THABA CHWEU MUNICIPALITY
ASSET MANAGEMENT POLICY

2025-2026

RE DIRELA BATHO

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PREAMBLE

Whereas section 14 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services, and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued,

- and whereas the Municipal Council of Thaba Chweu Local Municipality wishes to adopt a policy to guide the municipal manager in the management of the municipality's assets,

- and whereas the Municipal Manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets,

- and whereas these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes,

- now therefore the Municipal Council of the Thaba Chweu Local Municipality adopts the following asset management policy:

ABBREVIATIONS AND DEFINITIONS

AM	Asset Management
AMS	Asset Management System
AR	Asset Register
CFO	Chief Financial Officer
CRR	Capital Replacement Reserve
GRAP	Standards of Generally Recognised Accounting Practice
IA	Intangible Assets
IAR	Infrastructure Asset Register
IDP	Integrated Development Plan
IIMM	International Infrastructure Management Manual
IP	Investment Property
LM	Local Municipality
MFMA	Municipal Finance Management Act
MSA	Municipal Services Act
NT	National Treasury
OHSA	Occupational Health and Safety Act
PPE	Property, Plant and Equipment
SARS	South African Revenue Service
SDBIP	Service Delivery and Budget Implementation Plan

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

Agricultural Produce is the harvested product of the municipality's biological assets.

Biological Assets are defined as living animals or plants.

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

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

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

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of items of plant and equipment is usually their market value determined by appraisal, while the fair value of land and buildings is usually determined from market-based evidence by appraisal.

GRAP are standards of Generally Recognised Accounting Practice.

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

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

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

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

Involuntary Disposals is the act of accounting for an asset that was lost, stolen, destroyed, or any other form of unplanned alienation, including natural disasters and damage suffered from riot or strike action, without consent, or intention of management or council. There is no intention or decision to generate a profit, discharge a liability or recuperate the value of an asset no longer in use or retired, and there was no exchange of resources.

Land and Buildings are defined as a class of PPE when the land and buildings are held for purposes such as administration and provision of services. Land and Buildings therefore exclude Investment properties and Land Inventories.

Living Resources include living organisms, for example animals and plants that are used or held for:
The delivery or provision of goods and services; research; conservation; recreation; agricultural activities; education or training and rehabilitation or breeding purposes.

MFMA refers to the Local Government: Municipal Finance Management Act (Act no. 56 of2003).

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

Property, Plant and Equipment (PPE) are tangible assets that:
(a) Are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
(b) Are expected to be used during more than one period.

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

Recoverable Service Amount is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.

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

Voluntary Disposal is the act of taking a decision to dispose of an asset to generate a profit, discharge a liability or recuperate the value of an asset no longer in use or retired.

Useful Life is:
(a) The period of time over which an asset is expected to be used by the municipality; or
(b) The number of production or similar units expected to be obtained from the asset by the municipality's accounting officer.

Write-off includes the sale, loss, theft, destruction, decommissioning, derecognition or any other form of alienation that is the result of loss of control of the asset in question.

1. **OBJECTIVE**

The MFMA was introduced with the objective of improving accounting in the municipalities sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, but since the adoption of GRAP, entities are required to prepare financial statements using the accrual basis of accounting per GRAP 1.
With an accrual system the assets are incorporated into the books of accounts and systematically written off over their anticipated lives. This necessitates that a record is kept of the cost of the assets, the assets are verified periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

According to the MFMA, the Accounting Officer in the Municipality should ensure:

a) that the municipality has and maintains an effective and efficient and transparent system of financial and risk management and internal control;
b) the effective, efficient and economical use of the resources of the municipality;
c) the management (including safeguarding and maintenance) of the assets of the municipality;
d) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
e) that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and
f) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

The objective of this Asset Management Policy is:

- To ensure the effective and efficient control, utilization, safeguarding and management of Thaba Chweu Local Municipality's property, plant and equipment.
- To ensure Senior managers are aware of their responsibilities in regards of infrastructure and community assets.
- To set out the standards of physical management, recording and internal controls to ensure property, plant and equipment are safeguarded against inappropriate loss or utilisation.
- To specify the process required before expenditure on property, plant and equipment occurs.
- To prescribe the accounting treatment for property, plant and equipment in Thaba Chweu Local Municipality including:
    - The criteria to be met before expenditure can be capitalised as an item of property, plant and equipment,
    - The criteria for determining the initial cost of the different items of property, plant and equipment,
    - The method of calculating depreciation for different items of property, plant and equipment,

- The criteria for capitalising subsequent expenditure on property, plant and equipment,
- The policy for scrapping and disposal of property, plant and equipment,
- The classification of property, plant and equipment.

2. LEGISLATIVE FRAMEWORK

2.1 LEGAL FRAMEWORK

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

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

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

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

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

As accounting officer of the municipality, the Municipal Manager is responsible and accountable for, among others, all assets of the municipality (section 55(2) of the MSA).
The Municipal Manager must take all reasonable steps to ensure, among others, that the resources of the municipality are used effectively, efficiently and economically (section 62(1) of the MFMA).

2.2 RATIONALE FOR MANAGEMENT OF ASSETS

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.

In terms of the MFMA, the accounting officer is responsible for managing the assets and liabilities of the municipality, including the safeguarding and maintenance of its assets.

The MFMA further requires the accounting officer to ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for its assets and liabilities;
- The municipality's assets are valued in accordance with standards of generally recognised accounting practice; and
- The municipality has and maintains a system of internal control of assets and liabilities.

The OHSA requires the municipality to provide and maintain a safe and healthy working environment, and in particular, to keep its infrastructure assets safe.

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

The core principles of infrastructure asset management are:

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

3. **POLICY FRAMEWORK:**

3.1 POLICY OBJECTIVE

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

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

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

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

3.2 POLICY PRINCIPLES

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

3.2.1 EFFECTIVE GOVERNANCE

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

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

3.2.2 SUSTAINABLE SERVICE DELIVERY

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

- Identify levels and standards of service that conform to statutory requirements and rules for their application based on the long-term affordability to the municipality;
- Identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- Identify current and future demand for services, and demand management strategies;
- Set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose assets, where applicable in line with national targets;
- Apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- Prepare and adopt an immovable (infrastructure) asset management strategy and immovable (infrastructure) asset management plans to support the achievement of the required performance;
- Prepare and adopt an immovable (infrastructure) asset maintenance strategy and immovable (infrastructure) asset maintenance plans to execute maintenance timeously;
- Allocate budgets that take cognisance of the full life cycle needs of existing and future assets;
- Implement its Tariff and Credit Control and Debt Collection Policies to sustain and protect the affordability of services by the community.

3.2.3 SOCIAL AND ECONOMIC DEVELOPMENT

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

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

- Implement changes to services in response to changing customer needs and expectations where appropriate;
- Foster the appropriate use of services through the provision of clear and appropriate information;
- Ensure services are managed to deliver the agreed levels and standards; and
- Create job opportunities and promote skills development in support of the national EPWP.

3.2.4 CUSTODIANSHIP

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

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

3.2.5 TRANSPARENCY

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

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

3.2.6 COST-EFFECTIVENESS AND EFFICIENCY

The municipality strives to manage its immovable assets in an efficient and effective manner. To this end, the municipality will:

- Assess life-cycle options for proposed new immovable assets;
- Regularly review the actual extent, nature, utilisation, criticality, performance and condition of immovable assets to optimise planning and implementation works;
- Assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of immovable assets;
- Ensure the proper utilisation and maintenance of existing assets;
- Establish and implement demand management plans;
- Timeously renew immovable assets based on capacity, performance, risk exposure, and cost;
- Timeously dispose of immovable assets that are no longer in use;

- Establish documented processes, systems and data to support effective life-cycle immovable asset management;
- Strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and
- Conduct annual assessments to support continuous improvement of immovable asset management practice.

