

MOPANI DISTRICT MUNICIPALITY



ASSET MANAGEMENT POLICY 2026/27



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PREAMBLE

- Whereas section 14 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services, and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued;
- And whereas the Municipal Council of Mopani District Municipality wishes to adopt a policy to guide the municipal manager in the management of the municipality's assets;
- And whereas the Municipal Manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets;
- And whereas these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes;
- And whereas section 122 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that annual financial statements must be prepared in accordance with generally recognised accounting practice;
- Now therefore the Municipal Council of the Mopani District Municipality adopts the following Asset Management Policy:

ABBREVIATIONS AND DEFINITIONS

AM	Asset Management
AMS	Asset Management System
AR	Asset Register
CFO	Chief Financial Officer
CRR	Capital Replacement Reserve
CoGTA	Cooperative Governance and Traditional Affairs
EPWP	Expanded Public Work Program
GIS	Geographical Information System
GRAP	Standards of Generally Recognised Accounting Practice
IA	Intangible Assets
IAR	Infrastructure Asset Register



IDP	Integrated Development Plan
IP	Investment Property
MFMA	Municipal Finance Management Act (No. 56 of 2003)
MM	Municipal Manager (i.e. Accounting Officer)
MSA	Municipal Systems Act (No. 32 of 2000)
NT	National Treasury
OHS Act	Occupational Health and Safety Act
PPE	Property, Plant and Equipment

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.

Asset management is the process of guiding the acquisition, use and disposal of assets to make the most of their service delivery potential and manage the related risks and costs over their entire life.

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.

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.



Motor Vehicle (as defined in the VAT Act) includes vehicles with three or more wheels, are normally used on public roads and are constructed or adapted mainly or wholly for carrying passengers, this includes specialized vehicles.

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

Property, Plant and Equipment (PPE) are tangible assets that: -

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

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

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

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

Sign/ Name Boards are tangible assets that indicate names of facilities (i.e. camps, buildings and water/sewer plants) operated by the municipality.

Useful Life is: -

- The period of time over which an asset is expected to be used by the municipality; or
- The number of production or similar units expected to be obtained from the asset.

1. PURPOSE OF THIS DOCUMENT

This document indicates the policy of Mopani District Municipality (MDM) for the management of its assets (which excludes financial assets such as receivables). The policy commits the municipality to establishing and maintaining an asset



register that complies with the latest accounting standards, and managing the assets in a way that is aligned with the municipality's strategic objectives and recognized good practice.

2. REGULATORY FRAMEWORK

The MFMA was introduced with the objective of improving accounting in the municipalities sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector. With the accrual system of accounting, applicable to local government, assets are incorporated into the books of accounts and systematically written off over their anticipated lives. This necessitates that a record is kept of the cost of the assets, the assets are verified periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline, and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

2.1. LEGAL BASIS

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

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

In terms of the MFMA, the accounting officer is responsible for the effective, efficient and economical use of the resources of the municipality, and for managing the assets of the municipality, including the safeguarding and maintenance of its assets.



The MFMA further requires the accounting officer to ensure that:

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

The Occupational Health and Safety Act (OHSA) requires the municipality to provide and maintain a safe and healthy working environment, and in particular, to keep its infrastructure assets safe.

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

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

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

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

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



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

2.2. ACCOUNTING STANDARDS

The MFMA requires municipalities to comply with the standards of Generally Recognized Accounting Practice (GRAP), in line with international practice.

The following Standards of GRAP significantly impacts on the recognition and measurement of assets within the municipal environment:

GRAP 12 – Inventories

GRAP 13 – Leases and more specifically, deemed finance leases

GRAP 16 – Identification of items to be treated as Investment Properties

GRAP 17 – Property Plant and Equipment

GRAP 21 – Impairment of non-cash-generating assets

GRAP 26 – Impairment of cash-generating assets

GRAP 27 – Agriculture

GRAP 31– Intangible assets and more specifically the treatment of items of software

GRAP 100 – Non-current assets held for sale and Discontinued Operations

GRAP 103 – Heritage assets

2.3. MANAGEMENT OF INFRASTRUCTURE ASSETS

Effective management of infrastructure and community facilities is central to the municipality providing an acceptable standard of services to the community. Infrastructure impacts on the quality of the living environment and opportunities to prosper. Not only is there a requirement to be effective, but the manner in which the municipality discharges its responsibilities as a public entity is also important. The municipality must demonstrate good governance and customer care, and the processes adopted must be efficient and sustainable. Councillors and officials are custodians on behalf of the public of infrastructure assets, the replacement value of which amounts to several hundred million Rand.



Key themes introduced in the latest generation of national legislation relating to municipal infrastructure management include:

- long-term sustainability and risk management;
- service delivery efficiency and improvement;
- performance monitoring and accountability;
- community interaction and transparent processes;
- priority development of minimum basic services for all; and
- provision of financial support from central government in addressing the needs of the poor.

Legislation has also entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However, the IDP cannot be compiled in isolation for the above objectives to be achieved. The IDP needs to be informed by robust, relevant and holistic information relating to the management of the municipality's infrastructure.

There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintaining and renewing existing infrastructure whilst also addressing backlogs in basic services and facing ongoing changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from all departments of the municipality.

Cooperative Government and Traditional Affairs CoGTA has prepared guidelines in line with international practice, that propose that an Infrastructure Asset Management Plan (IAMP) is prepared for each sector (such as water, roads etc). These plans are used as inputs into a Comprehensive Infrastructure Plan (CIP) that presents an integrated plan for the municipality covering all infrastructures. This is in line with the practice adopted in national and provincial spheres of government in terms of the Government-wide Immoveable Asset Management Act (GIAMA).

Accordingly, the asset register adopted by a municipality must meet not only financial compliance requirements, but also set a foundation for improved infrastructure asset management practice.



2.4. DELEGATION OF POWERS

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

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

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

2.5. KEY RESPONSIBILITIES

2.5.1 Role of the Municipal Manager

The Municipal Manager, being the accounting officer of the municipality, is responsible for the following in terms of section 63 of the Municipal Finance Management Act (Act No. 56 of 2003):

- The assets of the municipality, including the safeguarding and the maintenance of those assets;
- Ensuring that the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- Ensuring that the municipality's assets are valued in accordance with the Standards of Generally Recognised Accounting Practice (GRAP); and
- Ensuring that the municipality maintains a system of internal control of assets, including an asset register.



The Municipal Manager shall ensure that:

- An Asset Management Committee is established, through which all asset processes and procedures will be implemented.
- The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The municipality's assets are valued in accordance with the standards of generally recognised accounting practice (GRAP);
- The municipality has and maintains a system of internal control of assets, including an asset register; and
- The Directors and their teams shall comply with this policy.

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

2.1.1 Role of the Chief Financial Officer (CFO)

In in terms of section 79(1) (b) (ii) of the Municipal Finance Management Act (Act No. 56 of 2003), the Chief Financial Officer (CFO) is delegated to ensure that the financial investment made in the municipal assets is safeguarded and maintained.

The CFO shall ensure that:

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



- All revenue due to the municipality is collected, for example rental income relating to assets;
- The systems, procedures and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of the Auditor-General;
- Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- The Directors and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- This policy and support procedures are established, maintained and effectively communicated.

