

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

#### PPE: Infrastructure

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

#### PPE: Community Property

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

#### PPE: Building Property

PPE building property assets are buildings that are used for municipal operations such as administration buildings and rental stock or housing not held for capital gain. *PPE: Other Assets*  
Movable assets are by nature stand-alone assets which are not directly attached or associated with an item of immovable assets and are utilised in an enabling or assisting role on a day-to-day basis.

#### Heritage assets

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

#### Intangible assets

Identifiable non-monetary assets, without physical substance are Intangible assets, for examples licenses or rights (such as water licenses), servitudes and software.

#### Servitudes

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

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

Investment Property

Investment Property is defined as property (land and/or a building, or a part thereof) held (by the owner or the lessee under a finance lease) to earn rentals or for capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operations). An example of Investment Property is office parks that are rented out. There is no asset hierarchy for Investment Property; each functional item will be individually recorded. Land held for a currently undetermined use is recognised as Investment Property until such time as the use of the land has been determined.

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

**(b) Policy statement**

Asset hierarchies shall be adopted for each of the asset groups, separately identifying items of PPE at component level that are significant from a financial perspective (material effect on depreciation) or strategic perspective (for risk management or asset replacement strategies / or separate significant components), and conversely, where applicable, grouping items that are relatively insignificant. Investment Property and Intangible assets are not required to be componentised.

PPE shall be disclosed in the financial statements at the sub-category level.

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

**Annexure A** indicates the hierarchy structure for immovable assets while **Annexure B** indicates the hierarchy structure for movable assets.

***(c) Responsibilities***

- The CFO shall ensure that the classification of fixed assets adopted by the municipality complies with the statutory requirements.
- The CFO shall consult with the Accounting Officer and Head of Department responsible for assets to determine an effective and appropriate asset hierarchy for each class of immovable PPE to component level and record such in the Asset Management procedures document.
- Every Head of Department shall ensure that all assets under their control are classified correctly within the classification adopted by the municipality.
- Every Head of Department shall advise the CFO when assets should be re-classified.

**11.3 IDENTIFICATION OF ASSETS**

***(a) Definitions and rules***

***Immovable asset coding***

An asset coding system is the means by which the municipality is able to uniquely identify each immovable asset (at the lowest level in the adopted asset hierarchy) in order to ensure that it can be accounted for on an individual basis.

***Barcoding system***

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

***(b) Policy statement***

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

***(c) Responsibilities***

- The Accounting Officer shall develop and implement an asset coding system in consultation with the CFO and other Heads of Department to meet the policy objective.
- Heads of Department shall ensure that all immovable assets under their control are correctly coded.
- Heads of Department shall ensure that all movable assets under their control are barcoded.

**11.4 ASSET REGISTER**

***(a) Definitions and rules***

*Asset register*

A fixed asset register is a database with information relating to each asset. The fixed asset register is structured in line with the adopted classification structure. The scope of data in the register is sufficient to facilitate the application of the respective accounting standards for each of the asset classes, and the strategic and operational asset management needs of the municipality.

*Completeness of data*

It is recognised that it may not be practicable to complete all the fields when compiling the initial asset register when converting to the new GRAP standards of accounts. However, processes can be established so that the data field can be completed on an on-going basis on adoption of this policy.

*Updating data in the asset register*

The fixed asset register is updated by an Asset Management Administrator only when authorised and instructed to do so by the CFO. The Asset Management Administrator is precluded from being a custodian of any asset.

***(b) Policy statement***

A fixed asset register shall be established to provide the data required to apply the applicable accounting standards, as well as other data considered by the municipality to be necessary to support strategic asset management planning and operational management needs. The asset register shall be updated and reconciled to the general ledger on a regular basis, which will be reconciled to the financial statements at year end.

***(c) Responsibilities***

- The CFO shall define the format of the fixed asset register in consultation with the Accounting Officer, and the respective Head of Department, and shall ensure that the format complies with the prevailing accounting standards and disclosure requirements.
- Heads of Department shall provide the CFO with the data required to establish and update the asset register in a timely fashion.
- The CFO shall establish procedures to control the completeness and integrity of the asset register data.
- The CFO shall ensure proper application of the control procedures.

**11.5 MEASUREMENT AT RECOGNITION**

***(a) Definitions and rules***

*Measurement at recognition of PPE*

An item of PPE that qualifies for recognition is measured at cost. Where an asset is acquired at no or nominal cost (for example in the case of donated or developer-created assets), its cost is deemed to be its fair value at the date of acquisition. In cases where it is impracticable to

establish the cost of an item of PPE, such as on recognising PPE for which there are no records, or records cannot be linked to specific assets, its cost is deemed to be its fair value.

#### Measurement at recognition of Investment Property

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

#### Measurement at recognition of Intangible assets

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

#### Measurement at recognition of heritage assets

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

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

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

#### Fair value

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

#### Depreciated replacement cost

The depreciated replacement cost (DRC) model necessitates information on the expected useful life (EUL), residual value (RV), current replacement cost (CRC), and remaining useful life (RUL) of each of the asset components. The CRC is the product of a unit rate and the extent of the component and represents the cost of replacing the asset, and in cases where the existing asset is obsolete, the replacement with a modern equivalent. The depreciable portion of an asset is determined by subtracting the residual value from the CRC. The depreciated replacement cost (DRC) is established by proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the expected useful life.

Accordingly, the following formula is used:

$$DRC = ((CRC - RV) \times RUL/EUL) + RV$$

Replacement costs are "brown field", reflecting cost variances over and above "green-field" modifications. Capital unit costs vary from site to site and provision is made for site specific influencing factors (e.g. topography). Capital unit costs are also influenced by macro-economic driving forces such as "supply-and-demand", economy of scale, financial markets and availability of contractors, and the impact of these factors are reflected in the capital unit rates where applicable. Adjustments of rates for escalation to the valuation date are applied.