4. RESPONSIBILITIES AND ACCOUNTABILITIES

4.1 THE MUNICIPAL MANAGER

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

4.1.1 The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;

4.1.2 The municipality's assets are valued in accordance with standards of generally recognized accounting practice

4.1.3 That the municipality has and maintains a system of internal control of assets, including an asset register; and

4.1.4 That senior managers and their teams comply with this policy

4.2 THE CHIEF FINANCIAL OFFICER

4.2.1 The CFO shall be the custodian of the fixed asset register of the Municipality;

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

4.2.3 The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;

4.2.4 Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;

4.2.5 Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the Fixed Asset Register.

4.2.6 Financial processes are established and maintained ensure the municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.

4.2.7 The municipal manager is appropriated advised on the exercise of powers and duties pertaining to the financial administration of assets;

4.2.8 The senior managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;

4.2.9 This policy and any supporting procedures or guidelines are established, maintained and effectively communicated

4.3 ASSET MANAGER MUST ENSURE THAT:

4.3.1 Appropriate systems of physical management and control are established and carried out for asset in their area of responsibility;

4.3.2 The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;

4.3.3 Any unauthorized, irregular or fruitless or wasteful utilization, and losses resulting from criminal or negligent conduct, are prevented;

4.3.4 Their asset management systems and controls can provide an accurate, reliable and up to date account of assets under their control.

4.3.5 They can justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives.

4.3.6 The asset manager may delegate or otherwise assign responsibility for performing these functions, but they will remain accountable for ensuring these activities are performed.

4.4 MANAGER: ASSETS

4.4.1 Shall ensure that complete asset registers kept, verified and balanced regularly.

4.4.2 Shall ensure that all movable assets are properly bar coded and accounted for.

4.4.3 Shall conduct an annual audit inventory by scanning selected movable assets and compare this inventory with the Departments asset sign offs.

4.4.4 Shall ensure that the Fixed Asset Register is balanced annually with the general ledger and the financial statements.

4.4.5 Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the departments and provided to the treasury department in the prescribed format.

4.4.6 Shall ensure that asset acquisitions are allocated to the correct asset code.

4.4.7 Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, counter signed by the Asset management Section, is presented.

4.4.8 Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from the departments.

4.4.9 Shall compile a list of the items to be auctioned in accordance with the Supply Chain Management (SCM) Policy.

4.4.10 Shall compile and circulate a list of unused movable assets to enable other departments to obtain items that are of use to them.

4.4.11 Shall ensure that the SCM unit is notified of any auctioning or disposing of written-off asset or asset inventory item

4.5 GENERAL MANAGERS

4.5.1 Shall ensure that employees in their departments adhere to the approved Asset Management Policy.

4.5.2 Shall ensure that an assets coordinator with delegated authority has been nominated to implement and maintain physical control over assets in the department. The Asset management section must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the general manager.

4.5.3 Shall ensure that employees who contravenes the operational procedure or who use the council assets negligence and for their personal gain are disciplined accordingly.

4.6 SENIOR MANAGERS RESPONSIBLE FOR INFRASTRUCTURE ASSETS.

4.6.1 Shall ensure that a maintenance policy is approved and properly implemented.

4.6.2 Shall develop a maintenance plan for the infrastructure assets for their section.

4.6.3 Shall ensure that their departments had implemented operational procedures for an example, operators and drivers must have necessary qualification and valid driver's license, only personnel for electricity department are allowed to the electricity sub stations etc.

4.6.4 Shall ensure that assets are properly maintained in accordance with the maintenance policy.

4.6.5 Shall ensure that the assets of the council are not used for private gain.

4.6.6 Shall ensure that all their movable assets as reflected on the Fixed Asset Register and are bar coded where possible.

4.6.7 Shall ensure that the Asset Management Section is notified of any changes in the status of the assets under the department's control.

4.6.8 Shall certify in writing that they have assessed and identified impairment losses on all assets at year end.

4.6.9 Shall ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the Asset Management Section without delay.

4.6.10 Shall ensure that the correct cost element and description are being used before authorizing any requisitions.

4.6.11 Shall assist during the annual physical verification of infrastructure assets including the land and building.

4.6.12 Shall develop an infrastructure assets management plan for their department such as Roads and storm water, Water supply, Sanitation, Solid waste, electricity supply, Properties and community facilities.

4.6.13 Shall unbundled or componentized and assign estimated useful life to each component of all completed projects during the financial year and submit the componentized list to the office of the CFO for updating the asset register.

4.6.14 Shall sign and date declarations stating that the list of componentized assets for his/her department is complete & accurate except for the discrepancies as reported to the office of the CFO.

4.7 ALL COUNCIL EMPLOYEES

4.7.1 Shall ensure that assets assigned to them are utilized effectively, efficiently, economically and transparently

4.7.2 Shall ensure that the assets of the council are not used for private gain

4.7.3 Shall notify the assets coordinators and assets management section of all obsolete, damaged and stolen assets, without delay.

4.7.4 Shall physically verify all assets under their possession and report to the result of the verification to the assets management unit at year end.

4.7.5 Shall ensure that all assets under their possession are properly bar-coded.

4.7.6 Shall ensure that on termination of service they returned the assets to their supervisors and complete a termination assets clearance form.

4.7.7 Shall notify the asset coordinators and assets management unit of the movement and transfer of assets assigned to them by completing an asset transfer form.

4.7.8 Shall ensure that they comply with the operational procedures

4.8 MANAGEMENT AND OPERATION OF ASSETS

4.8.1 Each Asset Manager is accountable to ensure that municipal resources assigned to them are utilized effectively, efficiently, economically and transparently. This would include;

4.8.1.1 Developing appropriate asset management systems, procedures, processes for controlling and management of assets,

4.8.1.2 Providing accurate, reliable and up to date account of assets under their control,

4.8.1.3 The development and motivation of relevant strategic asset management plans and operational budgets that optimally achieve the municipality's strategic objectives.

4.9 CONTENTS OF A STRATEGIC ASSET MANAGEMENT PLAN

Senior Managers need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost. To achieve this, Asset Manager will need to develop strategic asset management plans that cover:

- Alignment with the Integrated Development Plan
- Operational guidelines,
- Performance monitoring,
- Maintenance programs,
- Renewal, refurbishment and replacement plans,
- Disposal and Rehabilitation plans,
- Operational, financial and capital support requirements, and
- Risk mitigation plans including insurance strategies

5. ASSET RECOGNITION

5.1 CLASSIFICATION OF CAPITAL ASSETS

General

When accounting for Capital Assets, the municipality should follow the various standards of GRAP relating to the capital assets. An item is recognised in the statement of financial position as a Capital Asset if it satisfies the definition and the criteria for recognition of assets. The first step in the recognition process is to establish whether the item meets the definition of an asset. Secondly, the nature of the asset should be determined, and thereafter the recognition criterion is applied. Capital Assets are classified into the following categories for financial reporting purposes:

Property, Plant and Equipment (GRAP 17)

- Land and Buildings (land and buildings not held as investment property)
- Infrastructure Assets (immovable assets that are used to provide basic services)
- Community Assets (resources contributing to the general well-being of the community)
- Other Assets (ordinary operational resources)

Investment Property (GRAP 16)

- Investment Assets (resources held for capital or operational gain)

Intangible Assets (GRAP 31)

- Intangible Assets (assets without physical substance held for ordinary operational resources)

Biological Assets (GRAP 27)

- Biological Assets (livestock and plants held)

Heritage Asset (GRAP 103)

- Heritage Assets (assets of a cultural, environmental, historical, natural, scientific, technological or artistic significance)

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

Land Inventories (GRAP 12)

- Land Inventories (land or buildings owned or acquired with the intention of selling or distributing such property in the ordinary course of business)

Further asset classification has not been defined in GRAP. The examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks. Current classifications used for infrastructure are limited and do not represent all asset types. To facilitate the

practical management of infrastructure assets and asset register data, infrastructure assets have been further classified. The recommended classifications are provided in *Annexure A*.