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

2.1.2 Role of the Asset Management Committee

The Asset Management Committee (AMC) shall ensure that:

- The Asset Management Policy is reviewed on an annual basis to ensure alignment with legislative and prescriptive guidelines;
- The process and procedure guidelines are reviewed on an annual basis to address any shortcomings and incorporate guidance received from the internal and external auditors;
- The Policy and Procedure Guidelines are adhered too;
- The Committee meets at least monthly;
- A detailed action plan is developed for the annual review/verification of all assets; and that this action plan is effectively followed.



2.1.3 Role of the Directors

Directors (the managers directly accountable to the Municipal Manager) shall ensure that:

- Appropriate systems of physical management and control are established and carried out for all assets;
- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- Procedures are adopted and implemented in conformity with this policy to produce reliable data to be captured into the municipal asset register;
- Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
- The asset management system, processes and controls provide an accurate, reliable and up to date account of assets under their control;
- They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives; and
- Manage the asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.

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

3. POLICY FRAMEWORK

3.1 POLICY OBJECTIVE

The principal objective of asset management is to enable the municipality to meet its service delivery objectives efficiently and effectively. The municipality is committed to providing municipal services for which the municipality is responsible, in a transparent, accountable and sustainable manner and in accordance with sound asset management principles.



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

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

To this end, the objectives of this Asset Management Policy are set out as follows:

- To outline asset management practice in a consistent manner and in accordance with legal requirements and recognised good practice;
- To prescribe appropriate use and maintenance of assets, thereby promoting effective asset management in ensuring that MDM makes the most of the service potential of assets;
- To ensure that all responsible parties are aware of their roles and responsibilities regarding the assets of the municipality. It focuses attention on results by clearly assigning responsibility, accountability and reporting requirements;
- To set out the accounting treatment for assets acquired and used by the municipality; and
- To prescribe the administrative guidelines and internal control procedures to be followed by persons in control of Municipal assets.

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

3.2 RELATIONSHIP WITH OTHER POLICIES

This policy, once effective, will replace the pre-existing Asset Management Policy. The policy needs to be read in conjunction with other relevant policies of the municipality, including the following adopted documents:

- Delegations Policy – Identifying the processes surrounding the establishment of delegated authority.



- SCM policy – Regulating all processes and procedures relating to acquisitions.
- Budget policy – The processes to be followed during the budget process as well as pre-determined prioritisation methodology,
- Accounting Policy – Governed by the Accounting standards, the accounting policy determines the basis recognition, measurement and recording of all transactions.
- Risk Management Policy – The policy promotes effective and efficient asset utilisation.

4. ASSET RECOGNITION

4.1. CLASSIFICATION OF CAPITAL ASSETS

General

When accounting for capital assets, the municipality should follow the various standards of GRAP relating to the capital assets. An item is recognised in the statement of financial position as a capital asset if it satisfies the definition and the criteria for recognition of assets.

The first step in the recognition process is to establish whether the item meets the definition of an asset. An asset is defined as a resource controlled by the entity as a result of past events and from which future economic benefits or services potential are expected to flow to the entity.

Secondly, the nature of the asset should be determined, and thereafter the recognition criterion is applied. The cost of an asset shall be recognised only if it is probable that future economic benefits or service potential associated with the item will flow to the entity, and if the cost or fair value of the item can be measured with reliability.

Capital assets are classified into the following categories for financial reporting purposes:

1. Property, Plant and Equipment (GRAP 17)



- Land and Buildings (land and buildings not held as investment) comprise any land and buildings held 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, but should be included in Investment Properties. For these PPE the intention is not to develop or sell the property in the normal course of business.
- Infrastructure Assets (immovable assets that are used to provide basic services) comprise assets used for the delivery of infrastructure-based services. Examples of infrastructure assets include road networks, sewer systems, water and electricity supply systems and communication networks. To facilitate the practical management of infrastructure assets and asset register data, infrastructure assets have been further classified.

Level of detail of componentisation

For the technical management of infrastructure, the most effective level of management is at the maintenance item level. It is at this level that work orders can be executed and data collected. This data is useful for maintenance analysis to improve infrastructure management decision making. This level in most cases coincides with the level that means the accounting criteria of different effective lives and materiality. However, the collection of data at this level of detail can be very costly when dealing with assets that are very numerous in nature e.g. street signs, street lights, 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. Mopani **Water Supply**)
- Level 2: Network level (e.g. **Letsitele Pump Stations**)
- Level 3: Facility level (e.g. Letsitele **Pump Station no 1**)
- Level 4: Maintenance item level (e.g. **Pump 2** in Letsitele Pump Station no 1)
- Level 5: Component level (e.g. **Bearing** of Pump 2 in Springbok Pump Station no 1)



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

- Community Assets (resources contributing to the general well-being of the community) include a variety of assets used to provide services to the community. These assets include assets such as cemeteries and parks, as well as recreational assets and community halls.
- Housing Assets (rental stock or housing stock not held for capital gain) 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.
- Other Assets (ordinary operational resources) include a variety of assets that are of indirect benefit to the communities they serve. These assets include machinery, furniture and fixtures, motor vehicles, computer equipment and other office equipment.

2. Heritage Assets (GRAP 103)

- Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. Heritage assets include the following:
 - Archaeological sites;
 - Conservation areas;
 - Historical buildings or other historical structures;
 - Historical sites (for example a historical battle site or site of a historical settlement);
 - Museum exhibits;
 - Public statues; and
 - Works of art (which will include paintings and sculptures).

3. Investment Property (GRAP 16)

- Investment Assets (resources held for capital or operational gain) comprise of land or buildings (or parts of buildings) or both, held by the municipality



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

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

4. Intangible Assets (GRAP 31)

- Intangible Assets (assets without physical substance held for ordinary operational resources) can be purchased, or can be internally developed, by the municipality and includes computer systems and software, website development cost (if it can be demonstrated that the website will generate probable future economic benefits or service potential), servitudes and mining rights.

5. Biological Assets (GRAP 27)

- i. Biological Assets (livestock and plants held) are living plants and animals such as trees in a plantation or orchard, cultivated plants, sheep and cattle. Future economic benefits must flow to the municipality from its ownership or control of the asset.

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

6. Assets classified as Held-for-Sale (GRAP 100)

- i. A non-current asset shall be classified as Assets Held-for-Sale (assets identified to be sold in the next 12 months and reclassified as Inventory) 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.

7. Land Inventories (GRAP 12)

- i. Land Inventories comprise 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 or distributing it in the ordinary course of business.

Policy

The asset classification specified by GRAP shall be adhered to as a minimum standard. The following extended asset classification, with prescribed categories and sub-categories, shall be adopted:

Accounting Group	Asset Category	Asset Sub-category
Property, plant and equipment	Infrastructure	Electricity network
		Road and storm-water network
		Water supply network
		Sanitation network
	Community Assets	Community facilities
		Sport and recreation facilities
	Staff Housing	All housing buildings
	Land	Infrastructure land



		Community assets' land
		Heritage assets' land
		Other assets' land
		Housing land
	Operational buildings	
	Other assets	Vehicles
		Operational plant and equipment
		Office equipment
		Furniture and fittings
		Computer equipment
Heritage assets	Monuments	
	Historic buildings	
	Works of art	
	Conservation areas	
Investment property	Commercial property (market related rentals charged)	
	Residential property (market related rentals charged)	
	Land with undetermined use	
Intangible Assets	Servitudes	
	Statutory licenses	
	Software	

Responsibilities

- i. The CFO shall ensure that the classification of assets adopted by the municipality complies with the statutory requirements.
- ii. The CFO shall consult with the Directors responsible for assets to determine an effective and appropriate asset hierarchy for each asset class of assets.
- iii. Every Director shall ensure that all assets under their control are classified correctly.
- iv. The CFO shall ensure that the classifications adopted by the municipality are adhered to.



