

# MOSES KOTANE LOCAL MUNICIPALITY [NW375]



## ASSET MANAGEMENT POLICY

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#### Abbreviation

Item	Description
ADC	Asset Disposal Committee
AMP	Asset Management Plan
MUNICIPAL MANAGER	Accounting Officer
CFO	Chief Financial Officer
EUL	Estimated Useful life
GIS	Geographical Information System
GRAP	Generally Recognized Accounting Practice
FAR	Fixed Assets Register
MFMA	Municipal Finance Management Act

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Item	Description
PPE	Property, Plant & Equipment
RUL	Remaining Useful Life
SCM	Supply Chain Management

#### Section 1

##### Objectives of the Asset Management Policy

- The Asset Management Policy provides direction for the management, accounting and control of Property, Plant & Equipment (Fixed Assets) owned or controlled by the Council.
- Apply asset management practice in a consistent manner and in accordance with legal requirements and recognised good practice.

#### Section 2

##### Role of Municipal Manager

The Municipal Manager shall be the principal custodian of all the council's fixed assets and shall be responsible for ensuring that the fixed asset management policy is scrupulously implemented and adhered to.

The Municipal Manager or his/her duly delegated representative is responsible for:

- Ensure implementation of the approved Asset Management Policy as required in terms of section 63 of the Municipal Finance Management Act (MFMA).
- Physical verify assets in possession of the Council annually, during the course of the financial year.
- Keep a complete, accurate and balanced record of all assets in possession of Council.
- Report in writing all asset losses, where applicable, to Council.
- Ensure that assets are valued and accounted for in accordance with a standard of GRAP.
- Establishment of an asset disposal committee.

As the Accounting Officer of the Municipality, the Municipal Manager shall be the principal custodian of all the Municipality's fixed assets, and shall be responsible for ensuring that 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.

##### Role of Disposal Committee

The asset disposal committee(ADC) shall be established by the Accounting Officer in line with the Supply Chain Management regulations. The committee shall serve for a period not exceeding 12 months and shall be appointed by the Accounting Officer in writing. The committee shall be chaired by the Chief Financial Officer and key Departments will be represented. The ADC shall comprise of the following members:

- Chairperson (Chief Financial Officer)
- Head of Unit: Assets
- Head of Unit : Supply Chain Management
- Head of Unit : Legal Services
- Head of Units: Community Services
- Head of Units : Planning
- Head of Unit : Technical Services
- Asset Managers: Infrastructure and Movables

The ADC shall:

- Receive a consolidated asset disposal list from the Chief Financial Officer
- Verify and confirm that assets on the consolidated disposal list does not contravene with Section 14 of the Municipal Finance Management Act
- Evaluate and recommend on the best disposal method to be used.
- Advice Accounting Officer and Council on the disposal and writing off of assets

### **Section 3**

#### **Role of the Chief Financial Officer (CFO)**

The CFO shall be the custodian of the fixed asset register of the Municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained.

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 ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained. No amendments, deletions or additions to the fixed asset register shall be made without CFO's approval or by an official acting under the written instruction of the CFO.

#### **3.1 Head of Assets Unit**

- Shall ensure that complete records of asset items are kept, verified and balanced regularly.
- Shall ensure that all movable assets are properly bar coded and accounted for.
- Shall conduct an annual audit inventory by scanning selected movable assets and compare this inventory with the custodian's asset sign offs.
- Shall ensure that the Fixed Asset Register is balanced annually with the general ledger and the financial statements.
- Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the Fixed Asset Register.
- Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the departments and provided to the treasury department in the prescribed format.
- Shall ensure that asset acquisitions are allocated to the correct asset code.
- Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset transfer form, counter signed by the Asset management Section, is presented.

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- Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from the departments.
- Shall compile a list of the items to be auctioned in accordance with the Supply Chain Management (SCM) Policy.
- Shall compile and circulate a list of unused movable assets to enable other departments to obtain items that are of use to them.
- Shall ensure that the SCM unit is notified of any disposal of written-off asset or asset inventory items.

#### **3.2 The Manager: Budget**

- Shall ensure that the capital budget with funding source as submitted by the departments is approved.

#### **3.3 The Manager: Expenditure section**

- Shall ensure that invoices authorized for payment are matched to the goods received note before processing such payment.
- Shall if any doubt exists as to whether the invoice is in accordance with policy, query the payment with the relevant department and shall not process a payment until the invoice meets the policy criteria.