Policy
The asset classification specified by GRAP shall be adhered to as a minimum standard. The extended asset classification specified in *Annexure A* shall be adopted. The CFO shall ensure that the classifications adopted by the municipality are adhered to.

5.2 IDENTIFICATION OF ASSETS

General
An asset identification system is a means to uniquely identify each asset in the municipality in order to ensure that each asset can be accounted for on an individual basis. Movable assets are usually identified using a barcode system by attaching a barcode to each item. Immovable assets are usually identified by means of an accurate description of their physical location.
Barcoding is important to:

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

Policy
An asset identification system shall be operated and applied in conjunction with an asset register. As far as practicable, every individual asset shall have a unique identification number. The CFO shall develop and implement an asset identification system, while acting in consultation with the Executive Directors.

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

5.3 ASSET REGISTER

General
An asset register is a database of information related to all the assets under the control of the municipality. The asset register consists of an inventory of all the assets, with each asset having a unique identifying number. Data related to each asset should be able to be stored in the asset register. The data requirements for the asset register are as follows:

Data	Land	Movable	Infrastructure/ building
Identification			
•Unique identification number or asset mark	✔	✔	✔

Data	Land	Movable	Infrastructure/ building
•Unique name	✔	✔	✔
•Internal Classification	✔	✔	✔
•Descriptive data (make, model, etc.)	✔	✔	✔
•Erf/registration number	✔	✔	✔
•Title deed reference	✔		
Accountability			
•Department	✔	✔	✔
Performance			
•Age		✔	✔
•Condition		✔	✔
•Remaining useful life		✔	✔
•Expected useful life		✔	✔
Accounting			
•Historic cost	✔	✔	✔
•Take-on value	✔	✔	✔
•Take-on date	✔	✔	✔
•Re-valued amount (where assets were re-valued)	✔	✔	✔
•Valuation difference (for purposes of revaluation reserve and depreciation)	✔	✔	✔
•Depreciation method		✔	✔
•Depreciation portion that should be transferred from revaluation reserve to accumulated depreciation (where assets were re-valued)		✔	✔
•Depreciation charge for the current financial year		✔	✔
•Impairment losses in the current year		✔	✔
•Accumulated depreciation		✔	✔
•Carrying value	✔	✔	✔
•Residual value		✔	✔
•Source of financing	✔	✔	✔

Assets remain in the asset register for as long as they are in physical existence or until being written off. The fact that an asset has been fully depreciated, or impaired, is not in itself a reason for derecognising such an asset. The asset register does not include assets that belong to other third parties. These assets may be included as separable entities for control purposes.

Policy

An asset register shall be maintained for all assets by the CFO. In some cases, such as Investment Properties and Intangible Assets, separate asset registers will have to be maintained. Asset managers are responsible for establishing and maintaining additional registers and databases required. The format of the register shall include the data needed to comply with the applicable accounting standards and data needed for the technical management of the assets. (Quantity, value, location and condition). The asset register should be continuously updated, and asset records should be reconciled to the general ledger on a quarterly basis, where possible.

5.4 RECOGNITION OF CAPITAL ASSETS: INITIAL MEASUREMENT

General

A Capital Asset should be recognised as an asset in the financial and asset records when:

- The entity has control of the asset;
- It is probable that future economic benefits or potential service delivery associated with the item will flow to the municipality;
- The cost or fair value of the item to the municipality can be measured reliably;
- The cost is above the municipal capitalisation threshold (if any); and
- The item is expected to be used during more than one financial year.

Spare parts and servicing equipment are usually carried as inventory in terms of GRAP 12 on Inventories and are recognised in surplus or deficit as consumed. However, major spare parts, major components and stand-by equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Further guidance for the recognition of assets is provided below:

<u>Calculation of initial cost price</u>

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the municipality is not allowed to claim input VAT paid on acquisition of such assets. In such an instance, the municipality should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:

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

- Interest costs when incurred on a qualifying asset in terms of GRAP 5.

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

Component approach

The component approach is a GRAP-supported approach where complex assets are split into separate depreciable parts for recording. The key considerations in determining what should become a separately depreciable part (component) are:

- Considerable difference in useful life
- Align with the asset management plans
- Benefits will justify the costs of separate identification
- It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,
- The cost of the asset to the municipality can be measured reliably
- The municipality has gained control over the asset
- The asset is expected to be used during more than one financial year

If the value of a part of the asset is significant (i.e. material) compared to the value of the asset as a whole and/or has a useful life that is considerably different to the useful life of the asset a whole, it should be recognised as a separately depreciable part (component).

Subsequent Expenses

The municipality should not recognise the costs of day-to-day servicing of the item in the carrying amount of an item of capital asset. These costs are recognised as expenditure as and when incurred. Day-to-day costs are primarily the costs of labour and consumables and may include the costs of small parts. The purpose of these expenditures is usually for the 'repair and maintenance' of the capital asset.

Parts of some capital assets may require replacement at regular intervals. For example, a road may need resurfacing every few years. It may be necessary to make less-frequently recurring replacement of parts, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle, an entity recognises in the carrying amount of the capital asset the cost of replacing the part of such an item when that cost is incurred if the recognition criteria are met. At the same time, the part to be replaced should be derecognised.

Rehabilitation/Enhancements/Renewals of capital assets

Expenditure to rehabilitate, enhance or renew an existing capital asset (including separately depreciable parts) can be recognised as capital if:

- The expenditure satisfies the recognition criteria;
- That expenditure is enhancing the service potential of that capital asset beyond its original expectation and either that expenditure:

- increases the useful life of that capital asset (beyond its original useful life);
- increases the capital asset capacity (beyond its original capacity);
- increases the performance of the capital asset (beyond the original performance);
- increases the functionality of that capital asset;
- reduces the future ownership costs of that capital asset significantly; or
- increases the size of the asset or changes its shape.

The expenditure to restore the functionality of the capital asset to its original level is a maintenance or refurbishment expense and will not be capitalised to the carrying value of the capital asset. The rehabilitated or renewed separately depreciable part will be derecognised and the replacement will be recognised. Where the separately identifiable asset is rehabilitated or renewed, the amount incurred will be added to the carrying value of the asset.

Leased Assets

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

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

Policy

All capital assets shall be correctly recognised as assets and capitalised at the correct value in its significant components. All assets will be capitalised, except those listed as examples in *Annexure B*, but the application thereof will be determined annually by the municipality. The3 minimum threshold is R1000.00 for the capitalization of the assets.

However, the municipality (Municipal Manager or to whom the right is delegated) can determine with an internal memorandum which assets, as mentioned in *Annexure B*, may not be classified as capital assets.

The Council shall specify which kinds of leases the municipality may enter into. A lease register shall be maintained with all the information that is necessary for reporting purposes.

5.5 SUBSEQUENT MEASUREMENT OF CAPITAL ASSETS

General

After initial recognition of Property, plant and Equipment, the municipality values its assets using the cost model, unless a specific decision has been taken to revalue a certain class of assets and in such instance

the PPE will be valued using the revaluation model. When an item of PPE is revalued, the entire class of property to which that asset belongs, should be re-valued.

