

# **Sundays River Valley Municipality**



## **ASSET MANAGEMENT POLICY**

**Reviewed by Council – 01 June 2018**

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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 Sundays River Valley 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 regulates 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 Sundays River Valley Municipality adopts the following Asset Management Policy:

For purposes of this document, this policy excluding Annexure B: Standard Operating Procedures will be formally adopted by the council in terms of the delegation of authority that council holds. Annexure B however would be approved in principal by council whenever an update to the Asset Management Policy is required. In terms of Sundays River Valley Municipality's delegation of authority, the approval and subsequent approval of amendments to Annexure B: Standard Operating Procedures will solely be the responsibility of the relevant HOD and not council. The HOD / Asset Steering Committee will therefore not require the approval of council to make amendments to Annexure B: Standard Operating Procedures as the purpose of council is to provide strategic oversight rather than to guide the operational activities of the municipality as detailed by Annexure B hereto.

Users of this policy are reminded that the objective of the policy is to merely drive the process regarding asset management. Various other policies have also been developed and should be read with this policy to ensure that all of the relevant laws and regulations pertaining to assets have been complied with. The other policies have been specifically formulated to discuss the regulatory requirements of those policies and have thus not been repeated in the policy for asset management. Examples of such policies are as follows, but not restricted to:

- Policies regarding the budgetary and performance processes within Sundays River Valley Municipality (Integrated Development Plans and Service Delivery Budget Implementation Plan)
- Policies regarding the procurement and payment of suppliers (Supply Chain Management)

It is highly recommended that only those assets for which provision has been made via the performance and budgetary processes of the municipality are procured to allow for the maximum service delivery benefits to flow to the community of Sundays River Valley Municipality. These

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processes are also designed to prevent unauthorised expenditure. The Supply Chain Management processes are required to be followed when procuring any assets to prevent irregular, fruitless and wasteful expenditure.

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## ABBREVIATIONS AND DEFINITIONS

AM	Asset Management
AMS	Asset Management System
AR	Asset Register
CFO	Chief Financial Officer
CRR	Capital Replacement Reserve
DM	District Municipality
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
MFMA	Municipal Finance Management Act
MSA	Municipal Services Act
NT	National Treasury
OHSA	Occupational Health and Safety Act
PPE	Property, Plant and Equipment

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**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, Heritage Assets, Intangible Assets, Investment Property or Property, Plant or Equipment defined in this Policy.

**Capitalisation** is the recognition of expenditure as an asset or inventory item in the asset register.

**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.

**Cost of acquisition** are all the costs incurred in bringing an item of plant, property or equipment to the required condition and location for its intended use.

**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 between knowledgeable, willing parties in an arm's length transaction.

**Finance Lease** is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

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**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.

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

**Infrastructure Assets** are defined as any asset that is part of a network of similar assets. It is specialised in nature and does not have an alternative use. It is immovable and may be subject to constraints on disposal. 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 a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- a) use in the production or supply of goods or services or for administrative purposes, or
- b) sale in the ordinary course of operations (land or buildings) that are acquired for economic and capital gains. Examples are office parks and undeveloped land for a currently undetermined future use.

**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.

**MFMA** refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003).

**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.

**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 of disposal.

**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.

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## 1. PURPOSE OF THIS DOCUMENT

This document indicates the policy of Sundays River Valley Municipality for the management of its assets (which excludes financial assets such as receivables). Detailed procedures are provided in a separate document. The policy commits the municipality to establishing and maintaining an asset register that complies with the latest accounting standards, and managing the assets in a way that is aligned with the municipality's strategic objectives and recognised good practice.

## 2. REGULATORY FRAMEWORK

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. With the accrual system of accounting, applicable to local government, 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.

## 3. LEGAL BASIS

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).

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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).

### **3.1. 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 the effective, efficient and economical use of the resources of the municipality, and for managing the assets 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 OHS Act requires the municipality to provide and maintain a safe and healthy working environment, and in particular, to keep its infrastructure assets safe.

### **3.2. MANAGEMENT OF INFRASTRUCTURE ASSETS**

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.

### 3.3. DELEGATION OF POWERS

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

In accordance with the Municipal Finance Management Act, the Municipal Manager is the accounting officer of the Municipality and therefore all designated officials are accountable to him/her. The Municipal Manager is therefore accountable for all transactions entered into by his/her designates.

The overall responsibility of asset management lies with the Municipal Manager. However, the day to day handling of assets should be the responsibility of all officials in terms of delegated authority reduced in writing.

### 3.4. KEY RESPONSIBILITIES

#### *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.

The Municipal Manager shall ensure that:

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

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

#### *Chief Financial Officer*

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

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

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

The CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed. The CFO shall be the asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised asset register is maintained. No amendments, deletions or additions to the asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

#### *Heads of Departments*

Heads of Departments (the managers directly accountable to the Municipal Manager) shall ensure that:

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

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- Manage the asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.

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

## 4. POLICY FRAMEWORK

### 4.1. 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 asset management principles.

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

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

The objective of this Asset Management Policy is to ensure that proper management of assets forms part of the financial management procedures of Sundays River Valley Municipality and to ensure that the municipality:

- consistently applies asset management principles, including;
  - accurate recording of asset information and movement*
  - sufficient asset insurance*
  - asset maintenance*
- applies accrual accounting, including;
  - accounting for assets in terms of GRAP and approved accounting policies*
  - appropriate reporting of assets in the AFS*
- promotes management's awareness of their responsibilities in terms of assets;
- complies with the MFMA and other related legislation;
- safeguards and controls the assets of the municipality; and
- optimises asset usage.

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.

### 4.2. POLICY PRINCIPLES

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

#### 3.2.1 Effective Governance

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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.

### ***3.2.2 Sustainable Service Delivery***

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

### ***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.

### ***3.2.4 Custodianship***

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

### ***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.

### ***3.2.6 Cost-effectiveness and Efficiency***

The municipality strives to manage its immovable assets in an efficient and effective manner.

## **4. ASSET RECOGNITION**

### **4.1. 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.

An asset should be recognised when

- 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 any municipal capitalisation threshold (if any); and
- the item is expected to be used during more than one financial year (applicable to non-inventory items only).

