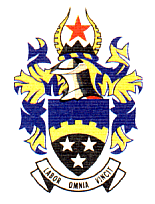
DANNHAUSER

MUNICIPALITY

**FIXED ASSETS**

**AND**

**ACCOUNTING POLICY**

**2024/2025**

Table of Contents

[1 ACRONYMS 4](#_Toc165055788)

[2 DEFINITIONS 6](#_Toc165055789)

[3 PURPOSE 10](#_Toc165055790)

[4 STATUTORY AND REGULATORY FRAMEWORK 11](#_Toc165055791)

[5 ROLES AND RESPONSIBILITIES 12](#_Toc165055792)

[6 ASSET PLANNING AND ACQUISITION 15](#_Toc165055799)

[7 FORMAT OF FIXED ASSETS REGISTER 18](#_Toc165055803)

[8 CLASSIFICATION OF FIXED ASSETS 22](#_Toc165055804)

[9 RECOGNITION AND MEASUREMENT OF ASSETS 23](#_Toc165055805)

[9.1 Property, Plant and Equipment 23](#_Toc165055806)

[9.2 Investment Property 26](#_Toc165055818)

[9.3 Heritage assets 27](#_Toc165055822)

[9.4 Intangible assets 29](#_Toc165055826)

[9.5 Minor Assets Management 31](#_Toc165055832)

[10 SAFEKEEPING OF FIXED ASSETS 32](#_Toc165055833)

[11 IDENTIFICATION OF FIXED ASSETS 33](#_Toc165055834)

[12 CAPITALISATION THRESHOLD 33](#_Toc165055847)

[13 ASSET USEFUL LIFE, RESIDUAL VALUE, DEPRECIATION AND IMPAIRMENT 34](#_Toc165055848)

[14 MAINTENANCE OF ASSETS 42](#_Toc165055854)

[15 VERIFICATION OF FIXED ASSETS 45](#_Toc165055875)

[16 DISPOSAL OF ASSETS 46](#_Toc165055876)

[17 REPLACEMENT NORMS 49](#_Toc165055894)

[18 INSURANCE OF FIXED ASSETS 49](#_Toc165055895)

[19 PRECEDENCE OF GENERALLY ACCEPTED ACCOUNTING PRACTICE 50](#_Toc165055896)

[20 REVIEW 50](#_Toc165055897)

[21 POLICY ADOPTION 50](#_Toc165055898)

[ANNEXURE A: FIXED ASSETS USEFUL LIVES 51](#_Toc165055899)

## **ACRONYMS**

AM Asset Management

AMP Asset Management Plan

AMU Asset Management Unit

AO Accounting Officer

ASB Accounting Standards Board

CFO Chief Financial Officer

СМІР Comprehensive Municipal Infrastructure Plan

COGTA Department of Co-operative Governance and Traditional Affairs

CRC Current Replacement Cost

DRC Depreciated Replacement Cost

EPWP Expanded Public Work Program

EUL Estimated Useful Life

FAR Fixed Asset Register

GIAMA Government Immoveable Asset Management Act

GIS Geographical Information System

GRAP Standards of Generally Recognised Accounting Practice

IAMP Infrastructure Asset Management Plan

IDP Integrated Development Plan

IIMM International Infrastructure Management Manual

ISO International Standards Organisation

LGCAMG MFMA — Local Government Capital Asset Management Guideline

MFMA Municipal Finance Management Act

MPRA Municipal Property Rates Act, No. 6 of 2004

MSA Municipal Systems Act, No. 32 of 2000

NT National Treasury

OAG Office of the Accountant-General

ODRC Optimised Depreciated Replacement Cost

OHSA Occupational Health and Safety Act

PPE Property, Plant and Equipment

RUL Remaining Useful Life

RV Residual Value

SDBIP Service Delivery and Budget Implementation Plan

VAT Value Added Tax

## **DEFINITIONS**

**Active market** refers to a market in which all the following conditions exist:

1. the items traded within the market are homogeneous;
2. willing buyers and sellers can normally be found at any time; and
3. prices are available to the public

**Amortisation** is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

**Asset Custodian** is a person in any position or level in the organisation entrusted with the safeguarding and use as well as the condition monitoring of a specific asset.

**Asset life-cycle** is the cycle of activities that an asset goes through - including planning, design, initial acquisition and/or construction, cycles of operation and maintenance and capital renewal, and finally disposal.

**Asset manager** is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality’s assets in accordance with the entity’s standards, policies, procedures and relevant guidelines.

**Asset register** is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements. The asset register should also facilitate proper financial reporting and is ultimately the responsibility of the Chief Financial Officer (CFO).

**Assets** are resources controlled by an entity as the results of past events and from which future economic benefits or future service potential are expected to flow to the entity.

**Attractive items** are items of property, plant and equipment that are not significant enough for financial recognition but are attractive enough to warrant special safeguarding.

**Capitalisation** is the recognition of expenditure as an Asset in the Financial Asset Register.

**Capitalisation threshold** is the value above which assets are treated as capital assets and entered into an asset register from which reporting in the financial statements (specifically the Statement of Financial Position) is extracted.

**Carrying amount** is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation and accumulated impairment losses thereon.

**Class of assets** means a grouping of assets of a similar nature or function in an entity’s operations, that is shown as a single item for the purpose of disclosure in the financial statements.

**Component** is a part of an asset with a significantly different useful life and significant cost in relation to the rest of the main asset. Component accounting requires that each such part should be separately accounted for and is treated separately for depreciation, recognition and derecognition purposes. It is also referred to as separately depreciable parts.

**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.

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

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

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

**Depreciated replacement cost** is a measure of the current value of an asset based on its current replacement cost less an allowance for deterioration of condition to date (based on the fraction of remaining useful life/expected useful life).

**Economic life** is either

* 1. the period over which an asset is expected to yield economic benefits or service potential to one or more users, or
  2. the number of production or similar units expected to be obtained from the asset by one or more users.

**Enhancement/rehabilitation** is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential for example, remaining useful life, capacity, quality, and functionality.

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

**Financial asset register** is the controlled register recording the financial and other key details for all municipal asset recognised in accordance with this policy.

**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.

**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** means assets that usually display some or all of the following characteristics

* 1. they are part of a system or network;
  2. they are specialised in nature and do not have alternative uses;
  3. they are immovable; and
  4. they may be subject to constraints on disposal.

**An intangible** asset is an identifiable non-monetary asset without physical

substance.

**Maintenance/refurbishment** to an asset will restore or maintain the originally assessed future economic benefits or service potential that an entity can expect from an asset and is necessary for the planned life to be achieved.

**Minor asset** is an asset other than a capital asset, which is fully depreciated in the year of acquisition. Minor assets need to be managed and safeguarded and recorded in a register.