When an asset's carrying amount is increased as a result of the revaluation, the increase should be credited 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.

When and asset's carrying amount is decreased as a result of devaluation, the decrease should be recognised as an expense in the annual financial statements. However, the decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

5.6 RECOGNITION OF INVENTORY ITEMS (NON-CAPITAL ITEMS)

General

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

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

Examples of Inventories may include the following:

- Ammunition
- Consumable stores;
- Maintenance materials;
- Spare parts for plant and equipment other than those dealt with under PPE;
- Strategic stockpiles (e.g. Water reserves);
- Work in progress; and
- Land / Property held for sale or development (and where plans have been approved)

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

Costs of development for housing or similar developments which are acquired or developed for resale will include costs directly related to the development – e.g. purchase price of land acquired for such

developments, surveying, conveyance costs and the provision of certain infrastructure. Infrastructure costs relating to extending the capacity of existing infrastructure are excluded. The costs of inventories of a service provider consisting of direct labour and other costs of personnel directly engaged in providing the service and other attributable overheads are included.

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

Inventories are recorded in a dedicated section of the Inventory Register and it is maintained for this purpose. The amount of cost of inventories is recognised and carried forward until related revenues are recognised.

Inventories are measured at the lower of cost and current replacement cost where they are held for distribution at no charge or for nominal charge, or for consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

5.7 RECOGNITION AND DERECOGNITION OF LAND (iGRAP 18)

General
iGRAP 18 can be applied to clarify the treatment of land where the building is owned by another party including, but not limited to:
- Formal RDP houses
- Informal RDP houses (without council permission)
- Schools, clinics, churches and similar
- Private properties on municipal land

It will also assist in confirming the treatment of the following assets regardless of ownership of the land:
- Infrastructure assets
- Community assets
- Vacant stands registered at the title deeds office
- Vacant stands not registered at the title deeds office

Policy
The control of land is evidenced by the following criteria:
(a) legal ownership; and/or
(b) the right to direct access to land, and to restrict or deny the access of others to land.

In assessing the control criteria, any binding arrangements over properties will be considered. Binding agreements can be in written form, a verbal agreement, or the result of past practice.
The loss of control will result in the derecognition of the property, despite legal title, while assets over which the entity does not hold the legal title may be recognized as an asset if control over the property has been established.

5.8 FINANCIAL DISCLOSURE

The financial statements shall disclose, for each class of property, plant and equipment recognized in the financial statements:

- The measurement bases used for determining the gross carrying amount,
- The depreciation methods used,
- The useful lives or the depreciation rates used,
- The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period, and
- A reconciliation of the carrying amount at the beginning and end of the period showing:
    - Additions
    - Disposals
    - Acquisitions through business combinations
    - Increases or decreases resulting from revaluations and from impairment losses recognized or reversed directly in net assets under the Standard of GRAP on Impairment of Assets, impairment losses recognized in surplus or deficit in accordance with the Standard of GRAP on Impairment of Assets,
    - Impairment losses reversed in surplus or deficit in accordance with the Standard of GRAP on Impairment of Assets
    - Depreciation
    - The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity, other changes.

The financial statements shall also disclose for each class of property, plant and equipment recognized in the financial statements:

- The existence and amounts of restrictions on title and property, plant and equipment pledged as securities for liabilities,
- The amount of expenditures recognized in the carrying amount of an item of property, plant and equipment in the course of its construction,
- The amount of contractual commitments for the acquisition of property, plant and equipment, and
- If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.
- If items of property, plant and equipment are stated at revalue amounts, the following shall be disclosed:

- The effective date of the revaluation,
- whether an independent valuator was involved,
- The methods and significant assumptions applied in estimating the items' fair values,
- The extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques, for each revalue class of property, plant and equipment, the carrying amount that would have been recognized had the assets been carried under the cost model, and the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.

- Financial statements shall also disclose the following for each class of property, plant and equipment:

  (a) The carrying amount of temporarily idle property, plant and equipment,

  (b) The gross carrying amount of any fully depreciated property, plant and equipment that is still in use, and

  (c) The carrying amount of property, plant and equipment retired from active use and held for disposal.

The financial statement shall disclose the following for each class of intangible assets, distinguishing between the internally generated intangible assets and other intangibles assets:

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- Whether the useful lives are indefinite or finite and, if finite, the useful
- Lives or the amortization rates used.
- The amortization methods used for intangible assets with finite useful lives.
- The gross carrying amount and any accumulated amortization
- (Aggregated with accumulated impairment losses) at the beginning and end of the period.
- The line item(s) of the statement of financial performance in which any amortization of intangible assets is included.
- A reconciliation of the carrying amount at the beginning and end of the period showing:
  - additions, indicating separately those from internal development and those acquired separately.
  - disposals.
  - assets classified as held for sale or included in a disposal group classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations.
  - increases or decreases during the period resulting from revaluations under paragraphs .78, .88 and .89 and from impairment losses recognized or reversed directly in net assets in accordance (if any) with the Standards of GRAP on Impairment of Assets.
  - impairment losses recognized in surplus or deficit during the period in accordance (if any) with the Standards of GRAP on Impairment of Assets.
  - impairment losses reversed in surplus or deficit during the period in accordance (if any) with the Standards of GRAP on Impairment of Assets).

- any amortization recognized during the period; net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and
- Other changes in the carrying amount during the period.

6. **ASSET TYPES**

6.1 PROPERTY, PLANT AND EQUIPMENT: LAND AND BUILDINGS (GRAP 17)

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

The municipality has chosen the cost model as its accounting policy and shall apply this policy to an entire class of property, plant and equipment.
After recognition as an asset, Land and Buildings shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses. The remaining useful life and residual value applied to Building assets shall be reviewed on an indication base as per the guidance of GRAP 17.

Land is not depreciated as it is deemed to have an indefinite useful life.

6.1 PROPERTY, PLANT AND EQUIPMENT: INFRASTRUCTURE ASSETS (GRAP 17)

General
Infrastructure Assets comprise assets used for the delivery of infrastructure-based services. These assets typically include electricity, sanitation, solid waste, storm water, transport, and water assets. Most infrastructure assets form part of a greater facility e.g. a pump in a pump station.

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

- Level 1: Service level (e.g. Prieska Water Supply)

- Level 2: Network level (e.g. Prieska Pump Stations)
- Level 3: Facility level (e.g. Prieska Pump Station)
- Level 4: Maintenance item level (e.g. Pump 1 in Prieska Pump Station)
- Level 5: Component level (e.g. Bearing of Pump 1 in Prieska Pump Station)

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

The compilation of a detailed infrastructure asset register in one financial term is a costly and onerous exercise. To ensure the practicality of implementing asset registers (and asset management planning as a whole), the International Infrastructure Management Manual (IIMM) recommends the adoption of a continuous improvement process as a practical implementation approach. This approach recognises the value of limited data above no data and enables the municipalities to slowly, but steadily, increases their knowledge in the assets they own. The improvement principles of the IIMM recommend starting with complete coverage of the infrastructure types at a low level of detail (e.g. level 2 or 3) and then improving the level of detail over a period of several years, starting with the high-risk assets, such as pump stations, treatment works, etc.

Policy
The infrastructure asset register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimising the risks of the municipality. Infrastructure assets are valued at cost (or, if acquired through a non-exchange transaction, the cost of the asset at recognition is measured as the fair value of the asset) less accumulated depreciation and accumulated impairment. If cost can however not be established, then infrastructure assets will be valued at depreciated replacement cost. Depreciated replacement cost is an accepted fair value calculation for assets where there is no active and liquid market. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value applied to Infrastructure assets shall be reviewed on an indication basis as per the guidance of GRAP 17.