5.1. 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 movable asset shall have a unique identification number. The CFO shall develop and implement an asset identification system, while acting in consultation with the Directors.

Responsibilities

- i. The Municipal Manager shall develop and implement an asset coding system in consultation with the CFO and other Directors to meet the policy objective.
- ii. Directors shall ensure that all the assets under their control are correctly coded using bar codes and Mopani District serial numbers (MDM followed by bar code number)
- iii. Directors shall ensure that the respective asset codes are affixed to all movable assets under their control.

5.2. ASSET REGISTER

General

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



Data	Land	Movable Assets	Buildings / Infrastructure and Community Assets
Identification			
•Unique identification number or asset mark	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Unique name / Asset description	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Internal Classification	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Descriptive data (make, model, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Erf/Registration number	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Title deed reference	<input type="checkbox"/>		
•Location	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Accountability			
• Directorate or Service that uses or controls the asset	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Custodian		<input type="checkbox"/>	
•Insurance reference		<input type="checkbox"/>	<input type="checkbox"/>
Performance			
•Condition		<input type="checkbox"/>	<input type="checkbox"/>
•Remaining Useful life		<input type="checkbox"/>	<input type="checkbox"/>
•Expected Useful Life / Depreciation rate		<input type="checkbox"/>	<input type="checkbox"/>
Accounting			
•Historic cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Take-on value (fair value) if different from historic cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Acquisition (take-on) date	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Disposal date	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Re-valued amount (where assets were re-valued)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
•Valuation difference (for purposes of Revaluation Reserve and depreciation)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



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

Information to be compiled on an annual basis (for annual financial statement and audit purposes) includes:

- ☐ A summary of all acquisitions of assets;
- ☐ A summary of all disposals or write-offs of assets during the year. The disposals or write-offs information should include both cost and accumulated depreciation;
- ☐ The aggregate depreciation expense for the year;
- ☐ Changes in impairments during the year;
- ☐ The opening and closing balances of assets at cost;
- ☐ The opening and closing balances of accumulated depreciation; and
- ☐ Movements in the revalued portion of property, plant and equipment (where assets were re-valued).



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

Policy

An asset register shall be established and maintained for all assets. The 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, as well as other data considered by the municipality to be necessary to support strategic asset management planning and operational management needs. The asset register shall be continuously updated and asset records reconciled to the general ledger on a monthly basis, where possible.

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

Responsibilities

- i. The CFO shall define the format of the asset register in consultation with the Municipal Manager and the Directors, and shall ensure that the format complies with the prevailing accounting standards and disclosure requirements.
- ii. Directors shall provide the CFO with the data required to establish and update the asset register in a timely fashion.
- iii. The CFO shall establish procedures to control the completeness and integrity of the asset register data.
- iv. The CFO shall ensure proper application of the control procedures.

5.3. RECOGNITION OF CAPITAL ASSETS: INITIAL MEASUREMENT

General

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



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

Further guidance for the recognition of assets is provided below:

Capitalisation Threshold

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

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

- i. The impact of the threshold on the financial statements and the decisions/assessments the users of the financial statement may or may not make;
- ii. The cost of maintaining financial and management information on assets when the threshold is very low;
- iii. The impact on comparability and benchmarking cost of services may be difficult if different capitalisation thresholds are applied;
- iv. The size of the municipality or the size of its service areas when setting a capitalisation threshold level Municipalities vary greatly in size, so what is relevant to one may be immaterial to another.



Capitalised register

The threshold value is only applicable to movable assets.

Threshold capitalisation values are applied to ensure that only items with a material value are capitalised, but are not intended to limit custodial responsibilities for assets below the threshold. The limit is also to ensure that administration and financial cost to manage non-material assets are limited.

The threshold value is R 1 000 .00 (One thousand rand, excluding VAT where applicable) based on cost price per individual asset. Where the cost of the asset is not available, the fair value of the asset should be applied with respect to applying threshold. The net book value is not considered when applying thresholds.

The threshold value is used to distinguish between property, plant and equipment (as defined in GRAP 17) that is recorded in the fixed asset register and those that are recognised as an expense (as defined in GRAP 1).

The basis for the determination of the threshold limit is determined by a number of factors, such as materiality, inflation, Consumer Price Index (CPI), IDP and cost/benefit considerations such as the assessment of “future economic benefit” to be derived from the individual asset.

Certain items must be budgeted for as part of the capital budget, usually as a group of items, even though their individual acquisition values are below the threshold value, but the value of the group exceeds the threshold limit. Such items must be considered for capitalisation. Due to their nature and irrespective of the costs to acquire; motor vehicles and computer equipment (such as desktops, laptops and printers), are items that must be duly captured on the PPE register when costs are incurred.

Where an item is falling below the “threshold value”, but meets the minimum requirements of GRAP 17 for asset recognition, the item is included in the “Minor Assets Control list”

Responsibility for items recorded in the Minor Assets Control list, in respect of record keeping and custody of the assets is delegated to the heads of the directorates and officials utilising/ operating the assets.



The threshold value will be reviewed every three years by the Chief Financial Officer and will be aligned to the business planning cycle IDP and MTEF during the budget process.

Minor Assets Control List

The purpose of this register is to record and maintain purchases and monitor physical movements of all assets with a cost (excluding VAT where applicable) equal to or less than R 1 000.00 (One thousand rand).

General

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

Calculation of initial cost price

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

- i. 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
- ii. The cost of site preparation;
- iii. Initial delivery and handling costs;
- iv. Installation costs;
- v. Professional fees such as for architects and engineers;



- vi. The estimated cost of dismantling and removing the asset and restoring the site;
- vii. 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.

Input Tax (VAT)

In order for a municipality to claim input tax, goods and services must be acquired by the municipality for the purpose of consumption, use or supply in the course of making taxable supplies. It follows that a municipality may not claim input tax where goods or services are acquired for the purposes of making exempt or other non-taxable supplies. The following are denied to be claimed as input tax:

- i. Entertainment;
- ii. Motor Vehicles as defined in the VAT Act 89 of 1991 (refer to Annexure 5); and
- iii. Goods and services it acquired as an agent on behalf of someone else.

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:

- i. Significant cost; and
- ii. 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 recognise the costs of day-to-day servicing of the item in the carrying amount of an item of capital asset. These costs are recognised as



expenditure as and when incurred. Day-to-day costs are primarily the costs of labour and consumables and may include the costs of small parts. The purpose of these expenditures is usually for the 'repair and maintenance' of the capital asset.

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

Rehabilitation / Enhancements/Renewals of capital assets

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

- i. The expenditure satisfies the recognition criteria;
- ii. that expenditure is enhancing the service provision of that capital asset beyond its original expectation and either that expenditure:
 - o increases the useful life of that capital asset (beyond its original useful life);
 - o increases the capital asset capacity (beyond its original capacity);
 - o increases the performance of the capital asset (beyond the original performance);
 - o increases the functionality of that capital asset;
 - o reduces the future ownership costs of that capital asset significantly; or
 - o increases the size of the asset or changes its shape.

