

ASSET MANAGEMENT POLICY

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1. **DEFINITIONS**

“Accounting Standards Board” was established by the Public Finance Management Act to set standards of Generally Recognized Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.

“agricultural assets” biological assets when related to agricultural activity example, the management of biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

“assets” are resources controlled by an entity as the result of past events and from which future economic benefits or potential service provision are expected to flow to the entity.

“asset categories” are the main and sub groups used for the classification of assets.

“asset champion” is an official delegated by the asset manager in his/her department or section to assist him/her in performing asset management related functions and duties.

“attractive items” are items of property, plant and equipment which are not significant enough for financial recognition in the fixed asset register, but are attractive enough to warrant special safeguarding. Such items are controlled through departmental attractive item (inventory) registers.

“asset manager” is the senior manager who has the functional accountability for and control of the physical management of a particular set of assets in order to achieve the municipality's strategic objectives relevant to his/her directorate. The execution of this responsibility will require the asset manager to control the acquisition, utilization, management and disposal of this set of assets to optimize the achievement of these objectives.

“biological assets” living animals or plants.

“capitalization” is the recognition of expenditure as an asset(s) in the financial asset register.

“carrying amount” is the amount at which an asset is included in the statement of financial position after deducting any accumulated depreciation thereon.

“*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 plus costs incidental to the acquisition or acquirement. Also known as historical cost/value.

“*cost of acquisition*” is all the costs incurred in bringing an item of plant, property and equipment to the required condition and location for its intended use.

“*deferred maintenance*” is the extent of preventative maintenance that has not been performed.

“*depreciation*” is the systematic allocation of the depreciable amount of an asset over its useful life, and therefore reflects the consumption of economic benefits or service potential of the asset.

“*depreciable amount*” is the cost of an asset, or other amount of an asset, or other amount substituted for cost in the financial statements, less its residual value.

“*disposal*” is the act of derecognizing an asset that has reached the end of its useful life and no future economic benefits or service potential is further expected from its use.

“*donated*” an item donated to the municipality at no cost or for a nominal cost or acquired by means of an exchange of assets.

“*fair value*” is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm’s length transaction.

“*financial asset register*” (FAR) is the controlled register recording the financial and other key details for all municipal assets recognized in accordance with this policy.

“*GAMAP*” stands for “*generally accepted municipal accounting practice*”.

“*GRAP*” stands for “*generally recognized accounting practice*”.

“*heritage assets*” assets held indefinitely for the benefit of present and future generations and have a cultural, environmental, historical, natural, scientific, technological and artistic significance.

“*impairment*” is when the recoverable amount of an asset is less than the carrying value of such an asset.

“intangible assets” are identifiable non-monetary assets without physical substance. (Identifiable means that the asset can be separated or divided from the entity and sold, transferred, rented or exchanged).

investment property” is property (land/building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both rather than for use in production or supply of goods or services or for administrative purposes or sale in the ordinary course of operations.

“maintenance” is considered operating expenses incurred in ensuring that the useful operating life of assets is attained.

“preventative maintenance” is the maintenance which is required on a systematic basis to ensure that the originally assessed future economic benefits or potential service position of the relevant asset is realized hence that the fixed asset reaches its estimated useful life.

“property, plant and equipment” are tangible assets that:

- a) are held by a municipality for use in the production of goods or supply of goods or services, for rental to others, for administrative purposes; and
- b) are expected to be used during more than one (1) 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.

“recognition” is the process by which expenditure is included in the financial asset register as an asset(s).

“replacement value” is the amount which is needed in current terms to replace an asset.

“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 for disposal.

“senior manager” is a manager referred to in section 56 of the Municipal Systems Act being someone reporting directly to the Municipal Manager.

“senior management teams” are the incumbents of post level 1, 2 and 3 in each directorate being the senior manager and everyone up to two (2) levels below them.

“stewardship” is the act of taking care of and managing property, plant or equipment on behalf of another.

“useful life” is either:

- a) the estimated period of time over which the future economic benefits or future service potential embodied in an asset is expected to be consumed by the municipality; or
- b) the estimated total service potential expressed in terms of production or similar units that are expected to be obtained from the asset by the municipality.

2. **INTRODUCTION**

The utilization and management of property, plant and equipment is the prime mechanism by which a municipality can fulfill its constitutional mandates for:

- delivery of sustainable services;
- social and economic development;
- promoting safe and healthy environments; and
- providing the basic needs to the community.