**MFMA** stands for “Municipal Finance Management Act”

**Property, plant and equipment** are tangible items that:

1. are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
2. are expected to be used during more than one reporting period.

**Recognition** is the process of incorporating in the statement of financial position or statement of financial performance an item that meets the definition of an element (of financial statements) and satisfies the criteria for recognition, namely:

* It is probable that any future economic benefit or service potential associated with the item will flow to or from the entity and
* The item has a cost or value that can be measured reliably.

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

**Rehabilitation/enhancement** is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential, for example, remaining useful life, capacity, quality, and functionality.

**Refurbishment/maintenance** to an asset will restore or maintain the originally assessed future economic benefits or service potential that an entity can expect from an asset and is necessary for the planned life to be achieved.

**Remaining useful life** is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness.

**Renewal** is the work required to replace/enhance/rehabilitate an asset. Expenses on renewal works are considered capital expenditure.

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

**Service potential** is a tangible capital asset’s output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life.

**Useful life** is either:

1. The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the municipality, or
2. The estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the municipality.

## **PURPOSE**

The purpose of the Asset Management Policy is to establish a comprehensive, structured, and strategic approach to managing the municipality's assets effectively and efficiently (excluding financial assets). The policy aims to achieve the following key objectives:

* + - 1. To establish a framework for the effective management, safeguarding, and maintenance of municipal assets throughout their lifecycle, ensuring that these assets are optimally utilised to deliver quality services.
      2. To ensure compliance with relevant legislation, regulations, accounting standards, and other guidelines related to asset management.
      3. To define roles, responsibilities, and accountability for asset management within the municipality.
      4. To guide the development and implementation of an asset management system, including the creation and maintenance of an asset register that is compliant with GRAP standards, regulations and guidelines.
      5. To establish policies and procedures for the acquisition, operation, maintenance, and disposal of municipal assets, ensuring that these processes are transparent, fair, and aligned with the municipality's strategic objectives.

## **STATUTORY AND REGULATORY FRAMEWORK**

The statutory and regulatory framework pertinent to this policy includes:

* Constitution of the Republic of South Africa (Act 108 of 1996)
* Municipal Structures Act, Act 117 of 1998
* Municipal Systems Act, Act 32 of 2000
* Municipal Finance Management Act, Act 56 of 2003 Municipal Asset Transfer Regulations
* GRAP 1 - Presentation of Financial Statements
* GRAP 3 - Accounting Policies, Changes in Accounting Estimates and Errors
* GRAP 5 - Borrowing Costs
* GRAP 11 - Construction Contracts
* GRAP 12 - Inventories
* GRAP 13 - Leases
* GRAP 16 - Investment Property
* GRAP 17 - Property, Plant and Equipment
* GRAP 19 - Provisions, Contingent Liabilities and Contingent Assets
* GRAP 21 - Impairment of Non-cash-generating Assets
* GRAP 26 - Impairment of Cash-generating Assets
* GRAP 27 - Agriculture
* GRAP 31 - Intangible Assets
* GRAP 103 - Heritage Assets

This policy does not override the stipulations contained in any legislative, regulatory, or other applicable policies of the municipality.

## **ROLES AND RESPONSIBILITIES**

## **Accounting Officer**

The Accounting Officer shall be the principal custodian of all the Municipality’s fixed assets, and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to upon adoption by the Council. The Accounting Officer shall also be responsible for the following:

* Safeguarding and maintenance of assets;
* Implementation of an accounting and information system that accounts for the assets;
* Ensuring that assets are valued in terms of generally recognised accounting practice;
* Maintaining a system of internal control of assets (e.g. an asset register); and
* Ensuring that the Heads of Departments and their teams comply with this policy.

The Municipal Manager may delegate certain functions to members of top management or any other official of the municipality in terms of section 79 (1) (b) of the MFMA.

## **Chief** **Financial Officer**

The Chief Financial Officer shall be the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date system-based fixed asset register is maintained.

No amendments, deletions or additions to the fixed asset register shall be made other than by the Chief Financial Officer or by an official acting under the written instruction/delegation of the Chief Financial Officer.

The Chief Financial Officer shall also be responsible for the following:

* Ensuring appropriate systems of financial management and internal control are established and carried out diligently;
* The financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;
* Any unauthorised, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
* All revenue due to the municipality is collected, for example, rental income relating to immovable assets;
* The systems, procedures and registers required to substantiate the financial values of the municipality’s assets are maintained to standards sufficient to satisfy the requirements of the Accounting Standards;
* Financial processes are established and maintained to ensure the municipality’s financial resources are optimally utilised through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
* The AO is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
* The HODs 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;
* All fixed asset additions are timeously recorded in the fixed asset register and the books of account;
* Review monthly reconciliations of the fixed asset register and the fixed assets account balances per the general ledger to ensure that all fixed asset movements are recorded in the correct general ledger accounts, at the correct amount and in the correct period; and
* Physical inventory count and verification are conducted at least once a year, any discrepancies identified must be investigated and corrected.

## **Heads of Departments and other Senior Managers**

The Heads of Departments must diligently ensure that:

* Adequate systems for physical management and controls are established and implemented for assets within their jurisdictions.
* Municipal resources allocated to them are utilised effectively, efficiently, economically, and transparently.
* Assets under their control are safeguarded and maintained as necessary, with risk management systems in place and enforced.
* Any unauthorised, irregular, or wasteful expenditure, as well as losses due to criminal or negligent actions, are prevented.
* Their asset management systems and controls yield accurate, reliable, and current records of assets within their control.
* Their asset plans, budgets, procurement, maintenance, and disposal decisions align optimally with the municipality's strategic objectives.
* Asset acquisitions adhere to all municipal policies and procedures.
* Upon receipt into their stewardship, all movable property, plant, and equipment are duly processed and identified.
* Movable assets under their stewardship are safeguarded against misuse or loss, ensuring controlled access and regular asset counts to prevent losses. Any identified losses must be promptly reported to the Chief Financial Officer.
* Assets are utilised for the purposes for which they were acquired by the municipality.
* All employees in their departments adhere to the approved Asset Policy and Procedures. The HODs should designate an employee to oversee and maintain asset control within their department.

## **Asset Manager**

The Asset Manager must:

* Inform the Chief Financial Officer of any changes in asset status within the Municipality, including new purchases, transfers, impairments, and disposals;
* Ensure that the inventory and/or assets of the Municipality are not utilised for personal business or gain by any employee or Councillor;
* Exercise control over departmental assets;
* Provide relevant reports to the Chief Financial Officer regarding asset write-off and theft/loss;
* Investigate any discrepancies identified in the asset physical verification report;
* Ensure all Municipality’s assets are recorded in the asset register and assigned barcodes and / or unique identifiers; and
* Maintain an updated asset register.