Infrastructure Assets shall be recorded under the main categories listed in *Annexure A*;

6.2 PROPERTY, PLANT AND EQUIPMENT: OTHER ASSETS (GRAP 17)

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

Policy
Other assets are carried at cost (or, if acquired through a non-exchange transaction, the cost of the asset at recognition is measured as the fair value of the asset) less accumulated depreciation and accumulated

impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Other assets are not re-valued. The remaining useful life and residual value of applied to other assets shall be reviewed on an indication basis as per the guidance of GRAP 17.

Other Assets (general assets) shall be recorded under the main categories listed in *Annexure A*.

6.3 HERITAGE ASSETS (GRAP 103)

General

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. Heritage assets include the following:

- Archaeological sites;
- Conservation areas;
- Historical buildings or other historical structures (such as war memorials);
- Historical sites (for example a historical battle site or site of a historical settlement);
- Museum exhibits;
- Public statues; and
- Works of art (which will include paintings and sculptures).

Policy

Heritage assets are stated at cost (or, if acquired through a non-exchange transaction, the cost of the asset at recognition is measured as the fair value of the asset) less accumulated impairment losses. Heritage assets are not re-valued. If an asset that might be regarded as a heritage asset cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements.

6.4 INTANGIBLE ASSETS (GRAP 31)

General

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

Servitudes

Creation of servitudes through the exercise of legislation

In terms of legislation, municipalities are granted certain rights regarding the creation of servitudes. For example, in proclaiming townships, a municipality may declare that servitudes are to be registered over certain parts of the land falling within the boundaries of the proclaimed township so that it is able to install infrastructure to provide basic services.

A key feature of servitudes created using rights granted in legislation is that no compensation is paid to the landowner for the acquisition of these rights. Costs may however be incurred to register the servitude with the Deeds Office.

Servitudes granted under these conditions do not meet the 'identifiably' criteria above for the following reasons:

- They cannot be sold, transferred, rented or exchanged freely and are not separable from the entity.
- They arise from rights granted to the entity in statute and are specifically excluded from GRAP 31 as they are "internally generated rights".

Creation of servitudes through acquisition (including by way of expropriation or agreement)

An entity may need to acquire the rights associated with a specific piece of land, e.g. to span power cables related to an electricity distribution network. When an entity acquires rights associated with land, and registers a servitude, the landowner is usually compensated. Servitudes granted under these conditions are distinguished from those that are created through the exercise of legislation. These servitudes meet the definition of an "identifiable" intangible asset because they arise from contractual or other legal rights that are acquired through a specific arrangement, rather than through rights conferred on an entity in statute. In these instances, an entity would recognise the servitude as an intangible asset at cost. The cost of these servitudes on initial recognition is usually the transaction price, i.e. the compensation paid to the landowner and any other costs that can be capitalised to the cost of the asset in terms of GRAP 31.

Policy

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset. If an intangible asset is generated internally by the municipality, then a distinction should be made between research and development costs. Research costs should be expensed and development costs may be capitalised if all the criteria set out in GRAP 31 has been met.

6.5 INVESTMENT PROPERTY (GRAP 16)

General

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

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

Policy

Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position. Investment Property is initially

measured at its cost. Transaction costs shall be included in this initial measurement. Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.
If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.

RECOGNITION: Investment property recognised at cost, if acquired through a non-exchange transaction, the cost is measured as the fair value of the asset.

FAIR VALUE: After initial recognition, all investment property shall be measured at fair value. The fair value should reflect market conditions and circumstances as at the reporting date. Management shall assess at each reporting period whether conditions exist that indicate the fair value does not reflect market conditions and circumstances, and only adjust fair values of required. The fair values of properties will be adjusted at a minimum with every update of the municipal valuation roll, or any supplementary valuation roll.

A gain or loss arising from a change in the fair value of investment property shall be included in surplus or deficit for the period in which it arises.

Investment assets are recorded in an Investment Property register.

The following classes of Municipal Property will be classified as Investment Property:

a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations which council intends to sell at a beneficial time in the future.
b) Land held for a currently undetermined future use.
c) A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis.
d) A building that is currently vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.
e) Property that is being constructed or developed for future use as investment property.

The following classes of Municipal Property will not be classified as Investment Property:

a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale. This property is treated as inventory.
b) Property being constructed or developed on behalf of the Provincial Government: Housing Department.
c) Owner-occupied property which is defined as property which is held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes as per definition criteria of GRAP 17 which includes all council buildings used for administration purposes.
d) Property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) are also regarded to be owner–occupied property.
e) Property that is leased to another entity under a finance lease.

f) Property held by council for strategic purposes or to meet service delivery objectives rather than to earn rental or for capital appreciation. The decision should be documented and approved through a resolution.
g) Where council has properties that are used both for administrative and commercial purposes and part of the properties cannot be sold separately these properties will not be classified as investment properties.

6.6 BIOLOGICAL ASSETS (GRAP 27 and 110)

General
Biological Assets are living resources, plants and animals such as trees in a plantation or orchard, cultivated plants, sheep and cattle. Managed agricultural activity such as raising livestock, forestry, annual or perennial cropping, fish farming that are in the process of growing, degenerating, regenerating and / or procreating which are expected to eventually result in agricultural produce. Such agricultural produce is recognised at the point of harvest. Future economic benefits must flow to the municipality from its ownership or control of the asset.

Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to the market. Where the municipality is unable to measure the fair value of biological assets reliably, a biological asset should be measured at cost less any accumulated depreciation and accumulated impairment losses.

GRAP 110 will be effective from 1 April 2020, thus in the 2021 financial year. GRAP 110 is about the accounting for living resources (living organisms). This includes criteria to assess if living resource is controlled and the disclosure of non-living resources (land, minerals, oils, and gas and other nonregenerative resources)

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

6.7 INVENTORY PROPERTY (GRAP 12)

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

Policy
Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the municipality's asset register or Statement of Financial Position. Inventory property shall be

valued annually at reporting date at the lower of carrying value or net realisable value, except where they are held for:

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

Inventory properties shall be recorded in the Inventory register.

6.8 INVENTORIES (GRAP 12)

Process for calculating stock water

Water pipes:

- The length of the water pipes should be determined from the summation of all the individual lengths as per the Technical Asset Register (TAR) - note that the length is calculated from the origin of the pipes to the point of the domestic meters as appropriate.
- The pipes are to be assessed by OD (outside diameter) in the Asset Register and the internal diameter should be calculated for calculation of the volume by using the appropriate manufactures tables per pipe material and OD to determine the internal diameter
- ~~As pressure pipe can only for all practical purposes run at 100% capacity the volume is calculated by length x internal diameter squared divided by 4. For example, A factor of 85% of this volume can be used and an assumption can be made that there were 15% water losses in the system.~~ As pressure pipe can for all practical purposes run at 85%, which is applied as a factor to the volume calculation.
- The formula for calculating volume in a pipe is:
  $V = \pi \times (\text{internal diameter})^2 \times \text{length of pipe} \times 85\%$

Reservoirs:

- The capacity of the reservoirs should be calculated using the dimensions as recorded in the TAR i.e. the "dims' which is height x length x width or height x diameter.
  ~~The capacity was then calculated by subtracting the thickness of the walls dependent on the wall material using the best available information or engineering judgment.~~
  The width or diameter should be reduced with the thickness of the walls using the best, and consistently available information or engineering judgement.