As trustees on behalf of the local community, the municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in property, plant and equipment.

The asset management policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of property, plant and equipment.

Stewardship has two components being the:

- financial administration by the chief financial officer; and
- physical administration by the individual asset managers.

Statutory provisions are being implemented to protect public property against arbitrary and inappropriate management or disposal by a local government.

Statutory provisions such as Municipal Asset Transfer Regulations are being implemented to protect public property against arbitrary and inappropriate management or disposal by local government

Accounting standards are being adopted by the Accounting Standards Board per instructions of the Accounting General, to ensure the appropriate financial treatment for property, plant and equipment. The requirements of these new accounting standards include:

- the compilation of asset registers covering all property, plant and equipment controlled by the municipality;
- accounting treatment for the acquisition, disposal, recording and depreciation of property, plant and equipment; and
- the standards to which these financial records must be maintained.

3. **OBJECTIVE**

- To ensure the effective and efficient control, utilization, safeguarding and management of a municipality's property, plant and equipment.
- To ensure asset managers are aware of their responsibilities with regard to property, plant and equipment.
- To set out the standards of physical management, recording and internal controls to ensure property, plant and equipment are safeguarded against inappropriate loss or utilization.
- To specify the process required before expenditure on property, plant and equipment occurs.
- To emphasize a culture of accountability over assets.
- To ensure compliance with all legal and accounting prescriptions and requirements.

The Steve Tshwete Local Municipality believes that an asset management policy is essential to ensure effective and efficient utilization of public monies and accountability thereof is heavily dependent on accurate recording and accounting treatment.

4. **STATUTORY AND REGULATORY FRAMEWORK**

This policy must comply with all relevant legislative requirements including:

- Constitution of the Republic of South Africa, 1996
- Municipal Structures Act 117 of 1998
- Municipal Systems Act 32 of 2000
- Division of Revenue Act (enacted annually)
- Municipal Finance Management Act, Act 56 of 2003
- Municipal Asset Transfer Regulations

Also, this policy must comply with the standards specified by the Accounting Standards Board.

This policy does not overrule the stipulations contained in any legislative, regulatory or any other applicable policies of the municipality such as supply chain management, tendering or budget policies.

5. **RESPONSIBILITIES AND ACCOUNTABILITIES**

The Executive Mayor must:

- Approve the temporary and/or permanent transfer of all moveable assets exceeding approved limits, as stipulated in the powers of delegation of the municipality;
- Approve the writing off, disposal of obsolete or redundant assets, as stipulated in the powers of delegation of the municipality; and
- The Municipal Manager is responsible for the management of assets of the municipality, including the safeguarding and the maintenance of those assets.

The Municipal Manager must ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The municipality's assets are accounted for in accordance with applicable standards accounting;
- The municipality has and maintains a system of internal control of assets, including an asset register;
- The senior managers and their teams comply with this policy; and
- Approve temporary and/or permanent transfers of movable assets between departments as determined in the powers of delegation of the municipality.

The Chief Financial Officer is responsible to the Municipal Manager to ensure that the financial investment in the municipality's assets is safeguarded and maintained.

The Chief Financial Officer must ensure that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- Any unauthorized, irregular or fruitless and wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;

- The systems, processes and registers required to substantiate the financial values of the municipality's assets are maintained at standards sufficient to satisfy the requirements of the Auditor-General.
- Financial processes are established and maintained to ensure that the municipality's financial resources are optimally utilized through an appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- The senior managers and asset champions are appropriately advised on their powers and duties pertaining to the financial administration of assets.
- The chief financial officer may delegate or otherwise assign responsibility for performing these functions in terms of the powers of delegation but will remain accountable for ensuring these activities are performed.
- The policy and supporting procedures or guidelines are established, maintained and effectively communicated.
- Approve the temporary or permanent transfers of movable assets between departments as determined in the powers of delegation of the municipality.
- Approve the reclassification of assets as attractive items and the subsequent transfer of such items to the departmental attractive item register, as determined in the powers of delegation.

The Asset Manager must ensure that:

- Appropriate physical management and control systems are established and maintained for all assets in their area of responsibility;
- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- Any unauthorized, irregular or fruitless or wasteful utilization and losses of assets resulting from criminal or negligent conduct, are prevented;
- Their asset management system and controls can provide an accurate, reliable and up to date account of assets under their control.
- To advise and inform the chief financial officer on the acquisition of new assets in order to update inventory lists and subsequently the asset register of the respective department as well as the municipality.