## **ASSET PLANNING AND ACQUISITION**

## **Asset Planning**

* The Municipality shall develop asset strategies covering the acquisition, safeguarding, maintenance, refurbishment, redeployment, and disposal, together with the capital and operating costs.
* Asset Planning shall match the asset requirements of the Municipality to service delivery requirements, guided by the principle that a public institution shall not hold assets unless reasonably necessary for the economical, effective, and efficient delivery of services.
* Managers must align activities in the Strategic Plan and budgetary allocations with the office's asset requirements and develop an Asset Acquisition Plan, informed by the future service or economic benefits derived from the asset in support of service delivery.
* A cost-benefit analysis must be conducted when determining whether to lease, purchase, transfer from another entity, or obtain a major asset through a Public Private Partnership.
* The Asset Acquisition Plan must detail all assets to be purchased and/or leased in a particular financial year with monthly expenditure projections, and be approved by the affected HOD, CFO, AO and Council prior to commencing any asset purchases.
* The affected Department supported by Asset Management Unit shall financially quantify the Asset Planning Strategy, allocating resources to the asset life cycle stages: Acquisition, Operation, Transfers, Maintenance, and Disposal.
* Heads of Departments are responsible for communicating the asset budgeting strategy to the Chief Financial Officer within the municipality.

## **Asset Acquisition**

* Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing. The date of acquisition is deemed to be when control or legal title passes to the Municipality.
* Before acquiring a capital asset, the municipality should consider the following principles:
  + - The purpose aligns with municipal objectives and provides significant, direct, and tangible benefits;
    - The asset meets the definition of a capital asset as per GRAP standards;
    - The asset has been budgeted for, including future annual operations and maintenance needs;
    - The planned purchase proposal aligns with the supply chain policy and procedures;
    - The purchase is necessary, and no alternative municipal asset could be economically upgraded or adapted;
    - The asset is appropriate, cost-effective, compatible with existing equipment, and will not result in unwarranted additional expenditure;
    - Space and necessary facilities to accommodate the asset are in place;
    - The funding period does not exceed the asset's lifespan;
    - The most suitable type, brand, and model has been selected; and
    - The acquisition aligns with the service delivery expectations in the municipality's IDP and SDBIP.
* Procurement of fixed assets shall be undertaken in accordance with the municipality's supply chain management policy, and the Accounting Officer must ensure that a needs analysis has been conducted and the policy provisions have been adhered to.
* The Accounting Officer, in consultation with the Chief Financial Officer and heads of departments, shall formulate and ensure compliance with norms and standards for replacing all normal operational assets, including motor vehicles, furniture, computer equipment, and other appropriate items, as well as fixed assets required for service delivery that have become uneconomical to maintain.

## **Donated Assets**

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.

Donated assets should be valued at fair value, reflected in the asset register, and depreciated as normal assets. The following control measures must be implemented for all donated assets:

* All donated assets must be approved by the Accounting Officer and ratified by Council prior to acceptance.
* The management of the municipality must evaluate the future operational costs of donated assets and the effect it might have on future tariffs and taxes before a donated asset is accepted by the municipality.
* The conditions associated with the donation must be agreed upon and signed by the Accounting Officer.
* Donated assets must be depreciated in accordance with the municipality's depreciation policy, based on their estimated useful lives.
* The asset register must clearly indicate that the asset was donated, including the date of donation, the donor's details, and any conditions associated with the donation.
* The municipality must ensure that all conditions associated with the donated asset are fulfilled and that the asset is used for its intended purpose.
* The Accounting Officer must provide an annual report to Council on the status and performance of all donated assets, including their condition, utilisation, and any associated costs or benefits.
* In cases where the donor requires the asset to be used for a specific purpose or period, the municipality must ensure compliance with such requirements and maintain adequate records to demonstrate adherence to the stipulated conditions.
* If the donated asset is no longer needed or fulfills the intended purpose, the Accounting Officer must determine the most appropriate course of action, such as redeployment within the municipality, donation to another organisation, or disposal in accordance with the asset disposal policy, subject to any conditions specified by the original donor.

## **FORMAT OF FIXED ASSETS REGISTER**

The fixed asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of generally recognized accounting practice (GRAP) and the MFMA — Local Government Capital Asset Management Guideline (LGCAMG).

All Heads of Departments under whose control any fixed asset falls shall promptly provide the Chief Financial Officer in writing with any information required to compile the fixed asset register, and shall promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.

A fixed asset shall be capitalized, which is recorded in the fixed assets register, as soon as it is acquired and if it meets the recognition criteria. If the asset is constructed over a period of time, it shall be recorded as work in progress until it is available for use, whereafter it shall be appropriately capitalised as a fixed asset.

A fixed asset shall remain in the fixed assets register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing off such an asset.

The following information shall be included in the fixed asset register:

**Acquisition**

* Transaction Date
* Amount
* Supplier / Contractor
* Reference (invoice/contract/payment/order number).

**Identification**

* Asset class: should facilitate GRAP financial reporting requirements, e.g.

PPE, investment property, intangible asset, etc.

* Asset sub-class: should facilitate management and reporting, e.g. motor vehicle, furniture, road infrastructure, etc.
* Asset functional group (if relevant): e.g. clinic, warehouse, hall.
* Parent asset or standalone asset: if parent then must have links to separately depreciable parts.
* For separately depreciable parts: link to parent asset.
* Asset number: a unique system-generated identifier, bar code or other unique number so that the individual asset can be distinguished from others.
* Asset specific identifiers (where applicable): e.g. serial numbers, registration number, erf. number.
* Asset description: e.g. 2005 Toyota Corolla 140i, brown wooden six-seater boardroom table, etc.
* Asset dimensions/capacity (if relevant): e.g. 200 litre (tank), 4000 sq metre (building/land)
* Asset construction (if relevant): e.g. brick, wood, cast iron
* Location: e.g. Office 123, Store Abc, Erf. Xyz
* Zoning: residential, agricultural, industrial, etc.
* GPS: recommended for easy location (where relevant).

**Accountability**

* + Department / division: (depends upon organisation)
  + Section / unit (depends upon organisation)
  + Sub-section (depends upon organisation)
  + Cost centre
  + Custodian: e.g. user of the asset or person responsible for safeguarding the asset in his/her possession: for laptop, custodian is Mr Jones (Financial Manager).
  + Restrictions (if any) in use or changing of an asset
  + Ownership (if legal title is not with the municipality)
  + Licence or permits
  + Transfers: (to record date and transferor).

**Performance**

* + Capacity (where relevant), e.g. 2 tonne, 2000 sq metres, 200 ml/day
  + Performance measures (where relevant)
  + Condition Assessment (date, rating, person doing assessment, file no – for details)
  + Warranties, guaranties or certification
  + Useful life: e.g. years/hours/units/mileage, etc. of expected use
  + Residual value: to be evaluated annually.