- This capacity should be then confirmed with the municipality in the extent workshops. Note that the internal capacity can be quite different to the external for:
  - The capacity is constrained by the position of the overflow outlet which might not be at the top of the structure,
  - The structure could extend underground
  - The Capacity has been taken as 50% of theoretical capacity for the calculation of the stock water as there was no certainty as to the level in each reservoir at the time of measurement and 50% represents the mathematical average of available capacity

Treatment works;

- ~~the volume (or theoretical capacity) of the treatments works was assumed to be the theoretical through-put capacity of the works based on an 8 hrs operating day and at 50% of the available volume as there were no measurements as to the actual volumes in the works and 50% provided a defendable mathematical average.~~

Stock water calculation:

- The stock water calculation will then be calculated as the summation of the volumes available in the pipes plus the available volumes in the reservoirs

6.9 PROVISION FOR LANDFILL SITES (GRAP 19)

General

Landfill sites include the following items:

- The land where the landfill site is located (GRAP 17 and iGRAP18)
- Depreciation and impairment of the landfill site asset (GRAP 17 and iGRAP18)
- The rehabilitation provision (GRAP 19)

GRAP 17 requires the entity to include an estimate of the cost of landfill rehabilitation provision as part of the cost of the landfill site asset.

In applying the principles in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets (GRAP 19), the entity needs to recognize the cost of rehabilitation as part of the liability for the landfill rehabilitation provision as there is:

(a) a present obligation (legal or constructive) as a result of a past event

(b) probability that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and

(c) a reliable estimate that can be made of the amount of the obligation.

Policy

The cost of rehabilitation of landfill sites will be calculated yearly by an independent expert.

7. ASSET ACQUISITION

7.1 ACQUISITION OF ASSETS

General

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing. The date of acquisition of assets is deemed to be the time when control passes to the municipality.

Policy

Should the municipality decide to acquire a capital asset or start a capital project, the following fundamental principles should be carefully considered by the senior manager of the relevant department prior to acquisition of such an asset:

- The purpose for which the asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it;
- The asset/project meets the definition of a Capital Asset (as defined in GRAP 16, GRAP 17, GRAP 27, GRAP 31 and GRAP 103)
- The asset/project has been budgeted for;
- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
- The purchase is necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
- The asset is appropriate to the task or requirement and is cost-effective over the life of the asset.
- The inclusion of this capital project in the integrated development plan and future budgets:
- The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
- Space and other necessary facilities to accommodate the asset are in place; and
- The most suitable and appropriate type, brand, model, etc. has been selected.

The CFO is accountable to ensure the senior manager of the relevant department receives all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

Money can only be spent on a capital project if:

- The money has been appropriated in the capital budget,
- The project, including the total cost, has been approved by the council,
- The CFO confirms that funding is available for that specific project, and
- Any contract that will impose financial obligations beyond two years after the budget year must be appropriately disclosed.
- Acquisition of the Assets will then follow the normal process of the Supply Chain Management Policy and Procedures

Within the municipality's on-going financial, legislative or administrative capacity, the chief financial officer will establish and maintain the funding strategies that optimise the municipality's ability to achieve its strategic objectives as stated in the integrated development plan.

7.2 CREATION OF NEW INFRASTRUCTURE ASSETS

General

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

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

Work in progress shall be flagged (indicated) as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for it to operate in the manner intended by management. Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

7.3 SELF-CONSTRUCTED ASSETS

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

Policy
All assets that can be classified as assets and that are constructed by the municipality should be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged (indicated) as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for it to operate in the manner intended by management.

7.4 DONATED ASSETS

General
A donated asset is an item that has been given to the municipality by a third party in government or outside government without paying or actual or implied exchange.
Policy
Donated assets shall be valued at fair value, reflected in the asset register, and depreciated as normal assets. All donated assets shall be approved by the Municipal Manager and ratified by Council as part of acceptance.

8. **ASSET MAINTENANCE**

8.1 USEFUL LIFE OF ASSETS

General

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

Although National Treasury (NT) guidelines exist that includes directives for useful lives of assets, municipalities must use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for particular classes of assets. The calculation of useful life is based on a particular level of planned maintenance.

Policy
The remaining useful life of assets shall be reviewed on an indicator basis as per the guidance of GRAP and the following factors:

- The operational, maintenance, renewal and disposal program that will optimize the expect long term costs of owning that asset
- Economic obsolescence because it is too expensive to maintain
- Functional obsolescence because it no longer meets the municipalities needs
- Technological obsolescence
- Social obsolescence due to changing demographics, and
- Legal obsolescence due to statutory constraints.

Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3. During annual physical verification of movable assets, an assessment of condition and use shall determine the appropriateness of the remaining useful lives, while for infrastructure assets, the useful lives shall be deemed to be appropriate unless an event has occurred or conditions of use have changed, which may have an effect on the remaining useful lives of these assets. Please refer to *Annexure A*.

8.2 RESIDUAL VALUE OF ASSETS

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

The residual values of most assets are however considered to be insignificant and therefore immaterial in the calculation of the depreciable amount. The reason is that the majority of assets are hardly ever recovered through sale, but rather through use of the asset until the end of its useful life, after which insignificant amounts, if any, are expected to be obtained, as these assets will most probably be replaced in its entirety.

Assets typically not sold by the municipality are land, buildings, infrastructure, and community assets, which assets will have a residual value of zero, allowing the asset to be fully depreciated over its useful life cycle. Residual values will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. Past experiences of

municipal auctions held revealed that furniture, computer equipment and other movable assets does not reach selling prices that are material.

Policy

Residual values shall be determined upon initial recognition of assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. The basis of the residual value estimates shall be determined by the results of past sales of vehicles at auctions when it reaches the end of its useful lives. The residual value of assets shall be reviewed on an indication basis as per the guidance of GRAP. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

8.3 DEPRECIATION OF ASSETS

General

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value. The depreciation method used must reflect the pattern in which economic benefits or service potential of a Capital Asset is consumed by the municipality. The following are the allowed alternative depreciation methods that can be applied by the municipality:

a. Straight-line;
b. Diminishing Balance; and
c. Sum of the Units.

Policy

All PPE assets except land shall be depreciated over their reasonable useful lives on the straight-line method. The residual value and the useful life of an asset shall be reviewed on an indication basis. The depreciation method applied shall also be reviewed on an indication basis. Reasonable budgetary provisions shall be made annually for the depreciation of all applicable assets controlled or used by the municipality or expected to be so controlled or used during the ensuing financial year.

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

8.4 IMPAIRMENT LOSSES

General

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. The following serve as examples of impairment indicators:

- Carrying amount of an asset far exceeds the recoverable amount or market value;
- During routine physical inspection of the asset there was evidence of physical damage (or obsolescence);
- The asset is not being used, or access to the asset is restricted, due to structural damage.
- The asset is not able to perform at the planned or required level and as a result is not meeting service delivery targets.
- During routine physical inspection of the asset it was identified that the asset deteriorated faster than expected, or was subject to damage, which will result in replacement or significant maintenance earlier than expected.

The entity will designate its assets as either non-cash generating or cash generating in accordance with GRAP 21.

Designation is based on the entities objective of using the asset at initial recognition for:

- Delivery of service (service assets) or
- Generating commercial return (profit assets)

It is expected that some assets may have a dual-purpose.
A dual-purpose asset is only classified as cash-generating (profit assets) if the purpose to create a profit clearly stands out and the service delivery aspect is incidental. If the purpose is not clear, the assets are presumed to be non-cash-generating (service assets)

The designation must be done on an asset or cash-generating unit.
In the designation process assets are first designated using a group of assets and any remaining assets are then designated on an individual asset basis. The designation is applied to individual assets.
An asset could comprise a group of assets that are part of a system or network, that is, infrastructure assets.