- They be able to justify that their asset plans, budgets and purchasing, general and preventative maintenance and disposal decisions optimally achieve the municipality's strategic objectives.
- The asset manager may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.
- To certify in writing at each financial year-end, that he/she has assessed all assets under his/her control for impairment, and review of useful lives.
- The full facts of cases are reported in writing to the chief financial officer, accounting officer and subsequently to the Council in the event of an asset or attractive item being demolished, destroyed, damaged or any occurrence of any other event materially affecting its value.
- Approve the temporary or permanent transfers of a movable asset between departments as determined in the powers of delegation of the municipality.
- The chief financial officer is informed in writing at least once per annum, of all moveable and immovable property, plant and equipment to be included for insurance purposes.
- An annual stock take of property, plant and equipment as part of the annual reporting process, required by regulatory and legislative prescriptions in co-ordination with the chief financial officer, is done.

The Asset Champion must:

- Assist the asset manager in performing his/her functions and duties in terms of asset management.
- Ensure inventory lists are verified and kept updated in collaboration with the Finance Department.
- Identify obsolete and redundant assets and attractive items at least once per financial year, compile a report and obtain the necessary approval for the disposal thereof.

6. **FINANCIAL MANAGEMENT**

6.1 Pre-acquisition planning

Before a capital project is included in the draft municipal budget for approval, the asset manager must prove that they have considered:

- The projected acquisition and implementation cost over all the financial years until the project is operational;
- The future operational costs and revenue on the project, including tax and tariff implications;
- The financial sustainability of the project over its life including revenue generation and subsidization requirements;
- The physical and financial stewardship of the asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
- The identification and inclusion of the capital project in the integrated development plan, as well as the subsequent linking thereof to the approved strategies and objectives.

The chief financial officer is accountable to ensure that asset managers receive all reasonable assistance, guidance and advice to enable them to achieve their planning requirements.

6.2 Approval to acquire property, plant and equipment

Money can only be spent on a capital project if:

- The funds had been approved in the capital budget;
- The project, including the total cost, had been approved by the Council;
- The chief financial officer confirms that funding is available for that specific project; and
- Any contract that will impose financial obligations more than two (2) years after the budget year is appropriately disclosed.

Every department procuring any items on capital votes or projects should ensure that evidence thereof is kept at hand.

Evidence of procurement is necessary for the recording of details in the fixed asset register to ensure completeness of the audit trail, and is required.

On receiving procured assets, departments must ensure that inform the Finance Department accordingly, to aid the updating of inventory lists on an ongoing basis.

6.3 Funding of capital projects

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

The acquisition of assets will not be funded over a period longer than the useful life of that asset.

6.4 Disposal of property, plant and equipment

The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a non-current asset needed to provide the minimum level of basic municipal services, subject to stipulations in the Municipal Asset Transfer Regulations.

The municipality may transfer ownership or otherwise dispose of a non-current asset other than one contemplated above, but only after the Council, in a meeting open to the public:

- *Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and*
- *Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.*

The decision that a specific non-current asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset been sold, transferred or otherwise disposed of.

The Municipal Manager may approve the disposal of an item of property, plant and equipment as per the approved Delegations of Authority.

The disposal of an item of property, plant and equipment must be fair, equitable, transparent, competitive and cost effective and consistent with the municipality's supply chain management policy.

Transfer of assets to other municipalities, municipal entities, national departments or provincial departments is excluded from these provisions, but must be done in accordance with a prescribed framework (Municipal Asset Transfer Regulations).

Asset managers are responsible to prepare a list of redundant or obsolete assets and/or inventory items at least once per annum.

The criteria for the disposal of letting of assets, including unserviceable, redundant or obsolete assets, subject to section 14 of the Act, are as follow:

- (a) Movable assets:
 - (i) the asset is uneconomical to repair;
 - (ii) the asset is irreparable;
 - (iii) the relevant department has no further use for the assets; and
 - (iv) no other department requires the asset.

- (b) Immovable assets:
 - (i) the relevant department has no further use for the asset;
 - (ii) no other department requires the asset;
 - (iii) a member of the public wishing to acquire the asset can utilize the asset to the advantage of the community; and
 - (iv) where created specifically for sale or rental to public.