The expected useful life and residual values are estimates informed by industry norms and actual asset performance in the municipality and at other similar municipalities. The remaining useful life is informed by the expected useful life, the age of the component since becoming available for use, its condition, and any committed plans for replacement, rehabilitation, upgrading or decommissioning.

#### Cost of an item of PPE

The capitalisation value comprises of:

- (i) the purchase price including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and
- (ii) any directly attributable costs necessary to bring the asset to its location and condition necessary for it to be operating in the manner intended by the municipality, plus
- (iii) an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

#### Directly attributable costs

Directly attributable costs are defined as:

- cost of employee benefits arising directly from the construction or acquisition of the item.
- costs of site preparation;
- initial delivery and handling;
- installation and assembly costs;
- commissioning (cost of testing the asset to see if the asset is functioning properly, after deducting the net proceeds from selling any item produced while bringing the asset to its current condition and location);
- professional fees (for example associated with design fees, supervision, and environmental impact assessments) (in the case of all asset classes); and

- Proper transfer taxes (in the case of all asset classes).

#### Costs associated with Heritage Assets

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

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

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

##### 1. If the cost model is used -

- Changes in the liability shall be added to or deducted from the cost of the related asset.
- If the amount deducted from the cost of the asset exceeds the carrying amount of the asset, the excess shall be recognised immediately in surplus or deficit.
- If the adjustment results in an addition to the cost of an asset, the municipality should consider whether this is an indication that the carrying amount may not be recoverable. In this case the municipality should test the asset for impairment.

##### 2. If the revaluation model is used -

- A decrease in the liability shall be credited to the revaluation surplus, except that it shall be recognised in the surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in the surplus or deficit; and
- an increase in the liability shall be recognised in surplus or deficit, except that it shall be debited to the revaluation surplus to the extent that any credit balance may exist in the revaluation surplus in respect of the asset.

- If the decrease in liability exceeds the carrying amount that would have been recognised if the asset has been carried under the cost model, the excess shall be recognised immediately in the surplus or deficit.
- If the change in liability is an indication that the asset may have to be re-valued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation shall be taken into account in determining the amounts to be taken to surplus or deficit and net assets as discussed above. If a revaluation is necessary, all assets of that class shall be revalued.
- The change in the revaluation surplus arising from the change in the liability shall be separately identified and disclosed in the face of the statement of changes in net assets.

#### Exchanged PPE assets

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

#### Finance leases

A finance lease is recognised by the municipality (the lessee) at the commencement of a lease term as an asset and liability in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease contract, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct cost of the lessee is added to the amount recognised as an asset.

#### Self-constructed immovable PPE

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

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

#### Construction of future Investment Property

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

#### Borrowing costs

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of premiums or discounts associated with such borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings; finance charges in respect of finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as an adjustment to interest costs. An entity has the option to recognise all borrowing costs as an expense in the period in which they are incurred, or if the allowed alternative is selected, an entity shall recognise borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset as part of the cost of that asset. Where an entity adopts the allowed alternative treatment, that treatment shall be applied consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the entity.

#### Deferred payment

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

***(b) Policy statement***

PPE, Intangible assets and Investment Property that qualify for recognition shall be capitalised at cost. Borrowing costs will be expensed under the benchmark treatment as per GRAP 5. Biological assets that qualify for recognition shall be capitalised at fair value less costs to sell.

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

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

***(c) Responsibilities***

- The CFO, in consultation with the Accounting Officer and Heads of Department, shall determine effective procedures for the capitalisation of assets on recognition.
- Every Head of Department shall ensure that all assets under their control are correctly capitalised.
- Every Head of Department shall advise the CFO of any deferred payments from the municipality, providing the relevant details of such.

**11.6 MEASUREMENT AFTER RECOGNITION**

***(a) Definitions and rules***

Options

Accounting standards allow measurement after recognition of assets as follows:

- PPE, Heritage Assets and Intangible assets: on either a cost or revaluation model;

- Investment Property: either cost model or the fair value model.

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

#### Cost model

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

#### Revaluation model

When the revaluation model is adopted an asset is carried after recognition at a re-valued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. When revaluations are conducted, the entire class of assets should be re-valued.

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

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

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

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

- Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

#### Investment Property

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

#### Statutory inspections

The cost of a statutory inspection that is required for the municipality to continue to operate immovable PPE is recognised at the time the cost is incurred, and any remaining carrying amount of the cost of the previous inspection is de-recognised.

#### Major inspection

Major inspections will be recognised at the value of the major inspection

#### Expenses to be capitalised

Expenses incurred in the enhancement of PPE (in the form of improved or increased services or benefits flowing from the use of such asset), or in the material extension of the useful operating

life of assets are capitalised. Such expenses are recognised once the municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) – prior to this, the expenses are recorded as work-in-progress. Expenses incurred in the maintenance or repair (reinstatement) of PPE that ensures that the useful operating life of the asset is attained, are considered as operating expenses and are not capitalised, irrespective of the quantum of the expenses concerned.

### Spares

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

### **(b) Policy statement**

Measurement after recognition shall be on the following basis:-

- Immovable PPE: cost model.
- Movable PPE: cost model.
- Heritage assets: cost model.
- Investment Property: cost model.
- Intangible assets: cost model.

### **(c) Responsibilities**

- The CFO, in consultation with the Accounting Officer and Heads of Department, shall determine effective procedures for the ongoing capitalisation of assets after recognition.
- Every Head of Department shall ensure that all capital expenses associated with assets under their control are correctly capitalised.
- Every Head of Department shall ensure that revaluations and fair value adjustments are conducted where applicable to assets under their control.