## **Section 4**

### **Role of other departments**

#### **4.1 Corporate service Department**

The Corporate services Department:

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

#### **4.2 Community Services**

The Community Services Section:

- Shall ensure that the necessary security measures are in place to minimize asset losses within Council owned buildings or facilities
- Report to the Asset Management Section of any unauthorized asset movements or transfers

**4.3 All Departments**

Head of Departments:

- Shall ensure that employees in their departments adhere to the approved Asset Management Policy.
- Shall ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in the department. The Asset management Section must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the head of departments.
- Shall ensure that all assets under their control are adequately safeguarded and insured
- Shall ensure that assets are properly maintained in accordance with the maintenance policy.
- Shall ensure that the assets of the council are not used for private gain.
- Shall ensure that all their movable assets as reflected on the Fixed Asset Register and are bar coded where possible.
- Shall ensure that the Asset Management Section is notified of any changes in the status of the assets under the department's control.
- Shall certify in writing that they have assessed and identified impairment losses on all assets at year end.
- Shall ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the Asset Management Section without delay.
- Shall ensure that the correct cost element and description are being used before authorizing any requisitions.
- The detailed assets as created in the financial system must be categorized and clearly identified as follows:

Immovable Assets:

- Infrastructure assets
- Buildings
- Land
- Community assets
- Heritage assets
- Recreational Facilities
- Work in progress (Only an asset after completion)
- Investment Properties
- Intangible assets
- Agricultural assets

Movable Assets:

- Bins and Containers
- Emergency Equipment
- Emergency Vehicles
- Furniture and Fittings
- Heritage.
- Motor Vehicles
- Office Equipment
- Plant and Equipment
- Other

## **Section 5**

### **Definition of an asset**

#### **5.1 Definition of an Asset**

An asset is a resource controlled by Council as a result of past events and from which future economic benefits or service potential is expected to flow to Council.

The definition has three components, which must all be satisfied in order to be classified asset. They are relevant to all forms of assets:

- Council has the capacity to control the service potential or future economic benefits of the asset, that it is control of the economic benefits or service potential of the asset rather than 'physical' control;
- The service potential or future economic benefits arose from past transactions or events existing on reporting date. and
- The asset has future service potential or economic benefit for Council. The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to Council. The potential may be a productive one that is part of the operating activities of Council. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative process lowers the costs of providing a service.
- Service potential is thus the capacity of an asset, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of Council.
- An asset held under a finance lease, if it meets the definition of an asset, shall be recognized, as Council's asset.

## **Section 6**

### **Format of the fixed asset register**

#### **6.1 Format**

The fixed asset register shall be maintained in the format determined by the CFO, which format shall comply with the requirements of any accounting requirements which may be prescribed.

Without in any way detracting from the compliance criteria mentioned in the preceding paragraph, the fixed asset register shall reflect at least the following information:

- a brief but identifiable description of each asset
- classification of each asset
- the date on which the asset was acquired for use
- the location of the asset
- the departments within which the assets will be utilised
- the responsible person for this asset
- the title deed number, in the case of fixed property
- the stand number, in the case of fixed property
- a unique identification number
- the original cost or fair value if no costs are available
- the (last) effective date of revaluation of the fixed assets subject to revaluation

- the revalued value of such fixed assets
- the valuer who did the (last) revaluation
- accumulated depreciation to date
- the carrying value of the asset
- the method and, where applicable, the rate of depreciation
- impairment losses
- impairment recovery
- the source of financing
- whether the asset is required to perform basic municipal services;
- the date on which the asset is disposed of
- the disposal proceeds
- the date on which the asset is retired from active use, and held for disposal
- the residual value of each asset
- measurement model

Head of department under whose control any fixed asset falls shall promptly provide the CFO in writing of any information required to compile the fixed asset register and shall promptly advise the CFO in writing of any material change which may occur in respect of such information.

A fixed asset shall be capitalised, that is, recorded in the fixed asset register, as soon as it is available for use. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a fixed asset.

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

## **6.2 Different categories within FAR**

The following is an outline of the requirements relating to the various types of asset categories that the Council will maintain

Immovable Assets:

- Infrastructure assets:
  - Electricity assets
  - Water networks and related assets
  - Waste water networks and related assets
  - Roads, bridges and Storm water
- Land and Buildings
- Investment properties
- Community assets
- Heritage assets
- Intangible assets
- Capital work-in-progress. Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is available for use.
- Other assets

Movable Assets:

- Office Equipment
- Furniture and Fittings

- Motor Vehicles
- Plant and Equipment

## **Section 7**

### **Classification and identification of Property, Plant and Equipment (fixed assets)**

#### **7.1 Classification**

In compliance with the requirements of National Treasury and accounting standards the CFO shall ensure that all fixed assets are classified under the following headings and Head of departments shall provide the CFO with such information and assistance as is required to compile a proper classification:

#### **Property, Plant and Equipment**

- Land (not held as investment assets);
- Buildings, excluding buildings classified as investment assets, buildings classified as Heritage assets and buildings utilised in contributing to the community's well-being (Clinics, libraries etc.).
- Infrastructure assets are defined as any asset that is part of a network of similar assets. these assets usually display some or all of the following characteristics:
  - They are part of a system or network,
  - They are specialised in nature and do not have alternative uses,
  - They are immovable, and
  - They may be subject to constraints on disposal.

Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks. Infrastructure can be considered as a single asset or more usefully as a collection of different assets. Each individual asset shall be measured at its own cost and own lifespan, which will influence the depreciation of such an asset.

- Community assets are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.
- Heritage assets are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- Capital Finance Lease assets are defined as assets financed by a Finance Lease if it is identified as such in terms of the requirements of GRAP 13.
- Other assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

#### **Assets Held for Sale**

- Assets owned or acquired by Council with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by Council with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as non-current assets held for sale, and not included in either property, plant and equipment or investment property in Council's statement of financial position.

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

**Investment Property**

Investment properties are defined as properties that are acquired/held for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

The CFO shall adhere to the classifications indicated in the annexure on fixed asset lives (see Annexure A below), and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question.

**7.2 Identification**

The Municipal Manager shall ensure that Council maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register.

The identification system shall be determined by the Municipal Manager, acting in consultation with the CFO and other Head of departments, and shall comply with any legal prescriptions, as well as any requirements of the Auditor-General, and shall be decided upon within the context of the Council's budget. Head of the department shall ensure that the asset identification system approved by Council is scrupulously implemented in respect of all fixed and movable assets controlled or used by the department.

**7.3 Verification**

The Asset Management Section shall at least once during every financial year provide all Head of Departments with a comprehensive list of assets which is registered under their control.

Head of departments shall be responsible for verifying this list with the assets under their control and investigate any discrepancies arising out of the asset verification exercise.

Head of departments will be required to sign and date a declaration stating that the list of assets verified for his/her department is complete & accurate except for the discrepancies as reported to the Asset Management Section.

Assets not found during verification can be derecognised after investigation has been concluded and the investigation report has been approved by council. At year end assets under investigation must be disclosed in the notes to the financial statements.

**7.4 Safekeeping**

Section 63 of the Municipal Financial Management Act (Act no 56 2003) determines that the accounting officer of the Council is responsible for the management of the assets of the Council, including the safeguarding and the maintenance of those assets.

Section 78 of the Municipal Financial Management Act (Act no 56 2003) determines each senior manager of Council and each official of the Council exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets and liabilities of Council are managed effectively and that assets are safeguarded and maintained to the extent necessary.

The municipality allocates day-to-day duties relating to such control, verification and safekeeping to asset custodians, and record such in the asset register. All movements/ relocation of assets are to be reported to the asset management team using the asset transfer form. Incidents of loss and damage to municipal assets should be promptly reported to respective Heads of Departments and to the asset management team. Every Head of department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by his/her department.

## **Section 8**

### **Heritage Assets**

#### **8.1 Definition**

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. Examples are works of art, conservation areas, historical buildings and statues.

#### **8.2 Recognition and Disclosure of Heritage assets**

The Council shall adopt the cost model as the accounting policy.

Where no evidence is available to determine the market value in an active market of a heritage asset, a valuation technique may be used to determine its fair value. Valuation techniques include using recent arm's length market transactions if available. In the case of specialised heritage buildings and other man-made heritage structures, such as monuments, the Council may need to determine fair value by using a replacement cost approach.

## **Section 9**

### **Donated Assets**

#### **9.1 Definition**

An item donated to the Council or acquired by means of an exchange of assets between the Council and one or more other parties shall be recorded in the fixed asset register only if it the definition and recognition criteria of an asset.

#### **9.2 Disclosure of Donated assets**

Donated assets will be disclosed in the Statement of Financial Position at cost if the donation certificate stipulates cost or at fair value less accumulated depreciation at date of acquisition (where the donation value is not attached). Fair value being what the asset would cost in the open market at the date of acquirement. If there is no open market for such assets the depreciated replacement value will be applied to determine fair value.

The transaction acquired will reflect on the Statement of Changes to Net Assets as "Assets Donated"

## **Section 10**

### **Intangible Assets**

#### **10.1 Definition**

Items belonging to the category 'intangible' do not have a physical form and meets the identification criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from Council and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- Arises from contractual or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the Council or from other rights and obligations.