Examples of a cash-generating unit (group of assets):

- Administrative / owner-occupied assets
- Infrastructure – Roads
- Infrastructure – Water
- Infrastructure – Electricity
- Infrastructure – Sewer
- Infrastructure – Waste Management
- Community Assets – Swimming Pool
- Community Assets – Community Hall

For non-cash generating assets GRAP 21 will be applied.
For cash generating assets GRAP 26 will be applied.

The impairment amount is calculated as the difference between the carrying value and the recoverable value.

Non-cash generating assets
The recoverable value is the higher of the asset's value in use or its fair value less cost to sell.
Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Cash generating assets
The recoverable value is the higher of the asset's value in use or its fair value less cost to sell.
Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

Where the recoverable amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at re-valued amount.

If the asset is carried at a re-valued amount the impairment should be recorded as a decrease in the revaluation reserve. Where immovable property, plant and equipment surveys are conducted, the recoverable service value is determined using the depreciated replacement costs method by assessing the remaining useful life.

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

8.5 MAINTENANCE OF ASSETS AND THE ASSET REGISTER

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

There are three different types of maintenance, all which should be accounted for separately:

8.5.1 Corrective Maintenance:
Maintenance is carried out following detection of an anomaly and aimed at restoring normal operating conditions. This approach is based on the firm belief that the costs sustained for

downtime and repair in case of fault are lower than the investment required for a maintenance program. This strategy may be cost-effective until catastrophic faults occur.

8.5.2 Preventative Maintenance:

Maintenance carried out at predetermined intervals or according to prescribed criteria, aimed at reducing the failure risk or performance degradation of the equipment. The maintenance cycles are planned according to the need to take the device out of service. The incidence of operating faults is reduced.

8.5.3 Performance-based maintenance

Maintenance based on the equipment performance monitoring and the control of the corrective actions taken as a result. Maintenance is carried out when certain indicators give the signaling that the equipment is deteriorating, and the failure probability is increasing. This strategy, in the long term, allows reducing drastically the costs associated with maintenance, thereby minimizing the occurrence of serious faults, and optimizing the available economic resources management.

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

- If a future renewal of the entire pipe will include the renewal of the partial section that is now renewed, then the renewal of the partial section is treated as maintenance.
- If a future renewal of the entire pipe will retain the partial section that is now renewed, then the renewal of the partial section is treated as renewal and the pipe is split into two separate assets.

Maintenance analysis is an essential function of infrastructure management to ensure cost-effective and sustainable service delivery. In order to analyse maintenance data, maintenance actions undertaken against individual infrastructure assets should be recorded against such assets.

Policy

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

8.6 RENEWAL OF ASSETS

General

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

Policy

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

8.7 REPLACEMENT OF ASSETS

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

Policy
Assets that are replaced shall be derecognised at their carrying value. The replacement asset shall be accounted for as a separate new asset.
Costs incurred to replace the asset shall be split between costs to dispose of the old asset, which shall be expensed as part of the derecognition, and costs to install the new asset, which shall be capitalised against the new asset.

9. **ASSET DISPOSAL**

9.1 TRANSFER OF ASSETS

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

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

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

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

9.2 EXCHANGE OF ASSETS

General
According to GRAP 17.29 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

- the exchange transaction lacks commercial substance; or
- the fair value of neither the asset received, nor the asset given up is reliably measurable.

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

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

9.3 ALIENATION / DISPOSAL OF ASSETS

General
Alienation / Disposal is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality, or no owner in the case of destruction of the asset. This includes voluntary and involuntary disposals.

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

Specifically:

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

In addition, the MFMA section 75 (1)(h) requires that the accounting officer of a municipality places on the municipality's website an information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14(2) or (4) during the previous quarter.

Policy
The disposal of an item of property, plant or equipment must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management and the Supply Chain Management Policy of the municipality.

Different disposal methods will be necessary for different types of assets. Before deciding on a particular disposal method, the following shall be considered:

- The nature of the asset
- The potential market values
- Other intrinsic value of the asset
- Its location
- Its volume

- Its trade-in prices
- Its ability to support wider Government programmes;
- Environmental considerations
- Market conditions
- The asset's life

Appropriate means of disposal may include:

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

Other means of alienation include:

- Donations: Donations may be considered as a method of alienation, but such requests must be motivated to the Municipal Manager for approval.
- Destruction: Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.
- Scrapping: Scrapping of assets that cannot be alienated otherwise may be considered as a method of alienation, but such requests must be motivated to the Municipal Manager.
- The letting of immovable property, excluding municipal housing for officials and political office bearers, must be done at market-related tariffs, unless the relevant treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.

All involuntary disposals should be reported to the Chief Financial Officer on a regular basis. This report should include the investigation into the reason for the involuntary disposal per asset and advise if any remediation or recovery could be made. The involuntary disposal of assets, together with the supporting investigations should be presented to council to determine if the involuntary disposal was due to negligence, and if so, to instruct recoveries where possible. Where the involuntary was not due to negligence, council shall determine if there is a correcting or mitigating control that may be put in place to ensure future losses are limited.

Once the fixed assets are disposed, the asset shall be removed from the accounting records and the asset register. All gains and losses realised on the disposal of assets shall be accounted for as revenue or expense in the Statement of Financial Performance.

9.4 SELLING OF ASSETS

General

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

Policy

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

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

Sold assets shall be derecognised in the asset register once control and all rights and obligations of the asset has been transferred.

9.5 WRITING-OFF OF ASSETS

General

The write-off of assets is the process to permanently remove the assets from the asset register. Assets can be written-off after approval of the Municipal Manager of a report indicating that:

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

Policy

Reasons for writing off assets, other than the sale of such assets during the process of alienation, shall be the loss, theft, destruction, or decommissioning of the asset in question.

9.6 OTHER MOVEMENTS OF ASSETS

The Asset Management Section must be notified by the relevant Department of any of the following possible movements:

- Donations
- Additions / Improvements
- Departmentally manufactured items
- Loss or damage
- Transfers
- Terminations
- Land Sales

Policy

The responsible managers must ensure that all assets allocated to employees within their areas of responsibility are returned upon their terminations of service or transfer and reported to the asset team within 5 working days before allocation to re-allocation to any end user or other directorates.

10. PHYSICAL CONTROL (MOVABLE ASSETS)

10.1 PHYSICAL CONTROL / VERIFICATION

General

Movable assets require physical control and verification of existence.
Assets than cannot be physically verified, may indicate loss of control of the asset and as such, should be treated in line with paragraph 8.5 of this policy for the disposal of assets.

Policy

All movable assets shall be actively controlled, including an annual verification process. Annual physical inspections of assets shall be performed to identify items which are missing, damaged, not in use or are obsolete due to changed circumstances, to ensure that they are appropriately repaired, impaired, written off or disposed of.

Registers shall be kept for those assets allocated to staff members. The individuals are responsible and accountable for the assets under their control. These registers should be updated when the assets are moved to different locations or allocated to a different staff member in order to facilitate control and physical verification.

10.2 INSURANCE OF ASSETS

General

Insurance provides selected coverage for the accidental loss of the asset value. Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury.

Policy

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

10.3 SAFEKEEPING OF ASSETS

General

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

Policy

Directives for the safekeeping of assets shall be developed and the safekeeping of assets shall be actively undertaken.

11. ASSET FINANCIAL CONTROL

11.1 CAPITAL REPLACEMENT RESERVE (CRR)

General

The CRR is a reserve account to set aside funds for the financing of property, plant and equipment. The CRR is therefore an asset financing source that represents an alternative to the other funding sources available to the municipality, namely external loans (interest bearing borrowings) and government grants& subsidies. The value of this reserve is not represented by any values of assets under the municipality's control and shall preferably be cash-backed.