The disposal of assets must:

- (a) be one of the following methods:
 - (i) transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets;
 - (ii) transferring the asset to another organ of state at market related value or, when appropriate for a lesser amount or free of charge;
 - (iii) selling the asset; or
 - (iv) destroying the asset.

- (b) provided that -
 - (i) immovable assets may be sold at not less than market related prices except when the public interest or the plight of the poor demands otherwise, by means of public tenders, public auction or over the counter on a first come first serve basis;
 - (ii) movable assets may be sold either by way of written price quotations, public tenders, public auction whichever is the most advantageous;
 - (iii) in the case of the free disposal of computer equipment, the provincial Department of Education must first be approached to indicate within thirty (30) days whether any of the local schools are interested in the equipment; and
 - (iv) in the case of the disposal of firearms, the National Conventional Arms Control Committee has to approve any sale or donation of firearms to any person or institution within or outside the Republic.

- (c) furthermore ensure that -
 - (i) immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise; and
 - (ii) all fees, charges, rates, tariffs, scales of fees or other charges relating to the letting immovable property are annually reviewed.

- (d) ensure that where assets are traded in for other assets, the highest possible trade-in price is negotiated.

The disposal of immovable assets are further subject to the following principles:

- (aa) payment of the full purchase price and all estimated costs pertaining to the transaction upon signature of the deed of sale, in cash; and
- (bb) all costs (advertising, rezoning, obtaining of a valuation, etc.) pertaining to the transaction shall be borne by the purchaser.

Asset Disposal Committee

To enhance control over the disposal of assets, a two-tier Asset Disposal Committee structure be formed as follows:

- (i) asset disposal sub-committee will be responsible to physically inspect assets to ensure that assets to be disposed of are authentic.

This committee should be formed by the following incumbents:

- relevant departmental manager;
 - relevant sectional head and/or asset champion;
at least two (2) of the following:
 - Assistant Town Treasurer : Budget Office;
 - Accountant : Asset Management;
 - Sub-Accountant : Inventory Control.
- (ii) asset disposal main committee will be responsible to address issues that may not be resolved by the sub-committee. Members of this committee should be the following incumbents:
 - relevant executive manager;
 - Executive Manager Finance;
at least one (1) member of the sub-committee of relevant department;
 - at least one (1) member of the sub-committee from Finance Department.

Responsibilities of Asset Disposal Committee:

- (i) ensure that the items identified to be written off, are indeed redundant and/or obsolete;
- (ii) ensure that the written off items are stored safely and separately from assets in use;
- (iii) ensure proper control over such items at the date of delivery at the supply chain unit;
- (iv) ensure proper record keeping takes place so that only approved items are disposed of through an approved and applicable method; and
- (v) timeously resolve any other issues which might result in discrepancies during the disposal process.

7. **INTERNAL CONTROLS**

7.1 **Financial Asset Register**

7.1.1 *Establishment and Management of the Financial Asset Register*

The chief financial officer will establish and maintain an asset register containing key financial data on each item of property, plant or equipment that satisfies the criterion for recognition.

Asset managers are responsible for establishing and maintaining of additional registers or databases required to demonstrate the physical management of their assets and/or attractive items.

Each asset manager is responsible to ensure that sufficient controls exist to substantiate the quantity, value, and location and condition of all assets in the fixed asset register as well as other additional registers.

Asset managers are responsible to implement and maintain additional registers or databases to substantiate the quantity, value and location of attractive (inventory items) not contained in the fixed asset register.

7.1.2 *Contents of the Financial Asset Register*

The asset register will include the following information pertaining to individual assets:

- brief but meaningful description
- classification
- date of acquisition
- physical location
- cost Centre of user department
- function codes
- the responsible asset user
- identification number where applicable
- acquisition cost/fair value
- the accumulated depreciation
- the carrying amount
- cash or non-cash generated
- the depreciation methods used

- depreciation charges (current year)
- source of finance
- insurance arrangements
- title deed number (property)
- stand number (property)
- impairment losses
- date of valuation
- valuation
- increase or the decrease resulting from re-valuations (if relevant)
- date and price of disposal (if relevant)
- asset used to secure debt
- residual value
- the measurement based used

7.1.3 *Internal Controls over the Financial Asset Registers*

Controls around the asset register should be sufficient to provide an accurate, reliable and up to date account of assets under control to the standards specified by the chief financial officer and required by the Auditor-General.