Examples of intangible items are:

- Mineral exploration rights
- Computer software (not operational software)
- Licensing rights.
- Servitudes (Although intangible in nature, servitudes are associated with a physical asset (land). GRAP 31 states that an entity uses judgement to assess which element is more significant. For example, an entity may conclude that even though a servitude meets the definition of an intangible asset, it is essential to the operation of a tangible asset and therefore includes the cost of the servitude in the cost of the tangible asset)

#### **10.2 Recognition and measurement**

Intangible items are initially recorded at their cost price. Where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at date of acquisition.

After initial recognition, the Council shall adopt cost model as accounting policy.

##### **Cost model**

An intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

#### **10.3 Useful life**

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

An intangible asset with a finite useful life is amortised over its estimated useful life.

#### **10.4 Retirements and disposals**

An intangible asset shall be de-recognised:

- on disposal; or
- when no more future economic benefits or service potential are expected from its use or disposal.

#### **10.5 Review of useful life assessment**

The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

### **Section 11**

#### **Capitalisation criteria**

##### **11.1 All asset acquisitions that complies with the definition of PPE.**

All items of PPE acquired that comply with the fixed asset definition must be capitalised in the FAR at cost and be provided for on the capital budget.

##### **11.2 Group / rolled-up assets**

Are assets of a similar nature and usually purchased as a group. Group items identified are:

- Water and electricity meters;
- Chairs for community centres and the city hall.
- Library books

All group asset purchases will not be tagged but must be capitalised on the Fixed Asset Register as a group or rolled-up and provided for on the capital budget.

##### **11.3 THRESHOLD**

- (a) Assets with an initial cost of more than R 1 000 will be recognised as Property, Plant and Equipment. Items with a cost between R 500 and R 1 000 can be capitalised at the discretion of the CFO. All items above R 1 000 must be capitalised.
- (b) Fixed assets with a value of less than R 1 000 (except in the case where the CFO has judged otherwise) as described above will be regarded as inventory and not recorded for financial purposes in the fixed asset register. These assets should still be marked or identified for control purposes and indicated as such in an inventory list.

Every custodian shall moreover ensure that the existence of items recorded on such inventory sheets is verified from time to time, and at least once in every financial year, and any amendments which are made to such inventory sheets pursuant to such stock verifications shall be retained for audit purposes.

## **Section 12**

### **Calculation of capitalisation cost of assets**

#### **12.1 Initial Cost**

An item of property, plant and equipment that qualifies for recognition as an asset should initially be measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are:

- The cost of site preparation,
- Initial delivery and handling costs,
- Installation and assembly costs, and
- Professional fees such as for architects and engineers that is directly applicable to the project;
- Feasibility studies will only be capitalised as cost if the capital project, for which this study was applied, will be executed. Up to the starting time of this capital project the cost of this study will be carried as work in progress. If no capital project will flow from this study the cost will be adjusted to the accumulated surplus account.
- The initial estimated costs of dismantling and removing the item and restoring the site on which it is located, to the extent that it is recognised as a provision.
- Administrative and other general overhead costs are only a component of cost if it can be directly attributed to the acquisition or construction of the asset without which the asset could not have been brought to working condition.
- Interest on external loans that are directly attributable to the acquisition, construction or production of a qualifying asset i.e. interest that would have been avoided if the expenditure on the qualifying asset had not been made.

#### **12.2 Costs incurred on existing PPE subsequent to the initial recording of the cost price**

Assets are often modified during their life. There are two main types of modification:

##### **Enhancements / Rehabilitation:**

This is where work is carried out on the asset that increases its service potential. Enhancements normally increase the service potential of the asset, and or may extend an asset's useful life and result in an increase in value.

These expenses are not part of the life cycle of the asset. These costs normally become necessary during the life of an asset due to a change in use of the asset or technological advances.

Disbursements of this nature relating to an asset, which has already been recognised in the financial statements, should be added to the carrying amount of that asset. The value of the asset is thus increased when it is probable that future economic benefits or service potential will flow to the Council over the remaining life of the asset.

To be classified as capital spending, the expenditure must lead to at least one of the following economic effects:

- Modification of an item or plant to extend its useful life, including an increase in its capacity;
- Upgrading machine parts to achieve a substantial improvement in the quality of output;
- Adoption of new production processes enabling a substantial reduction in previously assessed operating costs;
- Extensions or modifications to improve functionality such as installing computer cabling or increasing the speed of a lift;
- Improve the performance of the asset;

**Maintenance / Refurbishment:**

Expenditure related to repairs or maintenance of property, plant and equipment are made to restore or maintain the future economic benefits or service potential that a municipality can expect from the asset.

Refurbishment of works does not extend functionality or the life of the asset but are necessary for the planned life to be achieved. In such cases, the value of the asset is not affected, and the costs of the refurbishment are regarded as operating expense in the statement of financial performance.