Policy

It is the policy of Council to annually make contributions to the CRR to ensure that the CRR remains a capital funding source for the future. The municipality will determine its future capital financing requirements and transfer sufficient cash to its CRR in terms of this determination. The Integrated Development Plan, the municipality's ability to raise external finance and the amount of government grants and subsidies that will be received in future will need to be taken into account in determining the amount that must be transferred to the CRR. Whenever an asset is sold by the municipality, the proceeds on the sale of the assets must be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets. All proceeds on the sale of land will be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets. Whenever an asset is purchased out of the CRR an amount equal to the cost price of the asset purchased, is transferred from the CRR into accumulated surplus on the Statement of Changes in Net Assets.

11.2 NON-DISTRIBUTABLE RESERVES (PUBLIC CONTRIBUTIONS AND DONATIONS RESERVE AND CAPITALISATION RESERVE)

General

The Public Contributions and Donations Reserve and the Capitalisation Reserves are reserve accounts dedicated towards funding the future depreciation of assets. The value of these reserves is equal to the carrying values of all depreciable assets under the municipality's control that was funded from Public Contributions / Donations or Internal Advances.

An amount equal to the monthly depreciation expenses and impairment losses recognised is transferred from the non-distributable reserve to the municipality's appropriation account (retained income) on a monthly basis.

For all new assets capitalised which are funded from Public Contributions / Donations, an amount equal to the capitalisation amount is appropriated to the Public Contributions and Donations Reserve from the Appropriation Account.

Since Internal Advances are not allowed anymore, no assets will be acquired from this source with the result that the Capitalisation Reserve will become totally depleted once the assets funded Internal Advances under IMFO standards, are fully depreciated.

Policy

The CFO shall ensure that the asset financing non-distributable reserves are created equal in value to the carrying value of all assets under the municipality's control funded from public contributions / donations and internal advances. The CFO shall thereafter ensure that in the case of depreciable assets, an amount equal to the monthly depreciation expenses and impairment losses recognised of the assets concerned is transferred each month from such non-distributable reserve to the municipality's appropriation account. For acquisitions of depreciable assets funded from public contributions / donations, an amount equal to the capitalisation amount is appropriated to the reserve from the municipality's appropriation account.

11.3 GOVERNMENT GRANTS RESERVE

General

The Government Grants Reserve is a reserve account dedicated towards funding the future depreciation of assets. The value of this reserve is equal to the carrying values of all depreciable assets under the municipality's control that was funded from *Government Grants*.

An amount equal to the value of Government Grants spent on capital assets (conditions met) is recorded as revenue. The amount is then transferred from the accumulated surplus account to the Government Grant Reserve. Monthly depreciation expenses and impairment losses recognised is released from the reserve to the municipality's accumulated surplus.

Policy

The CFO shall ensure that the Government Grant Reserve is created equal in value to the carrying value of all assets under the municipality's control funded from government grants. The CFO shall thereafter ensure that in the case of depreciable assets, an amount equal to the monthly depreciation expenses and impairment losses recognised of the assets concerned is released each month from the government grant reserve to the municipality's accumulated surplus. For acquisitions of depreciable assets funded from government grants, revenue is recorded and an amount equal to the capitalisation amount is transferred from the accumulated surplus to the GGR.

11.4 BORROWING COSTS (GRAP 5)

General

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of premiums or discounts associated with such borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance charges in respect of

finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as an adjustment to interest costs. The capitalisation of borrowing costs should take place when borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. During extended periods in which development of an asset is interrupted, the borrowing costs incurred over that time period should be recognised as an expense when incurred. Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

It is inappropriate to capitalise borrowing costs when there is clear evidence that it is difficult to link a borrowing requirement directly to the nature of the expenditure to be funded, i.e. Capital or Current.

Policy
Borrowing costs shall be capitalised, if directly attributable to the acquisition construction or production of an asset over a significant period, except when it is inappropriate to do so.
Borrowing costs should be expensed in all circumstances.

11.5 FUNDING SOURCES

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

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

Policy
The annual capital budget must be funded and the sources of finance must be disclosed as part of the Council's budget.

11.6 DISASTER

General
In terms of the Disaster Management Act, 2002, Disaster means a progressive or sudden, widespread or localised, natural or human – caused occurrence which causes or threatens to cause:

- death, injury or disease;
- damage to property, infrastructure or the environment; or
- disruption of life of community; and

- is of a magnitude that exceeds the ability of those affected by the disaster to cope with its effects using only their own resources.

In terms Section 56 (b) of the Disaster Management Act, 2002 the cost of repairing or replacing public sector infrastructure should be borne by the organ of state responsible for the maintenance of such infrastructure. The National, Provincial and Local organs of state may contribute financially to response efforts and post – disaster recovery and rehabilitation.

Policy

The Municipality will correspond with the Provincial organs to gain funds for repairing assets damaged in disaster events. The municipality must 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.

ANNEXURE A: ASSET CATEGORY AND USEFUL LIFE

Buildings	Buildings	Buildings	25 – 50 years
Heritage assets	Heritage assets	Heritage assets	Not depreciated
Infrastructure	Civil structures	Civil structures	15 – 50 years
Infrastructure	Electricity	Distribution and cables	40 – 50 years
Infrastructure	Electricity	Equipment	15 – 45 years
Infrastructure	Electricity	Public lighting	30 – 40 years
Infrastructure	Mechanical equipment	Mechanical equipment	10 – 20 years
Infrastructure	Other	External facilities	7 – 30 years
Infrastructure	Roads	Bridges	30 – 80 years
Infrastructure	Roads	Furniture	8 – 80 years
Infrastructure	Roads	Structure	10 – 50 years
Infrastructure	Roads	Traffic management	10 – 15 years
Infrastructure	Sewerage	Pipelines	40 – 50 years
Infrastructure	Sewerage	Pump stations	10 – 55 years
Infrastructure	Solid waste	Bins and disposal	10 – 20 years
Infrastructure	Sports- and playgrounds	Sports- and playgrounds	10 – 40 years
Infrastructure	Stormwater	Drainage constructed	50 – 70 years
Infrastructure	Stormwater	Drainage unlined	10 – 15 years
Infrastructure	Water	Dams and reservoirs	50 – 80 years
Infrastructure	Water	Other	15 – 20 years
Infrastructure	Water	Pipes and grids	50 – 90 years
Infrastructure	Water	Pumps and tanks	15 – 20 years
Intangible assets	Intangible assets	Computer software	3 – 5 years
Intangible assets	Intangible assets	Rights	Not depreciated
Intangible assets	Intangible assets	Systems (annual license)	Not capitalized
Investment property	Investment property	Investment property	Not depreciated
Land	Land	Land	Not depreciated
Land	Quarry	Quarry	Per expert report
Other assets	Emergency equipment	Emergency equipment	5 – 10 years
Other assets	Furniture and fittings	Furniture and fittings	5 – 7 years
Other assets	Motor vehicles	Motor vehicles	5 – 15 years
Other assets	Office furniture	Office furniture	4 – 15 years
Other assets	Plant and equipment	Plant and equipment	4 – 15 years

ANNEXURE B: ASSET TYPES NOT CAPITALISED DUE TO BEING UTILISED LESS THAN 12 MONTHS

- Kitchenware, e.g. Kettles, toasters, two-plate stove, etc.
- Stationery equipment, e.g. Punches (not heavy duty), staplers (not heavy duty), etc.
- Garden equipment, e.g. Brooms, rakes, spade, etc.
- Machines (not heavy duty), e.g. Spanners, screw drivers, etc.
- Electrical equipment, e.g. Extension lead, multi plug, etc.
- Mattresses
- Cutlery & crockery
- External harddrives
- Other, as may be determined by management