These controls will include physical management and recording of all acquisitions, assignments, transfers, losses and disposals of assigned asset as well as regular stocktakes and system audits to confirm the adequacy of controls.

7.2 Physical Receipting and Management

7.2.1 *Responsibilities of the Asset Manager*

- The asset manager must ensure that the purchase of property, plant and equipment complies with the municipality's supply chain management policy as well as other applicable policies.
- The asset manager must ensure that all moveable property, plant and equipment is duly processed and identified by means of identification label before it is received into their stewardship.
- The asset manager must ensure all moveable assets received into their stewardship are appropriately safeguarded for inappropriate use or loss.

This will include appropriate control over physical access to these assets and regular stock takes to control and prevent losses from occurring. Any known losses should be immediately reported to the chief financial officer. (Refer to policy regarding short term insurance and known risks and liabilities).

- The asset manager will perform an annual stocktake of property, plant and equipment as part of the annual reporting process in co-ordination with the chief financial officer.
- The asset manager must ensure that property, plant and equipment is appropriately utilized and that these assets are used for the purpose that the municipality acquired them.
- The results of the annual stock take, in hard copy format, must be signed by the asset manager or his/her delegate in terms of Delegations of Authority and be displayed in relevant locations.
- Losses in assets due to theft or damage should be reported in writing to the chief financial officer and subsequently to the accounting officer.
- Asset managers must, on an ongoing basis, keep record of assets which are redundant and/or obsolete to be written off.
- The asset manager must ensure that all moveable property, plant and equipment is duly checked, processed and identified (marked with a unique label number) before it is received into their stewardship.
- The asset manager must ensure that all moveable assets received into their stewardship are appropriately safeguarded against inappropriate use or loss. This will include appropriate control over the physical access to these assets, as well as regular stock takes to control and prevent losses from occurring. Losses are to be dealt with in accordance with the responsibilities and accountabilities.

- The asset manager must ensure that no private property, plant or equipment is used for Council activities, as Council will not be held responsible for any loss or injury that might occur through non-compliance hereof.
- The asset manager must annually assess all assets under his/her control for impairment and review of useful lives and review of residual amounts in collaboration with the chief financial officer.
- The asset manager must, on termination of an employee's service, ensure that the respective assets and inventory items lists indicating all items entrusted to the specific asset user, is confirmed to be existent and returned in good order, prior to the final salary payment being made to the employee.

7.2.2 Receipt of property, plant and equipment

The supply chain unit will manage the receipting of property, plant and equipment.

The process of receipting by the municipal stores will include:

- review of the authority to purchase including compliance with all procurement policies and budgetary limits.
- assignment of the asset to the appropriate asset manager.

7.2.3 The date of acquisition

The date of acquisition of property, plant and equipment is deemed to be the time when legal title and/or control passes to the municipality.

This may vary for different categories of assets but will usually be the point of time when payment for that item of property, plant and equipment is made.

7.3 Transfer to another asset manager

7.3.1 Permanent transfers to another asset manager

An asset manager retains managerial accountability and control for a particular asset unless:

- Another asset manager agrees in writing in accordance with financial limits as laid down in the Delegations of Authority to accept responsibility for that asset.
- The new asset manager accepts all accountabilities of the previous asset manager.
- The Executive Manager Finance appropriately amends the financial asset register for all approved transfers, whereafter such physical transfers are only permitted to take place.
- The new asset manager has made the necessary budget provisions to cater for the accompanying costs of the asset.

7.3.2 *Reallocation or reassignment of property, plant or equipment*

The asset manager must ensure that the asset is appropriately safeguarded for loss, damage or misuse wherever it is located. Safeguarding includes ensuring reasonable physical restrictions and delegated management are implemented.

The asset manager must advise the chief financial officer whenever an asset is permanently relocated or reassigned from one location (or base) or cost centre recorded in the financial asset register, to a different one.

The asset manager must advise the chief financial officer whenever an asset is temporarily relocated or reassigned from the location (or base) or cost centre recorded in the financial asset register to a different one. In this case, the asset manager must also advise the chief financial officer when this asset is returned.

8. **MANAGEMENT OF ATTRACTIVE ITEMS**

8.1 Management of attractive items

Assets costing less than R1 000, and with a lifespan of less than twelve (12) months, are deemed to be attractive items, unless that type of asset is specifically excluded by the chief financial officer.