Thus, if the improved performance or extended life of an asset is not beyond what has originally been estimated for the asset and the expenditure is only to bring performance back to the level that is normally expected for the asset the expenditure will be considered an operating expense.

**Section 13**

**Residual Values**

**13.1 Definition**

The residual value of an asset is the estimated amount that Council 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.

**13.2 Determine residual value**

Residual value will be determined on PPE where practicable in terms of the definition as stated above.

The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge is zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

The residual value and an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate.

## **Section 14**

### **Depreciation of assets**

#### **14.1 Definition**

Depreciation is the accounting process used to allocate the cost to particular accounting periods of 'using up' the service potential of the asset over its useful life.

#### **14.2 Which assets must be depreciated**

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

Although typically disclosed together, land and buildings are separable assets and because land normally has unlimited life it is not depreciated whilst buildings are. Heritage assets such as works of art, historical buildings and statues are also not normally depreciated. The reason is that these assets have cultural significance and as such are likely to be preserved for the benefit of future generations. It should therefore be impossible to determine their useful lives.

#### **14.3 Determining useful lives of assets**

The CFO shall assign a useful operating life to each depreciable asset recorded on the Council's Fixed Asset Register. In determining such a useful life, the CFO shall adhere to the useful lives set out in the annexure to this document (refer Annexure A).

The useful lives in Annexure A were determined considering all the following factors and the Local Government Capital Asset Management Guideline from the National Treasury:

- Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
- Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
- Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.
- Legal or similar limits on the use of the asset, such as the expiry dates of related leases.
- The recommendation of the head of department involved.

In the case of a fixed asset which is not listed in this annexure, the CFO shall determine a useful operating life, if necessary in consultation with the Head of department who shall control or use the fixed asset in question and shall be guided in determining such useful life either by the useful lives assigned in the annexure to the fixed asset most closely comparable to the asset in question or by any appropriate statement of generally recognised accounting practice (GRAP).

The useful life of an asset shall be reviewed at least at each reporting date. The amortisation period for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly.

The CFO shall amend the useful operating life assigned to any asset –after recommendation from the affected Department - if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life cycle will not be attained.

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

The additional depreciation expenses shall be debited to the Department’s expense vote controlling or using the fixed asset in question.

#### **14.4 Depreciation calculation**

##### **Tangible assets**

Depreciation is calculated on the straight-line method over the useful of the assets.

Depreciation is an expense both calculated and debited on a monthly basis against the appropriate line item in the Department or vote in which the item of property, plant and equipment is used or consumed and should be recognised as such.

Depreciation shall be charged from the calendar month following the month in which an item of property, plant and equipment is available for use and will continue until the accumulated depreciation equals the cost or valuation amount of the respective item of property, plant and equipment or the item is disposed or written off.

When depreciation is calculated, a corresponding accumulated depreciation account is created. The accumulated depreciation account is a statement of financial position item (it is an asset provision). This account balance reflects the depreciation charge that has been expensed or capitalised since the asset was available for use. The balance on the accumulated depreciation account can never exceed the cost or valuation of the specific item of property, plant and equipment to which it relates.

##### **Intangible assets**

Amortisation period and amortisation method

##### **Finite useful life**

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset’s future economic benefits are expected to be consumed by the Council. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless another Standard permits or requires it to be included in the carrying amount of another asset.

##### **Infinite useful life**

No amortisation will take place.

- The amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern.

#### **14.5 Budget requirement**

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

In calculating this provision, the following must be taken into consideration:

Assets in commission with useful life that will span the budget period or a portion thereof:

- full 12 months per budget year unless fully depreciated before the final budget year;
- Expected assets that will be commissioned in the current year of operations:
- full 12 months per budget year unless fully depreciated before the final budget year;
- Expected assets that will be commissioned in the ensuing three years:
- Pro rata for commission year and full 12 months for ensuing years on commission year.
- For ensuing years 1 July of each year will be regarded as date of commissioning.

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 property, plant and equipment.

#### **14.6 Offset Depreciation**

##### **Assets financed by Government Grants or Public Contributions**

The principle of government grant and public contribution funded assets is that there should be no capital cost included in tariffs from using this source of financing.

Funding from Government Grants and Public Contributions, equal to the amount used to finance the asset are directly transferred to the operating account as revenue. This transfer will reflect in the accumulated surplus as offset of depreciation against future depreciation charges on these assets.

##### **Assets re-valued**

An amount equal to the annual depreciation portion of the re-valued assets should be transferred from the Revaluation reserve to the Accumulated surplus or deficit.

#### **14.7 Disclosure requirements**

In the accounting policy notes

- The depreciation methods used and the depreciation rates or useful lives.