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



Leased Assets

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

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

Policy

All capital assets shall be correctly recognised as assets and capitalised at the correct value in its significant components. All assets shall be initially recognised at cost plus VAT where input tax has been denied such as instances where the municipality acquires motor vehicles, goods used for entertainment and goods acquired as an agent. Where input tax has been reclaimed, assets shall be recognised at cost excluding VAT.

In cases where complete cost data is not available or cannot be reliably linked to specific assets, the fair value of assets shall be adopted on the following basis:

- i. PPE infrastructure, community assets, other assets, staff housing (movable and immovable): depreciated replacement cost;
- ii. PPE land and buildings: values from the valuation roll (or in the event that such is not available, market value);
- iii. Heritage assets: market value or replacement cost (or in the event that such is not available or appropriate, no value shall be indicated);
- iv. Investment property: values from the valuation roll (or in the event that such is not available, market value); and
- v. Intangible assets: depreciated replacement cost.

The capitalisation threshold is set at R 1 000.00 (One thousand rand excluding VAT where applicable), but the application thereof will be determined annually by the municipality. In this regard:



- i. All assets with a cost (excluding VAT where applicable) equal to or less than the capitalisation threshold and with an estimated useful life of more than one year shall be expensed in the statement of financial performance and not be capitalised. 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.
- ii. These assets may or may not be bar-coded for identification purposes due to their nature and will be recorded on a Minor Assets Control List.
- iii. The existence of items recorded on such a list shall be physically verified from time to time, and at least once in every financial year.

Responsibilities

- i. The CFO, in consultation with the Municipal Manager and Directors, shall determine effective procedures for the recognition of existing and new assets.
- ii. Every Director shall ensure that all assets under their control are correctly recognised as assets.



5.4. SUBSEQUENT MEASUREMENT OF CAPITAL ASSETS

General

The municipality must choose measurement models for Property, plant and Equipment, Investment property, and Intangible assets, for measurement of assets subsequent to initial recognition. For Property, plant and Equipment, Intangible assets and for Heritage assets either the cost model or the revaluation model must be chosen, while for investment property the municipality must choose between the cost model and the fair value model.

Cost model

After recognition, an asset is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation model

After recognition, an asset (whose value can be measured reliably) is carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are 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. When revaluations are conducted, the entire class of assets should be revalued. Revaluation is to be executed by persons with suitable professional qualifications and experience. Any change to an asset's carrying amount as a result of revaluation, is credited (or deducted from any surplus from previous revaluations) in the Revaluation Reserve.

The revaluation surplus is transferred to accumulated surpluses/deficits on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such asset before the revaluation in question is transferred from the revaluation reserve to the municipality's appropriation account. An adjustment of the aggregate transfer is to be made at the end of each financial year.

Investment Property

When the fair value model is adopted, all investment property should be measured at its fair value except when the fair value cannot be determined



reliably on a continuing basis. The gain or loss from the change in fair the fair value of investment property shall be included in the surplus or deficit for the period in which it arises. The fair value of the investment property shall reflect market conditions at the date. Investment property shall be valued on an annual basis. All fair value adjustments shall be included in the surplus or deficit for the financial year.

Heritage Assets

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

Statutory inspections

The cost of a statutory inspection that is required for the municipality to continue to operate immovable PPE is recognised at the time the cost is incurred, and any previous statutory inspection cost is de-recognised.

Expenses to be capitalised

Expenses incurred in the enhancement of assets (in the form of improved or increased services or benefits flowing from the use of such asset), or in the material extension of the useful operating life of assets are capitalised. Such expenses are recognised once the municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) – prior to this, the expenses are recorded as work-in-progress. Expenses incurred in the maintenance or repair (reinstatement) of an asset that ensures that the useful operating life of the

asset is attained, are considered as operating expenses and not capitalised, irrespective of the quantum of the expenses concerned.

Spares

The location of capital spare shall be amended once they are placed in service, and re-classified to the applicable PPE asset sub-category.



Policy

Measurement after recognition shall be on the following:

- i. Immovable PPE (except Land): Cost Model.
- ii. Immovable PPE – Land: Cost Model
- iii. Movable PPE: Cost Model.
- iv. Investment Property: Fair value Model (values established in each update of the Valuation Roll).
- v. Intangible Assets: Cost Model.
- vi. Heritage Assets: Cost Model.

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

Assets classified as held-for-sale

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.

Inventory property

Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the municipality's asset register or statement of financial position. Inventory property shall be valued annually at reporting date at the lower of its carrying value or net realisable value, except where they are held for:



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

Responsibilities

- i. The CFO, in consultation with the Municipal Manager and Directors, shall determine effective procedures for the ongoing capitalisation of assets after recognition.
- ii. Every Director shall ensure that all capital expenses associated with assets under their control are correctly capitalised.
- iii. Every Director shall ensure that revaluations are conducted where applicable to assets under their control.

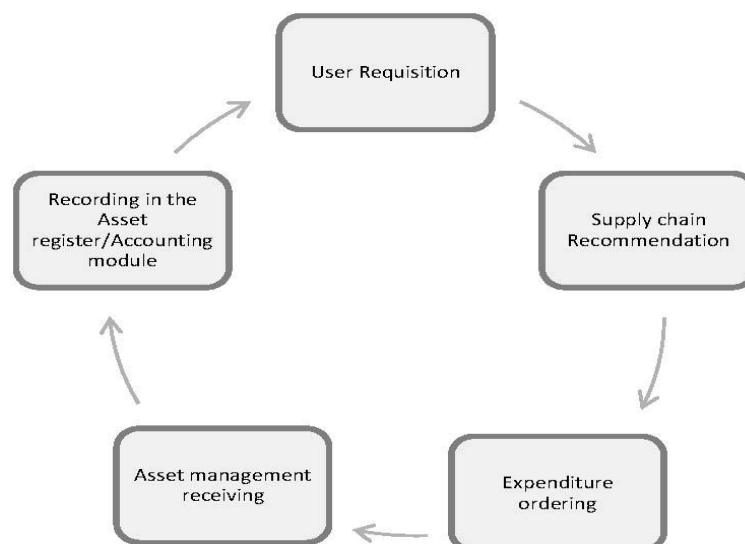
6. ASSET ACQUISITION

6.1. ACQUISITION OF ASSETS

General

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

The *Process Flow* during asset acquisition can be illustrated as follows:





Policy

Should the municipality decide to acquire a capital asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset:

- i. 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;
- ii. The asset meets the definition of a capital asset (as defined in GRAP 16, GRAP 17, GRAP 27, GRAP 31 and GRAP 103)
- iii. The asset has been budgeted for;
- iv. The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- v. The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
- vi. The asset is appropriate to the task or requirement and is cost-effective over the life of the asset.
- vii. The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
- viii. Space and other necessary facilities to accommodate the asset are in place; and
- ix. The most suitable and appropriate type, brand, model, etc. has been selected.

6.2. CREATION OF NEW INFRASTRUCTURE ASSETS

General

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

Policy

The cost of all new infrastructure facilities (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs



of new infrastructure into the component parts, each of which have an appropriate useful life.

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

6.3. SELF-CONSTRUCTED ASSETS

General

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

Policy

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

6.4. DONATED ASSETS

General

A donated asset is an item that has been given to the municipality by a third party in government or outside government without paying or actual or implied exchange.

