INGQUZA HILL LOCAL MUNICIPALITY

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ASSET MANAGEMENT POLICY

2026/27

Contents

REVIEW HISTORY 2
1. INTRODUCTION 3
2. PREAMBLE 3
3. DEFINITIONS 4
4. OBJECTIVE 7
5. SCOPE OF THE POLICY 8
6. ROLE OF THE MUNICIPAL MANAGER 8
7. ROLE OF MANAGEMENT AND DEPARTMENTS 8
8. RELATED POLICIES, PROCESSES AND PROCEDURES 13
9. ASSET RECOGNITION 13
10. CLASSIFICATION OF CAPITAL ASSETS 25
11. ASSET ACQUISITION 36
12. ASSET MAINTENANCE 39
13. ASSET DISPOSAL 47
14. ASSET PHYSICAL CONTROLS (MOVEABLE ASSETS) 54
15. ASSET FINANCIAL CONTROL 56
16. MANAGEMENT OF IMMOVABLE ASSETS 60
17. POLICY OBJECTIVE 62
18. ADOPTION OF THE POLICY 62
ANNEXURES 63
1. ANNEXURE A - ABBREVIATIONS 63
2. ANNEXURE B - ASSET USEFUL LIVES GUIDE 64
3. ANNEXURE C - INFRASTRUCTURE ASSET CLASSIFICATION 70

REVIEW HISTORY

LAST REVIEW DATE	SUMMARY OF CHANGES
May 31, 2025	• No amendments
June 30, 2025	• Rephrasing of Paragraph 14.2 Insurance of assets
May 31, 2026	• No amendments

1. INTRODUCTION

Asset Management encompasses planning/demand management, acquisitions, use, maintenance, and disposal of assets. Ingquza Hill Local Municipality ("IHLM") should use assets to affect efficient and effective service delivery to the community within the Municipality.

The purpose of the Asset Management Policy is to govern the management of assets owned by IHLM (both operationally and financially) to ensure that they are managed, controlled, safeguarded and used in an efficient and effective manner.

In other words, the purpose of the Asset Management Policy is to facilitate the management of assets both operationally and financially (accounting treatment).

2. PREAMBLE

a. **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.
b. **And whereas** the municipal council of Ingquza Hill Local Municipality wishes to adopt a policy to guide the Municipal Manager and Senior Managers in the management of the municipality's assets.
c. **And whereas** the municipal manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets in terms of Section 63 of the Municipal Finance Management Act.
d. **And whereas** Senior Managers are responsible to assist the municipal manager in the acquisition, safeguarding and maintenance of all assets within each department, in terms of Section 78 of the Municipal Finance Management Act.
e. 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.
f. Now therefore the municipal council of the Ingquza Hill Local Municipality adopts the following asset management policy:

3. DEFINITIONS

Accounting Officer:	means the Municipal Manager appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act no. 117 of 1998) and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act 2000 (Act no. 32 of 2000).
Agricultural Produce:	is the harvested product of the municipality's biological assets.
Biological Assets:	are defined as living animals or plants.
Capital Assets (assets):	are items of Biological Assets, Intangible Assets, Investment Property or Property, Plant or Equipment defined in this Policy.
Carrying Amount:	is the amount at which an asset is included in the statement of financial position after deducting any accumulated depreciation (or amortisation) and accumulated impairment losses thereon.
Chief Financial Officer (CFO):	means an officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.
Community Assets:	are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.
Cost:	is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.
Depreciable Amount:	is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
Depreciation:	is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair Value: is the amount for which an asset could be exchanged or a liability between knowledgeable, willing parties in an arm's length transaction.

GAAP: are standards of Generally Accepted Accounting Practice.

GRAP: are standards of Generally Recognized Accounting Practice.

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

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

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

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

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.

Residual Value: is the ***estimated*** *amount that an entity 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.*

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.

4. OBJECTIVE

The MFMA was introduced with the objective of improving accounting in the municipalities sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, whilst the trend has been to move to an accrual system.

With the cash system, assets were written off in the year of disposal or, in cases where infrastructure assets were financed from advances or loans, they were written off when the loans were fully redeemed. No costs were attached to subsequent periods in which these assets would be used.

With an accrual system the assets are incorporated into the books of accounts and systematically written off

over their anticipated lives. This necessitates that a record is kept of the cost of the assets, the assets are verified periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

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

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

The objective of this Asset Management Policy is to ensure that the municipality:

a) has consistent application of asset management principles.
b) implements accrual accounting.
c) complies with PFMA, MFMA, Treasury Regulation, GAAP, GRAP and other related legislation;
d) safeguards and controls the assets of the municipality; and
e) optimizes asset usage only by the person/official allocated to.

5. SCOPE OF THE POLICY

The policy deals with:

- The accounting officer;
- The acquisition of assets;
- Recognition of assets;
- The transfer of assets;
- Insurance of Assets;
- Write off of assets;
- Disposal of assets;
- Work procedures.

6. ROLE OF THE MUNICIPAL MANAGER

As Accounting Officer of the Municipality, the Municipal Manager shall be the principal custodian of all the Municipality's fixed assets and shall be responsible for ensuring that the Asset Management Policy is scrupulously applied and adhered to.

The Municipal Manager or his duly delegated representatives are responsible to ensure implementation of the approved Asset Management Policy as required in terms of section 63 of the Municipal Finance Management Act (MFMA).

7. ROLE OF MANAGEMENT AND DEPARTMENTS

The Asset Manager shall be the custodian of the assets management system of the Municipality, and shall ensure that a complete, accurate and up-to-date computerized assets management system is maintained.

No amendments, deletions or additions to the assets management system shall be made other than by the Asset Manager or by an official acting under the written instruction of the Asset Manager.

The following units will be responsible for the operations regarding the assets management system, and report to the Asset Manager in this regard:

7.1 **The Asset Management Unit (AMU)**

- Shall ensure that complete records of asset items are kept, verified, and balanced regularly.
- Shall ensure that all movable assets are properly tagged and accounted for (see also below)
- Shall ensure that a verification report is compiled after every quarterly movable asset verification. The report shall –
  - Reflect a complete list of all assets found during the verification.
  - Reflect whether appropriate records have been maintained indicating what articles should have been found during verification.
  - Reflect any discrepancies between the articles found during verification and the record referred to above.
- Shall ensure that the assets management system is balanced monthly with the general ledger and the financial statements in conjunction with the CFO.
- Shall ensure adequate bar-coded labels to exercise the function relating to asset control are available at all times.
- Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the assets management system.
- Ensure that all audit queries relating to assets management are resolved in a timely manner.
- Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the applicable department and provided to the Budget and Treasury Office in the prescribed format.
- Shall ensure that asset acquisitions are allocated to the correct asset codes.
- Shall ensure that infrastructure assets are recorded in the assets system with componentization in accordance with the GRAP guidelines, from information as supplied by the Project Management Unit.
- Shall ensure that references are updated in the Assets system to physically identify infrastructure components, and all other immovable assets.
- Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, countersigned by the Asset Management Unit, is presented.
- Shall ensure that a verifiable record is kept of all obsolete, damaged and unused assets or asset inventory items received from municipal departments.
- Shall compile a list of the items to be disposed of in accordance with the guidelines in the Supply Chain Management (SCM) Policy.

- Shall compile and circulate a list of unused movable assets to enable other municipal departments to obtain items that are of use to them.
- Shall ensure that the Supply Chain Management Unit is notified of any auctioning or disposing of asset or asset inventory items.

7.2 Project Management Unit

- Shall inform the AMU immediately when a new project is commenced with relating to infrastructure or buildings, including details of the components that will be created during the duration of the project.
- Shall inform the AMU if there are any variances to the details of a project as soon as such variance is confirmed.
- Shall inform the AMU of the values of the applicable components to be recorded on all infrastructure or building projects, as and when progress payments are effected, including cost, estimated lifespan and residual values.
- Shall ensure that all construction drawings and layout plans are available for any project, in support of the componentization and location details of assets.
- Shall inform the AMU of the date of completion of each infrastructure and building project, which will be considered the date brought into use for purposes of updating the assets system.
- Shall provide the AMU with geographical references and serial numbers relating to infrastructure, and other immovable assets constructed, for updating in the assets system, to enable physical verification of these assets.