On the Statement of Financial Position

- The depreciation is part of the Net Property, Plant and Equipment amount.

On the Statement of Financial Performance

- The depreciation charged in arriving at the net surplus or deficit disclosed in the income statement.

In the notes to the statements

- The gross carrying amount and the accumulated depreciation at the beginning and end of the period in respect of each class of property, plant and equipment, together with all the other movements on the asset accounts.

In Annexure B and C to the financial statements

- These Annexure disclose a more detailed analysis of the various classes of assets (Annexure B) as well as a detailed analysis on the allocation of assets to the various departments and functions (Annexure C). These Annexure must show a reconciliation of the carrying amount at the beginning and end of the period showing:
  - Additions
  - Disposals
  - Acquisitions through business combinations
  - Increases or decreases resulting from revaluations
  - Reductions in carrying amount (impairment losses)
  - Depreciation
  - Other movements

When property, plant and equipment is disposed of whether by selling or destroyed the asset values must be offset against the proceeds, if any, resulting in a profit or loss on the particular item of property, plant and equipment. If this item was previously revalued and there is still a balance left regarding this item on the Revaluation reserve, this balance must then be transferred to the Accumulated Surplus/Deficit account.

## **Section 15**

### **Revaluation of fixed assets**

The Council must adopt the cost or revaluation method at remeasuring PPE. In adopting the revaluation method the following will be relevant:

#### **15.1 Revaluation process**

In adopting the revaluation method a class of PPE, after initial recognition, whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

**15.2 Revaluation Reserve**

The CFO shall also, where applicable, create a revaluation reserve for fixed assets equal to the difference between the value as recorded in the valuation roll and the carrying value of the fixed asset before the adjustment in question.

**15.3 Depreciation of revalued property**

The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its revalued amount, over its remaining useful operating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the Department's vote controlling or using the fixed asset in question.

The CFO shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the Council's accumulated surplus account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary.

**15.4 Disclosure of revalued property**

Revalued PPE shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation.

**Section 16**

**Disposal of assets**

**16.1 Disposal**

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

Head of Department shall report in writing to the CFO annually on all fixed assets controlled or used by the department concerned which such General.

Head of Department wishes to dispose of such assets by public auction or public tender within the period up to 30 June of the next financial year. The CFO shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Disposal Committee prior to being reported to Council or the Municipal Manager , as the case may be, recommending the process of disposal to be adopted.

Any items declared obsolete or damaged will be handed in to the Asset Management Section for safekeeping. No items will be received by the Asset Management Section without a completed asset disposal form counter signed by the Asset management Section, describing the status of the item and the reason for writing-off the item.

Each Department must take the necessary steps to ensure that all their obsolete or damaged assets are disposed of in the correct and approved manner. It is the responsibility of each Department to

ensure that all such assets to be disposed of are delivered to and received at the Asset Management Section.

The Council shall ensure that the disposal of any fixed asset takes place in compliance with Section 14 of the Municipal Finance Management Act 2004 and the Supply Chain Management Policy.

Every Head of department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the Department in question is promptly reported in writing to the Insurance Section, the Asset Management Section, and, in cases of suspected theft or malicious damage, also to the internal auditors, South African Police Services. Once the fixed assets are disposed of, the CFO shall remove the relevant records from the fixed asset register.

Transfer of fixed assets to other municipalities, municipal entities (whether or not under Council's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of disposal shall be by private treaty.

All assets to be disposed of in the next financial period is to be transferred to the Non-current assets held for sale account, revalued to the lower of cost and expected selling price and to be disclosed on the Statement of Financial Position as Non-current assets held for sale under Current assets and not as Property, plant and equipment under Non-current assets.

#### **16.2 Other write offs**

A fixed asset even though fully depreciated shall be written off only on the recommendation of the Head of department controlling or using the asset concerned, and with the final approval of Council.

Every Head of a department shall annually report to the CFO on any fixed assets which such director of a department wishes to have written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports and shall promptly submit a recommendation to the Council on the fixed assets to be written off.

The only reasons for writing off fixed assets, other than the disposal of such fixed assets, shall be the loss, theft, destruction, incorrect capitalisations or material impairment of the fixed asset in question.

#### **16.3 Proceeds / Gain or Loss on disposal of assets**

When assets are disposed of whether by disposal or written off the asset values needs to be readjusted and offset against the proceeds. If the proceeds of the disposal are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the vote of the Department concerned. If the proceeds of the disposal, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the vote of the Department concerned.

If this asset has an outstanding balance on the Revaluation Reserve this balance must be transferred to the Accumulated Surplus.