**Disposal**

* + Date
  + Amount: proceeds received
  + Capacity: at date of disposal
  + Condition: e.g. good, fair, bad, etc.
  + Remaining useful: if sold earlier than originally planned
  + Residual value: to compare with proceeds
  + Reason for disposal.

**Accounting**

* + Historical cost (or fair value where cost not available for initial recognition)
  + Funding source
  + Useful life: (original)
  + Remaining useful life: (assessed, date of assessment)
  + Residual value: (original, assessed and date of assessment)
  + Depreciation method: (straight line, sum of units, diminishing balance, etc.)
  + Revaluation: (amount, date, method, by whom): if revaluation model adopted by entity, should continue revaluing for subsequent measurement.
  + Impairment. (amount, date assessed)
  + Depreciation: value and rate: current year
  + Accumulated depreciation: life to date
  + Carrying amount
  + Disposal (where relevant): (date, realised amount, details on disposal, Council resolution).

**Minor Assets**

For a minor asset register the following should be included as a minimum:

* + Identification & Location - What and where is this asset and who does it serve?
  + Accounting – How is it accounted for?
  + Acquisition details.
  + Disposal - Date, amount, proceeds received, and reason for disposal.

## **CLASSIFICATION OF FIXED ASSETS**

The Municipality's fixed assets are categorised into seven main groups, as listed below:

1. **Infrastructure assets** are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.
2. **Community assets** are defined as any asset that contributes to the community’s well-being. Examples are parks, libraries and fire stations.
3. **Heritage assets** are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
4. **Investment properties** are defined as properties that are acquired for economic and capital gains. Examples are office parks and underdeveloped land acquired for the purpose of resale in future years.
5. **Other assets** are defined as assets utilised in normal operations. Other assets are further broken down into groups/classes of assets of a similar nature or function in the municipality’s operations. Examples are plant and equipment, motor vehicles and furniture and fittings.
6. **Land** refers to the surface, ground or earth area owned by the municipality. Land could either be vacant or occupied by other assets such as buildings, infrastructure, and facilities.
7. **Buildings** are property structures that are constructed on land, owned by the municipality, with no intention of resale or lease in future, which are solely used for operations.

**Inventory**

Land or buildings acquired or owned by the municipality, intended for sale in the ordinary course of business or for development and subsequent sale, shall be accounted for as inventory in the municipality's financial statements. These assets shall not be classified as property, plant and equipment or investment property in the statement of financial position.

Despite being categorised as inventory, these assets shall be recorded in the fixed assets register, following the same procedure as other fixed assets. However, a dedicated section within the fixed assets register shall be maintained specifically for this purpose, ensuring proper segregation and tracking of these inventory items.

## **RECOGNITION AND MEASUREMENT OF ASSETS**

## **Property, Plant and Equipment**

Property, plant and equipment shall be accounted for in terms of GRAP 17 and consist of the following assets:

* Land (not held as investment assets)
* Buildings (not held as investment assets)
* Infrastructure assets (assets which are part of a network of similar assets)
* Community assets (resources contributing to the general well-being of the community)
* Other assets (ordinary operational resources)

## **Recognition of Property, Plant and Equipment**

A Capital Asset shall 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 item is expected to be used during more than one financial year.

## **Measurement at recognition**

Property, plant and equipment assets are recorded at cost which shall include the purchase price and other acquisition costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating, such as installation costs, freight charges, transportation, taxes, legal costs and duties etc.

Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery of the asset is enhanced in excess of the originally assessed standard of performance.

Assets held under finance leases are capitalised and will be reflected in the Fixed Asset Register. Major spare parts / standby equipment and servicing equipment are recognised as property, plant and equipment if they meet the recognition criteria.

**Initial cost**

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition shall be capitalised. The purchase price, exclusive of VAT, will be capitalised, unless the municipality is not allowed to claim input VAT paid on the purchase of such assets. In such an instance, the municipality will 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; and
* Interest costs when incurred on a qualifying asset in terms of GRAP 5 - Borrowing Costs.

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.

**Leased Assets**

A lease is an agreement whereby the lessor 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 recognized as a Capital asset.
* Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an Operating Lease and payments are expensed in the income statement on a systematic basis.

The CFO must maintain a lease register with all the information that is necessary for reporting purposes, for example, opening balance, acquisitions, disposals, transfers, depreciation, accumulated depreciation, etc.

## **Measurement after recognition**

The municipality has elected the cost as its accounting policy for property, plant and equipment.

After recognition as an asset, all items of property, plant and equipment shall be carried at their cost less any accumulated depreciation and any accumulated impairment losses.

## **Investment Property**

Investment assets shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the Municipality statement of position.

Investment assets shall comprise 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 assets shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

## **Recognition of Investment Property**

Investment property shall be recognised as an asset when, and only when:

* it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and
* the cost or fair value of the investment property can be measured reliably.

## **Measurement at recognition**

An investment property shall be measured initially at its cost (transaction costs shall be included in this initial measurement).

Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure. Directly attributable expenditure includes, for example, professional fees for legal services, property transfer taxes and other transaction costs.

## **Measurement after recognition**

The Municipality has elected the fair value model as its accounting policy which shall be applied to all of its investment property.

The municipality shall determine the fair value of investment property through a valuation process. This process may be carried out by a valuer holding a recognised and relevant professional qualification with recent experience in the location and category of the investment property. Alternatively, an expert possessing the requisite competence to undertake such appraisals in accordance with the requirements of the applicable standards of GRAP may perform the valuation.

The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm’s length transaction. The fair value of investment property shall reflect market conditions at the reporting date.

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

## **Heritage assets**

Heritage assets often display the following characteristics:

* their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in monetary terms;
* ethical, legal and/or statutory obligations may impose prohibitions or severe stipulations on disposal by sale;
* they are often irreplaceable;
* their value may increase over time even if their physical condition deteriorates;
* they have an indefinite life and their value appreciates over time due to their cultural, environmental, educational, natural scientific, technological, artistic or historical significance; and
* they are protected, kept unencumbered, cared for and preserved.

These above characteristics are not necessarily exclusive to all heritage assets.

## **Recognition of Heritage Assets**

Heritage assets shall be accounted for in terms of GRAP 103. A heritage asset shall be recognised as an asset if, and only if:

* + it is probable that future economic benefits or service potential associated with the asset will flow to the entity;
  + the cost or fair value of the asset can be measured reliably; and
  + must be controlled by the municipality as a result of past events.

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

## **Measurement at recognition**

A heritage asset that qualifies for recognition as an asset shall be measured at its cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

The cost of a heritage asset comprises:

* + its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
  + any costs directly attributable to bringing the heritage asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

## **Measurement after recognition**

After recognition as an asset, a class of heritage assets shall be carried at its cost less any accumulated impairment losses.