The requirements to manage attractive items by each asset manager include, but are not limited to:

- Receipting and delivery of items through specified control points.
- Assignment of such items to a specific asset user.
- Maintaining and updating of a departmental attractive items (inventory) register.
- Regular stock takes to ensure that all attractive items are available for use and appropriately safeguarded.
- Submitting such registers to ad-hoc audits carried out by the chief financial officer.
- Recording and subsequent reporting any disposal/loss of such items in accordance with the powers of delegation.

Attractive items:

- will not depreciate;
- will not be revalued;
- will not be impaired;
- will be recorded in the attractive items (inventory) register;
- will be treated in a similar fashion as an asset example, safeguarded, officially approved for disposal etc.; and
- will be budgeted for under a dedicated line item in the operating budget

9. **MANAGEMENT OF ASSETS**

9.1 **Accountability to manage property, plant and equipment**

Each asset manager is accountable to ensure that municipal resources assigned to them are utilized effectively, efficiently, economically and transparently. This would include:

- Developing appropriate asset management systems, procedures, processes and controls for managing assets.
- Providing accurate, reliable and up to date account of assets under their control.
- The development and motivation of relevant strategic asset management plans and operational budgets to optimally achieve the municipality's strategic objectives.

9.2 Contents of a strategic asset management plan

Asset 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, the asset manager will need to develop strategic asset management plans that cover:

- Alignment with the integrated development plan;
- Operation guidelines;
- Performance monitoring;
- Maintenance programmes;
- Renewal, refurbishment and replacement plans;
- Disposal and rehabilitation plans;
- Operational, financial and capital support requirements;
- Risk mitigation plans including insurance strategies; and
- The operational budgets are the short to medium term plan for implementing this strategic asset management plan.

9.3 Reporting on emerging issues

Each asset manager should report to the Municipal Manager on issues that will significantly impede the assets capability to provide the required level of service or economic benefit.

10. **CLASSIFICATION, AGGREGATION & COMPONENTS**

10.1 Classification of property, plant and equipment

Any asset recognised as an asset under this policy will be classified according to national recognised categories.

These categories have been specified by the Accounting Standards Board and currently are included in the applicable accounting standards.

The chief financial officer may agree to subdivide these classifications further.

A schedule of assets classifications is attached to this policy.

10.2 Investment property

Investment property shall be accounted for as a separate class of asset.

Investment property is initially measured at cost. Where investment property is acquired at no cost or for nominal cost, its cost is its value as at the date of acquisition.

Investment assets shall not depreciate but shall be annually valued balance sheet date to determine their fair (market) value.

Adjustments to the previous year's recorded fair value shall be accounted for as either gains or losses in the accounting records of the department or service controlling the asset.

10.3 Inventory Asset

Any land or building owned or occupied by the municipality with the intention of selling such property in the ordinary course of business, or any land or building owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory assets.

10.4 Optional Treatment for major component

An asset manager may, with agreement of the chief financial officer, treat specified major components of an item of property, plant and equipment as a separate asset for the purposes of this policy.

These major components may be defined by its physical parameters (e.g. reservoir roof) or its financial parameters (e.g. road surface).

In agreeing to these treatments the CFO must be satisfied that these components:

- Have a significantly different useful life or usage pattern to the main asset;
- Align with the asset management plans;
- The benefits 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 cost is above the recognition threshold; and
- The asset is expected to be used during more than one (1) financial year.

Once a major component is recognised as a separate asset, it may be acquired, depreciated and disposed of as if it were a separate asset.

All other replacements, renewals or refurbishments of insignificant components will be expensed.

10.5 Recognition of network asset

A network asset is a collection of assets and their subsequent components, which operates as a whole to deliver a specified service or economic benefit, e.g. electrical network, roads network, IT system network, etc.

It should be possible to identify a network asset with all its different components on the asset register.

The asset manager is accountable for the management of the registers required to financially verify the value of a network asset.

11. **ACCOUNTING FOR PROPERTY, PLANT AND EQUIPMENT**

11.1 Recognition of property, plant and equipment

An item of property, plant and equipment will be recognized as an asset when:

- 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 cost is above the recognition threshold; and
- The asset is expected to be used during more than one (1) financial year.

All other acquisitions of property, plant and equipment will be expensed.