#### **16.4 Disclosure of assets disposed of**

The carrying value of the asset disposed of is removed from the records and will not reflect on the Statement of Financial Position as part of the balance on Property, Plant and Equipment under Non-current assets

The gain or loss will be reflected in the Statement of Financial Performance as a gain under Revenue or as a loss under Expenditure.

## **Section 17**

### **Recognition of assets in the financial statements**

Recognition is the process of incorporating in the Statement of Financial Position or Statement of Financial Performance, an item that meets the definition and satisfies the criteria for recognition.

Assets are classified into categories as set out in section 7 (Classification of Assets) and the information for each category summarised in a table format is disclosed as:

- a note to the financial statements;
- with a detailed disclosure as an annexure reflecting the movements for the financial year by category and subcategory;
- movements are also reflected on an annexure per Department;
- the net value (carrying value at year-end), for all categories is added together and reflected as a single line item in the statement of financial position.

The failure to recognise such items is not rectified by disclosure of the accounting policies used, or by notes or explanatory material.

To be able to assess the utilisation of assets all assets should be listed once the recognition criteria are met.

An asset item should be recognised in the financial statements if it meets the:

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

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

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

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

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

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

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

Assets may be acquired for safety or environmental reasons. The acquisition of such assets, while not directly increasing the future economic benefits or service potential of any particular existing asset, may be necessary in order for the Council to obtain the future economic benefits or service potential from its other assets. When this is the case, such acquisitions of assets qualify for recognition as assets, in that they enable future economic benefits or service potential from related assets to be derived by the Council in excess of what it could derive if they had not been acquired. However, such assets are only recognised to the extent that the resulting carrying amount of such an asset and related assets does not exceed the total economic benefits or service potential that Council expects to recover from their continued use and ultimate disposal.

## **Section 18**

### **Funding Sources**

The main sources of finance utilised to acquire assets are:

- Government and other conditional grants.
- Finance leases
- Conditional grants, Subsidies and Public Contributions and Donations
- Cash surplus/Own revenue.

The sources of finance that may be utilised to finance assets are utilised in accordance with the provisions of Section 19 of the Municipal Finance Management Act.

#### **18.1 Government and other conditional grants**

Whenever a conditional government or other grant for the acquisition of an asset is received a grant liability is created on receipt of the funds. Once the asset is bought, an amount equal to the cost of the asset is transferred from the unspent grant liability to the Statement of Financial Performance as revenue.

Unspent conditional grants are reflected on the Statement of Financial Position under current liabilities as Unspent Conditional Grants. These funds always have to be backed by cash. The following conditions are set for the creation and utilisation of these funds:

- The cash which backs up the grant is invested until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If the conditions are silent on investment interest it is recognized as interest earned in the Statement of Financial Performance and might be allocated, through the Statement of Changes in Net Assets, in part or fully to the unspent portion of the grant if it is so stated in the accounting policy.
- Whenever an asset is acquired from a conditional grant an amount equal to the cost of the asset is transferred from the Unspent grant creditor to the Statement of Financial Performance as revenue.

- The amount spent from this grant, meeting the condition, is transferred to an operational revenue account and reflected on the Statement of Financial Performance. It will then increase the surplus for the year and the accumulated surplus representing an offset depreciation surplus.

Once the asset is available for use, it is included in the FAR and depreciation is calculated based on the relevant useful life of the asset. Depreciation on the asset is then charged to the Statement of Financial Performance as an expense.

## **18.2 Finance leases**

A lease is classified as a finance lease if it meets the recognition requirements as per GRAP 13 (Annexure C)

At the commencement of the lease term, the Council shall recognise finance leases as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit to the lease, if this is practicable to determine; if not, the Council's incremental borrowing rate shall be used. Any initial direct costs of the Council are added to the amount recognised as an asset.

## **18.3 Donations**

The fair value of donated assets must be determined and at receipt or transfer of the assets be allocated to the accumulated surplus account.

Once the asset is available for use, it is included in the FAR and depreciation is calculated based on the relevant useful life of the asset. Depreciation on the asset is then charged to the Statement of Financial Performance as an expense.

## **18.4 Surplus cash**

If there is sufficient surplus cash available, assets can be financed directly by allocating this cash for the acquisition of assets. Depreciation charges on these assets will not be offset.

## **Section 19**

### **Impairment Losses**

#### **19.1.1 Definition**

##### **19.1.1.1 Impairment**

Impairment is defined as 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.

##### **19.1.1.2 Indications of impairment**

- The Municipality must each year test assets for impairment losses if, and only if, there has been an indication of any of the following:
  - external sources of information;
  - decline or cessation in demand;
- changes in the technological, legal or government policy environment; or internal sources of information;
- evidence of physical damage.
- evidence of obsolescence.
- construction is halted before it is usable or complete; or evidence that service performance is significantly worse than expected; or other indications, such as loss of market value.