A heritage asset shall not be depreciated but an entity shall assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the entity shall estimate the recoverable amount or the recoverable service amount of the heritage asset.

## **Intangible assets**

An asset is identifiable if it either:

* + is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licenced, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the entity intends to do so; or
  + arises from binding arrangements regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Intangible assets shall be accounted for in terms of GRAP 31.

## **Recognition of Heritage Assets**

An intangible asset shall be recognised if, and only if:

* + it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the entity; and
  + the cost or fair value of the asset can be measured reliably.

Research shall not be recognized as an intangible asset. Expenditure on research (or on the research phase of an internal project) shall be recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) shall be recognised if, and only if, the municipality can demonstrate all of the following:

* + the technical feasibility of completing the intangible asset so that it will be available for use or sale;
  + its intention to complete the intangible asset and use or sell it;
  + its ability to use or sell the intangible asset;
  + how the intangible asset will generate probable future economic benefits or service potential. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
  + the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
  + its ability to measure reliably the expenditure attributable intangible asset during its development.

## **Measurement at recognition**

An intangible asset shall be measured initially at cost. Where an intangible asset is acquired through a nonexchange transaction, its initial cost at the date of acquisition, shall be measured at its fair value as at that date.

## **Measurement after recognition**

After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

## **Useful life**

The municipality shall assess whether the useful life of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that useful life. An intangible asset shall be regarded as having an indefinite useful life when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for, or provide service potential to, the entity.

An intangible asset with a finite useful life is amortised, and an intangible asset with an indefinite useful life is not.

## **Residual value**

The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

* + there is a commitment by a third party to acquire the asset at the end of its useful life; or
  + there is an active market for the asset and:
* residual value can be determined by reference to that market; and
* it is probable that such a market will exist at the end of the asset’s useful life.

## **Minor Assets Management**

Minor assets comprise movable assets not capitalised in terms of the municipality's threshold policy. Although these assets are not recognised as capital assets in the financial statements, they must still be controlled, safeguarded, and verified by the municipality. The controls should include all the internal controls pertaining to capital assets. Minor assets are not capitalised as 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.

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 cases where losses are recovered by means of insurance claims or recoveries from disciplinary actions.

Minor assets still need to be controlled and safeguarded, and the following procedures should be implemented:

* + Minor assets should be receipted using the same controls as capital assets;
  + They should be recorded in a minor assets register;
  + Each minor asset should be assigned to a particular asset custodian;
  + Regular verification should be conducted to ensure that minor assets are being appropriately safeguarded;
  + The internal audit function should perform regular control audits on minor assets;
  + The disposal of minor assets and reporting of losses should be carried out in line with the specific policies of the municipality.

## **SAFEKEEPING OF FIXED ASSETS**

* The Accounting Officer must ensure proper controls and that safeguards are in place to protect capital assets against improper use, loss, theft, malicious damage, or accidental damage.
* The head of each department and the asset users shall be jointly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.
* In exercising this responsibility, the head of each department and specific asset users shall adhere to any written directives issued by the Accounting Officer to the department in question, or generally to all departments, in regard to the control of or safekeeping of the Municipality’s fixed assets.
* Each Head of Department and asset user must report any incident of loss, theft, destruction, or material impairment of fixed assets controlled or used by their department within 24 hours in writing to the Chief Financial Officer and the asset management section.
* Malicious damage, theft, and break-ins must be reported to the Municipal Manager or delegated person within 24 hours of its occurrence or awareness.
* The Heads of Department must report criminal activities to the South African Police Service within 24 hours and provide the municipality with a SAPS case number within 24 hours of reporting the incident to the police.

## **IDENTIFICATION OF FIXED ASSETS**

* The municipality shall implement an asset identification system to uniquely distinguish each asset, ensuring individual accountability. Movable assets will utilise a barcode system, with a barcode affixed to each item. In contrast, immovable assets will be identified through a detailed description of their physical location.
* The Accounting Officer shall ensure that the Municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register.
* The identification system shall be determined by the Accounting Officer, acting in consultation with the Chief Financial Officer and other Heads of Departments, and shall comply with any legal prescriptions, as well as any recommendations of the Auditor-General, and shall be decided upon within the context of the Municipality’s budgetary and human resources.
* Every Head of Department shall ensure that the asset identification system approved for the Municipality is thoroughly applied in respect of all fixed assets controlled or used by the department in question.

## **CAPITALISATION THRESHOLD**

The capitalisation threshold is the minimum cost or amount that an item of property, plant, and equipment must meet or exceed in order to be recorded as a capital asset in the municipality’s statement of financial position. If the purchase price or cost of the item is below this threshold, it will typically be treated as an expense in the period it was acquired.

The capitalisation threshold should not be applied to individual components of an asset, but should be applied to the value of the capital asset as a whole.

Items with a cost of R 500 or less shall not be capitalised as assets; instead, they will be recognised as an expense in the period in which they are acquire. The capitalisation threshold shall be determined annually through comparison with materiality and approved by the Council.

## **ASSET USEFUL LIFE, RESIDUAL VALUE, DEPRECIATION AND IMPAIRMENT**

## **Asset useful life**

The determination of an asset's useful life is a matter of judgment and shall be determined by the relevant Head of Department, in consultation with asset experts such as engineers, facilities managers, or fleet managers who are well-versed in the management and life-cycle of that particular asset type.

The calculation of useful life is based on a particular level of planned maintenance. When determining the useful life of an asset, the Head of Department shall consider various factors, including but not limited to:

* + - Expected wear and tear due to operational factors, maintenance, and rehabilitation policies;
    - Economic obsolescence arising from the high cost of maintenance;
    - Functional obsolescence due to the asset no longer meeting the municipality's needs;
    - Technological obsolescence;
    - Social obsolescence resulting from changing demographics; and
    - Legal obsolescence due to statutory constraints.

The CFO shall ensure that the useful lives of assets are properly recorded and accounted for in the asset register and the general ledger. The useful life of an asset shall be reviewed at each reporting date.

The remaining useful life of assets shall be reviewed annually. Any changes resulting from such reviews shall be accounted for as a change in accounting estimates, in accordance with GRAP 3. As part of the annual physical verification process for movable assets, an assessment of their condition and use shall be conducted to determine the appropriateness of their remaining useful lives. For infrastructure assets, the useful lives shall be considered appropriate unless an event has occurred, or conditions of use have changed, which may impact the remaining useful lives of these assets. The authority to make changes to the useful lives of assets rests solely with the CFO.

## **Amendments of useful lives and diminution in the value of assets**

Only the Chief Financial Officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the Chief Financial Officer shall inform the council of the Municipality of such an amendment.

The Chief Financial Officer shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset’s economic benefits or service potential will be consumed.