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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:

1. Property, Plant and Equipment (GRAP 17)

- Land and Buildings (land and buildings not held as investment)
- Infrastructure Assets (immovable assets that are used to provide basic services)
- Community Assets (resources contributing to the general well-being of the community)
- Housing Assets (rental stock or housing stock not held for capital gain)
- Other Assets (ordinary operational resources)

2. Investment Property (GRAP 16)

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

3. Intangible Assets (GRAP 31)

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

4. Biological Assets (GRAP 27)

- Biological Assets (livestock and plants held)

5. Heritage Assets (GRAP 103)

- Heritage 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

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 categories for financial reporting purposes:

6. Discontinued Operations (GRAP 100)

- Assets and liabilities that have met the recognition criteria of being classified as a discontinued operation (identified separate division or geographical location that are expected to be disposed of in terms of a single co-ordinated plan)

7. 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. Examples of infrastructure assets include road networks, sewer systems, water and electricity supply systems and communication networks. To facilitate the practical management of infrastructure assets and asset register data, infrastructure assets have been further classified.

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### **Policy**

The asset classification specified by GRAP shall be adhered to as a minimum standard. An extended asset classification has been adopted. The CFO shall ensure that the classifications adopted by the municipality are adhered to.

## **4.2. 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.

### **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 Heads of Departments.

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### 4.3. 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
<b>Identification</b>			
• Unique identification number or asset mark	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Unique name	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Internal Classification	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Descriptive data (make, model, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Erf/Registration number	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Title deed reference (including stand number, if applicable)	<input type="checkbox"/>		
• Location	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Vote number	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Accountability</b>			
• Department	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Custodian		<input type="checkbox"/>	
• Insurance reference		<input type="checkbox"/>	<input type="checkbox"/>
<b>Performance</b>			
• Condition		<input type="checkbox"/>	<input type="checkbox"/>
• Remaining Useful life		<input type="checkbox"/>	<input type="checkbox"/>
• Expected Useful Life		<input type="checkbox"/>	<input type="checkbox"/>
<b>Accounting</b>			
• Historic cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Take-on value (fair value) if different from historic cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Acquisition (take-on) date	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Disposal date	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Re-valued amount (where assets were re-valued)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Valuation difference (for purposes of Revaluation Reserve and depreciation)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Last date of revaluation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Data	Land	Movable	Infrastructure/ building
• Depreciation method		<input type="checkbox"/>	<input type="checkbox"/>
• Depreciation portion that should be transferred from Revaluation reserve to accumulated depreciation (where assets were re-valued)		<input type="checkbox"/>	<input type="checkbox"/>
• Depreciation charge for the current financial year		<input type="checkbox"/>	<input type="checkbox"/>
• Impairment losses in the current year		<input type="checkbox"/>	<input type="checkbox"/>
• Accumulated depreciation		<input type="checkbox"/>	<input type="checkbox"/>
• Accumulated impairment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Carrying value	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
• Residual value		<input type="checkbox"/>	<input type="checkbox"/>
• Source of financing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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 is not in itself a reason for writing-off 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 established and maintained for all assets:

- The Chief Financial Officer will establish and maintain the Register containing key financial data on each asset item that satisfies the criterion for recognition.
- Functional Managers are responsible for establishing and maintaining any additional register or database required for demonstrating their physical management of their assets.
- Each functional manager is responsible to ensure that sufficient controls exist to substantiate the quantity, value, location and condition of all assets in their registers.

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. The asset register should be continuously updated and asset records should be reconciled to the general ledger on a quarterly basis, where possible.

The asset register will be divided into two categories for control purposes, namely a *Capitalised register* and a *Minor Assets Control List*.

#### Capitalised register

The purpose of this register is to record and maintain all assets with a cost (excluding VAT where applicable) exceeding R1000 (one thousand rand). Information regarding the value of capitalised assets, acquisitions, write-offs and sources of financing is disclosed in the financial statements.

### Minor Assets Control List

The purpose of this register is to record and maintain purchases and monitor physical movements of all assets with a cost (excluding VAT where applicable) equal to or less than R1000 (one thousand rand).

## 4.4. RECOGNITION OF CAPITAL ASSETS: INITIAL MEASUREMENT

### General

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

- 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 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:

### Capitalisation Threshold

The capitalisation threshold is a policy decision of the municipality and is the value above which assets are capitalised and reported in the statement of financial position as tangible or intangible capital assets as opposed to being expensed in the year of acquisition. As a result, the threshold has a significant impact on the size of the asset register and the complexity of asset management. However the capitalisation threshold is regarded as a deviation from GRAP standards and should be determined annually by comparison against materiality and must be determined at a level that will ensure that the municipality does not deviate materially from the requirements of GRAP 17.

The capitalisation threshold should not be applied to the components of an asset, but should be applied to the value of the capital asset as a whole. If the threshold is applied at component level, the asset register would be incomplete in the sense that an asset recorded as such would not be a complete asset. The municipality has taken the following into account when considering a capitalisation threshold:

- The impact of the threshold on the financial statements and the decisions/assessments the users of the financial statement may or may not make;
- The cost of maintaining financial and management information on assets when the threshold is very low;

- The impact on comparability and benchmarking cost of services may be difficult if different capitalisation thresholds are applied;
- The size of the municipality or the size of its service areas when setting a capitalisation threshold level. Municipalities vary greatly in size, so what is relevant to one may be immaterial to another.

#### Calculation of initial cost price

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;

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.

If the asset is constructed over a period of time, it shall be recorded as Work In Progress until it is available for use, where after it shall be appropriately capitalised as an asset. No depreciation is charged on work in progress.

#### 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:

- Significant cost; and
- Considerable difference in useful life

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 as 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 provision 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 statement of financial performance on a systematic basis.

### **Policy**

All capital assets shall be correctly recognised as assets and capitalised at the correct value in its significant components. The capitalisation threshold is set at R1000 (one thousand rand), (excluding VAT where applicable), but the application thereof will be determined annually by the municipality.

All assets with a cost (excluding VAT where applicable) equal to or less than the capitalisation threshold and with an estimated useful life of more than one year shall be recorded on a Minor Assets Control List. The existence of items recorded on such a list shall be physically verified from time to time, and at least once in every financial year, and any amendments which are made to such lists pursuant to such asset verifications shall be retained for audit purposes.

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.

If the asset is constructed over a period of time, it shall be recorded as Work In Progress until it is available for use, where after it shall be appropriately capitalised as an asset. No depreciation is charged on work in progress.