7.3 Budget and Treasury Unit

- Shall be responsible for the compilation of a list of all Prioritized projects, as identified through the IDP process, including all items identified in the Replacement Plan.
- Shall be responsible to agree the Prioritized project listing with the Planning Module of the financial system, and the Capital budget.
- Shall ensure all capital expenditure is in accordance with the budget.
- Shall ensure all capital expenditure is correctly recognized in the main ledger.

7.4 Supply Chain Management Unit/Expenditure Accountant

- Shall inform the AMU of all new acquisitions made regarding items to be recorded as assets.

- Shall supply the AMU with all supporting documentation relating to the acquisition of assets, as and when effected.
- Shall ensure details of acquisition references are updated on addition documentation, and supplied to the AMU.
- The assets details must be categorized and clearly identified as follows:
  - Immovable Assets:
    - Infrastructure assets
    - Buildings
    - Land
    - Community Assets
  - Movable Assets:
    - Office Equipment
    - Computer Equipment
    - Furniture and Fittings
    - Bins and Containers
    - Emergency Equipment
    - Motor Vehicles
    - Plant and Equipment
  - Investment Properties
  - Intangible assets
  - Agricultural assets
  - Heritage Assets
- Shall provide the AMU with a listing of all assets purchased on a monthly basis as extracted from the financial management system and assist in the reconciliation of any differences between the FAR and the Financial system in any given month, within seven days after month end.
- Shall dispose of assets – via auction – in accordance with the provisions in the Supply Chain Management (SCM) Policy.

7.5 Human Resources Department

- Shall ensure that no monies are paid out on termination of service without receiving the relevant asset resignation form signed off by the relevant HOD.
- Shall ensure that every asset resignation form is counter signed by the Asset Management Unit before processing the termination of service.

7.6 All Heads of Department

- Shall ensure that employees in their Department adhere to the approved Asset Management Policies.
- Shall ensure that an employee with delegated authority has been nominated to implement and maintain physical control over movable assets in his / her Department. The Asset Management Unit must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the HOD.
- Shall ensure that assets are properly maintained in accordance with their respective asset maintenance strategy.
- Shall ensure that the assets and / or inventory items of the Municipality are not used for private gain.
- Shall ensure that all their movable assets as reflected on the Fixed Asset Register are bar-coded by the Asset Management Unit.
- Shall ensure that the Asset Management Unit is notified of any changes in the status of the assets under the Department's control. This must be done on the prescribed form and include the following:
    - Movements/Disposals which relate to the transfer of assets (inter departmental transfers)
    - Changes in the estimated useful lives of assets for depreciation purposes.
    - The identification of impairment losses on assets by following the procedures as outlined in this policy document.
- Shall certify in writing that they have assessed and identified impairment losses on all assets as outlined in this policy document.
- Shall ensure that all obsolete and damaged asset items, accompanied by the relevant asset disposal forms, are handed in to the Asset Management Unit without delay.
- Shall be responsible for maintaining and managing their own Department Inventory Listing (DIL) for items that will not be recorded in the Fixed Asset Register or Insignificant Items Register. These inventory assets are acquired via the operational budget. The information to be recorded in the DIL must include the description, quantity and location of the items.
- Shall ensure that the correct cost element and description are being used before authorizing any requisitions.
- Shall ensure that assets are insured by Finance (Insurance Department).

7.7 Economic Development and Planning Department

The Economic Development, Planning and Human Settlements department shall be responsible for the appropriate planning decisions and actions, as set out in Chapter 5 of the Municipal Systems Act (Act of 2000) to develop, implement, and approve an Integrated Development Plan (IDP).

This process will include a review of the Integrated Develop Plan (IDP) and previous year's actual performance against set targets, and obtain inputs from: Ward Committees, Public (via Public IDP Meetings), and Public Sector (via IDP Forum).

The result of this process must be the compilation of a list of all prioritised projects, which should agree with the Planning Module of the financial system, and the Capital budget. This process will entail cooperation with the Budget and Treasury Unit.

The Economic Development, Planning and Human Settlements department shall be responsible for the management and administration of all immovable properties which are not currently utilised in the provision of municipal services, which would include all properties categorised as Investment Properties and Inventories.

This responsibility will include ensuring the protection of the integrity and value of the properties and the correct disclosure of the ownership and value relating to each such property at the municipal reporting date.

8. RELATED POLICIES, PROCESSES AND PROCEDURES

The following policies, processes and procedures should be in place to ensure an effective and efficient asset management system:

- Supply Chain Management Policy
- Delegations of authority
- Payment Policy
- Fleet Management Policy
- Insurance Policy
- Security Polic
- Property portfolio management

9. ASSET RECOGNITION

9.1 DEFINITION

A fixed asset is an asset, either movable or immovable, owned by or under the control of the

municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year, which cost or fair value can be measured reliably.

Fixed assets will include Property, Plant and Equipment (as defined in GRAP 17), Intangible Assets (as defined in GRAP 31), Investment Property (as defined in GRAP 16), Heritage Assets (as defined in GRAP 103), Agricultural assets (as defined in GRAP 27), as well as Assets held under a finance lease, in accordance with the principles contained in GRAP 13.

To be recognized as a fixed asset for accounting purposes, an asset must also meet the criteria referred to below.

9.2 **CLASSIFICATION OF CAPITAL ASSETS**

General

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

1. Property, Plant and Equipment (GRAP17)
    - 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)
    - Heritage Assets (culturally significant resources)
    - Other Assets (ordinary operational resources)
2. Intangible Assets (GRAP102)
    - Intangible Assets (assets without physical substance held for ordinary operational resources)
3. Investment Property (GRAP 16)

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

4. Biological Assets (GRAP 101)

    - Biological Assets (livestock and plants held)

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:

5. Assets classified as Held-for-Sale (GRAP 100)
    - Assets Held-for-Sale (assets identified to be sold in the next 12 months and reclassified as Inventory)

6. Land Inventories (GRAP 12)

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

Further asset classification has been defined in GRAP. The classifications used for infrastructure are limited and do not represent all asset types. However, these classifications are used for financial reporting consistency and should be used.
To facilitate the practical management of infrastructure assets and asset register data, infrastructure assets have been further classified. The recommended classifications are provided in Annexure C.

Policy

The asset classification specified by GRAP shall be adhered to as a minimum standard. The extended asset classification specified in Annexure C shall be adopted.

Procedures and Rules

- The CFO shall ensure that the classifications specified by National Treasury, GRAP, and those adopted by the municipality are adhered to.
- The CFO shall inform the Heads of Departments of the classification requirements.
- Every Head of Department shall ensure that all fixed assets under their control are classified correctly.

9.3 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.

Procedures and Rules

- The CFO shall develop and implement an asset identification system, while acting in consultation with the Heads of Departments.
- The Heads of Departments shall ensure that all the assets under their control are correctly identified.
- As far as practicable, all movable assets must be bar-coded or uniquely marked.
- Immovable assets must be identified using naming and numbering conventions that enable easy location of the assets in the field.