If the value of a fixed asset has been diminished to such an extent that it has no or negligible further useful operating life or value, such a fixed asset shall be fully depreciated in the financial year in which such a diminution in value occurs.

Similarly, if a fixed asset has been lost, stolen, or damaged beyond repair, it shall be impaired by recognising an impairment loss. Council approval will be sought for all assets that should be derecognised.

In all of the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

If any of the foregoing events arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalized at a value other than a purely nominal value, such fixed asset shall be partially or fully impaired, as the case may be, and the department or vote controlling or using the fixed asset in question shall bear the full impairment loss concerned.

## **Residual value**

The residual value for the majority of assets is considered insignificant and immaterial in the calculation of the depreciable amount, as most assets are rarely sold but rather used until the end of their useful lives, after which insignificant amounts, if any, are expected to be recovered.

Land, buildings, infrastructure, and community assets typically have a residual value of zero, allowing for the full depreciation of the asset over its useful life. Residual values shall only be applicable to assets that are normally disposed of by sale once the municipality no longer requires them, such as motor vehicles.

Residual values shall be determined upon initial recognition of assets that are normally disposed of by sale once the municipality no longer requires them. The basis for the residual value estimates shall be determined by the results of past sales of similar assets at auctions when they reach the end of their useful lives.

The residual value of assets shall be reviewed annually at the reporting date. Changes in depreciation charges resulting from such reviews shall be accounted for as a change in accounting estimates, in accordance with GRAP 3.

Each Head of Department is responsible for determining the reasonable residual values of the assets under their control. Any changes in residual values must be approved by the CFO.

The CFO shall ensure that residual values, as well as any changes thereto, are accurately recorded and accounted for in the asset register and the general ledger. At each reporting date, the CFO shall review and ensure the appropriateness of the residual values assigned to assets.

## **Depreciation of Assets**

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

Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Depreciation is recognised even if the fair value of the asset exceeds its carrying amount, as long as the asset’s residual value does not exceed its carrying amount.

Depreciation shall not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. Depreciation of an asset ceases at the date that the asset is derecognised.

The depreciation method used shall reflect the pattern in which the asset’s future economic benefits or service potential are expected to be consumed by the entity.

Depreciation shall initially be calculated from the first day of the calendar month following the day in which a fixed asset is acquired or in the case of construction works and plant and machinery, the day following the day in which the fixed asset is brought into use. Thereafter, deprecation charges shall be calculated monthly through the anticipated useful life of the asset.

Each Head of Department, acting in consultation with the Chief Financial Officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

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 fixed assets.

When computing depreciation, the municipality shall adhere to the useful lives specified in Annexure A of this policy document. For fixed assets not listed in this annexure, the Chief Financial Officer shall determine a useful operating life. If necessary, this determination will be made in consultation with the Head of Department responsible for the control or use of the relevant fixed asset. In determining such useful life, guidance shall be sought from the likely pattern in which the asset's economic benefits or service potential will be consumed.

The depreciation method applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with GRAP 3 - Changes in Accounting Estimates and Errors.

The municipality shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

## **Impairment loss**

The municipality shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality shall estimate the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, an entity shall also test an intangible asset with an indefinite useful life or an intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount.

In assessing whether there is any indication that an asset may be impaired, the municipality shall consider, both internal and external sources of information.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset shall be reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss shall be recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount. Any impairment loss of a revalued asset shall be treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the asset to which it relates, the municipality shall recognise a liability in accordance with the GRAP standards.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

An entity shall assess, at each reporting date, whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the entity shall estimate the recoverable service amount of that asset. An impairment loss recognised in prior periods for an asset shall be reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset shall then be increased to its recoverable service amount.

The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for an asset shall be recognised immediately in surplus or deficit unless the asset is carried at revalued amount. Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase. After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the asset shall be adjusted in future periods to allocate the asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

**Condition assessments**

The municipality shall assess whether the condition of the asset has improved or declined. The condition of the asset should be assessed during the asset verification process. The following table shows the parameters that will be used in assessing the conditions of assets.

**Condition assessment criteria for buildings**

|  |  |  |
| --- | --- | --- |
| **Condition** **Status** | **General** **description** **of** **status** | **Rating** |
| Excellent  (100-81%) | Accommodation has no apparent defects. Appearance is as new. Fractional cost on maintenance relating to value required to keep building in existing condition. | C5 |
| Good  (80-61%) | Accommodation exhibits superficial wear and tear, with minor defects and minor signs of deterioration to surface finishes. Minor expenditure on maintenance needed to upgrade building | C4 |
| Fair  (60-41%) | Accommodation is in average condition. Deteriorated surface finishes require attention, and a backlog of maintenance work exists. Condition of building causes inconvenience to users. Medium maintenance costs in relation to value of building required to upgrade building. | C3 |
| Poor  (40-21%) | Accommodation has deteriorated badly, with serious, visible structural problems. General condition is poor with eroded protective surfaces and a significant number of major defects. High risk to health and safety. High maintenance costs in relation to value of building implied as building needs to be refurbished and upgraded. | C2 |
| Very Poor  (20-1%) | Age, lack of maintenance and structural defects make building unfit for occupation. Very high risk to health and safety and generally unsuitable for occupation. Extremely high maintenance costs in relation to value of property implied, as total collapse is imminent. Not worth upgrading. | C1 |

**Condition assessment criteria for moveable assets**

|  |  |  |
| --- | --- | --- |
| **Condition** **Status** | **General** **description** **of** **status** | **Rating** |
| Excellent  (100-81%) | The movable PPE have no apparent defects. Appearance is as new. No intervention needed. | 1 |
| Good  (80-61%) | The movable PPE exhibit superficial wear and tear, with minor defects and minor signs of deterioration. Minor expenditure on maintenance needed. | 2 |
| Fair  (60-41%) | The movable PPE are in average condition and require substantial maintenance work. | 3 |
| Poor  (40-21%) | The movable PPE have deteriorated badly, with serious visible problems. General condition is poor with a significant number of major defects. High maintenance cost and/or the movable PPE may need to be rehabilitated. Cost vs. benefits should be considered. | 4 |
| Very Poor  (20-1%) | Moveable PPE deteriorated to a point where it is unfit for normal use. Extremely high maintenance costs will be incurred; replacement is the better option (cost vs. benefit). | 5 |

## **MAINTENANCE OF ASSETS**

Effective asset maintenance is crucial for ensuring that municipal assets continue to deliver the required level of service and performance throughout their lifecycle. The Municipality shall adopt a strategic approach to asset maintenance, considering the appropriate mix of corrective and preventative maintenance procedures. The following policy statements shall guide the Municipality's asset maintenance practices:

* + All Heads of Department responsible for the control and utilization of infrastructure assets shall monitor maintenance actions and budget for the operation and maintenance needs of each asset or class of assets under their control. Operating expenses must include all labour and material costs for the repair and maintenance of the assets, including both contracted services and services performed by employees.
  + Maintenance strategies shall be developed for each asset category, taking into account the manufacturer's recommendations, asset criticality, and risk assessments.
  + The level of maintenance required for each asset shall be clearly defined, considering its role in service delivery, statutory compliance, age, condition, and expected life.
  + Maintenance priorities shall be identified, and resources allocated accordingly to ensure that critical assets are maintained to the required standard.
  + Operation and maintenance plans shall be developed and implemented to optimise asset performance and life, ensuring that assets remain appropriate to programme requirements and are maintained in the necessary condition to support programme delivery at the lowest possible long-term cost.
  + The Municipality shall make appropriate budget provisions for asset maintenance, considering the projected costs of routine, corrective, and preventive maintenance, as well as forecasts for major replacements.
  + Asset maintenance shall be planned and executed in a manner that minimises disruption to asset users and ensures the cost-effective use of maintenance resources.
  + Regular asset maintenance shall be carried out to preserve asset value and prevent underutilisation or overutilisation, which may lead to increased costs or shortened asset life.
  + The Municipality shall maintain accurate records of asset maintenance activities, including costs, schedules, and performance data.
  + 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 rands) 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 Heads of Department shall report to the Council annually, not later than 31 July, on the extent to which the approved maintenance plan has been complied with and the extent of deferred maintenance, as well as the likely effects that maintenance budgetary constraints may have on the useful operating life of the infrastructure asset classes.
  + Heads of Departments shall ensure that maintenance plans make provision for the additional maintenance burden of future infrastructure to be acquired.
  + Every Head of Department shall be directly responsible for ensuring that all assets are properly maintained in a manner that will ensure that such assets attain their useful operating lives.

## **Deferred maintenance**

Where there is material variation between the actual maintenance expenditures incurred and the expenditures 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 financial statements. Such note shall also indicate any plans which the council of the Municipality has approved in order to redress such deferral of the maintenance requirements concerned.

## **Renewal of assets**

Asset renewal is the 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. Asset 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.

## **Replacement of assets**

This relates to 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. 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.

## **VERIFICATION OF FIXED ASSETS**

Each Head of Department shall at least once during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

Each 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 fixed asset verification, provided that each such asset verification shall be undertaken and completed as closely as possible to the end of each financial year, and that the resultant report shall be submitted to the Chief Financial Officer.

The purpose of physical asset verification is to verify the existence, presence of Asset numbers (barcodes), condition and accuracy of the departmental record of all assets owned or donated to the Municipality. Physical asset verification ensures the completeness and correctness of the fixed asset register. The CFO’s office is responsible for conducting physical asset verification once a year. Heads of Departments are expected to assist and cooperate during all phases of the verification.

Annual verification of movable assets should be conducted under the direction of an individual who neither has responsibility for the custody of fixed assets nor maintains asset records. This procedure would enable the municipality to identify discrepancies and dispositions and properly investigate and record the transactions.

Prior to the commencement of physical verification, detailed procedures for this process will be issued and thoroughly explained.

## **DISPOSAL OF ASSETS**

## **Alienation/disposal of assets**

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the Municipality’s supply chain management policy.

Each Head of Department shall report in writing to the Chief Financial Officer on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department concerned which such Head of Department wishes to alienate by public auction or public tender.

The Chief Financial Officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the council or the Accounting Officer of the Municipality, as the case may be, recommending the process of alienation to be adopted.

The following requirements must be met before the authorisation of the disposal is granted:

* The asset must have exceeded its expected useful life or be materially impaired or irreparably damaged. And must be rendered incapable of being put to the use for which it was acquired. And must become redundant (i.e. in excess of required capacity due to changes in operational circumstances)
* The Chief Financial Officer must be satisfied that the net cost/benefit effect of retaining the asset exceeds the net cost/benefit effect of scrapping and/or replacing the asset.
* The disposal must have been considered and provided for in preparing the capital budget for the year of disposal.
* The council shall ensure that the alienation of any fixed asset takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004. The municipality will not permanently dispose of a capital asset needed to provide the minimum level of basic municipal services. When the 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 shall be fair, equitable, transparent, competitive and consistent with the municipality’s supply chain management policy.

The disposal of assets must be dealt with in accordance with the following methods:

* Transferring the asset to another organ of state in terms of a provision of the act enabling the transfer of assets;
* Transferring the asset to another organ of state at market-related value or, when appropriate, for a lesser amount or free of charge;
* Selling the asset; or
* Destroying the asset.

## **Disposal procedures**

* + Immovable assets may be sold at not less than market-related prices, except when the public interest or the plight of the poor demands otherwise, by means of public tenders, public auction, or over the counter on a first-come, first-served basis.
  + The disposal of immovable assets is subject to the following principles:
    - Payment of the full purchase price and all estimated costs pertaining to the transaction upon signature of the deed of sale, in cash; and
    - All costs (advertising, rezoning, obtaining of a valuation, etc.) pertaining to the transaction shall be borne by the purchaser.
  + Immovable property must be let at market-related rates, except when the public interest or the plight of the poor demands otherwise.
  + All fees, charges, rates, tariffs, scales of fees, or other charges relating to the letting of immovable property must be reviewed annually.
  + Movable assets may be sold either by way of written price quotations, public tenders, or public auction, whichever is the most advantageous.
  + In the case of the free disposal of computer equipment, the provincial Department of Education must first be approached to indicate within thirty (30) days whether any of the local schools are interested in the equipment.
  + In the case of the disposal of firearms, the National Conventional Arms Control Committee has to approve any sale or donation of firearms to any person or institution within or outside the Republic.
  + Where assets are traded in for other assets, the highest possible trade-in price must be negotiated.

Once the alienation of fixed assets has been approved by the council and the assets have been alienated, the Chief Financial Officer shall be informed in writing of any material change that may occur with respect to such information and shall delete the relevant records from the fixed asset register.

If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the income statement of the department or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the income statement of the department or vote concerned.

Transfer of fixed assets to other municipalities, municipal entities (whether or not under Municipality’s sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty. The transfer process of capital assets is governed by the Local Government: Municipal Asset Transfer Regulations.

## **REPLACEMENT NORMS**

The Accounting Officer, in consultation with the Chief Financial Officer and other Heads of Departments, shall formulate norms and standards for the replacement of all normal operational fixed assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to Municipal council for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain.

## **INSURANCE OF FIXED ASSETS**

The Accounting Officer shall ensure that all movable fixed assets are insured at least against fire, theft and other damage, destruction or loss and that all municipal buildings are insured at least against fire and allied perils**.**

For all assets acquired, the respective HODs should notify the Asset Management Unit or the official responsible for the insurance portfolio to arrange immediate cover upon delivery of the assets. It is the responsibility of the HOD to ensure that the purchased capital asset has been covered for insurance purposes before it is used by the respective department.