Policy

Donated assets shall be valued at fair value, reflected in the asset register, and depreciated as normal assets. All donated assets shall be approved by the Municipal Manager and ratified by Council prior to acceptance.



7. ASSET MAINTENANCE

7.1. USEFUL LIFE OF ASSETS

General

Useful Life of assets is defined in the 'Abbreviations and definitions' section of the Policy and is basically the period or number of production units for which an asset can be used economically by the municipality.

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

Policy

Estimated useful lives of asset classes shall be applied as set out in Annexure 1. The remaining useful life of assets shall be reviewed annually. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3. During annual physical verification of movable assets, an assessment of condition and use shall determine the appropriateness of the remaining useful lives, while for infrastructure assets, the useful lives shall be deemed to be appropriate unless an event has occurred or conditions of use have changed, which may have an effect on the remaining useful lives of these assets.

Responsibilities

- i. The CFO shall indicate a fixed annual date for the review of remaining useful life of assets under the control of the respective Directors.
- ii. The Directors shall review the remaining useful life of all assets under their control at the annual review date, and from time to time as a result of any events that come to their attention that may have a material effect on some or all such assets. The Director shall motivate to the CFO proposed changes to the remaining useful of such assets.



7.2. RESIDUAL VALUE OF ASSETS

General

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

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

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

Policy

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



7.3. DEPRECIATION OF ASSETS

General

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value. The depreciation method used must reflect the pattern in which economic benefits or service potential of a capital asset is consumed by the municipality. The allowed depreciation methods that can be applied by the municipality are the *Straight-line method*, the *Diminishing Balance method* and the *Sum of the Units method*.

Policy

All assets, except land, heritage assets and servitudes, shall be depreciated over their remaining useful lives. In all cases, the straight line method of depreciation shall be used. The depreciation charge for each period shall be recognised as an expense. The depreciation method, residual value and remaining useful life should be reviewed at each reporting date.

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed. Depreciation of an asset shall begin when the asset is ready to be used, i.e. the asset is in the location and condition necessary for it to be able to operate in the manner intended by management. Depreciation of an asset ceases when the asset is fully depreciated or de-recognised. 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.

Responsibilities

- i. Every Director shall ensure that a budgetary provision is made for the depreciation of the assets under their control in the ensuing financial year, in consultation with the CFO.



- ii. Every Director shall review the expected useful life stated in Annexure 1 of assets that are under their control and motivate to the Municipal Manager and CFO any adjustments if, in the judgement of the Director, such are not considered appropriate. This should not happen continuously because the accounting principle of consistency would be violated.
- iii. The CFO shall ensure that depreciation charges are debited on a monthly basis and that the asset register is reconciled with the general ledger.

7.4. IMPAIRMENT LOSSES

General

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

- i. Significantly lower service or output levels provided by the asset compared with those originally expected due to poor operating performance.
- ii. Significant decline in market value;
- iii. Carrying amount of an asset far exceeds the recoverable amount or market value;
- iv. There is evidence of obsolescence (or physical damage);
- v. The deterioration of economic performance of the asset concerned; and
- vi. The loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (such as through inadequate maintenance).

Examples below are some typical situations where impairment may have occurred:

- i. A significant increase in operating costs of an asset may indicate that the asset is not as efficient or productive as initially anticipated in output standards set by the manufacturer, in accordance with which the operating budget was drawn up.



- ii. New technical evidence shows that a certain type of underground pipe has a significantly shorter useful life than expected.
- iii. High rainfall has damaged certain roads and their associated infrastructure.
- iv. New wireless technology has been developed that will make certain wire-based computer networks obsolete.

If any of the indicators are present, the municipality is required to make an estimate of the recoverable service amount. If no indication of a potential impairment loss is present, GRAP 21 and GRAP 26 on Impairment do not require a formal estimate to be made of the recoverable service amount.

The impairment amount is calculated as the difference between the carrying value and the recoverable service value. The recoverable service value is the higher of the asset's value in use or its net selling price. Where the recoverable service amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at re-valued amount.

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

In assessing whether a halt in construction would trigger an impairment test, the entity would consider whether construction has simply been delayed or postponed, whether there is an intention to resume construction in the near future or whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work in progress and is not considered as halted. (GRAP 21. Par.27)



Policy

Assets shall be reviewed annually for impairment indicators. If any of the indicators are present, the municipality shall make an estimate of the recoverable service amount. Where the recoverable service amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss.

Impairment losses shall be recognised as an expense, unless it reverses a previous revaluation in which case it should be charged to the Revaluation Surplus. The reversal of previous impairment losses recognised as an expense is recognised as an income.

Responsibilities

- i. The Director should evaluate all the assets for impairment, taking into consideration any discussions with the Senior Accountants and Operating Managers.
- ii. The Asset register administrator should update the asset register with the information received, relating to the financial management system where the impairment journals have been processed
- iii. The CFO shall report changes made to the carrying values of these assets in the asset register to the Municipal Manager and Council.

7.5. MAINTENANCE OF ASSETS AND THE ASSET REGISTER

General

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

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



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

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

Policy

Maintenance actions performed on infrastructure assets shall be recorded against the individual assets that are identified in the asset register. In this regard the following will apply:

Maintenance Plans

- i. Every Director shall ensure that a maintenance plan in respect of every infrastructure asset under their directorate is developed.
- ii. The Municipal Manager, shall submit the maintenance plan to the Council for approval.
- iii. The maintenance plan shall be reviewed annually.

General Maintenance of assets

Every Director shall be directly responsible for ensuring that all assets (excluding infrastructure assets) are properly maintained and in a manner which will ensure that such item attain their useful operating lives.

7.6. RENEWAL OF ASSETS

General

Asset Renewal is restoration of the service potential of the asset. Asset renewal is required to sustain service provision from infrastructure beyond the initial or original life of the asset. If the service provided by the asset is still required at the end of its useful life, the asset must be renewed. However, if the service is no longer



required, the asset should not be renewed. Asset renewal projections are generally based on forecast renewal by replacement, refurbishment, rehabilitation or reconstruction of assets to maintain desired service levels.

Policy

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

7.7. REPLACEMENT OF ASSETS

General

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

Policy

Assets that are replaced shall be written off at their carrying value. The replacement asset shall be accounted for as a separate new asset. All costs incurred to replace the asset shall be capitalised against the new asset.

8. ASSET DISPOSAL

The carrying amount of an item of property, plant and equipment shall be de-recognised:

- (a) on disposal, or
- (b) when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from de-recognition of an asset shall be included in the statement of financial performance when the item is de-recognised.



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.

8.1. ALIENATION / DISPOSAL OF ASSETS

General

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

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

Specifically:

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

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

Policy

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



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

- i. The nature of the asset
- ii. Other intrinsic value of the asset
- iii. Its location
- iv. Its volume/size
- v. Its condition
- vi. Its ability to support wider Government programmes;
- vii. Environmental considerations
- viii. Market conditions
- ix. The asset's life

Appropriate means of disposal are:

- i. Public auction
- ii. Public tender for the disposal or letting of assets (including unserviceable, redundant or obsolete assets) subject to section 14 and 90 of the MFMA;
- iii. Transfer to another institution
- iv. Sale to another institution
- v. Letting to another institution under finance lease
- vi. Trade-in
- vii. Controlled dumping (for items that have low value or are unhygienic)

Other means of alienation include:

- i. Donations: Donations may be considered as a method of alienation, but such requests must be motivated to the Municipal Manager for approval.
- ii. Destruction: Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.
- iii. 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.
- iv. The letting of immovable property, excluding municipal housing for officials and political office bearers, must be done at market-related tariffs, unless the relevant treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.