## **4.5. SUBSEQUENT MEASUREMENT OF CAPITAL ASSETS**

### **General**

The Municipality shall choose measurement models for Property, plant and Equipment, Investment property, Heritage assets and Intangible assets, for measurement of assets subsequent to initial recognition.

For Property, plant and Equipment, Intangible assets and Heritage assets either the cost model or the revaluation model must be chosen, while for investment property the Municipality must choose between the cost model and the fair value model.

### **Policy**

After initial recognition of Property, plant and Equipment, Intangible assets and Heritage assets, 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 assets will be valued using the revaluation model. When an item of Property, plant and Equipment, Intangible assets and Heritage assets is revalued, the entire class to which that asset belongs shall be re-valued.

The Municipality has decided to apply the cost model to value Property, plant and Equipment, Intangible assets and Heritage assets, except for the PPE class *Land and Buildings*, for which the revaluation model shall be applied.



When an asset's carrying amount is increased as a result of the revaluation, the increase is credited to a revaluation surplus. However, the increase is recognised as a gain in the statement of financial performance to the extent that it reverses a revaluation decrease of the same asset previously recognised as a loss in the statement of financial performance. When an asset's carrying amount is decreased as a result of revaluation, the decrease should be recognised as an expense in the statement of financial performance. 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.

After initial recognition of Investment property, the municipality values its assets using the fair value model.

Under the revaluation model, all subsequent depreciation should be divided into the depreciation on the original cost of the asset and the depreciation on the revalued amount. The depreciation on the revalued amount must thereafter be transferred from the revaluation reserve to Accumulated Surplus and not flow through the Statement of Financial Performance. The Depreciation on the original cost value will flow through the statement of financial performance.

#### **4.6. 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.

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. ASSET TYPES**

### **5.1. PROPERTY, PLANT AND EQUIPMENT (GRAP 17): LAND AND BUILDINGS**

#### **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.

#### **Policy**

Subsequent to initial recognition, the Municipality applies the **cost model** as the accounting policy. Each item of land and building shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Land and Buildings whose fair value can be measured reliably shall be carried at a re-valued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

All land and buildings recorded in the Municipality's asset register shall be revalued with the adoption by the Municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another Municipality, with the adoption by such Municipality of each new valuation roll).

## **5.2. PROPERTY, PLANT AND EQUIPMENT (GRAP 17): INFRASTRUCTURE ASSETS**

### **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. Many infrastructure assets form part of a greater facility e.g. a pump in a pump station.

### Level of detail of componentisation

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 very numerous in nature e.g. water meters, street signs, street lights, 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. Sundays River Valley Municipality Water Supply)
- Level 2: Network level (e.g. Sundays River Valley Municipality Pump Stations)
- Level 3: Facility level (e.g. Sundays River Valley Municipality Pump Station no 1)
- *Level 4: Maintenance item level* (e.g. Pump 2 in Sundays River Valley Municipality Pump Station no 1)
- Level 5: Component level (e.g. Bearing of Pump 2 in Sundays River Valley Municipality Pump Station no 1)

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

### **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. Subsequent to

initial recognition, the Municipality applies the **cost model** as the accounting policy for its infrastructure assets. Infrastructure assets are therefore valued at cost less accumulated depreciation and accumulated impairment. If cost can however not be established, then infrastructure assets will be valued at depreciated replacement cost. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value of, and the depreciation methods applied to Infrastructure assets shall be reviewed regularly, but the cost related to such reviews should be measured against benefits derived to ensure value for money.

### **5.3. PROPERTY, PLANT AND EQUIPMENT (GRAP 17): COMMUNITY ASSETS**

#### **General**

*Community Assets* include a variety of assets used to provide services to the community. These assets include assets such as cemeteries and parks, as well as recreational assets such as tennis courts, swimming pools, golf courses, outdoor sports facilities, etc.

#### **Policy**

The Municipality applies the **cost model** as the accounting policy for its community assets, thereby valuing these assets at cost less accumulated depreciation and accumulated impairment losses, subsequent to initial recognition. Depreciation shall be charged against such assets over their expected useful lives.

### **5.4. PROPERTY, PLANT AND EQUIPMENT: HOUSING ASSETS**

#### **General**

*Housing Assets* have their origin from housing units erected in terms of the Housing Act, funded from loans granted by Government and comprise of rental stock or selling stock not held for capital gain.

#### **Policy**

Housing assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives.

*Housing Assets* shall be recorded under the following main categories;

- Rental Schemes; and
- Selling Schemes.

### **5.5. PROPERTY, PLANT AND EQUIPMENT (GRAP 17): OTHER ASSETS**

#### **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**

Subsequent to initial recognition the Municipality applies the cost model as the accounting policy for its other assets. Other assets are stated at cost (or, if acquired through a non-exchange transaction, at its fair value) 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.

### **5.6. 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).

Heritage assets are not depreciated or amortised based on the nature of these assets.

#### **Policy**

Heritage assets are stated at cost (or, if acquired through a non-exchange transaction, at its fair value) 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.

### **5.7. 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.

## **5.8. 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. 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.

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. Subsequent to initial recognition, the Municipality applies the **fair value model** as the accounting policy for its Investment Property. After initial recognition, all investment property shall be measured at fair value, which reflects market conditions at the reporting date. Gains or Losses arising from changes in the fair value of investment property are included in the statement of financial performance in the year in which they arise.

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 to provide a social service and which also generates cash inflows. For example, if council holds housing stock (letting units) used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held.
- g) Property held by council for strategic purposes or to meet service delivery objectives rather than to earn rental or for capital appreciation.
- h) 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.

### 5.9. BIOLOGICAL ASSETS (GRAP 27)

#### General

Biological Assets are living 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.

#### Policy

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

### 5.10. DISCONTINUED OPERATIONS (GRAP 100)

#### General

Non-current assets shall be classified as a discontinued operation if the following criteria is met:

- a) the assets represents a distinguishable activity, group of activities or geographical area of operations;
- b) the assets are is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- c) the asset is a controlled entity acquired exclusively with a view to resale.

These assets are merely presented separately in the annual financial statements, but the measurement criteria are similar to other asset based on the class that these assets were before forming part of the plan to dispose of these.



### **Policy**

Discontinued operations identified for disposal are measured according to its original class of assets, but disclosed in a separate class in order to accurately measure these for impairment. Such assets shall be measured at the lower of its carrying amount and fair value less costs to sell.