The Accounting Officer shall recommend to the Municipal council, after consulting with the Chief Financial Officer, the basis of the insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the fixed assets 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 Municipality Council on any reinsurance cover which it is deemed necessary.

## **PRECEDENCE OF GENERALLY ACCEPTED ACCOUNTING PRACTICE**

The statements of generally accepted accounting practice shall always take precedence over this policy. Where this policy is inconsistent with the GRAP statements, the GRAP statements shall prevail. This provision applies retrospectively from the initial application date of GRAP.

## **REVIEW**

This policy will be reviewed at least annually or when required by way of a council resolution and the Chief Financial Officer is responsible for review of this policy.

## **POLICY ADOPTION**

This policy has been considered and approved by the Council of **Dannhauser Municipality** on this day xx Month 2024 (Resolution number xxxxx)

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name Surname Date

MUNICIPAL MANAGER

## **ANNEXURE A: FIXED ASSETS USEFUL LIVES**

**Estimated Useful Life of Infrastructure Assets**

|  |  |  |
| --- | --- | --- |
| **ROADS** | | |
| **Years** | **Descriptions** | **Months** |
| 15 | Motorways | **180** |
| 10 | Other Roads | **120** |
| 10 | Traffic islands | **120** |
| 20 | Traffic lights | **240** |
| 25 | Street lights |  |
| 30 | Overhead bridges | **360** |
| 20 | Storm water drains | **240** |
| 30 | Bridges, subways and culverts | **360** |
| 20 | Car parks | **240** |
| 20 | Bus terminals | **240** |

|  |  |  |
| --- | --- | --- |
| **WATER** | | |
| **20** | Mains | **240** |
| **20** | Supply and reticulation networks | **240** |
| **20** | Reservoirs and storage tanks | **240** |
| **15** | Meters | **180** |

|  |  |  |
| --- | --- | --- |
| **SEWERAGE** | | |
| **20** | Sewer mains | **240** |
| **20** | Outfall sewers | **240** |
| **20** | Sewage purification works | **240** |
| **15** | Sewerage pumps | **180** |
| **15** | Sludge machines | **180** |

|  |  |  |
| --- | --- | --- |
| **PEDESTRAIN MALLS** | | |
| **20** | Footways | **240** |
| **20** | Kerbing | **240** |
| **20** | Paving | **240** |
|  | | |
| **AIRPORTS** | | |
| **20** | Runways | **240** |
| **20** | Aprons | **240** |
| **20** | Taxiways | **240** |
| **20** | Airport and radio beacons | **240** |
|  | | |
| **SECURITY MEASURES** | | |
| **5** | Access control systems | **60** |
| **5** | Security systems | **60** |
| **3** | Security fencing | **60** |

**Community Assets**

|  |  |  |  |
| --- | --- | --- | --- |
| **Buildings** | | | |
| Ambulance stations | **30-50** | Parks | **30-50** |
| Aquariums | **30-50** | Public conveniences and bath houses | **30-50** |
| Beach developments | **30-50** | Recreation centre | **30-50** |
| Care centre | **30-50** | Sports and related stadiums | **30-50** |
| Cemeteries | **30-50** | Zoos | **30-50** |
| Civic theatre | **30-50** | Museums and art galleries | **30-50** |
| Clinics/hospitals | **30-50** | Libraries | **30-50** |
| Community centre | **30-50** | Indoor sports | **30-50** |
| Fire stations | **30-50** | Game reserves and rest camps | **30-50** |
|  |  |  |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Recreation Facilities** | | | |
| Bowling greens | **20** | Fountains | **20** |
| Tennis courts | **20** | Flood lighting | **20** |
| Swimming pools | **20** | Lakes and dams | **20** |
| Golf courses | **20** | Outdoor sports facilities | **20** |

**HERITAGE ASSETS**

The following is a list of at least some typical heritage assets encountered in the municipal environment (no asset lives are given, of course, as no ordinary depreciation will be charged against such assets):

1. Museum exhibits
2. Works of art (which will include paintings and sculptures)
3. Public statues
4. Historical buildings or other historical structures (such as war memorials)
5. Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement)

Other Assets

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Buildings** | | | | | | |
| Abattoirs | **30-50** | | Housing schemes | | **30-50** | |
| Asphalt plant | **30-50** | | Kilns | | **30-50** | |
| Cable stations | **30-50** | | Laboratories | | **30-50** | |
| Caravan parks | **30-50** | | Fresh produce & other markets | | **30-50** | |
| Hostels | **30-50** | | Nurseries | | **30-50** | |
| Office buildings | **30-50** | | Old age homes | | **30-50** | |
| Quarries | **30-50** | | Tip sites | | **30-50** | |
| Transport facilities | **30-50** | | Workshops and depots | | **30-50** | |
|  | | | | | | |
| **Office Equipment** | | | **Furniture and fittings** | | |  |
| Computer hardware | **5** | | Chairs | | | **7-10** |
| Computer software | **3-5** | | Tables and desks | | | **7-10** |
| Office machines | **3-5** | | Cabinets and cupboards | | | **7-10** |
| Air conditioners | **5-7** | |  | | |  |
|  | | | | | | |
| **Bins and Containers** | | | **Emergency Equipment** | | | |
| Household refuse bins | **5** | | Fire hoses | | | **5** |
| Bulk refuse containers | **10** | | Other fire-fighting equipment | | | **15** |
|  |  | | Emergency lights | | | **5** |
|  | | | | | | |
| **Motor Vehicles** | | | | **others** | | |
| Ambulances | | **5-10** | Aircraft | | | **15** |
| Fire engines | | **20** | Watercraft | | | **15** |
| Buses | | **15** |  | | |  |
| Trucks and light delivery vehicles | | **5-7** |  | | |  |
| Ordinary motor vehicles | | **5-7** |  | | |  |
| Motor cycles | | **3** |  | | |  |

|  |  |  |  |
| --- | --- | --- | --- |
| **Plant and Equipment** | | | |
| Graders | **10-15** | Radio equipment | **5** |
| Tractors | **10-15** | Firearms | **5** |
| Mechanical horses | **10-15** | Telecommunication equipment | **5** |
| Farm equipment | **5** | Cable cars | **15** |
| Lawn mowers | **2** | Irrigation systems | **15** |
| Compressors | **5** | Cremators | **15** |
| Laboratory equipment | **5** | Lathes | **15** |
| Filling equipment | **15** | Tippers | **15** |
| Conveyors | **15** | Pulverizing mills | **15** |
| Feeders | **15** |  |  |
|  |  |  |  |