9.4 **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 type	Land	Movable	Infrastructure/ Buildings
Identification			
□ Unique identification number or asset mark	□	□	□
□ Unique name	□	□	□
□ National Treasury Classification	□	□	□
□ Internal Classification	□	□	□

Descriptive data (make, model, etc.)			
Erf/Registration			
Title deed reference			
Accountability			
Department			
Insurance reference			
Performance			

Data type	Land	Movable	Infrastructure/ Buildings
Age			
Condition			
Remaining Useful life			
Expected Useful Life			
Technical Asset Residual Value			
Accounting			
Historic cost			
Take on value			
Take on date			
Revalued amount			
Valuation Difference (for purposes of Valuation Reserve and depreciation)			
Depreciation method			
Depreciation portion that should be transferred from Revaluation reserve to accumulated depreciation (where assets was revaluated)			

□ Depreciation charge for the current financial year	□	□	□
□ Depreciation charge for ensuing year (for purposes on current portion)	□	□	□
□ Impairment losses in the current year	□	□	□
□ Accumulated depreciation	□	□	□
□ Carrying value	□	□	□
□ Residual value	□	□	□
□ Source of financing	□	□	□

Assets remain in the asset register for as long as they are in physical existence or until being written off. The fact that an asset has been fully depreciated 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 maintained for all assets. In some cases, such as Investment Properties and Intangible Assets, separate asset registers will have to be maintained. 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.

Procedures and Rules

- The CFO must define the format of the asset register in consultation with the Heads of Departments and must ensure that the asset register format complies with legislative requirements.
- The CFO must ensure that a defined process and forms exist to update and maintain the asset register.
- The Heads of Departments must provide the CFO with the information required to compile and maintain the asset register.

9.5 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 any 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 the Standard of GRAP on *Inventories* and 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:

Capitalization Threshold

The capitalization threshold is a policy decision of the municipality and is the value above which assets are capitalised and reported in the financial statements 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 capitalization threshold is regarded as a deviation from GRAP standards and should be determined annually against materiality and must be determined at a level that will ensure that the municipality do 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 should take 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 capitalization thresholds are applied;
- The size of the municipality or the size of its service areas when setting capitalization thresholds levels. Municipalities vary greatly in size, so what is relevant to one may be immaterial to another.

Every Head of Department shall, however, ensure that any movable asset item with a value lower than the capitalisation threshold and with an estimated useful life of more than one year, shall be recorded on a *Minor Assets or inventory listing*. Every Head of Department shall moreover ensure that the existence of items recorded on such inventory stock lists are physically verified from time to time, and at least once in every financial year, and any amendments which are made to such inventory stock lists pursuant to such stock verifications shall be retained for audit purposes.

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 capitalized. The purchase price exclusive of VAT should be capitalized, unless the municipality is not allowed to claim input VAT paid on purchase of such assets. In such an instance, the municipality should capitalise the cost of the asset together with VAT. 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.

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

Component approach

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

- 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 a whole, it should be recognised as a separately depreciable part (component).

Subsequent Expenses

The municipality should not recognize the costs of day-to-day servicing of the item in the carrying amount of an item of capital asset. These costs are recognized 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 recognizes 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 derecognized.

Rehabilitation/Enhancements/Renewals of capital assets

Expenditure to rehabilitate, enhance or renew an existing capital asset (including separately depreciable parts) can be recognized 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/refurbishment expense and will not be capitalized to the carrying value of the capital asset.
The rehabilitated or renewed separately depreciable part will be derecognized and the replacement will be recognized. 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 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 categorized 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.

Policy

All capital assets shall be correctly recognized as assets and capitalized at the correct value in its significant components. The capitalization threshold will be determined annually by the municipality.
All assets with values less than the capitalization threshold shall be recorded in a minor asset inventory.
On initial implementation of GRAP 17, the assets acquired prior to 2009/10 financial year shall be initially measured in terms of Directive 4 & 7 of the Accounting Standards Board.

Procedures and Rules

- Every Head of Department shall ensure that all assets under their control are correctly accounted for and recognized as assets in its significant depreciable components.
- Every Head of Department shall identify major spare parts held by its department and ensure that

these spare parts are correctly classified as either PPE or Inventory.

- Every Head of Department shall identify all subsequent expenditure or expenditure incurred on rehabilitation/enhancements/renewals to evaluate whether these costs should be included in the carrying values of capital assets or expensed when the costs is incurred.
- The Council shall specify which kinds of leases the municipality may enter into.
- The CFO must keep a lease register with all the information that is necessary for reporting purposes, for example, opening balance, acquisitions, disposals, transfers, depreciation, accumulated depreciation, etc.
- Every Head of Department shall keep a timesheet system for internal staff to capture professional time spent on infrastructure projects. The time shall be priced at recognised professional fee scales and should be included in the capitalization cost of the Capital Asset.

9.6 Recognition of assets in the Financial Statements

An Asset item should be recognized in the Financial Statements if it meets the:

- Probability criteria (it is probable that any future economic benefits or service potential associated with the asset will flow to the entity);
- Measurement criteria (the asset has a cost or value that can be measured with reliability).

In many cases, cost or value must be estimated; the use of reasonable estimates is an essential part of the preparation of Financial Statements and does not undermine their reliability. When, however, a reasonable estimate cannot be made, the item is not recognised in the Statement of Financial Position or Statement of Financial Performance**.**

An item that possesses the essential characteristics of an asset but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes, explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is considered to be relevant to the evaluation of the financial position, performance and changes in financial position of the Municipality by the users of Financial Statements.

No asset is recognized in the Statement of Financial Position for expenditure incurred where it is *improbable* that economic benefit or service potential will flow to the Municipality *beyond* the current financial year. Where the probability is low, such a transaction will result in the recognition of an expense in the Statement of Financial Performance.

Where the expenditure has been incurred in connection with an asset already recognized, consideration should be given to the probability that the expense will result in an extension of the asset's estimated useful life. If the probability is high the expense will be added to the value of the

asset in the Statement of Financial Position and written off by way of depreciation over the *remaining* life of the asset.

Expenditure incurred on an existing asset that will not extend the useful life or the functionality of the asset, will be reflected in the Statement of Financial Performance as an expense (maintenance).

Assets may be acquired for safety or environmental reasons. The acquisition of such assets, while not directly increasing the future economic benefits or service potential of any particular existing asset, may be necessary in order of the Municipality to obtain the future economic benefits of service potential from its other assets. When this is the case, such acquisitions of assets qualify for recognition as assets, in that they enable future economic benefits or service potential from related assets to be derived by the Municipality in excess of what it could derive if they had not been acquired.

9.7 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 (Energy reserves, 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.

Procedures and Rules

- The CFO must record inventories in a dedicated section of the Inventory Register and maintain it for this purpose. The amount of cost of inventories is to be recognized and carried forward until related revenues are recognized.
- Inventories shall be measured at the lower of cost and current replacement cost where they are held for:
    - Distribution at no charge or for nominal charge, or
    - 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 shall be measured at lower of cost and net realizable value.

10. CLASSIFICATION OF CAPITAL ASSETS

10.1 PROPERTY, PLANT AND EQUIPMENT: 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.

The municipality shall choose either the **cost model** or the **revaluation model** as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.
If the municipality chooses the cost model for its Land and Buildings, then after recognition as an asset, Land and Buildings shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses
If the municipality chooses the revaluation model for its Land and Buildings, then after recognition as an asset, Land and Buildings whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

Policy

Subsequent to initial recognition, the Municipality chooses the cost model as the accounting policy for its Land and Buildings. Land is not depreciated as it is deemed to have an indefinite useful life.

Procedures and Rules

- The CFO shall ensure that all land and buildings are correctly recorded in the asset register and revaluated (if applicable) in terms of the municipality's policies.
- The CFO shall ensure the recognition and measurement of *Land and Buildings* in terms of GRAP 17.

10.2 PROPERTY, PLANT AND EQUIPMENT: INFRASTRUCTURE ASSETS

10.2.1 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 detail can be very costly when dealing with assets that are very numerous in nature e.g. water meters, street signs, 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. Road Transport)
- ***Level 2:*** Network level (e.g. Road)
- ***Level 3:*** Facility level (e.g. Road Transport/Road/Unpaved/Gravel//Structure)

The compilation of a detailed infrastructure asset register in one financial term is a costly and onerous exercise. To ensure the practicality of implementing asset registers (and asset management planning as a whole), the International Infrastructure Management Manual (IIMM) recommends the adoption of a continuous improvement process as a practical implementation approach. This approach recognizes the value of limited data above no data and enables the municipalities to slowly, but steadily, increase their knowledge in the assets they own.