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

8.2. TRANSFER OF ASSETS TO ANOTHER ENTITY

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”.

Policy

Transfer of assets to other entities shall be controlled by a transfer process in accordance with the Municipal Asset Transfer Regulations. The asset register shall be updated upon permanent transfer (disposal) of any assets to another entity.

8.3. EXCHANGES OF ASSETS

General

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

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

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



8.4. 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 section 5.10 of this Policy and shall not attract any further depreciation. Sold assets shall be de-recognised in the asset register.

Cell phones: A cell phone allocated to an employee as an allowance may be sold to the employee utilising the cell phone at the end of the useful life, at an amount which is equal to R200.00.

Laptops: A laptop allocated to an employee for office use may be may the laptop at the end of the useful life, at an amount which is equal to R1000.00.

8.5. WRITING-OFF OF ASSETS



General

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

- i. The useful life of the asset has expired;
- ii. The asset has been destroyed;
- iii. The asset is out-dated;
- iv. The asset has no further useful life;
- v. The asset does not exist anymore;
- vi. The asset has been sold; and
- vii. Acceptable reasons have been furnished leading to the circumstances set out above.

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

Policy

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

- i. An asset item, even though not fully depreciated, shall be written off when it can no longer be used, in consultation with the Director controlling or using the item concerned.
- ii. An asset is written off at the value reflected in the asset register of the municipality less any proceeds received.
- iii. The resulting profit or loss is recognised as a gain or loss on disposal in the statement of financial performance.

Responsibilities



- i. An asset shall be written off only on the recommendation of the Director of the department controlling the asset, and with the approval of the Municipal Manager.
- ii. Every Director shall report to the CFO each financial year on any assets which such Director wishes to have written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly make a submission to the Asset Management Committee with a copy to the Municipal Manager on the assets to be written off. The Asset Management Committee shall consider the submission and make recommendations to the Council for adoption.
- iii. Assets that are replaced should be written off and removed from the asset register.
- iv. The Municipal Manager, in consultation with the CFO and other Directors shall formulate norms and standards from the replacement of all normal operational assets.

9. PHYSICAL CONTROL (MOVABLE ASSETS)

9.1. PHYSICAL CONTROL / VERIFICATION

General

Movable assets require physical control and verification of existence.

Policy

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

Responsibilities

- i. Every Director shall at least once during every financial year undertake a comprehensive verification of all movable asset items controlled or used by the department concerned. These counts shall be coordinated by the Asset Controller in collaboration with the internal audit function.



- ii. Every Director shall promptly and fully report in writing to the Asset Management Committee, in the format determined by them, all relevant results of such asset verification, provided that each such asset item verification shall be undertaken and completed during the month of June of each financial year.
- iii. A report shall be submitted to the Chief Financial Officer not later than 31 August for the under review. This report shall be made available to the Auditor-General or his/her personnel when requested to do so.
- iv. The asset verification report shall:
 - o Include a complete list of all assets identified during the verification process.
 - o Identify discrepancies and reconcile assets verified to those per the municipal records. (Note that the reconciliation of the asset register shall be performed per asset classification).

9.2. CONDITION ASSESSMENT

General

The regular assessment of the condition and performance of all the tangible capital assets allows the municipality to determine the ability of tangible capital assets to continue to perform and provide services into the future.

While condition assessments for specialised assets like infrastructure would generally be an engineering function, a municipality can also establish basic performance and benchmarking indicators that will assist in the process. For example:

- i. Keeping historical information on equipment failure could be used to predict when replacements might be needed. This can also be done for motor vehicles and other capital assets;
- ii. Driving on roads and over bridges doing visual inspections and counting potholes and grade separations; and
- iii. Reviewing estimated life-cycle costs and comparing them to the actual amounts spent on infrastructure maintenance and replacement.

Policy



An assessment of the condition of movable assets will be performed during annual verification. Condition assessment of immovable assets by physical inspection shall be performed periodically as determined by the Asset Management Committee. In the interim, condition of immovable assets shall be determined based upon staff knowledge, maintenance records, customer complaints and performance records. A physical check of immovable assets may also be conducted whenever routine maintenance is done.

The following rating scale shall be utilised:

Rating	Description	Consequence of failure	Detailed Description
1	Very Good	Insignificant	New, sound structure, well maintained. Only normal maintenance required. Excellent physical condition; very good strength and stability. No corrosion or damage evident.
2	Good	Minor	Serves needs but minor deterioration (< 5%); some surface damage to the structure but no excessive corrosion, staining or loss of stability Minor maintenance required.
3	Fair	Moderate	Clearly evident deterioration (10–20%). Significant maintenance required, consider impairment.
4	Poor	Major	Significant deterioration of structure and/or appearance. Significant impairment of functionality (20–40%). Significant renewal/upgrade required.
5	Very Poor	Catastrophic	Serious structural problems from corrosion or physical damage Unsound, failed needs reconstruction/ replacement (> 50% needs replacement).

9.3. INTERNAL TRANSFER OF ASSETS

General

Internal transfer of assets or inventory items within the municipality necessitates procedures to be in place to ensure that the Asset Management Committee can keep track of all assets and ensure that the asset register is updated with all



changes in asset locations. These procedures must be followed and apply to all transfers of assets from:

- i. One Department to another Department;
- ii. One location to another within the same department; and
- iii. One building to another.

Policy

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

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

Responsibilities

- i. The Directors shall approve all asset movements, which relate to the transfer of assets from one Directorate to the other.

9.4. 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.

Material movable assets in value and substance shall be insured at least against destruction, fire and theft, and all municipal buildings shall be insured at least against fire and allied perils. 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.

All insured assets shall be handled in terms of the municipality's Insurance Policy as agreed with the Insurance Brokers.

Responsibilities

- i. The Municipal Manager shall recommend to the Council, after consulting with the CFO, the basis of the insurance to be applied to each type of asset: either the carrying value or the replacement value of the assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality, and where applicable asset classes shall be prioritised in terms of their risk exposure and value.
- ii. In the event that the CFO is directed by Council to establish a self-insurance reserve, the CFO shall annually submit a report to the Council on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve.

9.5. SAFEGUARDING OF ASSETS

General

The municipality applies controls and safeguards to ensure that assets are protected against improper use, loss, theft, malicious damage or accidental damage.

Policy

Every Director shall be directly responsible for the physical safeguarding of any asset controlled or used by the Directorate in question. In exercising this responsibility, every Director shall adhere to any written directives issued by the MM to the Directorate in question, or generally to all Directorates, in regard to the control of or safeguarding of the municipality's assets.

It is the responsibility of all municipal staff to adhere and practice strict physical controls of the assets around their work area. This culture should be practiced and disseminated from top municipal officials to all their subordinates.



Upon breach of this clause by any member of staff in case of reckless driving / accidents, a joint sitting shall take place to investigate acts of negligence and recklessness as well as compliance to the Asset Management Policy. The sitting will comprise of:

- i. Legal Advisor
- ii. Human Resource Manager
- iii. Asset Manager and
- iv. Chief Financial Officer

Private Use of Municipal Assets

Each Directorate should ensure that the removal of assets from municipal premises is monitored. No municipal asset may be used for personal gain or profit.