## 11.7 DEPRECIATION

### **(a) Definition and rules**

#### Depreciation

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

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

#### Depreciable amount

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

#### Residual value

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

The residual values of assets are indicated in **Annexures C** and **D** in the form of a percentage. In the case of assets measured after recognition on the cost model, the percentage is of the initial cost of acquisition. In the case of assets measured after recognition on the revaluation model, the percentage is of the revalued cost.

#### Depreciation method

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

#### Remaining useful life

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

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

#### Intangible assets with an indefinite useful life

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

#### Annual review of remaining useful life

The remaining useful lives of depreciable PPE are reviewed every year at the reporting date. Changes may be required as a result of new, updated or more reliable information being available. Changes may also be required as a result of impairments (as contemplated in **Section 11.8** of this policy). Depreciation charges in the current and future reporting periods are adjusted accordingly, and are accounted for as a change in an accounting estimate.

#### Depreciation charge

Depreciation starts once an asset is available for use, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an assets ceases the date the asset is de-recognised.

Depreciation is initially calculated from the day when an item of PPE is acquired or – in the case of construction works and plant and machinery – the day in which the PPE is available for use, until the end of the calendar month concerned. Thereafter, depreciation charges are calculated monthly.

#### Carrying amount

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

#### Capital spares

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

#### Finance lease

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

#### **(b) Policy statement**

All PPE, except land, servitudes and heritage assets, shall be depreciated over their remaining useful lives. All Intangible assets, other than Intangibles with an indefinite useful life, shall be amortised over their remaining useful lives. Capital spares will be depreciated using the unit of

production method. The method of depreciation / amortisation shall be reviewed on an annual basis, though the straight line method shall be used in all cases unless Council determines otherwise. Investment Property on the fair value method and biological assets measured at fair value less cost to sell will also not be depreciated. The existence, remaining useful lives and residual values shall also be reviewed at each reporting date.

Depreciation or amortisation is initially calculated from the day when a fixed asset is acquired or – in the case of construction works and plant and machinery – the day in which the fixed asset is available for use.

### ***(c) Responsibilities***

- The Heads of Department shall ensure that a budgetary provision is made for the depreciation of assets in the ensuing financial year, in consultation with the CFO.
- The CFO shall indicate a fixed annual date for the review of the remaining useful life of assets under the control of the respective Heads of Department.
- Every Head of Department shall annually review the remaining useful life as well as the expected useful life and residual values stated in **Annexures C and D** and the depreciation method of PPE that are under their control and motivate to the Accounting Officer and CFO any adjustments if these are required, in the judgement of the Heads of Department.
- Changes should not be made on a continuous basis because the accounting principle of consistency would be violated.
- The CFO shall report changes made to the remaining useful life of assets in the asset register to the MM and Council.
- The CFO shall ensure that depreciation charges are debited on a monthly basis and that the fixed asset register is reconciled with the general ledger.

## **11.8 IMPAIRMENT**

### ***(a) Definition and rules***

#### ***Impairment***

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

Indications of impairment

The municipality shall assess at each reporting date whether there is any indication that an asset may be impaired. In assessing whether there is any indication that an asset may be impaired, an entity shall consider as a minimum the following indicators:

i. External sources of information:

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

ii. Internal sources of information:

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

- a significant decline in budgeted net cash flow or operating profit, or a significant increase in the budget loss, flowing from the asset; or
- operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

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

Physical damage would trigger an impairment test when it results in a permanent or significant decline in the service potential of the asset. Judgement is needed to determine whether the decline is permanent or significant. Such judgements may be based on the relative costs of providing the service before and after the decline, the percentage decline in service potential or other considerations. The decline in service potential is expected to be permanent when management has no reasonable expectation that the lost service potential will be replaced or restored. In certain circumstances evidence may be available to demonstrate that the impairment will be temporary. In such circumstances, management considers whether the decline in service potential will be significant.

#### Impairment of projects under construction

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

#### Intangible assets

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

The most recent detailed calculation of such an asset's recoverable service amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

- the most recent recoverable service amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and
- based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable service amount calculation, the likelihood that a current recoverable service amount determination would be less than the asset's carrying amount is remote.

#### Investment Property on the cost model

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

#### Recoverable amount

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

#### Impairment loss

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

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

### Non-cash-generating units

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

This can be determined using any of the following approaches:

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

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

### Cash-generating units



Cash-generating units are those assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset. An entity's objective is to use the assets to generate a commercial return when those assets are deployed in a manner consistent with that adopted by a profit-oriented entity. In such cases, management's plans and decisions will indicate that the entity intends to generate positive cash flows that are expected to be significantly higher than the cost of the assets at acquisition. These positive cash flows must be significantly higher than the cost of the asset and not result in a break even position or be marginally higher than the cost of the asset. Where the positive cash flows are marginally higher than the cost of the asset, an entity applies judgement to assess their significance. The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction. If there is no binding sale agreement but an asset is traded in an active market, fair value is the asset's market price. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that the municipality could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties. In the case of specialised buildings (such as community buildings) and infrastructure where there is no such active and liquid market, a depreciated replacement cost (DRC) approach is generally used to identify the fair value. Costs to sell are the costs directly attributable to the disposal of the asset (for example agents fees, legal costs), excluding finance costs and income tax expenses. The value in use is determined by estimating the future cash inflows and outflows from the continuing use of the asset and net cash flows to be received or (paid) for the disposal of the assets at the end of its useful life, including factors to reflect risk in the respective cash-flows and the time value of money.

*Designation of an asset as cash-generating or non-cash-generating* At initial recognition, an entity shall designate:

- An asset as non-cash-generating; or
- An asset or cash-generating unit as cash-generating.

The designation is made on the basis of an entity's **objective** of using the asset

An entity shall designate an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or cash-generating unit in a manner that generates a commercial return; such that

- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An entity shall designate an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

Since the initial designation of an asset as cash-generating or non-cash-generating is based on the initial expected use of the asset, it is not required that an entity to demonstrate on an annual basis whether it has achieved that initial expectation.