Policy

The infrastructure asset register shall ensure complete representation of all infrastructure asset types. The level of detail of componentization shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimizing the risks of the municipality. An improvement plan stipulating the level of detail and the timing of improvements shall be prepared. Infrastructure assets should be 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. Depreciated replacement cost is an accepted fair value calculation for assets where there is no active and liquid market. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value of, and the

depreciation methods applied to Infrastructure assets should be reviewed regularly, but the cost related to such reviews should be measured against benefits derived to ensure value for money. Such reviews will have to be performed at least once in a three year cycle.

Infrastructure Assets shall be recorded under the following main categories;

- Roads
- Stormwater
- Street Lighting
- Kerbing
- Signage
- Cemetry
- Waste Site

(See annexure C)

Procedures and Rules

- The CFO shall define the level of detail of the infrastructure asset register in consultation with the Heads of Department.
- The CFO shall prepare an improvement process that defines the target level of detail for each infrastructure asset type with the target year of implementation in consultation with the Heads of Department.
- The CFO shall ensure the recognition and measurement of *Infrastructure Assets* in terms of GRAP 17.

10.3 PROPERTY, PLANT AND EQUIPMENT: COMMUNITY ASSETS

General

Community Assets include a variety of assets used to provide services to the community. These assets include building assets such as aquariums, cemeteries, clinics, hospitals, game reserves, museums, parks, etc. Community assets also include recreational assets such as tennis courts, swimming pools, golf courses, outdoor sports facilities, etc.

Policy

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

Community Assets shall be recorded under the following main categories;

- Recreational Facilities;
- Sporting Facilities; and
- Other Facilities.

Procedures and Rules

- The CFO, in consultation with the Heads of Department, shall ensure that all community assets are appropriately recorded and valued in terms of the municipality's policies.

10.4 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.

Procedures and Rules

The CFO, in consultation with the Heads of Department, shall ensure that all housing assets are appropriately recorded and valued in terms of the municipality's policies.

10.5 PROPERTY, PLANT AND EQUIPMENT: HERITAGE ASSETS

General

A *Heritage Asset* is an asset that has historical, cultural or national importance and needs to be preserved. The following is a list of some typical heritage assets encountered in the municipal environment:

- Archaeological sites;
- Conservation areas;
- Historical buildings or other historical structures (such as war memorials);
- Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement);
- Museum exhibits;
- Public statues; and

- Works of art (which will include paintings and sculptures).

Policy

Heritage assets are valued at cost less accumulated depreciation and accumulated impairment losses. No depreciation shall be charged against such assets. If the cost price of heritage assets is not known, then the heritage asset will be valued at fair value.

Procedures and Rules

- For reporting purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note in the asset register.
- The CFO, in consultation with the Heads of Department, shall ensure that all heritage assets are appropriately recorded and valued in terms of the municipality's policies.

10.6 PROPERTY, PLANT AND EQUIPMENT: OTHER ASSETS

General

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

Policy

Other assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Other assets are not revalued.

Other Assets shall be recorded under the following main categories;

- Bins and Containers;
- Emergency Equipment;
- Furniture and Fittings;
- Motor Vehicles;
- Office Equipment;
- Plant and Equipment.
- Specialized Vehicles;
- Watercraft; and
- Other Assets as indicated in the Municipality's accounting policy.

Procedures and Rules

- The CFO, in consultation with the Heads of Department, shall ensure that all other assets are appropriately recorded in terms of the municipality's policies.

10.7 INTANGIBLE ASSETS

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.

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 102 has been met.

Procedures and Rules

- The CFO, in consultation with the Heads of Department, shall ensure that all intangible assets are appropriately recorded in terms of the municipality's policies.

10.8 INVESTMENT PROPERTY

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 center's (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).

The following are examples of items that are <u>not investment property</u>:

- Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Own-occupied property, including (among other things) property held for future use as own-occupied property, property held for future development and subsequent use as own-occupied property, property occupied by employees such as housing (whether or not the employees pay rent at market rates) and own-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property. GRAP 17 applies to such property until construction or development is complete, at which time the property becomes investment property. However, existing investment property that is being redeveloped for continued future use as investment property remains investment property;
- Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock 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. Such property is not considered an "Investment Property" and would be accounted for in accordance with GRAP 17; and
- Property held for a purpose which would be accounted for in accordance with GRAP 17.
- Where a property is utilized partly in the ordinary course of operations and partly to generate rentals or for capital appreciation it will only be classified as investment property if a significant portion is utilized to generate investment income.

Policy

Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position. Investment Property shall initially be measured at its cost. Transaction costs shall be included in this initial measurement. Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.

Investment Property assets shall not be depreciated but shall be annually valued on balance sheet date to determine their fair value as prescribed in GRAP 16. Investment assets shall be recorded in the balance sheet at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned, where it cannot be accounted for against the Revaluation reserve.

Procedures and Rules

- The CFO shall ensure that investment assets are recorded in an Investment Property register.
- The CFO shall ensure that an appropriately qualified valuator undertake such valuations on an annual basis. A professional valuer shall be engaged by the municipality to undertake the initial valuations, where after the values will be updated on an annual basis by a registered valuer appointed to prepare the Valuation Roll in terms of the Municipal Property Rates Act.
- The CFO shall ensure the recognition and measurement of *Investment Property* in terms of GRAP 16.

10.9 BIOLOGICAL ASSETS

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 February 2010 26 Ingquza Hill Local Municipality Asset Management Policy 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.

Procedures and Rules

- The CFO, in consultation with the Heads of Department, shall ensure that all biological assets obtained from a managed agricultural activity, such as livestock and crops, are valued at 30 June each year by a recognised valuator in the line of the biological assets concerned.
- The CFO shall ensure the recognition and measurement of *Biological Assets* in terms of GRAP 101.

10.10 ASSETS CLASSIFIED AS HELD-FOR-SALE (GRAP 100)

General

A non-current asset shall be classified as *Assets Held-for-Sale* if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

For the sale to be highly probable, management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Policy

Assets identified for disposal by way of a sale transaction, be it by public auction, bidding process or sales agreement, within 12 months of the date of identification shall be classified as assets held-for-sale and transferred from the home asset category to held-for-sale category. Such assets shall be measured at the lower of its carrying amount and fair value less costs to sell and is not depreciated

any further upon classification as held-for-sale. The municipality shall not classify a non-current asset that is to be abandoned as held-for-sale because its carrying amount will be recovered principally through continuing use. A minimum auction amount must be determined for goods to be auctioned and approved by Accounting Officer, when an asset can no longer produce the minimum level of production.

Procedures and Rules

- The CFO shall ensure that assets held-for-sale are recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.
- The CFO shall ensure the recognition and measurement of Assets Held-for-Sale in terms of GRAP 100.

8.11 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 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.

Procedures and Rules

- The CFO shall ensure that inventory properties are recorded in the Inventory register.
- The CFO shall ensure the recognition and measurement of *Inventory Property* in terms of GRAP 12.

8.12 MINOR ASSETS (CAPITAL ASSETS BELOW APPROVED THRESHOLD)

General

Minor or Inventory 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, these assets shall be bar-coded for identification purposes and recorded at cost 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.

Procedures and Rules

- The CFO shall ensure that minor assets are recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

11. ASSET ACQUISITION

11.1 ACQUISITION OF ASSETS

General

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing.

Policy

Should the municipality decide to acquire any 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 fit the definition of a Capital Asset (as defined in GRAP 16, GRAP 17, GRAP 101 and GRAP 102)
- 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 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; and
- The most suitable and appropriate type, brand, model, etc. has been selected.