## **5.11. 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 its 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.

## **5.12. MINOR ASSETS (CAPITAL ASSETS BELOW APPROVED THRESHOLD)**

### **General**

Minor Assets comprise movable assets not capitalised in terms of the threshold policy of the municipality. However, these assets must still be controlled, safeguarded and verified by the municipality. They are not capitalised for the number of assets compared to their value does not warrant the complex procedures applicable to asset management, rendering a manageable asset register by concentrating on what is material and significant to the municipality's operation.

### **Policy**

Minor assets shall be expensed in the statement of financial performance and not be capitalised. However, all assets with values less than the capitalisation threshold and with an estimated useful life of more than one year shall be bar-coded for identification purposes and listed in the Minor Asset Inventory Listing. These assets shall not be depreciated or tested for impairment and shall not generate any further transactions, except in the cases where losses are recovered by means of insurance claims or recoveries from disciplinary actions.

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## **6. ASSET ACQUISITION**

### **6.1. 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 or legal title passes to the municipality.

#### **Policy**

Should the municipality decide to acquire a capital asset, the following fundamental principles should be carefully considered 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 meets the definition of a capital asset (as defined in GRAP 16, GRAP 17, GRAP 27, GRAP 31 and GRAP 103)
- The asset has been budgeted for;
- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The planned purchase proposal is in line with the municipalities supply chain policy and procedures to ensure fair and equitable opportunities from which the asset will be procured;
- The purchase is absolutely 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 asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
- Space and other necessary facilities to accommodate the asset are in place;
- The funding period shall not exceed the lifespan of the asset;
- The most suitable and appropriate type, brand, model, etc. has been selected; and
- The acquisition is in line with the service delivery expectations expressed in the municipalities IDP and SDBIP.

### **6.2. 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.

### **6.3. 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.

### **6.4. 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 prior to acceptance.

### **6.5. RECEIPT OF ASSETS**

#### **General**

When an asset is received by the municipality the user of the asset must inform the relevant officials within the municipality of the receipt. The date of receipt shall be the acquisition date unless the receipted asset is not yet deemed to be in the physical condition intended by management for use. Policies and procedures should be designed to ensure accurate record keeping of the goods received.

### **Policy**

The policy regarding assets recognition is disclosed under paragraph **4.4 RECOGNITION OF CAPITAL ASSETS: INITIAL MEASUREMENT**. Operating procedures regarding the receipting and process for record keeping of assets received must be adhered to.

## **7. ASSET MAINTENANCE**

### **7.1. USEFUL LIFE OF ASSETS**

#### **General**

Useful Life of assets is defined in section 2 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 annually. 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. Only the CFO may make changes to the useful lives of assets.

### **7.2. 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 and earthmoving equipment. The basis of the residual value estimates shall be determined by the results of past sales of these types of assets at auctions when it reaches the end of its useful lives. The residual value of assets shall be reviewed annually at reporting date. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

### 7.3. 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 allowed depreciation methods that can be applied by the municipality are the *Straight-line method*, the *Diminishing Balance method* and the *Sum of the Units method*.

#### Policy

All PPE items except land shall be depreciated on a straight-line basis over their reasonable useful lives. The residual value and the useful life of an asset shall be reviewed at each reporting date. The depreciation method applied shall be reviewed at each reporting date. 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. The following will apply regarding the rate of depreciation (estimated useful lives):

- The Chief Financial Officer shall assign a useful operating life to each depreciable asset item recorded on the Municipality's asset register. In determining such a useful life the Chief Financial Officer shall adhere to the useful lives set out in the annexure to this document.
- In the case of an asset item which is not listed in this annexure, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the Head of Department who shall control or use the item in question, and shall be guided in determining such useful life by the likely pattern in which the item's economic benefits or service potential will be consumed.

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.

#### **7.4. 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:

- Significant decline in market value;
- Carrying amount of an asset far exceeds the recoverable amount or market value;
- There is evidence of obsolescence (or physical damage);
- The deterioration of economic performance of the asset concerned; and
- 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 (such as through inadequate maintenance).

The impairment amount is calculated as the difference between the carrying value and the recoverable service value. The recoverable service value is the higher of the asset's value in use or its net selling price. Where the recoverable service 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 an income.

#### **7.5. 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 excluding rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance.

For linear infrastructure assets, such as pipes, cables and roads, the following test could be 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. In this regard the following will apply:

#### *Maintenance Plans*

- Every Head of Department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the Council for approval.
- If so directed by the Municipal Manager, the maintenance plan shall be submitted to the Council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.
- The Head of Department controlling or using the infrastructure asset in question, shall annually report to the Council, not later than in July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the item concerned.

#### *Deferred Maintenance*

- If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset, the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the budget. Such note shall also indicate any plans which the Council has approved in order to redress such deferral of the maintenance requirements concerned.
- If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer shall re-determine the useful operating life of the asset in question, if necessary in consultation

with the Head of Department controlling or using such item, and shall recalculate the increased annual depreciation expenses accordingly.

#### *General Maintenance of assets*

Every Head of Department shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with above) are properly maintained and in a manner which will ensure that such item attain their useful operating lives.

### **7.6. RENEWAL OF ASSETS**

#### **General**

Asset Renewal is restoration of the service potential of the asset. Asset renewal is required to sustain service provision 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.

### **7.7. 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 written off at their carrying value. The replacement asset shall be accounted for as a separate new asset. All costs incurred to replace the asset shall be capitalised against the new asset. Assets shall only be replaced after the council has decided that a specific asset is not needed to provide the minimum level of basic services. The Municipal Manager, in consultation with the CFO and other Heads of Departments, shall formulate norms and standards for the replacement of all normal operational assets. Such norms and standards shall be incorporated in a standard operating procedure. These procedures shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items and shall also provide for the replacement of assets which are required for service delivery but which have become uneconomical to maintain.

N.G.



## 8. ASSET DISPOSAL

### 8.1. ALIENATION / DISPOSAL OF ASSETS

#### General

Alienation / Disposal (alienation) is the process of disowning assets by transferring ownership or title to another owner, which is external to the municipality.

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

Council will delegate the authority for disposal of assets not exceeding a carrying value of R50 000 to the Municipal Manager, and will ensure that disposal, including transfer of assets with a value exceeding R50 000 occurs in accordance with the MFMA.

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 value
- Other intrinsic value of the asset
- Its location
- Its volume
- Its trade-in price
- 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.**

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.