#### Recognition of impairment

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

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

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

#### Reversing an impairment loss

. An entity shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable service amount of that asset.

***(b) Policy statement***

The municipality considers itself an entity whose objective is to provide goods and services for community or social benefit and uses its assets as such. Where positive cash flows are generated (such as from sale of trading services such as water services), these are with the view to support the primary objective rather than for significant financial return to equity holders.. Consequently the default impairment treatment for the PPE and associated Intangible assets of the municipality is that of non-cash generating assets.

In cases where it can be reliably demonstrated that an asset is used with the objective of generating a commercial return ( assets are deployed in a manner consistent with that adopted by a profit-oriented entity and management's plans and decisions indicate that the entity intends to generate positive cash flows that are expected to be significantly higher than the cost of the assets at acquisition. These positive cash flows must be significantly higher than the cost of the asset and not result in a break even position or be marginally higher than the cost of the asset.), the municipality applies the impairment treatment for cash-generating assets. Where the positive cash flows are marginally higher than the cost of the asset, the municipality will develop criteria so that it can exercise judgement to assess their significance.

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

***(c) Responsibilities***

- The CFO shall indicate a fixed annual date for the review of any impairment that may have occurred on assets under the control of the respective Heads of Department.
- The Heads of Department shall review any impairment on the asset under their control at the annual review date, and from time to time as a result of any events that come to their attention that may have a material negative effect on the performance of these assets. The

Head of Department shall motivate to the CFO proposed changes to the performance of such assets and the necessary impairments that need to be recognised on such assets.

- The CFO shall ensure that the fixed asset register is updated with the information received, relating to the impairment, from the financial management system where the impairment journals have been processed.
- The CFO shall report changes made to the carrying values of these assets in the asset register to the MM and Council.

## **11.9 DE-RECOGNITIONS AND DISPOSALS**

### ***(a) Definition and rules***

#### Disposal

“Disposal” in relation to a capital asset, includes -

- the demolition, dismantling or destruction of the capital asset; or
- any other process applied to a capital asset which results in loss of ownership of the capital asset otherwise than by way of transfer of ownership;

#### Exempt assets

Capital assets transferred to another municipality or to a municipal entity or to a national or provincial organ of state in circumstances and in respect of categories of assets approved by the National Treasury, provided that such transfers are in accordance with a prescribed framework in terms of the Municipal Asset Transfer Regulations.

#### Non-exempt assets

Assets other than exempt assets.

#### De-recognition

Assets are de-recognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. Where assets exist that have reached the end of their useful life yet they pose potential liabilities, the assets will not be de-recognised until the obligations under the potential liabilities have been settled.

The gain or loss arising from de-recognition of an item of PPE shall be included in surplus of deficit when the item is de-recognised.

PPE that is associated with the provision of basic services cannot be disposed without the approval of Council.

Government Gazette no.31346, Municipal asset transfer regulations, sets out the regulations regarding municipal asset transfers and disposals, for example type of assets that need approval to be disposed or transferred, timeframes, possible public participation requirements, considerations in approving the transfer or disposal and Council approval.

Read in conjunction with the Municipal Finance Management Act (MFMA) it is clear that a municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services unless that transfer is to an organ of state, and the following conditions must be met:

- Ownership in the capital asset (including replacements, upgrading and improvements made by the organ of state) must immediately revert to the municipality should the organ of state for any reason cease to or is unable to render the service;
- The organ of state may not without the written approval of the municipality:
- Transfer, dispose of or encumber the capital asset (including replacements, upgrading and improvements made by the organ of state) in any way;
- Grant a right to another person to use, control or manage the capital asset (including replacements, upgrading and improvements made by the organ of state);
- The transfer agreement must reflect the conditions above; and
- The organ of state must demonstrate the ability to adequately maintain and safeguard the asset.

If the combined value of any non-exempt capital assets a municipality intends to transfer or dispose of in any financial year exceeds 5% of the total value of its assets, as determined from its latest available audited AFS, a public participation process must be conducted to facilitate the

determinations of the municipal council, in relation to all the non-exempt capital assets proposed to be transferred or disposed of during the year.

Council may delegate the following powers and responsibilities to the MM:

- The decision as to whether the non-exempt capital asset is needed to provide a basic service;
- The power to approve in-principle that the non-exempt capital asset may be transferred or disposed of; and
- The authority to approve in-principle of the granting of a right to use a capital asset. This delegation does not extend however, to cover long-term high-value transactions.

Disposal of assets should be at fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent (the total proceeds discounted to the present value as at the transaction date). The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue.

#### Disposal Management System

An effective system of disposal management for disposal or letting of assets, including unserviceable, redundant or obsolete assets, must be provided for in the Supply Chain Management Policy.

This must specify the ways in which assets may be disposed of, including by:

- transfer the asset to another organ of state in terms of a provision of the MFMA enabling the transfer of assets;
- transferring the assets to another organ of state at market related value or, when appropriate, free of charge;
- selling the asset; or
- destroying the asset.

PPE may be sold only at market related prices except when the public interest or the poor demands otherwise. When assets are traded in for other assets, the highest possible trade-in price must be negotiated.

### Revaluation model

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

### **(b) Policy statement**

Assets for which no future economic benefits or service potential are expected shall be identified and methods of disposal and the associated costs or income considered by Council. The carrying amount of the asset shall be de-recognised when no future economic benefits or service potential are expected from its use or its disposal. Where assets exist that have reached the end of their useful life yet they pose potential liabilities, the assets will not be de-recognised until the obligations under the potential liabilities have been settled.

Where an asset being de-recognised was previously revalued, the revaluation surplus is transferred to the Accumulated Surpluses/ (Deficits) Account on de-recognition of an asset.