Procedures and Rules

- The CFO shall ensure that the Supply Chain Management Policy makes provision for these principles.
- The CFO shall ensure that all acquired assets are appropriately insured.

11.2 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 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 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.

Procedures and Rules

The Heads of Department shall ensure that a form is completed and submitted to the Asset Control

- Department that includes the details of the work in progress relating to the work in progress.
- The Heads of Department shall notify the Asset Control Unit when the works have been

completed and the assets can be recognised.

- The Heads of Department shall guide the service provider to submit invoices of work in progress as per the components and classification of assets as in the asset register.

11.3 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 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 to operate in the manner intended by management.

Procedures and Rules

Heads of Department shall ensure that proper records of staff time, transport and material costs are kept such that all costs associated with the construction of these assets are completely and accurately accounted for.

Heads of Department shall open a job card for each infrastructure project constructed by the municipality.

On completion of the infrastructure project, the Heads of Department shall ensure that all costs (both direct and indirect) associated with the construction of the assets be summed up and be capitalized to the assets that make up the project.

11.4 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 should be valued at fair value, reflected in the asset register, and depreciated as normal assets.

Procedures and Rules

- All donated assets must be approved by the Municipal Manager and ratified by Council prior to acceptance.
- 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 Municipal Manager.
- Municipal officers must first get approval from the Municipal Manager prior to accepting any donation.

12. ASSET MAINTENANCE

12.1 USEFUL LIFE OF ASSETS

General

Useful Life of assets is defined in paragraph 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.

National Treasury (NT) published its Local Government Asset Management Guideline in August 2008 that includes directives for useful lives of assets, but municipalities must use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for the particular classes of assets. Should the municipality decide on a useful life outside the given parameters, the National Treasury (OAG) should be approached and provided with a motivation, for its agreement of the rate utilised. 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.

Procedures and Rules

- Every Head of Department must determine the reasonable remaining useful lives of the assets under their control. Changes in remaining useful lives must be approved by the CFO.
- The CFO shall ensure that remaining useful lives, and changes thereof, are properly recorded and accounted for in the asset register and the general ledger.
- The CFO shall ensure that the Remaining Useful Life of an asset shall be reviewed at each reporting date.

12.2 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.

Policy

Residual values should be determined upon the initial recognition (capture) of assets. However, this 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. In practise, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

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.

Procedures and Rules

- Every Head of Department must determine the reasonable residual values of the assets under their control. Changes in residual values must be approved by the CFO.
- The CFO shall ensure that residual values, and changes thereof, are properly recorded and accounted for in the asset register and the general ledger.
- The CFO shall ensure that the *residual value* of an asset shall be reviewed at each reporting date.

12.3 DEPRECIATION OF ASSETS

General

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

Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

The depreciation method used **must** reflect the pattern in which economic benefits or service potential of a Capital Asset is consumed by the municipality. The following are the allowed alternative depreciation methods that can be applied by the municipality:

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

Policy

All assets, except land and heritage assets, shall be depreciated 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 must 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.

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 should 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 it is intended by management. Depreciation of an asset ceases when the asset is derecognized. 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.

Procedures and Rules

- Every Head of Department must ensure that a budgetary provision is made for the depreciation of the assets under their control in the ensuing financial year.
- Every Head of Department must determine the reasonable useful life of the asset classifications under their control. Deviations from the standards of useful life must be motivated in writing to the Municipal Manager and provided to the CFO.
- In the case of an asset which is not listed in the asset classification list, the Head of Department shall determine a useful operating life, in consultation with the CFO, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.
- Alternative depreciation methods may be used in exceptional cases, if motivated by the Head of Department controlling the asset to the Municipal Manager and in consultation with the CFO. The Head of Department must then provide the CFO with sufficient statistical information to make estimates of depreciation expenses for each financial year.
- The CFO shall ensure that depreciation shall be up to date on a monthly basis and be reconciled between the asset register and the general ledger.
- The CFO shall ensure that the *residual value*, *useful life* and *depreciation method* of an asset shall be reviewed at each reporting date.

12.4 IMPAIRMENT LOSSES

12.4.1 <u>Impairment</u>

Impairment of an asset occurs when there is a loss in the future economic benefits or service potential of an asset, over and above the systematic loss recognized through depreciation. An asset is impaired when the carrying amount exceeds the recoverable service amount. The recoverable service amount is the higher of fair value less costs to sell and its value in use, and the latter is the present value of the asset's remaining service potential.

The municipality is required to make a formal estimate of the recoverable service amount when an impairment loss may have occurred based on certain indicators.

The following indicators shall be considered to determine that an asset has become impaired:

- External factors
    - Cessation of the demand for services by the asset,
    - Significant adverse effects with long-term changes in operations due to changes in the environment relating to –
        - Technology,
        - Legal requirements, or
        - Government Policy

- Internal factors
    - There is evidence that it has been physically damaged,
    - There is evidence that its service performance will be worse than expected,
    - There are plans to discontinue or restructure the operation to which an assets belongs,
    - There are plans to dispose of an asset before the previously expected date,
    - The item has become technologically obsolete, or
    - The item remains idle for a considerable period of either prior to it being put into use or during its useful life.

The formal estimate of the recoverable service amount and the possible impairment loss will only be done if the above indicators, or any one of them, have been identified by the relevant Departmental Heads, and the AMU have been informed. This formal advice must be forwarded prior to the end of April of any financial year.

12.4.2 Calculating Impairment

- The Recoverable service amount is the amount that the Municipality expects to recover in the future from an asset, including its residual value on disposal.
- When a decline has occurred, the carrying amount should be reduced to the recoverable service amount. The amount of the reduction should be recognized as an expense immediately, unless it reverses a previous revaluation on properties in which case it should be charged to the Revaluation Reserve.
- The impairment shall be calculated as reduction of the carrying amount to equate the service value, or value in use, of an asset. The choice of approach to measure the Value in use of an asset will depend on the availability of data and the nature of the impairment and the municipality will use:
- The Depreciated Replacement Cost method where it is not the result of physical damage, and
- The Restoration Cost Approach where it is the result of physical damage.
- Where an asset is held for disposal, the recoverable amount will be calculated as the fair value less costs to sell, as there will not be a value in service, and the market value will be the highest possible recoverable amount.
- The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification work is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amounts of the smallest grouping of assets for which it is possible to assess recoverable amounts.

12.4.3 Periodic Impairment Tests

The carrying amount (book value) of an item or a group of identical items of property, plant and equipment should be reviewed periodically per asset category in order to assess whether or not the recoverable amount has declined below the carrying amount. Testing should be based on the methodology described above, and can be limited to a percentage of items, as decided by the Asset Manager, per category.

The testing of Buildings and Community Assets should coincide with the valuation performed in terms of the Municipal Property Rates Act and should cover all Structures.

The following is a list of all fixed assets showing the assigned intervals for impairment testing per class of asset.

	Periodic after every (years)
Infrastructure Assets	4
Community Assets/Structures	4
Buildings	4
Investment Property	1
Heritage Assets	1
Intangible Assets	1
Movable assets	1

12.4.4 Disclosure of Impairment Losses

All impairment losses must reflect on the Statement of Financial Performance.

The Financial Statements should also disclose, in the reconciliation of the carrying amount at the beginning and end of the period for each class of property, plant and equipment recognized in the Financial Statements any impairment losses recognized in the statement of financial performance during the period and impairment losses reversed in the statement of financial performance during the period.

Material impairment losses need to be disclosed in the notes to the income statement as a separately disclosable item.

12.4.5 Reversal of an Impairment Loss

- The same procedures for the identification of impaired assets are followed as to whether there is an indication that impairment may have decreased. If so, the recoverable amount must be

added to the carrying value of the asset.