Assets shall only be disposed of when there is no continuing need for the service provided by the asset in question or economic benefit. No asset will be disposed of except if one of the following conditions have been met:

- It has reached the end of its economic life,
- It was lost, stolen or non-repairable,
- It has become unserviceable,
- It is not economical to continue using the asset when a replacement would ultimately bring economic saving benefit, and
- It has been superseded by a later or more technologically superior model.

## 8.2. 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 section 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.

### **8.3. EXCHANGES OF ASSETS**

#### **General**

According to GRAP 17.29 and GRAP 16.34 an asset may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

If the fair value of either the asset received or the asset given up can be determined reliably, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

If the acquired asset 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.

### **8.4. SELLING OF ASSETS**

#### **General**

Selling of assets refers to the public sale of municipal assets approved for alienation. The sale/disposal of assets must firstly meet the requirements of MFMA s14 and 90 which requires assets to be under-performing, or no longer functionally suited for basic service-delivery needs, consideration should be given to the possible alternatives to disposal.

#### **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.

Assets earmarked for sale, shall be reclassified as Assets Held-for-Sale in terms of section 5.10 of this Policy and shall not attract any further depreciation. Sold assets shall be written-off in the asset register.

## 8.5. 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 asset has been sold; and
- Acceptable reasons have been furnished leading to the circumstances set out above.

When an asset was damaged or destroyed in circumstances beyond the control of the municipality, the municipal manager must ascertain whether third parties or a municipal employee was involved and whether the municipality has any right of recourse against such third party or employee.

### Policy

The only reasons for writing off assets, other than the sale or transfer of such assets during the process of alienation, shall be the loss, theft, destruction, material impairment, or decommissioning of the asset in question. In this regard:

- An asset item, even though not fully depreciated, shall be written off when it can no longer be used, in consultation with the Head of Department controlling or using the item concerned.
- Every Head of Department shall report to the Chief Financial Officer on 30 April of each financial year on any asset item which such Head of Department wishes to have written off, stating in full the reason for such recommendation.
- The Chief Financial Officer shall consolidate all such reports, and shall promptly notify the Council on the assets to be written off.

- ❑ An asset is written off at the value reflected in the asset register of the municipality less any proceeds received.
- ❑ The resulting profit or loss is recognised as a gain or loss on disposal in the statement of financial performance.
- ❑ In cases of suspected theft or malicious damage, the CFO will instruct the internal auditor and report the matter to the South African Police Service

## 9. PHYSICAL CONTROL (MOVABLE ASSETS)

### 9.1. PHYSICAL CONTROL / VERIFICATION

#### General

Movable assets require physical control and verification of existence.

#### 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. In this regard:

- ❑ Every Head of Department shall at least once during every financial year undertake a comprehensive verification of all movable PPE items controlled or used by the department concerned.
- ❑ Every Head of Department shall promptly and fully report in writing to the Chief Financial Officer, in the format determined by the Chief Financial Officer, all relevant results of such PPE verification, provided that each such item of PPE verification shall be undertaken and completed during the month of June of each financial year, and that the resultant report shall be submitted to the Chief Financial Officer not later than 15 July of the year in question.

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.

Every Head of Department shall promptly and fully report in writing to the Chief Financial Officer, in the format determined by the Chief Financial Officer, all movements of PPE (including inventory items) within 5 working days after movement of such item.

### 9.2. INSURANCE OF ASSETS

#### General

N.A.

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. In this regard:

- ❑ The Municipal Manager shall ensure that all movable assets are insured at least against fire and theft, and that all Municipal buildings are insured at least against fire and allied perils.
- ❑ If the Municipality operates a self-insurance reserve (assuming such reserve to be allowed), the Chief Financial Officer shall annually determine the premiums payable by the departments or votes after having received a list of the assets and insurable values of all relevant items from the Heads of Departments concerned.
- ❑ The Municipal Manager shall recommend to the Council, after consulting with the Chief Financial Officer, the basis of the insurance to be applied to each type of asset - either the carrying value or the replacement value of the item concerned. Such recommendation shall take due cognisance of the budgetary resources of the Municipality.
- ❑ The Chief Financial Officer shall annually submit a report to the Council on any reinsurance cover which it is deemed necessary to procure for the Municipality's self-insurance reserve.

### 9.3. SAFEKEEPING OF ASSETS

#### General

Asset safekeeping is the protection of assets from damage, theft, and safety risks. The Head of Department may nominate officials who shall safeguard the assets on their behalf, but they shall remain accountable for ensuring that these activities are performed. Every Head of Department is, in terms of the employment contract, directly responsible for the physical safekeeping of any asset controlled or used by the Department in question.

#### Policy

Directives (or written communications issued by the Municipal Manager) for the safekeeping of assets shall be developed and the safekeeping of assets shall be actively undertaken.

## 10. ASSET FINANCIAL CONTROL

### 10.1 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;
- 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. In this regard:

- The Chief Financial Officer shall ensure that in respect of all assets financed from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of assets donated to the Municipality, a grants reserve or public contribution reserve for future depreciation is created equal in value to the capitalised value of each asset item in question.
- The Chief Financial Officer shall thereafter ensure that in the case of depreciable assets an amount equal to the monthly depreciation expenses of the items concerned are transferred back from the Government grant reserve to Accumulated Surplus.

### 10.2 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. GRAP 5 allows the municipality to choose whether it would like to expense or capitalise qualifying borrowing costs.

It was found inappropriate to capitalise borrowing costs as 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. Accordingly the municipality has opted to expense all borrowing costs as from 1 July 2014. All borrowing costs previously capitalised shall remain as such as the GRAP standards have allowed for a prospective change in the policy pertaining to borrowing costs.

#### Policy

As of 1 July 2014 all borrowing costs shall be expensed. All borrowing costs previously capitalised against the cost of an asset shall remain capitalised as such in line the transitional provisions of GRAP 5.

### 10.3 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.

#### POLICY AMENDMENT

Changes to this document shall only be applicable if approved by Council (excluding annexure B: Standard Operating Procedures). Any proposals in this regard shall be motivated by the CFO in consultation with the Municipal Manager and respective Heads of Departments. The recommendations of the CFO shall be considered for adoption by Council.

N.C.