### **(c) Responsibilities**

- Fixed assets shall be derecognised only on the recommendation of the Head of Department controlling the asset, and with the approval of the Executive Committee. Where disposals for the year exceed 5% of the value of the total asset value, public participation is required for consideration of Council in approving the disposal or transfer.
- Every Head of Department shall report to the CFO on assets which such Head of Department wishes to have de-recognised, stating in full the reason for such recommendation, indicating whether or not the assets are associated with the provision of basic services. The CFO shall consolidate all such reports, and shall promptly make a submission to the Executive Committee with a copy to the MM on the PPE to be de-

recognised, the proposed method of disposal, and the estimated cost or income from such disposal. The Executive Committee shall consider the submission and make recommendations to the Council for adoption.

- Assets that are replaced in the nominal course of the life-cycle renewal should be de-recognised and removed from the asset register. The CFO shall, in consultation with the Executive Directors, identify assets that are replaced or renewed on a regular basis in the course of on-going life-cycle management, and recommend standardised disposal arrangements for the approval of the MM, Council and the executive committee. The Heads of Department shall report to the CFO and MM at the end of each financial year on the assets disposed in accordance with the standard arrangements.
- The MM, in consultation with the CFO and other Heads of Department shall formulate norms and standards from the replacement of all PPE.

#### **11.10 INSURANCE OF ASSETS**

##### ***(a) Definition and rules***

Insurance provides selected coverage for the accidental loss of asset value.. The municipality can elect to insure certain infrastructure risks, with approval from the Council. The CFO must conduct a risk assessment of all assets and after considering the risks involved, report to Council, which assets must be insured. The risk assessment must be based on a loss probability analysis and if there is no capacity within the municipality to conduct the analysis, the CFO should be authorised to obtain external professional assistance.

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

Assets must be insured internally or externally and coverage must be based on the loss probability analysis. All insurance claims must be assessed by an official, charged with the responsibility for the insurance of assets, to determine whether the damage to the assets can be



recovered from possible third parties involved. If the damage was caused by an identifiable third party the CFO should compile a report advising the r MM of the facts thereof and any possible further action.

***(b) Policy statement***

The municipality shall adhere to the disaster management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster. The Council shall decide on insurance cover for assets each financial year based on the recommendation from the MM after consultation with the CFO. The MM shall ensure that all Municipal buildings are insured at least against fire and allied perils.

***(c) Responsibilities***

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

## 12 POLICY FOR SAFEGUARDING

### ***(a) Definitions and rules***

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

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

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

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

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

- Confirm the location of the asset;
- Confirm the physical description of the asset;
- Confirm the level of utilisation of the asset;
- Indicate the assessment of the condition of the asset (Condition Grade);
- Indicate the expected useful life of the asset (RUL); and

- The existence or absence of any physical impairment of the asset.

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

***(b) Policy statement***

An asset safeguarding plan shall be prepared for all assets indicating measures that are considered effective to ensure that all assets under control of the municipality are appropriately safeguarded from inappropriate use or loss, including the identification of asset custodians for all assets.

The impact of budgetary constraints on such measures shall be reported to Council. The existence, condition and location of fixed assets shall be verified annually (in line with the assessment of impairment).

***(c) Responsibilities***

- Each Head of Department shall prepare and submit to the CFO, upon request, an annual asset safeguarding plan for the assets under the control of their respective departments, indicating the budget required.
- The CFO shall confirm the available budget, and in consultation with the respective Head of Department, determine the impact of any budget shortfall. The CFO shall report the impacts to the Municipal Manager for review, and advise Council.
- Each Department Head shall implement the safeguarding plan within the resources made available.
- Each Head of Department shall report, within the time frame indicated by the CFO, the existence, condition, location and appropriate use of all assets under the control of their respective departments at the review date.
- Every Head of Department shall at least once during every financial year undertake a comprehensive verification of all immovable PPE controlled by or used by the department concerned.

- Every Head of Department shall promptly and fully report in writing to the CFO, in the format determined by the CFO, all relevant results of such immovable asset verification.
- Every Head of Department shall at least once during every financial year undertake a comprehensive verification of all movable PPE controlled by or used by the department concerned.
- Every Head of Department shall promptly and fully report in writing to the CFO, in the format determined by the CFO, all relevant results of such movable asset verification.
- Malicious damage, theft, and break-ins must be reported to the Municipal Manager or delegated person within 48 hours of its occurrence or awareness by the respective Head of Department.
- The Municipal Manager must report criminal activities to the South African Police Service.

## 13 POLICY FOR LIFE-CYCLE MANAGEMENT OF IMMOVABLE PPE ASSETS

### **(a) Definitions and rules**

#### Service delivery

Immovable PPE assets (such as infrastructure and community facilities) are the means by which the municipality delivers a range of essential municipal services. Consequently the management of such assets is critical to meeting the strategic objectives of the municipality and in measuring its performance.

#### Asset management

The goal of asset management of immovable PPE is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers.

The core principles are:

- taking a life-cycle approach;
- developing cost-effective management strategies for the long-term;
- providing a defined level of service and monitoring performance;
- understanding and meeting the impact of growth through demand management and infrastructure investment;
- managing risks associated with asset failures;
- sustainable use of physical resources; and
- continuous improvement in the immovable PPE asset management practices.

### **(b) Policy statement**

The municipality shall provide municipal services for which the municipality is responsible, at an appropriate level, and in a transparent, accountable and sustainable manner, in pursuit of legislative requirements, SANS 55001: Asset Management - Management Systems – Requirements, and in support of its strategic objectives, according to the following core principles:

Effective governance

The municipality shall strive to apply effective governance systems to provide for consistent asset management and maintenance planning in adherence to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected.

To this end, the municipality shall:

- continue to adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- regularly review updates and amendments to the above legislation;
- review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- effectively apply legislation for the benefit of the community.

### Sustainable service delivery

The municipality shall strive to provide to its customers services that are technically, environmentally and financially sustainable.