11.2 Initial measurement

An item of property, plant and equipment that qualifies for recognition as a non-current asset should be initially measured at its “*cost of acquisition*”.

“*Cost of acquisition*” will include all directly attributable costs required to bring the asset to the proper working condition and position for its intended use. These costs will usually include the following:

- Purchase costs less any discount or rebates;
- Cost of site preparation and development;
- Initial delivery and handling costs;
- Installation and assembly costs;
- Professional fees;
- Import duties;
- Non-refundable taxes;
- Contractor fees; and
- Finance cost (interest) in accordance with the applicable accounting standards.

Capitalization of cost stops/seizes when the asset is in the condition and location necessary for it to be capable of operating in the manner intended by management.

11.3 Donations or exchanges

Where an item of property, plant and equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the non-current asset register, if the fair value is greater than the recognition threshold.

11.4 Recognition threshold

To ensure efficiency in the administration of this policy, the recognition of property, plant and equipment as an asset will be limited to items costing R1 000 or more.

The acquisition of property, plant and equipment costing less than R1 000 will be considered “*attractive items*” and will be expensed in the operating budget. The management and control of such items will be undertaken as per point 8 of this policy.

11.5 Carrying amount on property, plant and equipment

Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation, subject to the requirement to write an asset down to its recoverable amount or any subsequent revaluation.

11.6 Depreciation

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

The depreciable amount of an item of property, plant and equipment should be allocated on a systematic basis over its useful life.

The depreciation method used should reflect the pattern in which economic benefits or potential service provisions are consumed by the municipality.

The depreciation charge for each period will be recognized as an expense against the budget of the relevant asset manager where the asset is used or consumed unless it is included in the carrying amount of another asset.

The depreciation method will be straight line unless the chief financial officer is convinced that another method is more appropriate.

Depreciation of an asset will commence once the asset is available for use through:

- being in the location for it to be capable of operating in the manner intended

- being in the condition for it to be capable of operating in the manner intended

11.7 Initial determination useful life

Each asset manager needs to determine the useful life of a particular item or class property, plant and equipment through the development of a strategic asset management plan that forecast the expected useful life that asset. This should be developed as part of the pre-acquisition planning that would consider the following factors:

- The operational, maintenance, renewal and disposal program that will optimize the expected 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.

A schedule of useful lives forms part of this policy. These should be used as a guide to the minimum useful lives only because actual asset lives experienced greatly exceed those recommended lives.

Spares purchased specifically for a particular asset, or class of asset, and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, must be considered to form part of the historical cost of that asset or class. The depreciable amount of such spares must be allocated over the useful life of the asset or class.

11.8 Review of useful life (impairment)

The useful life of an item property, plant and equipment should be reviewed annually and if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.

11.9 Review of depreciation method

The depreciation method applied to property, plant and equipment will be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method should be changed to reflect the changed pattern.

When such a change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current, and future periods should be adjusted.

11.10 Review of residual value

The residual value of an item of property, plant and equipment should be reviewed annually, and this amount may increase to an amount equal to or greater than the asset(s) carrying amount.

If expectations differ from previous estimates, the change shall be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.

11.11 Subsequent expenditure on property, plant and equipment

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized should be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery, in excess of the originally assessed standard of performance of the existing asset, will flow to the municipality.

All other expenditure should be recognized as an expense in the period in which it occurred.

Before allowing the capitalization of the subsequent expenditure, the chief financial officer must be satisfied that this expenditure significantly:

- increases the life of that asset beyond that stated in the asset register; or
- increases the quality of service of that asset beyond the existing level of service; or
- increases the quantity of services that asset can provide; or
- reduces the future assessed costs of maintaining that asset.

Expenditure that is proposed to be capitalized must also conform the recognition criteria for non-current assets and should also be appropriately included in the approved capital budget.

Where it is desired to capitalise future component replacements, refurbishments or renewals, refer to the section of major components in this policy.

11.12 Subsequent increase in recoverable amount

A subsequent increase in the recoverable amount of an asset, previously written down due to a decline in the carrying amount should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

11.13 Reduction of the carrying amount

The carrying amount of a non-current asset should be reviewed annually to assess whether or not the recoverable amount has declined below the carrying amount.

When such a decline has occurred, the carrying amount should be reduced to the recoverable amount.