Annexure A: Proposed useful lives of assets:

HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
<b>HIERARCHY LEVEL 1: INFRASTRUCTURE ASSETS</b>					
ELECTRICITY	COOLING TOWERS			25	30
ELECTRICITY	MAINS			15	20
ELECTRICITY	METERS	PREPAID		10	20
ELECTRICITY	METERS	CREDIT		20	25
ELECTRICITY	POWER STATIONS	COAL		50	60
ELECTRICITY	POWER STATIONS	GAS		50	60
ELECTRICITY	POWER STATIONS	HYDRO		50	60
ELECTRICITY	POWER STATIONS	NUCLEAR		60	80
ELECTRICITY	SUPPLY/ RETICULATION			15	25
ELECTRICITY	TRANSFORMERS			25	50
ELECTRICITY	LINES	UNDERGROUND		25	45
ELECTRICITY	LINES	OVERHEAD		20	30
ELECTRICITY	CABLES			25	45
ELECTRICITY	SUBSTATIONS	SWITCHGEAR		20	30
ELECTRICITY	SUBSTATIONS	EQUIPMENT	OUTDOOR	20	30
ELECTRICITY	SUBSTATIONS	EQUIPMENT	GIS	15	30

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HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
ELECTRICITY	SUBSTATIONS	EQUIPMENT	INDOOR	30	40
ELECTRICITY	ELECTRICAL PANELS			3	5
ELECTRICITY	TELEMETRY			7	15
ROADS	BRIDGES	VEHICLE	CONCRETE	60	80
ROADS	BRIDGES	VEHICLE	STEEL	40	50
ROADS	BRIDGES	VEHICLE	TIMBER	25	40
ROADS	BRIDGES	PEDESTRIAN	CONCRETE	60	80
ROADS	BRIDGES	PEDESTRIAN	STEEL	40	50
ROADS	BRIDGES	PEDESTRIAN	TIMBER	25	40
ROADS	BRIDGES	RAILWAY	CONCRETE	60	80
ROADS	BRIDGES	RAILWAY	STEEL	40	50
ROADS	BRIDGES	RAILWAY	TIMBER	25	40
ROADS	BRIDGES	REINFORCED RETAINING WALLS	EARTH	10	15
ROADS	BRIDGES	REINFORCED RETAINING WALLS	CONCRETE	25	30
ROADS	BRIDGES	EXPANSION & CONSTRUCTION JOINTS		15	20
ROADS	KERB & CHANNELS			40	50
ROADS	ASPHALT SURFACE			10	20

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HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
ROADS	ASPHALT LAYER			30	50
ROADS	CONCRETE SURFACE			10	30
ROADS	CONCRETE LAYER			30	50
ROADS	GRAVEL SURFACE			3	10
ROADS	CRASH BARRIERS			10	30
ROADS	RETAINING WALLS			30	60
ROADS	OVERLOAD CONTROL CENTRES			15	20
ROADS	OVERLOAD CONTROL CENTRES	ELECTRONIC HARDWARE		10	15
ROADS	OVERLOAD CONTROL CENTRES	OTHER EQUIPMENT		10	20
ROADS	PEDESTRIAN FOOTPATHS			15	30
ROADS	STREET LIGHTING			25	40
ROADS	STREET LIGHTING			40	50
ROADS	TRAFFIC ISLANDS			40	50
ROADS	TRAFFIC LIGHTS			15	20
ROADS	TRAFFIC SIGNS			5	15
SANITATION	BULK PIPELINES (OUTFALL SEWERS)	RISING MAINS		40	50
SANITATION	BULK PIPELINES (OUTFALL SEWERS)	GRAVITY MAINS		40	50

HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
SANITATION	SEWERAGE PUMP STATIONS	ELECTRICAL		30	55
SANITATION	SEWERAGE PUMP STATIONS	MECHANICAL		15	40
SANITATION	SEWERAGE PUMP STATIONS	PERIMETER PROTECTION		15	40
SANITATION	SEWERAGE PUMP STATIONS	METALWORK		10	25
SANITATION	SEWERAGE PUMP STATIONS			10	30
SANITATION	SEWERS/ RETICULATION	STRUCTURE		30	60
SANITATION	WASTE PURIFICATION WORKS	ELECTRICAL		30	55
SANITATION	WASTE PURIFICATION WORKS	MECHANICAL		15	40
SANITATION	WASTE PURIFICATION WORKS	PERIMETER PROTECTION		15	40
SANITATION	WASTE PURIFICATION WORKS			10	25
SANITATION	WASTE PURIFICATION WORKS	METERS		10	15
SANITATION	CULVERTS			25	40
SANITATION	CULVERTS	CONCRETE		40	60
SANITATION	CULVERTS	ARMCO		25	40
SANITATION	DRAINS	EARTHWORKS		80	100
STORMWATER	DRAINS	CONCRETE LINING		25	50
STORMWATER	STOP BANKS			40	50
STORMWATER	PIPES			25	50
STORMWATER	STRUCTURE (RETAINING WALLS)			20	40

N.C.

HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
WATER	DAMS	STRUCTURE	CONCRETE	80	100
WATER	DAMS	STRUCTURE	EARTH	30	50
WATER	DAMS	MECHANICAL & ELECTRICAL		15	40
WATER	METERS			10	20
WATER	STANDPIPES			5	20
WATER	METALWORK (STEELSTAIRS, LADDERS, HANDRAILS, WEIRS)			10	30
WATER	PUMP STATIONS	STRUCTURE		30	55
WATER	PUMP STATIONS	ELECTRICAL		15	40
WATER	PUMP STATIONS	MECHANICAL		15	40
WATER	PUMP STATIONS	PERIMETER PROTECTION		10	25
WATER	RESERVOIR	STRUCTURE		30	50
WATER	RESERVOIR	ELECTRICAL		15	40
WATER	RESERVOIR	MECHANICAL		15	40
WATER	RESERVOIR	PERIMETER PROTECTION		10	25
WATER	SUPPLY/ RETICULATION			20	50
WATER	UNDERGROUND CHAMBERS	VALVES		15	25
WATER	UNDERGROUND CHAMBERS	METERS		10	20

HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
WATER	UNDERGROUND CHAMBERS	TRANSITION		10	15
WATER	UNDERGROUND CHAMBERS	OTHER		5	10
WATER	WATER PURIFICATION WORKS	STRUCTURE		30	55
WATER	WATER PURIFICATION WORKS	ELECTRICAL		15	40
WATER	WATER PURIFICATION WORKS	MECHANICAL		15	40
WATER	WATER PURIFICATION WORKS	PERIMETER PROTECTION		10	25
WATER	WATER PURIFICATION WORKS	METERS		10	15
WATER	TELEMETRY			10	15
SOLID WASTE DISPOSAL	COLLECTION	VEHICLE		5	10
SOLID WASTE DISPOSAL	COLLECTION	CONTAINERS / BINS		10	15
SOLID WASTE DISPOSAL	TRANSFER STATIONS & PROCESSING FACILITIES	STRUCTURE		30	55
SOLID WASTE DISPOSAL	TRANSFER STATIONS & PROCESSING FACILITIES	ELECTRICAL		15	40
SOLID WASTE DISPOSAL	TRANSFER STATIONS & PROCESSING FACILITIES	MECHANICAL		15	40
SOLID WASTE DISPOSAL	TRANSFER STATIONS & PROCESSING FACILITIES	PERIMETER PROTECTION		10	25
SOLID WASTE DISPOSAL	LANDFILL SITE	EARTHMOVING & COMPACTION EQUIPMENT		10	15

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HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
SOLID WASTE DISPOSAL	LANDFILL SITE	LANDFILL PREPARATION		N/A	
SOLID WASTE DISPOSAL	LANDFILL SITE	STRUCTURE		30	55
SOLID WASTE DISPOSAL	LANDFILL SITE	WEIGHBRIDGE	MECHANICAL	15	40
SOLID WASTE DISPOSAL	LANDFILL SITE	WEIGHBRIDGE	ELECTRICAL	15	40
SOLID WASTE DISPOSAL	LANDFILL SITE	PERIMETER PROTECTION		10	25
<b>HIERARCHY LEVEL 1: COMMUNITY ASSETS</b>					
COMMUNITY ASSETS (NON- RESIDENTIAL DWELLINGS)	COMMUNITY LAND & BUILDINGS	COMMUNITY BUILDINGS		25	30
COMMUNITY ASSETS (NON- RESIDENTIAL DWELLINGS)	COMMUNITY LAND & BUILDINGS	COMMUNITY HALLS		25	30
COMMUNITY ASSETS (NON- RESIDENTIAL DWELLINGS)	COMMUNITY LAND & BUILDINGS	PUBLIC OPEN SPACES		N/A	
COMMUNITY ASSETS (NON- RESIDENTIAL DWELLINGS)	COMMUNITY LAND & BUILDINGS	ROAD ISLANDS		N/A	

HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
COMMUNITY ASSETS (NON- RESIDENTIAL DWELLINGS)	SPORTS & RECREATION	RECREATIONAL FACILITIES		25	30
COMMUNITY ASSETS (NON- RESIDENTIAL DWELLINGS)	PARKS & GARDENS			25	30
COMMUNITY ASSETS (NON- RESIDENTIAL DWELLINGS)	TAXI RANKS, CAR & CARAVAN PARKS	CAR PARKING & BUS TERMINALS		25	30
COMMUNITY ASSETS (NON- RESIDENTIAL DWELLINGS)	TAXI RANKS, CAR & CARAVAN PARKS	CARAVAN PARKS		25	30
COMMUNITY ASSETS (NON- RESIDENTIAL DWELLINGS)	TAXI RANKS, CAR & CARAVAN PARKS	TAXI RANKS & BUS SHELTERS		10	15
COMMUNITY ASSETS (NON- RESIDENTIAL DWELLINGS)	CEMETRIES			25	30
HOUSING RENTAL STOCK (DWELLINGS)	HOSTELS			25	30
HOUSING RENTAL STOCK (DWELLINGS)	FLATS			25	30
HOUSING RENTAL STOCK (DWELLINGS)	RESIDENCES	PERSONNEL		25	30

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HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
HOUSING RENTAL STOCK (DWELLINGS)	RESIDENCES	BY-PASS-HOUSES		25	30
HOUSING RENTAL STOCK (DWELLINGS)	SECURE CARE CENTRES			25	30
HOUSING RENTAL STOCK (DWELLINGS)	MOBILE HOMES (CARAVANS > SEE MOTOR VEHICLES)			5	10
<b>HIERARCHY LEVEL 1: INVESTMENT PROPERTIES</b>					
BUILDINGS	BUSINESS BUILDINGS			25	30
BUILDINGS	FARM BUILDINGS			25	30
DEVELOPMENT LAND	FARM LAND			N/A	
DEVELOPMENT LAND	LAND BUSINESS			N/A	
DEVELOPMENT LAND	LAND MINING			N/A	
UNDEVELOPED LAND	LAND VACANT			N/A	
<b>HIERARCHY LEVEL 1: GENERAL ASSETS</b>					
FURNITURE & OFFICE EQUIPMENT	OFFICE EQUIPMENT	OFFICE EQUIPMENT (INCL. FAX MACHINES)			7

HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
FURNITURE & OFFICE EQUIPMENT	FURNITURE & FITTINGS	AIR CONDITIONAER (INDIVIDUAL, FIXED & PORTABLE)			5
FURNITURE & OFFICE EQUIPMENT	FURNITURE & FITTINGS	ADVERTISING BOARDS			5
FURNITURE & OFFICE EQUIPMENT	FURNITURE & FITTINGS	PAINTINGS, SCULPTURES, ORNAMENTS (HOME & OFFICE)			10
FURNITURE & OFFICE EQUIPMENT	FURNITURE & FITTINGS	DOMESTIC AND HOSTEL FURNITURE			15
FURNITURE & OFFICE EQUIPMENT	FURNITURE & FITTINGS	OFFICE FURNITURE			7
FURNITURE & OFFICE EQUIPMENT	FURNITURE & FITTINGS	TENTS, FLAGS & ACCESSORIES			10
OTHER MACHINERY & EQUIPMENT	DOMESTIC EQUIPMENT (NON- KITCHEN APPLIANCES)				5
OTHER MACHINERY & EQUIPMENT	KITCHEN APPLIANCES				10
OTHER MACHINERY & EQUIPMENT	LAUNDRY EQUIPMENT AND INDUSTRIAL SEWING MACHINES				15
OTHER MACHINERY & EQUIPMENT	OFFICE EQUIPMENT	CELLULAR PHONES (OVER R5000)			2

HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
OTHER MACHINERY & EQUIPMENT	OFFICE EQUIPMENT	TELE-COMMUNICATION EQUIPMENT			5
OTHER MACHINERY & EQUIPMENT	OFFICE EQUIPMENT	CELLULAR ROUTERS			3
OTHER MACHINERY & EQUIPMENT	OFFICE EQUIPMENT	RADIO EQUIPMENT			7
OTHER MACHINERY & EQUIPMENT	OFFICE EQUIPMENT	MUSIC INSTRUMENTS			15
OTHER MACHINERY & EQUIPMENT	OFFICE EQUIPMENT	AUDIOVISUAL EQUIPMENT			10
OTHER MACHINERY & EQUIPMENT	OFFICE EQUIPMENT	PHOTOGRAPHIC EQUIPMENT			7
OTHER MACHINERY & EQUIPMENT	OFFICE EQUIPMENT	SURVEY EQUIPMENT			7
OTHER MACHINERY & EQUIPMENT	OFFICE EQUIPMENT	LEARNING, TRAINING SUPPORT & LIBRARY MATERIAL (CURRICULUM EQUIPMENT)			10
OTHER MACHINERY & EQUIPMENT	OFFICE EQUIPMENT	SECURITY EQUIPMENT / SYSTEMS / MATERIALS (FIXED / MOVEABLE)			5
OTHER MACHINERY & EQUIPMENT	OTHER BUILDINGS	ELEVATOR SYSTEMS			20


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HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
OTHER MACHINERY & EQUIPMENT	OTHER BUILDINGS	BUILDING AIR CONDITIONING SYSTEMS			10
OTHER MACHINERY & EQUIPMENT	EMERGENCY EQUIPMENT	FIRE FIGHTING EQUIPMENT			5
OTHER MACHINERY & EQUIPMENT	EMERGENCY EQUIPMENT	EMERGENCY RESCUE EQUIPMENT			10
OTHER MACHINERY & EQUIPMENT	MEDICAL AND ALLIED EQUIPMENT				10
OTHER MACHINERY & EQUIPMENT	LABORATORY EQUIPMENT	AGRICULTURAL, MEDICAL TESTING, ROAD & TRANSPORT			7
OTHER MACHINERY & EQUIPMENT	FARM / AGRICULTURAL EQUIPMENT				15
OTHER MACHINERY & EQUIPMENT	SADDLES & OTHER TACK				7
OTHER MACHINERY & EQUIPMENT	SPORT & RECREATION EQUIPMENT				10
OTHER MACHINERY & EQUIPMENT	MAINTENANCE EQUIPMENT	GARDENING EQUIPMENT			4
OTHER MACHINERY & EQUIPMENT	MAINTENANCE EQUIPMENT	IRRIGATION EQUIPMENT			15

HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
OTHER MACHINERY & EQUIPMENT	MAINTENANCE EQUIPMENT	PUMPS, PLUMBING, PURIFICATION AND SANITATION EQUIPMENT			10
OTHER MACHINERY & EQUIPMENT	MAINTENANCE EQUIPMENT	ROAD CONSTRUCTION AND MAINTENANCE EQUIP			15
OTHER MACHINERY & EQUIPMENT	MAINTENANCE EQUIPMENT	ELECTRIC WIRE AND POWER DISTRIBUTION EQUIPMENT (COMPRESSORS, GENERATORS & ALLIED EQUIPMENT)			7
OTHER MACHINERY & EQUIPMENT	MAINTENANCE EQUIPMENT	WORKSHOP EQUIPMENT AND LOOSE TOOLS - FIXED			10
OTHER MACHINERY & EQUIPMENT	MAINTENANCE EQUIPMENT	WORKSHOP EQUIP AND LOOSE TOOLS - MOVABLE			5
OTHER MACHINERY & EQUIPMENT	MAINTENANCE EQUIPMENT	WOODWORKING MACHINERY AND EQUIPMENT			10
OTHER MACHINERY & EQUIPMENT	MAINTENANCE EQUIPMENT	MACHINES FOR MINING AND QUARRYING			10
OTHER MACHINERY & EQUIPMENT	MAINTENANCE EQUIPMENT	MACHINES FOR METALLURGY			10
OTHER MACHINERY & EQUIPMENT	MAINTENANCE EQUIPMENT	MACHINES FOR TEXTILE PRODUCTION			15

HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
OTHER MACHINERY & EQUIPMENT	SHIP AND MARINE EQUIPMENT	WATER CRAFT			10
TRANSPORT ASSETS	MOTOR VEHICLES	CYCLES			7
TRANSPORT ASSETS	MOTOR VEHICLES	MOTOR VEHICLES			7
TRANSPORT ASSETS	MOTOR VEHICLES	TRAILERS AND ACCESSORIES			10
TRANSPORT ASSETS	MOTOR VEHICLES	TRUCKS			7
TRANSPORT ASSETS	MOTOR VEHICLES	BUSSES			15
TRANSPORT ASSETS	MOTOR VEHICLES	MOBILE CLINICS			15
TRANSPORT ASSETS	MOTOR VEHICLES	EMERGENCY VEHICLE (AMBULANCES & FIRE ENGINES)			10
COMPUTER EQUIPMENT	IT EQUIPMENT	COMPUTER HARDWARE INCL OPERATING SYSTEMS			5
COMPUTER EQUIPMENT	IT EQUIPMENT	NETWORKS			10
INTANGIBLE ASSETS	CAPITALISED DEVELOPMENT COSTS			N/A	
INTANGIBLE ASSETS	COMPUTER SOFTWARE				5
INTANGIBLE ASSETS	MASTHEADS & PUBLISHING TITLES			N/A	
INTANGIBLE ASSETS	PATENTS, LICENCES, COPYRIGHTS, BRAND NAMES & TRADEMARKS			N/A	

HIERARCHY LEVEL 2	HIERARCHY LEVEL 3	HIERARCHY LEVEL 4	HIERARCHY LEVEL 5	ESTIMATED USEFUL LIFE (EUL)	
				Min	Max
INTANGIBLE ASSETS	FORMULAE, PROTOTYPES, DESIGNS & MODELS			N/A	
INTANGIBLE ASSETS	SERVICE & OPERATING RIGHTS (SERVITUDES)			N/A	
OTHER INTANGIBLES	GUARANTEES /WARRANTEES			N/A	
OTHER INTANGIBLES	WEB SITES			N/A	

  
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**N G BIXA**  
**MAYOR**

01 JUNE 2018