To this end, the municipality shall:

- identify a suite of levels and standards of service that conform with statutory requirements and rules for their application based on long-term affordability to the municipality;
- identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- identify current and future demand for services, and demand management strategies;
- set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose infrastructure assets, where applicable in line with national targets;
- apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- prepare and adopt a maintenance strategy and plan to support the achievement of the required performance;
- allocate budgets based on long-term financial forecasts that take cognisance of the full life-cycle needs of existing and future infrastructure assets and the risks to achieving the adopted performance targets;
- strive for alignment of the financial statements with the actual service delivery potential of the infrastructure assets; and
- implement its tariff and credit control and debt collection policies to sustain and protect the affordability of services by the community.

### Social and economic development

The municipality shall strive to promote social and economic development in its municipal area by means of delivering municipal services in a manner that meet the needs of the various customer user-groups in the community.

To this end, the municipality shall:

- regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;

- implement changes to services in response to changing customer needs and expectations where appropriate;
- foster the appropriate use of services through the provision of clear and appropriate information;
- ensure services are managed to deliver the agreed levels and standards; and;
- create job opportunities and promote skills development in support of the national Expanded Public Work Program (EPWP).

#### Custodianship

The municipality shall strive to be a responsible custodian and guardian of the community's assets for current and future generations.

To this end, the municipality shall

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

#### Transparency

The municipality shall strive to manage its infrastructure assets in a manner that is transparent to all its customers, both now and in the future.

To this end, the municipality shall:

- develop and maintain a culture of regular consultation with the community with regard to its management of infrastructure in support of service delivery;
- clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);



- avail salient information on asset management performance and planning; and
- continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

Cost-effectiveness and efficiency

The municipality shall strive to manage its infrastructure assets in an efficient and effective manner.

To this end, the municipality shall:

- assess life-cycle options for proposed new infrastructure in line with the Supply Chain Management Policy;
- regularly review the actual extent, nature, utilisation, criticality, performance and condition of infrastructure assets to optimise planning and implementation works;
- assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of infrastructure assets;
- continue to secure and optimally utilise governmental grants in support of the provision of free basic services;
- implement new and upgrading construction projects to maximise the utilisation of budgeted funds;
- ensure the proper utilisation and maintenance of existing assets subject to availability of resources;
- establish and implement demand management plans;
- timeously renew infrastructure assets based on condition, capacity, performance, risk exposure, and cost;
- timeously dispose of infrastructure assets that are no longer in use;
- review management and delivery capacity, and procure external support as necessary;
- establish documented processes, systems and data to support effective life-cycle infrastructure asset management;
- strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and

- conduct regular and independent assessments to support continuous improvement of infrastructure asset management practice.

**(c) Responsibilities**

- Upon delegation from Council, the Accounting Officer shall establish measures to effectively drive and monitor the progress in the implementation of this policy, and to report to Council on progress made at a frequency indicated by Council.
- On adoption of the policy, and in consultation with the Heads of Department and CFO, the Accounting Officer shall determine a program for implementation of the following:
  - Develop, and update at regular intervals to be determined by the MM in consultation with the CFO and Heads of Department, an Asset Management Plan (AMP) for each service involving immovable PPE that shall assess levels and standards of service, future demand, risk, determine a lifecycle plan for a minimum 10 year planning horizon, and identify management practice improvement needs (3 year horizon). The AMPs will be submitted through the Accounting Officer to Council for adoption. AMPs shall be used to inform the preparation of a CMIP and budgets through the IDP process. The time frame for the first time implementation of this will be determined by the Accounting Officer in consultation with the CFO and Heads of Department.
  - Determine grading scales for the measurement of asset condition, performance, cost-of-operation, and utilisation for that are common and applicable to all services. Where necessary, the Heads of Department shall interpret the grading scales for the immovable PPE assets under their control. Heads of Department shall determine the grading of all immovable PPE assets under their control at a level of accuracy considered appropriate to the municipality's resources, at intervals to be determined by the MM in consultation with the CFO and Heads of Department.
  - Prepare, and review at regular intervals to be determined by the Accounting Officer in consultation with the CFO and Heads of Department, an Operations and Maintenance Strategy and Plan, and submit such, through the Accounting Officer, to Council for adoption. The municipality shall engage contractors when necessary to support in the implementation of maintenance actions and adopt a system that assists in managing such maintenance. The time frame for the first time implementation of this will be

determined by the Accounting Officer in consultation with the CFO and Heads of Department.

- Document detailed service performance measures (differentiated, where applicable for identified customer groups), and submit such, through the Accounting Officer, to Council for adoption and inclusion in the Services Delivery and Budget Implementation Plan. Heads of Department shall establish a monitoring regime, and report actual performance each financial year. The time frame for the first time implementation of this will be determined by the Accounting Officer in consultation with the CFO and Heads of Department.
- Establish procedures to ensure that legislative requirements regarding the management of immovable PPE assets, including but not limited to health and safety, and environmental protection, are documented and advised to Heads of Department. Heads of Department shall address legislative needs in their strategies and plans, and shall enforce implementation.
- Review the municipality's Risk Management framework to ensure that it is effective for the management of physical risks to infrastructure and buildings. Important actions shall be identified and implemented. The Heads of Department shall report risk exposure relating to their respective assets each financial year.

## **14 POLICY IMPLEMENTATION**

Procedures shall be prepared and adopted by the Accounting Officer, in consultation with the CFO and Heads of Department, to give effect to this policy.