Resignation of asset custodians

At the resignation of an employee the applicable Director or his/her duly delegated representative must forward a statement to the Human Resources Management for their further attention. This statement must confirm that the inventory and asset items entrusted to the employee to execute his/her daily duties are in good order and handed in where necessary.

Responsibilities

- i. Each Director shall prepare and submit to the CFO, upon request, an annual asset safeguarding plan for the assets under the control of their respective departments, indicating the budget required. The CFO shall confirm the available budget, and in consultation with the respective Directors, determine the impact of any budget shortfall. The CFO shall report the impacts to the Municipal Manager for review, and advise Council. Each Director shall implement the safeguarding plan within the resources made available.
- ii. Each Director shall report, within the time frame indicated by the CFO, the existence, condition, location and appropriate use of assets under the control of their respective departments at the review date.
- iii. The CFO shall establish procedures for the effective management of movement of assets from one location to another (both internal, in terms of sections 9.3 of this Policy and external, in terms of section 8.2 of this Policy),



transfers of assets from one custodian to another, and reporting damage, in consultation with the Directors.

- iv. Directors shall enforce the application of the procedures for controlling the movement of assets as prescribed by the CFO.
- v. Directors shall ensure that rented assets, such as photocopy machines, shall not be moved, unless by duly authorised staff.
- vi. Malicious damage, theft, and break-ins must be reported to the Municipal Manager or delegated person within 48 hours of its occurrence or awareness by the respective Director.
- vii. The Municipal Manager must report criminal activities to the South African Police Service.

10. ASSET FINANCIAL CONTROL

10.1. FUNDING SOURCES

General

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

- i. Grants, Subsidies and Public Contributions;
- ii. Revenue Contributions;
- iii. Capital Replacement Reserve (CRR);
- iv. Cash Surplus; and / or
- v. 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.

It is the policy of Council to maintain and annually make contributions to a 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 IDP, 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. In this regard:

Responsibilities

- i. The Chief Financial Officer shall ensure that in respect of all assets financed from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of assets donated to the municipality, a grants reserve or public contribution reserve for future depreciation is created equal in value to the capitalised value of each asset item in question.
- ii. The Chief Financial Officer shall thereafter ensure that in the case of depreciable assets an amount equal to the monthly depreciation expenses of the items concerned are transferred
- iii. The Chief Financial Officer shall ensure that in respect of all assets financed from the CRR, whenever an asset (including land) is sold by the municipality, the proceeds on the sale of the assets are transferred from the Accumulated Surplus to the CRR via the statement of changes in net assets, and 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.

10.2. BORROWING COSTS (GRAP 5)**General**

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of premiums or discounts associated with such borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance charges in respect of finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as an adjustment to interest costs. The capitalisation of borrowing costs should take place when borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. During extended periods in which development of an asset is interrupted, the borrowing costs incurred over that time period should be recognised as an expense when incurred.



Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

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

Policy

Borrowing costs shall be capitalised, if directly attributable to the acquisition construction or production of an asset, except when it is inappropriate to do so.

10.3. DISASTER

General

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

- i. death, injury or disease;
- ii. damage to property, infrastructure or the environment; or
- iii. disruption of life of community; and
- iv. is of a magnitude that exceeds the ability of those affected by the disaster to cope with
 - a. its effects using only their own resources.

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

Policy

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



disaster management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster.

11. LIFE-CYCLE MANAGEMENT OF ASSETS

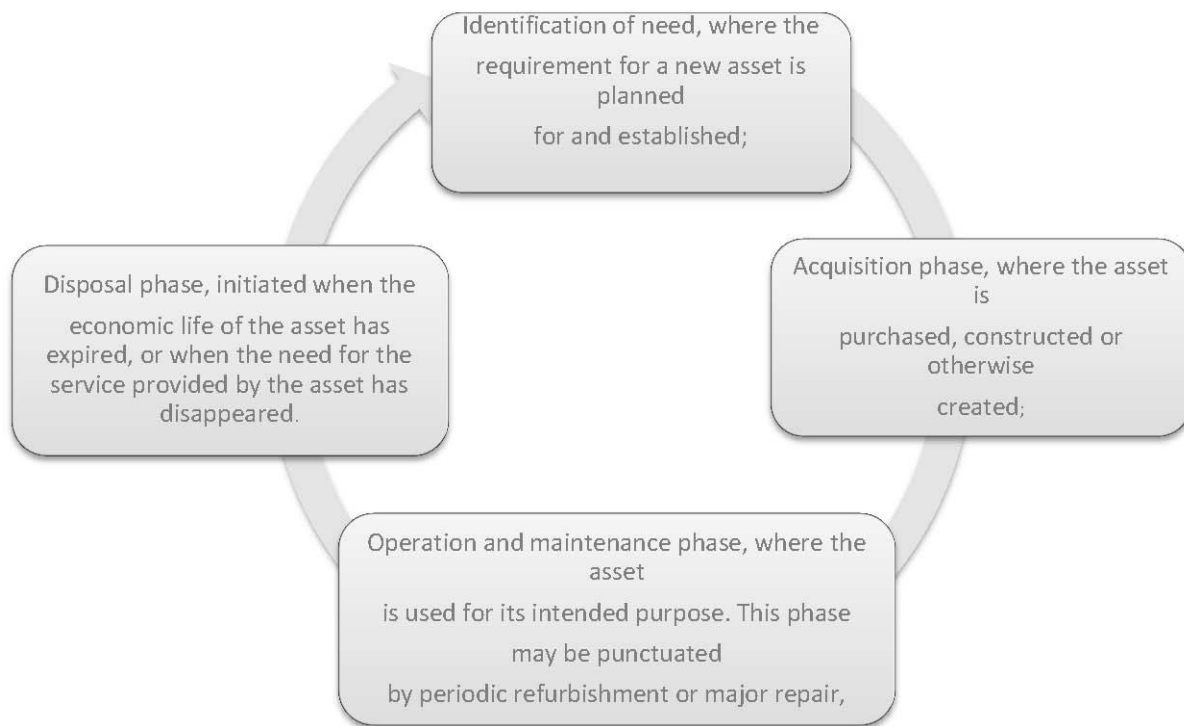
General

Municipal assets (such as infrastructure and community facilities) are the means by which the municipality delivers a range of essential municipal services. Consequently, the management of such assets is critical to meeting the strategic objectives of the municipality and in measuring its performance. The goal of 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 are:

- i. taking a life-cycle approach;
- ii. developing cost-effective management strategies for the long-term;
- iii. providing a defined level of service and monitoring performance;
- iv. understanding and meeting the impact of growth through demand management and infrastructure investment;
- v. managing risks associated with asset failures;
- vi. sustainable use of physical resources; and
- vii. continuous improvement in asset management practices.

The phases through which an asset passes during its life are:



Policy

The municipality shall provide municipal services for which the municipality is responsible, at an appropriate level, and in a transparent, accountable and sustainable manner, in pursuit of legislative requirements and in support of its strategic objectives, according to the following core principles:

- **Effective governance**

The municipality shall strive to apply effective governance systems to provide for consistent asset management and maintenance planning in adherence to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected.