- The life cycle must be adjusted.
- The increased carrying amount due to reversal should not be more that what the depreciated historical cost would have been if the impairment had not been recognized.
- Reversal of an impairment loss is recognized as income in the income statement.
- Depreciation must be adjusted for the remaining life cycle.

12.5 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 and roads, the following test is applied to differentiate between maintenance and renewal when partial sections of linear assets are renewed:

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

The splitting of linear infrastructure has a data management implication, but it is the easiest method that maintains the data integrity over time.

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 individually identified in the asset register.

Procedures and Rules

- All Heads of Department responsible for the control and utilisation 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. This includes both contracted services and services performed by employees.

- Heads of Department shall ensure that the operating expenses are expended against the operating budget and not the capital budget.
- The Heads of Department shall report to the Council annually of the extent to which the approved maintenance plan has been complied with and the extent of deferred maintenance.
- The Heads of Department shall report to the Council annually on the likely effects that maintenance budgetary constraints may have on the useful operating life of the infrastructure asset classes.
- The Heads of Department shall ensure that maintenance plans make provision for the additional maintenance burden of future infrastructure to be acquired.

12.6 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.

Procedures and Rules

- The CFO, in consultation with Heads of Department, must ensure that processes are in place to capture renewals data against specific assets and to capitalise it correctly.
- Heads of Department shall ensure that renewals expenditure are correctly budgeted for in the capital budget and expensed against this budget.
- Heads of Department must ensure that renewals expenditure data are correctly captured against the assets and the expected lives adjusted.

12.7 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.

Procedures and Rules

- The CFO, in consultation with Heads of Department, must ensure that processes are in place to capture replacement data against specific assets and to capitalise it correctly.
- Heads of Department shall ensure that replacement expenditure is correctly budgeted for in the capital budget and expensed against this budget.

13. ASSET DISPOSAL

13.1 TRANSFER OF ASSETS

General

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

Transfer of assets or inventory items refers to the internal transfer of assets within the municipality or from the municipality to another entity. Procedures need to be in place to ensure that the Asset Control Department can keep track of all assets and ensure that the fixed 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.

Procedures and Rules

- The Head of Department must ensure that all asset transfer information is passed to the Asset Control Officer.
- The CFO must ensure that a process is in place to capture and record asset transfer data.
- Staff of the Municipality, except for duly authorised staff, shall not move rented assets, such as photocopy machines.
- No person shall transfer any IT equipment without the knowledge and written consent of the IT Department.
- The Head of a Department must immediately report to the CFO of any damages caused to an asset and will be held responsible to investigate the cause or nature of such damage.
- Municipal staff are required to remove equipment from the building, i.e. computer equipment, furniture, etc. for repair or any other reason need to obtain a permit from a delegate of the CFO. Failure to produce such a permit will result in the unauthorized removing of equipment.

Transfers to, or from, investment property should be made when, and only when, there is a change in use, evidenced by:

- Commencement of own-occupation, for a transfer from investment property to own-occupied property;
- Commencement of development with a view to sale, for a transfer from investment property to inventories;
- End of own-occupation, for a transfer from other classified property to investment property;
- Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or
- End of construction or development, for a transfer from property in the course of construction or development to investment property.
- For a transfer from investment property carried at fair value to own-occupied property or inventories, the property's cost for subsequent accounting under the relevant GRAP Standards on PPE or inventories should be its fair value at the date of change in use.
- If an own-occupied property becomes an investment property that will be carried at fair value, an entity should apply the relevant GRAP standard on PPE up to the date of change in use. The Municipality should treat any difference at that date between the carrying amount

of the property and its fair value in the same way as a revaluation under the relevant GRAP Standard on PPE by crediting a reserve.

- For a transfer from inventory to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognized in net surplus/deficit for the period.

When the Municipality completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognized in net surplus/deficit for the period.

13.2 EXCHANGE OF ASSETS

General

According to GRAP 17.33 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

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

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

Policy

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

Procedures and Rules

- An item of PPE may be acquired in exchange for a similar asset that has a similar use in the same line of operations, and which has a similar fair value or may be sold in exchange for an equity interest in a similar asset. No gain or loss is recognised in both cases.
- The CFO shall approve all asset exchanges in consultation with the relevant Head of Department.

13.3 ALIENATION / DISPOSAL OF ASSETS

General

Alienation / Disposal (alienation) is the process of disowning redundant and obsolete 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.

Policy

There are various methods of disposal. Different disposal methods will be needed for different types of assets. Before deciding on a particular disposal method, the following should 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

- Trade-in
- Controlled dumping (for items that have low value or are unhygienic) Alienated assets shall be written-off in the asset register.

Procedures and Rules

- Every Head of Department shall report in writing to the CFO on 31 October and 30 April of each financial year on all assets which they wish to alienate and the proposed method of alienation.
- /The CFO shall consolidate the requests received from the various departments, and shall promptly report the consolidated information to the Municipal Manager of the municipality, recommending the process of alienation to be adopted.
- The Council shall delegate to the Municipal Manager the authority to approve the alienation of any asset with a carrying value less than R5 000 (five thousand rand).
- The Council shall ensure that the alienation of any asset with a carrying value equal to or in excess of R5 000 (five thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act,
- 2004. The Act states that the municipality may not alienate any capital asset required to provide a minimum level of service. The municipality may alienate any other capital asset, provided the Council has considered the fair market value and the economic and community value to be received in exchange for the asset.
- Selling: Assets to be sold shall be sold in terms of paragraph 9.4 below.
- 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.
- Once the assets are alienated, the CFO shall write off the relevant assets in the asset register.
- 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.
- The CFO must review, at least annually when finalising the budget, all fees, charges, rates, tariffs or scales of fees or other charges relating to the letting of municipal property to ensure sound financial planning and management.

13.4 SELLING OF ASSETS

General

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

Policy

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

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

Assets earmarked for sale, shall be reclassified as Assets Held-for-Sale in terms of paragraph of this Policy and shall not attract any further depreciation.

Sold assets shall be written off in the asset register.

Procedures

- A request for assets to be sold must be submitted to the Municipal Manager and approved by Council. The request must be accompanied by a list of assets to be sold and the reasons for sale as described in paragraph 9.3 above.
- Assets earmarked for sale shall be reclassified as Assets Held-for-Sale.
- Auctioneers may be engaged either on a quotation basis or by tender depending on the goods to be alienated.
- Bidding: Bidders are afforded the opportunity to make an offer on identifiable items. Bids are compared and the highest bidder is awarded the bid.
- Tenders: Tenders shall be invited according to the municipality's tender procedures.
- Once the assets are sold, the CFO shall write-off the relevant assets in the asset register.
- If the proceeds of the sales are less than the carrying value recorded in the asset register, such difference shall be recognised as a loss for the department or vote concerned in the Statement of Financial Performance. If the proceeds of the sales, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a

gain for the department or vote concerned in the statement of financial performance.

- Transfer of assets to other municipalities, municipal entities (whether or not under the 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.

13.5 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 outdated;
- 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.

Policy

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

Procedures and Rules

- Every Head of Department shall report to the CFO on 31 October and 30 April of each financial year on any assets which such Head of Department wishes to have written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports and shall promptly submit a recommendation to the Municipal Manager on the assets to be written off.
- An asset, even though fully depreciated, shall be written off only on the recommendation of the Head of Department controlling or using the asset concerned, and with the approval of the Municipal Manager.

- In every instance where a not fully depreciated asset is written off with no proceeds for the asset being obtained, the CFO shall immediately debit to such department or vote the full

carrying value of the asset concerned as impairment expenses.

- Assets that are replaced should be written-off and removed from the asset register.

14. ASSET PHYSICAL CONTROLS (MOVEABLE ASSETS)

14.1 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.