## ANNEXURE A: IMMOVABLE ASSET HIERARCHY

The following Accounting groups, sub-groups, Asset classes and groups types shall be used at the highest level of the classification structure for immovable assets in line with mSCOA requirements:

**Table 1 - Asset categories, sub-categories and groups**

Accounting Group	Accounting Sub-group	Asset Class	Asset Group Type		
<b>Heritage Assets</b>	Heritage Assets	Historic buildings	Museums / Galleries / Theatres / Libraries		
		Monuments	Monuments		
		Other heritage	Cemeteries and gravesites		
<b>Intangible Assets</b>	Intangible Assets	Computer Software	Computer Software		
		Servitudes	Electricity Servitude		
			Sanitation servitude		
			Water servitude		
<b>Investment Property</b>	Investment Property	Investment Property	Improved Property		
			Unimproved Property		
<b>Property, Plant and Equipment</b>	Community Assets	Community Facilities	Cemeteries / Crematoria		
			Clinics / Care centres		
			Fire / Ambulance Stations		
			Halls / Centres		
			Markets / Stalls / Shops		
			Museums / Galleries / Theatres / Libraries		
			Parks		
			Public Open Space		
			Taxi ranks / Parking / Bus terminals		
			Testing stations		
			Waste transfer stations		
			Sport and recreation facilities	Outdoor Facilities	
			Infrastructure Assets	Electrical Infrastructure	LV Networks
					MV Networks
	MV substations				
MV switching stations					
Roads Infrastructure	Road				

		Road Furniture
		Road Structures
	Sanitation Infrastructure	Outfall sewer
		Pump stations
		Reticulation
		Waste water treatment works (WWTW)
	Solid Waste Infrastructure	Waste transfer stations
	Storm water Infrastructure	Drainage Collection
		Stormwater Conveyance
	Water Supply Infrastructure	Boreholes
		Bulk mains
		Distribution
		PRV stations
		Pump stations
		Reservoirs
Other Assets	Housing	Social housing
		Staff Housing
	Operational Buildings	Municipal Offices
		Stores
		Workshops

## ANNEXURE B: MOVABLE ASSET HIERARCHY

The following asset categories and sub-categories shall be used at the highest level of the classification structure for movable assets in line with mSCOA requirements:

**Table 2 - Asset categories and sub-categories**

Asset Class	Asset Group	Asset type
<b>Computer Equipment</b>	Computer Equipment	Hardware
<b>Furniture and Office Equipment</b>	Furniture and Fittings	Chair
		Filing
		Storage
		Desk
		Table
		Stand
		Bins and Containers
		Box
		Board
		Bed
		Hanger
	Trolley	
		Office Equipment
		Machine
<b>Machinery and Equipment</b>	Plant and Equipment	Machinery
		Tools
<b>Transport Assets</b>	Motor Vehicle	Commercial Vehicle
		Passenger Vehicle
		Specialised Vehicle
<b>Heritage Assets</b>	Heritage Assets	Paintings and Artworks
		Municipal Jewellery
		Other Antiques and Collections
		Sculptures
<b>Intangible Assets</b>	Intangible Assets	Software

**ANNEXURE C: EXPECTED USEFUL LIVES AND RESIDUAL VALUES OF IMMOVABLE ASSETS**

**Table 3 – Expected useful lives and residual values**

<b>COMPONENT TYPE</b>	<b>UNIT RATE MEASURE</b>	<b>EUL (yrs)</b>	<b>RESIDUAL VALUE RV (%)</b>
Air conditioning	No	5	0
Auto Recloser	No	40	0
Batteries	No of batteries	3	0
Battery Charger	No	10	0
Carports	No of bays	7	0
Channel	sqm	5-30	0
Commuter shelter	No	15	0
Control panel	No	50	0
Culvert	linear m	60	0
Earth Structure	cub m	50	0
Earthworks	sqm	50-100	50
Electrical installation	sqm floor area	30-45	0
Electrical service connection	No	45-50	0
Electricity Meter	No	10-45	0
External furniture	No	20	0
External lighting	No	30-45	0
Fabricated Steel	kg	10-40	0
Finishes, fixtures & fittings	sqm	15	0
Fire protection	sqm floor area	20	0
Floor	sqm floor area	50	0
Gearbox	No	20	0
Generator	No	20	0
Grid Inlet	No	30	0
Guard rail	linear m	20	0
High mast	No	45	0
Hydrant	No	20	0
Irrigation	sqm	10	0
Kerb	linear m	20-50	0
Kerb Inlet	No	20	0
Land	sqm	0	0
Landscaping	sqm	30-50	0
LV Cable	No	45-60	0
LV Overhead Line	linear m	45	0
Masonry structure	cub m	50	0
Mini round-about	sqm	20	0
Mini-Sub	No	45	0



Motor	kW	20	0
MV Cable	linear m	50	0
MV Overhead line	linear m	45	0
MV Power Transformer	No	45	0
MV Switchgear - Circuit Breaker	No	45	0
Paving	sqm	20	0
Pedestrian bridge substructure	sqm	50	0
Pedestrian bridge superstructure	sqm	50	0
Perimeter Protection	linear m	15-30	0
Pipe - sewer	linear m	40-100	0
Pipe - stormwater	linear m	50	0
Pipe - water	linear m	40-80	0
Plumbing	sqm wet floor area	20	0
Pole Transformer	No	45	0
Pump - sewer	No	12	0
Pump - submersible	No	12	0
Pump - water	No	15	0
RC Structure	cub m	50-80	0
Ring Main Unit	No	45	0
Road bridge abutments	No lanes wide	80	0
Road bridge side barrier	linear m	80	0
Road bridge sub-structure	sqm	80	0
Road bridge super-structure	sqm	80	0
Road marking	linear m	2	0
Road reserve	sqm	0	0
Road structural layer	sqm	50-80	30
Road surface	sqm	5-15	0
Roof	sqm roof area	30-40	0
Security system	sqm floor area	5	0
Servitude	sqm	0	0
Sign - general	No	15	0
Sign - regulatory	No	7	0
Small building / enclosure	sqm floor area	20-50	0
Speed hump	No	50	0
Sports field	No	15-30	0
Stadium	No of seats	50	0
Street Light	No	45	0
Street rubbish bin	No	10	0
Swimming pool	No	20	0
Tank	kl	20-30	0
Telemetry	No	20	0
Traffic island	sqm	30	0
Traffic signal	No signals	15	0
Valve	No	20	0