To this end, the municipality shall:

- continue to adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- regularly review and update amendments to the above legislation;



- review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- effectively apply legislation for the benefit of the community.

- **Sustainable service delivery**

The municipality shall strive to provide to its customer's services that are technically, environmentally and financially sustainable. To this end, the municipality shall:

- i. identify a suite of levels and standards of service that conform with statutory requirements and rules for their application based on long-term affordability to the municipality;
- ii. identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- iii. identify current and future demand for services, and demand management strategies;
- iv. set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose infrastructure assets, where applicable in line with national targets;
- v. apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- vi. prepare and adopt a maintenance strategy and plan to support the achievement of the required performance;
- vii. allocate budgets based on long-term financial forecasts that take cognisance of the full life-cycle needs of existing and future infrastructure assets and the risks to achieving the adopted performance targets;
- viii. strive for alignment of the financial statements with the actual service delivery potential of the infrastructure assets; and
- ix. implement its tariff and credit control and debt collection policies to sustain and protect the affordability of services by the community.

- **Social and economic development**

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



- i. regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- ii. implement changes to services in response to changing customer needs and expectations where appropriate;
- iii. foster the appropriate use of services through the provision of clear and appropriate information;
- iv. ensure services are managed to deliver the agreed levels and standards; and
- v. create job opportunities and promote skills development in support of the national EPWP.

- **Custodianship**

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

- i. establish a spatial development framework that takes cognisance of the affordability to the municipality of various development scenarios;
- ii. establish appropriate development control measures including community information;
- iii. cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- iv. ensure that heritage resources are identified and protected; and
- v. ensure that a long-term view is taken into account in infrastructure asset management decisions.

- **Transparency**

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

- i. develop and maintain a culture of regular consultation with the community with regard to its management of infrastructure in support of service delivery;
- ii. clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);
- iii. avail asset management information on a ward basis; and



- iv. continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

- **Cost-effectiveness and efficiency**

The municipality shall strive to manage its infrastructure assets in an efficient and effective manner. To this end, the municipality shall:

- o assess life-cycle options for proposed new infrastructure in line with the Supply Chain Management Policy;
- o regularly review the actual extent, nature, utilisation, criticality, performance and condition of infrastructure assets to optimise planning and implementation works;
- i. assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of infrastructure assets;
- ii. continue to secure and optimally utilise governmental grants in support of the provision of free basic services;
- iii. implement new and upgrading construction projects to maximise the utilisation of budgeted funds;
- iv. ensure the proper utilisation and maintenance of existing assets subject to availability of resources;
- v. establish and implement demand management plans;
- vi. timeously renew infrastructure assets based on capacity, performance, risk exposure, and cost;
- vii. timeously dispose of infrastructure assets that are no longer in use to provide basic municipal services;
- viii. review management and delivery capacity, and procure external support as necessary;
- ix. establish documented processes, systems and data to support effective life-cycle infrastructure asset management;
- x. strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and
- xi. conduct regular and independent assessments to support continuous improvement of infrastructure asset management practice.

Responsibilities



- i. The Asset Management Committee should convene regularly and take measures to effectively implement this policy, and report to Council on progress made at a frequency indicated by Council.
- ii. The Municipal Manager shall establish procedures to ensure that legislative requirements regarding the management of capital assets, including but not limited to health and safety, and environmental protection, are documented and advised to Directors. Directors shall address legislative needs in their strategies and plans, and shall enforce implementation.

12. POLICY AMENDMENT

Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the CFO in consultation with the Municipal Manager and respective Directors. The recommendations of the CFO shall be considered for adoption by Council.

13. POLICY IMPLEMENTATION

Detailed procedures shall be prepared and adopted by the Municipal Manager, in consultation with the CFO and Directors, to give effect to this policy.

14. ANNEXURES:

Annexure 1: Asset classification and estimated useful lives

ITEM	DESCRIPTION	AVERAGE USEFUL LIFE
1.	Buildings	20 - 30 Years



2.	Plant and Machinery	4 - 10 Years
3.	Furniture and Fixtures	5 – 7 Years
4.	Motor Vehicles & Specialised vehicles	7 – 15 Years
5.	Office Equipment	4 – 5 Years
6.	IT Equipment	4 Years
7.	Sign/Name Boards	5 Years
8.	Water Reservoirs and Reticulation	5 – 60 Years
9.	Sewerage Purification	5 – 60 Years
10.	Intangible Assets - Software	5 Years
	Servitudes, Statutory licences and other	In accordance with the applicable legal provisions

Annexure 2: Asset Requisition Form (ARF)



MOPANI DISTRICT MUNICIPALITY



ASSET REQUISITION FORM				
DIRECTORATE:			DIVISION:	
PURPOSE / NEED OF THE ASSET:				
ASSET REQUISITION DETAILS				
ITEM #	DESCRIPTION	QTY	VOTE NUMBER	
			/ /	
			/ /	
			/ /	
			/ /	
AVAILABLE FUNDS		R		
RESPONSIBLE OFFICIAL	INITIALS & SURNAME	SIGNATURE	DATE	
APPROVED / NOT APPROVED				DATE
DIRECTOR				
APPROVED / NOT APPROVED				DATE
CHIEF FINANCIAL OFFICER				

Annexure 3: Asset Transfer/Movement Form (ATF)



MOPANI DISTRICT MUNICIPALITY

ASSET TRANSFER/ MOVEMENT FORM

REFERENCE NUMBER

DIRECTORATE:

DIVISION:

ASSET ITEM:

ASSET /BARCODE NUMBER

DESCRIPTION

SERIAL NUMBER

CONDITION

1.

2.

CURRENT ASSET LOCATION:

BUILDING:

ROOM NUMBER OR DESCRIPTION:

TRANSFEROR INITIALS AND SURNAME:

TRANSFEROR SIGNATURE:

INTENDED ASSET LOCATION:

BUILDING

ROOM NUMBER OR DESCRIPTION:

TRANSFEEE INITIALS AND SURNAME:

TRANSFEROR SIGNATURE:

REASON FOR TRANSFER:

APPROVED / NOT APPROVED

DIRECTOR

DATE

ACKNOWLEDGEMENT

DATE

Asset Management Representative

Annexure 4: Asset Disposal Form (ADF)



MOPANI DISTRICT MUNICIPALITY

ASSET DISPOSAL FORM

DIRECTORATE:

DIVISION:

ASSET ITEM TO BE DISPOSED

ASSET / BARCODE NUMBER

DESCRIPTION

SERIAL NUMBER

CONDITION

1.

2.

ASSET LOCATION:

TOWN:

BUILDING:

ROOM NUMBER OR DESCRIPTION:

REASON FOR DISPOSAL:

CONDITION OF ASSET:

VERY GOOD

GOOD

FAIR

POOR

VERY POOR

BROKEN /
DAMAGED

APPROVED / NOT APPROVED

DIRECTOR

DATE _____

ACKNOWLEDGEMENT

ASSETS MANAGEMENT

DATE _____

CHIEF FINANCIAL OFFICER

DATE _____



POLICY APPROVAL

This policy shall be reviewed annually

This policy was formulated by Budget and treasury Management in consultation with the Treasury.

Authorized by Municipal Manager: **TJ Mogano**

Signature: _____ Date: _____

Approved by :Municipal Council

Signature: _____ Date: _____