Procedures and Rules

- All movable assets that are supposed to be bar-coded must have a visible bar code in a universal manner as determined by the Municipal Manager.
- 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.
- Procedures should be established to adequately identify assets owned by others or subject to reclamation by donors.
- The CFO shall co-ordinate and control regular physical checks, and all discrepancies are to be reported immediately to the CFO.
- Registers must 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.
- Where a change in person in direct control of equipment takes place, a handing-over certificate shall be completed and a copy retained for record purposes. If surpluses or deficiencies are found, the certificates shall be dealt with as with stock-taking reports.
- If for any reason the person from whom the asset is being taken over is not available, the asset manager should assist the person taking over with the checking of the equipment and

the certification of any discrepancies.

- In case of failure to comply with the requirements of a handing-over certificate, the person taking over shall be liable for any shortages, unless it can be established that the shortages existed prior to their taking over.
- Any losses of and damage to equipment, excluding discrepancies at stocktaking of losses resulting from normal handing or reasonable wear and tear, shall be reported to the CFO.
- Independent checks from asset records shall be conducted to ensure that the assets physically exist, especially those that could be disposed of without a noticeable effect on operations.
- Yearly physical inspections of assets shall be performed to identify items which are damaged, not in use
    - or are obsolete due to changed circumstances, to ensure that they are appropriately repaired, written off or disposed off.
- All newly acquired assets shall be delivered to / received by the procurement section where the assets will be bar-coded before dispatch to the persons who will be the custodians of the assets.
- Delivery of assets by procurement staff must be to the person requiring the asset and he/she will sign a form accepting responsibility for the asset.
- Security checks of assets removed from municipal premises or brought on to premises, e.g. serial numbers, time in and out linked to access control and compulsory car inspection (if so required) accompanied by a clearance certificate should be compulsory.
- All equipment such as laptops that frequently move in and out of the building should be controlled by means of permits. Therefore, security officials should check that the item as described in the permit agrees to the physical item. Security officials should also issue permits for permanent employees and consultants who will work in the municipality for a period of more than a week. No laptops or similar equipment should leave the premises without a valid permit. For employees and consultants who will be in the municipality for less than 1 week, a daily permit should be issued.

14.2 INSURANCE OF ASSETS

General

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

Policy

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

Procedures and Rules

- The municipal manager shall ensure that all movable fixed assets are insured immediately, at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils
- The chief financial officer is informed in writing at least once per annum, of all moveable and immovable property, plant and equipment to be included for insurance purposes.
- All insurance claims must be assessed by the Asset Manager to determine whether damage to the assets can be recovered from possible third parties involved.

14.3 SAFEKEEPING OF ASSETS

General

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

Policy

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

Procedures and Rules

- The Municipal Manager must issue directives that detail the safekeeping of assets.
- The Heads of Department must ensure that safekeeping directives are adhered to.
- Malicious damage, theft, and break-ins must be reported to the Municipal Manager or delegated person within 48 hours of its occurrence or awareness.
- The Municipal Manager must report criminal activities to the South African Police Service.
- If any biological asset is lost, stolen or destroyed, the matter shall be reported in writing by the Head of Department concerned in the same manner as though the asset were an ordinary asset.

15. ASSET FINANCIAL CONTROL

15.1 CAPITAL REPLACEMENT RESERVE (CRR)

General

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

Policy

It is the policy of Council to annually make contributions to the CRR to ensure that the CRR remains a capital funding source for the future. The municipality will determine its future capital financing requirements and transfer sufficient cash to its CRR in terms of this determination. The Integrated Development Plan, the municipality's ability to raise external finance and the amount of government grants and subsidies that will be received in future will need to be taken into account in determining the amount that must be transferred to the CRR.

Whenever an asset is sold by the municipality, the proceeds on the sale of the assets must be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets. All proceeds on the sale of land will be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets.

Whenever an asset is purchased out of the CRR an amount equal to the cost price of the asset purchased, is transferred from the CRR into accumulated surplus on the Statement of Changes in Net Assets.

Procedures and Rules

- The CFO is responsible for creating and maintaining the CRR.
- The CFO must ensure the annual transfers to the CRR from the municipality's appropriation account.

- The CFO must ensure the transfers from the CRR to the municipality's appropriation account in respect of assets purchased. The balance on the CRR must always be represented by cash, which must be held in a separately identifiable bank or investment account.
- The CRR may only be utilised for the purpose of purchasing items of PPE for the municipality and may not be used for the maintenance of these items.
- Interest earned on the CRR investments is recorded as interest earned in the Statement of Financial
- Performance and must then be transferred to the CRR in the Statement of Changes in Net Assets.

15.2 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.

The capitalisation of borrowing costs should take place when borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. During extended periods in which development of an asset is interrupted, the borrowing costs incurred over that time period should be recognised as an expense when incurred. Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Policy

Borrowing costs shall be capitalised, if related to the construction of an asset, when the construction of an asset is expected to take a substantial period of time to get ready for its intended use or resale and an outside agency is used to finance the project.

Procedures and Rules

- The CFO should reconcile the borrowing cost to be capitalised with the amount that has been capitalised on a monthly basis.

15.3 FUNDING SOURCES

General

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

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

Policy

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

Procedures and Rules

- The CFO will ensure that the capital budget is financed and that the finance sources have been identified and confirmed in writing.
- The CFO will ensure that all legislation and prescripts regarding the various funding sources are adhered too.

15.4 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 Eden District Municipality to gain funds for repairing assets damaged in disaster events.

Procedures and Rules

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.

16. MANAGEMENT OF IMMOVABLE ASSETS

16.1 LEGAL FRAMEWORK

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

Participation by the local community in the affairs of the municipality must take place through, among others, generally applying the provisions for participation as provided for in the MSA (section 17(1) of the MSA).
A municipality must communicate to its community information concerning, among others, municipal governance, management and development (section 18(1) of the MSA).
As head of administration the Municipal Manager is, subject to the policy directions of the municipal council, responsible and accountable for, among others, the following:

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

As accounting officer of the municipality the Municipal Manager is responsible and accountable for, among others, all assets of the municipality (section 55(2) of the MSA).

The Municipal Manager must take all reasonable steps to ensure, among others, that the resources of the municipality are used effectively, efficiently and economically (section 62(1) of the MFMA).

16.2 RATIONALE FOR MANAGEMENT OF ASSETS

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

- Providing democratic and accountable government for local communities;
- Ensuring the provision of services to communities in a sustainable manner;
- Promoting social and economic development;
- Promoting a safe and healthy environment; and
- Encouraging the involvement of communities and community organisations in matters of local government.

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

The MFMA further requires the accounting officer to ensure that:

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

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

16.3 PRINCIPLES OF ASSET MANAGEMENT

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:

- Taking a life-cycle approach;
- Developing cost-effective management strategies for the long-term;
- Providing a defined level of service and monitoring performance;
- Understanding and meeting the impact of growth through demand management and infrastructure investment;
- Managing risks associated with asset failures;

- Sustainable use of physical resources; and
- Continuous improvement in asset management practices.

17. POLICY OBJECTIVE

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

18. ADOPTION OF THE POLICY

Policy adopted by Council of Ingquza Hill Local Municipality for implementation.