Walls	sqm floor area	30-60	0
Water Meter	No	10	0
Weigh bridge	No	20	0
Well	linear m	30	0

**ANNEXURE D: EXPECTED USEFUL LIVES AND RESIDUAL VALUES OF MOVABLE ASSETS**

**Table 4 – Expected useful lives and residual values**

<b>Asset type</b>	<b>Component type</b>	<b>EUL (years)</b>	<b>Residual Value</b>
Hardware	CPU	3-10	0%
	Monitor	3-10	0%
	Laptop	3-10	0%
	Server	3-10	0%
	Switch	3-10	0%
Chair	Visitors Chair	3-18	0%
	Executive Chair	3-18	0%
	Dinning Chair	3-18	0%
	Stackable Chair	3-18	0%
	Rickstacker	3-18	0%
	Bar Stool	3-18	0%
	Typist Chair	3-18	0%
	Auditorium Chair	3-18	0%
	Bench	3-18	0%
	Foot Stool	3-18	0%
	Draughtsman Chair	3-18	0%
	Kneeling Chair	3-18	0%
	Garden Chair	3-18	0%
	Kiddies Chair	3-18	0%
	Ottoman	3-18	0%
Kitchen Chair	3-18	0%	
Couch	3-18	0%	
Filing	Cupboard	3-18	0%
	Bookcase	3-18	0%
	Cabinet	3-18	0%
	Rackfile	3-18	0%
	Pedenza	3-18	0%
	Mobile Pedestal	3-18	0%
	Credenza	3-18	0%
	Bulkfile	3-18	0%
	Card Index	3-18	0%
	Magazine Display	3-18	0%
	Pigeon Hole	3-18	0%
	Wall Unit	3-18	0%
Letter Tray	3-18	0%	

	Chest Drawer	3-18	0%
Storage	Locker	3-18	0%
	Server Box	3-18	0%
	Trunktin	3-18	0%
	Safe	3-18	0%
Desk	Management Desk	3-18	0%
	L-Shape Desk	3-18	0%
	Single Fitted Pedestal	3-18	0%
	Double Fitted Pedestal	3-18	0%
	Cubicle Desk	3-18	0%
	Reception Counter	3-18	0%
	Executive Desk	3-18	0%
Table	Boardroom Table	3-18	0%
	Kitchen Table	3-18	0%
	Hexgon Table	3-18	0%
	Pool Table	3-18	0%
	Table Tennis	3-18	0%
	Corner Table	3-18	0%
	Bar Table	3-18	0%
	Foldable Table	3-18	0%
	Round Table	3-18	0%
	Drawing Table	3-18	0%
	Telephone Table	3-18	0%
	Coffee Table	3-18	0%
	Side Table	3-18	0%
	Learner Table	3-18	0%
Stand	Computer Stand	3-18	0%
	Flag Stand	3-18	0%
	Printer Stand	3-18	0%
Bins and Containers	Refuse bin	5-14	0%
	Bulk containers	5-10	0%
Box	Tender Box	3-18	0%
	Information Box	3-18	0%
	Suggestion Box	3-18	0%
Board	Flirt Chart	3-18	0%
	Writing Board	3-18	0%
	Pin Board	3-18	0%
	Board In and Out	3-18	0%
	Notice Board	3-18	0%
Bed	Consulting Bed	3-18	0%
	Triple Deck	3-18	0%
	Double Bed	3-18	0%
	Stretcher	3-18	0%

	Single Bed	3-18	0%
Hanger	Coat Hanger	3-18	0%
Trolley	Tea Trolley	3-18	0%
	Book Trolley	3-18	0%
	Front Loader Trolley	3-18	0%
	Heavy Duty Trolley	3-18	0%
Appliance	Television	3-7	0%
	Microwave	3-7	0%
	Fridge	3-7	0%
	Vacuum Cleaner	3-7	0%
	Urn	3-7	0%
	Water Dispenser	3-7	0%
	Heater	3-7	0%
	Fan	3-7	0%
	Decoder	3-7	0%
	VCR	3-7	0%
Machine	Photostat	5-10	0%
	Printer	5-10	0%
	Shredder	5-10	0%
	Scanner	5-10	0%
	Laminator	5-10	0%
	Money Counter	5-10	0%
	Guillotine	5-10	0%
	Camera	5-10	0%
	Projector	5-10	0%
	Receipt Printer	5-10	0%
Machinery	Lawnmower	3-15	0%
	Compressor	3-15	0%
	Chainsaw	3-15	0%
	Brushcutter	3-15	0%
	Fire Arm	3-15	0%
	General Machinery	3-15	0%
Tools	Skip	3-15	0%
	Ladder	3-15	0%
	General Tools	2-15	0%
Commercial Vehicle	Truck	5-20	10-15%
Passenger Vehicle	Sedan	5-20	10-15%
	Hatch	5-20	10-15%
	Motor Bike	5-20	10-15%
	SUV	5-20	10-15%
	LDV	5-20	10-15%
	Bus	5-20	10-15%
	Mini Bus	5-20	10-15%

Specialised Vehicle	Tractor	5-20	10-15%
	TLB	5-20	10-15%
	Grader	5-20	10-15%
	Ambulance	5-20	10-15%
	Crane	5-20	10-15%
	Bulldozer	5-20	10-15%
	Fire Engine	5-20	15%
	Other Specialized Vehicle	5-20	10-15%
Paintings and Artworks	Paintings and Artworks	None	0%
Municipal Jewellery	Municipal Jewellery	None	0%
Other Antiques and Collections	Other Antiques and Collections	None	0%
Sculptures	Sculptures	None	0%
Software	Computer Software	3-5	0%