11.14 Accounting treatment on disposal

An item of property, plant and equipment should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its disposal.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and should be recognised as revenue or expense in the statement of financial performance.

The fact that a fixed asset might be fully depreciated is in itself not a reason for disposal of the asset.

12. **FINANCIAL DISCLOSURE**

The financial statements should disclose, in respect of each class of property, plant and equipment classified under the categories of land and buildings, infrastructure, community, heritage and other assets:

- (a) The measurement base used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed.
- (b) The depreciation methods used.
- (c) The useful lives or the depreciation rates used.
- (d) Depreciation charged in arriving at net surplus or deficit for the period.
- (e) The gross carrying amount and the accumulated depreciation at the beginning and the end of the period.
- (f) A reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) additions
 - (ii) disposals
 - (iii) acquisition through business combinations
 - (iv) increases or the decreases resulting from revaluations
 - (v) deductions in carrying amount
 - (vi) amounts written back
 - (vii) depreciation
 - (viii) other movements

The financial statements should also disclose:

- (a) Whether or not, in determining the recoverable amount of items of property, plant and equipment, expected future cash flows have been discounted to their present values.
- (b) The existence and amounts of restriction on title and property, plant and equipment pledged as security for liabilities.
- (c) The accounting policy for restoration costs relating to items of property, plant and equipment.

- (d) The amount of expenditures on account of property, plant and equipment in the course of construction; and
- (e) The amount of commitments for the acquisition of property, plant and equipment.
- (f) The extent of and possible implications of deferred maintenance as well as plans to redress such deferral.

When items of property are stated at revalued amounts, the financial statements should disclose:

- (a) The basis used to revalue the assets.
- (b) The effective date of revaluation.
- (c) Whether an independent value was involved.
- (d) The nature of any indices used to determine replacement cost.
- (e) The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less depreciation.
- (f) The revaluation surplus, detailing the movement for the period.
- (g) The portion of the depreciation charge relating to the revaluation.

13. **USEFUL LIFE OF ASSETS**

Infrastructure Assets	<u>Years</u>
<u>Water</u>	
Dam structures	100-200
Reservoirs and reticulation	10-80
Meters	5-10
<u>Sewerage</u>	
Civil structure	50-80
Purification and reticulation	10-100
Toilets	5-10
<u>Roads</u>	
Bridges	60-100
Roads and storm water	5-100
Pavements, sidewalks and kerbs	15-50
Gravel roads	3-20
Street names, signs and parking	5-30
<u>Electrical</u>	
Reticulation	10-50
Meters	10-20
Street lighting	45
<u>Refuse</u>	
Landfill sites	50
Civil structure	50-80

Community Assets	<u>Years</u>
Parks and gardens	10-50
Sport fields	15-60
Community halls	30-100
Libraries	30-100
Recreation facilities	15-30
Clinics	30-100
Fire services	30-100
Cemeteries	30-80
Other Assets	
Motor vehicles	4-7
Plant and equipment	2-15
Security measures	3-30
Buildings	30-100
IT equipment	3-7
Office equipment	3-15
Specialised vehicles	15-20

14. **ASSET CATEGORIES**

14.1 **Immovable Assets**

- i) *Infrastructure assets*
 - electricity network assets
 - water networks and related assets
 - waste water networks and related assets
 - roads, bridges and storm water
 - waste management : landfill sites and transfer stations
- ii) *Investment property*
- iii) *Community assets*
 - parks & gardens
 - sport fields and stadium
 - swimming pools
 - community halls
 - libraries

- recreational facilities
 - fire, safety and emergency
 - security and policy
 - clinics
 - museums and art galleries
 - cemeteries
 - social rental housing
- iv) *Heritage assets*
- buildings
- v) Intangible assets
- servitudes
- vi) Agricultural assets
- biological assets
- vii) Other assets
- abbatoirs
 - markets
 - civic land and buildings
 - other land
 - other buildings
- viii) Work-in-progress

14.2 Movable Assets

- i) *Other Assets*
- office equipment
 - furniture and fittings
 - bins and containers
 - emergency equipment
 - motor vehicles
 - aircraft
 - watercraft
 - plant and equipment
 - specialized vehicles

ii) *Intangible Assets*

- computer software & programming

iii) *Heritage Assets*

15. Paraphrase of Section 14 of the Municipal Finance Management Act, 2003

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

A municipality may not alienate any other capital asset, provided:

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