Approved by Resolution number…… on this …….day of …….....2025

_____

S.B. Vatsha

Honorable Speaker

ANNEXURES

1. ANNEXURE A - ABBREVIATIONS

AM	Asset Management
AMS	Asset Management System
AR	Asset Register
CFO	Chief Financial Officer
CRR	Capital Replacement Reserve
DM	District Municipality
EPWP	Expanded Public Work Program
GAMAP	Generally Accepted Municipal Accounting Practice
GIS	Geographical Information System
GRAP	Standards of Generally Recognized Accounting Practice
HR	Human Resource
IAM	Infrastructure Asset Management
IAMP	Infrastructure Asset Management Plan
IAR	Infrastructure Asset Register
IAS	International Accounting Standards
IDP	Integrated Development Plan
IIMM	International Infrastructure Management Manual
LM	Local Municipality
MFMA	Municipal Finance Management Act
MSA	Municipal Services Act
NT	National Treasury
O&M	Operation and Maintenance
OAG	Office of the Accountant General
PPE	Property, Plant and Equipment
SCM	Supply Chain Management

2. ANNEXURE B - ASSET USEFUL LIVES GUIDE

Electricity

Power stations	(30)
Cooling towers	(30)
Transformer kiosks	(30)
Meters	(20)
Load control equipment	(20)
Switchgear	(20)
Supply and reticulation networks	(20)
Mains	(20)
Substations	(20)
High Mast Lights	(10-20)
Street Lights	(20)
Festive Lighting	(10)

Roads

Asphalt Structure	(30)
Motorways	(15)
Other roads	(10-20)
Road surface	(3-20)
Road structure	(10-60)
Traffic islands	(10)
Traffic lights	(20)
Traffic Signs	(5-15)
Overhead bridges	(30)
Storm water drains	(10-30)
Concrete kerbs &Culverts	(7-40)
Bridges, subways and culverts	(20-60)
Car parks	(20)
Bus terminals	(20)
Parking Meters	(15)

Wingwalls	(50)
Parking Areas	(10)
Guidance Signs	(7-10)
Pedestrian Facilities	(10-40)
Sidewalks	(10-40)
Taxi Facilities	(10-30)

- **Water**

Mains	(20)
Supply and reticulation networks	(20)
Reservoirs and storage tanks	(20)
Meters	(15)
Water Treatment Works	(20)
Dams	(20)

- **Sewerage**

Sewer mains	(20)
Outfall sewers	(20)
Sewage purification works	(20)
Sewerage pumps	(15)
Sludge machines	(15)

- **Pedestrian Malls**

Footways	(10-40)
Kerbing	(7-40)
Paving	(10-20)

- **Security**

Access control systems	(10-25)
Security systems	(10-25)
Security fencing	(10-25)
Security lighting	(10-20)

- **Buildings and other assets**

Agriculture	(10-30)
Ambulance stations	(10-30)
Aquariums	(10-30)
Beachfront developments	(10-30)
Care centers	(10-30)
Fencing of Cemeteries	(10-30)
Civic theatres	(30)
Clinics and hospitals	(30)
Viewing Decks	(5-15)
Community Halls & Centers	(10-30)
Hall Stage	(20-50)
Fire stations	(10-30)
Game reserves and rest camps	(10-30)
Indoor & other sports equipment	(10-30)
Libraries	(10-30)
Museums and art galleries	(10-30)
Parks	(10-30)
Public conveniences and bath houses	(10-30)
Recreation centers	(10-30)
Sports and related stadiums	(10-30)
Zoos	(10-30)

- **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):

Museum exhibits

Works of art (which will include paintings and sculptures)

Public statues

Historical buildings or other historical structures (such as war memorials)

Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement)

- **Other Assets**

The following is a list of other assets, again showing the estimated useful life in years in brackets:

- **Buildings**

Abattoirs	(20-30)
Asphalt plant	(20-30)
Caravan parks	(20-30)
Compost	(20-30)
Compacting stations	(20-30)
General	(20-30)
Hawker Facilities	(20-30)
Hostels used to accommodate the public or tourists	(20-30)
Hostels for municipal employees	(20-30)
Housing schemes	(20-30)
Laboratories	(10-30)
Fresh produce and other markets	(10-30)
Nurseries	(10-30)
Office buildings	(20-30)
Old age homes	(20-30)
Quarries	(20-30)
Recycling Centers	(20-30)
Tip sites	(10-30)
Training centers	(20-30)
Transport facilities	(20-30)
Waste Site & Cells	(10-30)
Workshops and depots	(20-30)

- **Office equipment**

Computer hardware	(5-10)

Computer software	(3-5)
Office machines	(5-10)
Air Conditioners	(5-10)
PA System	(5-10)

- **Furniture and fittings**

Chairs	(7-10)
Tables and desks	(7-10)
Other office furniture & Fittings	(7-10)
Cabinets and cupboards	(4-10)

- **Bins and containers**

Household refuse bins	(5-10)
Bulks refuse containers	(10-15)

- **Emergency equipment**

Fire hoses	(5)
Other fire-fighting equipment	(15)
Emergency lights	(5)

- **Motor vehicles**

Ambulances	(5-10)
Fire engines	(20)
Tankers	(7-20)
Mobile Libraries	(15)
Buses	(10-15)
Trucks	(7-15)
Light delivery vehicles	(5-15)
Ordinary motor vehicles	(5-15)
Motor cycles	(3)

- **Plant and equipment**

Chlorination Equipment	(5)
Compactors	(5-10)

Electronic Equipment	(5)
Fire Hoses	(5)
Other Machinery & Equipment	(5-10)
Generators	(10-20)
Graders	(10-15)
Horticultural Equipment	(5)
Mobile Pumps	(5-10)
Other Fire Fighting Equipment	(5-10)
Pumps	(5-10)
Tractors	(5-15)
Trailers	(5-10)
Mechanical horses	(10-15)
Farm equipment	(5)
Lawn mowers & Grass cutters	(5-10)
Compressors	(5)
Laboratory Equipment	(5)
Radio Equipment	(5)
Firearms	(5-10)
Telecommunication equipment	(5-10)
Irrigation systems	(15)
Cremators	(15)
Lathes	(15)
Conveyors	(15)
Feeders	(15)
Tippers	(10-15)
Excavators	(10-15)
Workshop Equipment	(5)
Pulverizing mills	(15)
Refuse Trucks	(5-10)

- **Gas**

Meters	(20)
Mains	(20)
Storage tanks	(20)

3. ANNEXURE C - INFRASTRUCTURE ASSET CLASSIFICATION

The tables below show the infrastructure classification, expected useful lives (EUL) and residual value percentage of replacement cost (RV).

Table A1: Asset Types, Expected Useful Lives and Residual Value Percentage

Class	Asset Type	EUL	RV
Road :			
	Road Transport/Road/Unpaved/Gravel//Surfac	03 – 20 years	0
	Road Transport/ Stormwater/ Minor Culvert/Pipe//450mm	10 – 30 years	0
	Road Transport/Road//UD/Concrete/Surface	10 – 30 years	0
	Road Transport/Road//UD/Concrete/Structure	10 – 60 years	0
	Road Transport/Road///Concrete/Surface	10 – 60 years	0
	Road Transport/Road///Concrete/Structure	10 -60 years	0
	Road Transport/Road/Flexible/UD/Seal/Struct	10 – 60 years	0
	Road Transport/Road/Flexible/UD/Seal/Surfac	10 – 60 years	0
	Road Transport/Road/Flexible/UD/Seal/Surfac	10 – 60 years	0
			0
	Road Transport/Stormwater////Low Water	10 – 60 years	0
	Road Transport/Stormwater/Minor Culvert/Pipe//450mm	10 – 30 years	0
	Road Transport/Street Lighting////Streetlights	10 – 20 years	0

	Road Transport/Street Lighting////Light, Spot, Pole Mounted	10 – 20 years	0

	Road Transport/Kerbing////Kerbs	10 – 60 years	0
Signage	Road Transport/Signage////Road Signs	5 – 15 years	0
Cemetery	Parks/Cemetery/Common Assets/Small Building//Brick/Mortar	10 – 30 Years	0
	Parks/Cemetery/Common Assets/Fencing//Wire Fence	10 – 30 years	0
Solid Waste Disposal:			
Waste Site	Solid Waste Disposal/Waste Site/Common	10 –30 years	0
	Solid Waste Disposal/Waste Site/Civil///Waste	10 – 30 years	
	Solid Waste Disposal/Waste Site/Common	10 – 30 years	0
	Solid Waste Disposal/Waste Site/Common	10 – 30 years	0

NB: these categories are based on the current types of infrastructure assets owned by the municipality. Should the municipality acquire another type of infrastructure assets e.g electricity & networks, it will be necessary to review such classification.