The Municipality must however test all intangible assets that have indefinite useful life and those not yet available for use, annually for impairment irrespective of whether there is an indication of impairment.

The Municipality must only record impairments that are significant and have an enduring adverse effect (material and long-term impact). The events and circumstances in each instance must be recorded. Where there are indications of impairment, the municipality must also consider adjustment of the remaining useful life, residual value, and method of depreciation.

#### **19.1.1.3 Impairment loss**

An impairment loss of a non-cash-generating unit or asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount is the higher of the fair value less costs to sell and its value in use.

An impairment loss of a cash-generating unit (asset or smallest group of assets that generate cash inflows) is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the net selling price and its value in use.

#### **19.1.1.4 Non-cash-generating units**

Non-cash-generating units are those assets (or group of assets) that are not held with the primary objective of generating a commercial return. This would typically apply to assets providing goods or services for community or social benefit, such as infrastructure and community facilities. Typically there will not be an active market for such assets, and in such cases the municipality may use the asset's value in use as its recoverable service amount. The value in use of a non-cash generating unit is defined as the present value of the asset's remaining service potential. This can be determined using any of the following approaches:

the Depreciated Replacement Cost (DRC) approach (and where the asset has enduring and material over-capacity, for example in cases where there has been a decline in demand, the Optimised Depreciated Replacement Cost (ODRC) approach may be used);

the restoration cost approach (the Depreciated Replacement Cost less cost of restoration) – usually used in cases where there has been physical damage; or the service unit’s approach (which could be used for example where a production units model of depreciation is used).

Where the present value of an asset’s remaining service potential (determined as indicated above) exceeds the carrying value, the asset is not impaired – this will normally be the case unless there has been a significant and enduring event as indicated above.

#### 19.1.1.5 Cash-generating unit

Cash-generating units are those whose assets are held with the primary objective of generating a commercial return (in the municipal arena this would typically apply to investment property). However, when the municipality adopts the fair value model for investment property, impairment does not apply.

When the cost model is adopted, fair value is determined in accordance with the rules indicated for measurement after recognition. Costs to sell are the costs directly attributable to the disposal of the asset (for example agents fees, legal costs), excluding finance costs and income tax expenses. The value in use is determined by estimating the future cash inflows and outflows from the continuing use of the asset and at the end of its useful life, including factors to reflect risk in the respective cash-flows, and the time value of money.

#### 19.1.1.6 Recognition of impairment

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

Once an asset has been impaired to such an extent that no future economic benefit is likely to flow from the asset, it is derecognised and the carrying amount of the asset at the time of derecognition, less any economic benefit from the disposal of the asset, is debited to the statement of financial performance as a “Loss on Disposal of Asset”.

In the event of compensation received for damages to an item of PPE and the item is not to be repaired to its original state, the compensation is considered as the asset’s ability to generate income and is disclosed under Sundry Revenue; and the asset is impaired. Should repairs be performed, the compensation is offset against the repair cost.

#### 19.1.1.7 Reversing an impairment loss

The municipality must assess each year from the sources of information indicated above whether there is any indication that an impairment loss recognised in previous years may no longer exist or may have decreased. In such cases, the carrying amount is increased to its recoverable amount (providing that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods). Any reversal of an impairment loss is recognised as a credit in the surplus/ (deficit).

#### 19.1.2 Policy

Impairment of fixed assets shall be recognised as an expense in the Statement of Financial Performance when it occurs. Ad-hoc impairment shall be identified as part of normal operations.

## **Section 20**

### **Investment Property**

#### **20.1 Definition of Investment Property**

Investment Property is defined as:

Property (land or a building — or part of a building — or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- Use in the production or supply of goods or services or for administrative purposes; or
- Sale in the ordinary course of operations.
- Investment Property generates cash flows largely independently of the other assets of the Council.
- Investment property is held to earn rentals or for capital appreciation or both. The following are examples of investment property:
- Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;
- Land held for a currently undetermined future use. (If the Council has not determined that it will use the land for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation);
- A building owned by the Council (or held by the Council under a finance lease) and leased out under one or more operating leases on a commercial basis; and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following are examples of items that are not investment property:

- Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Own-occupied property, including (among other things) property held for future use as own-occupied property, property held for future development and subsequent use as own-occupied property, property occupied by employees such as housing (whether or not the employees pay rent at market rates) and own-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property. GRAP 17 applies to such property until construction or development is complete, at which time the property becomes investment property. However, existing investment property that is being redeveloped for continued future use as investment property remains investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows. For example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is

not considered an “investment property” and would be accounted for in accordance with GRAP 17; and

- Property held for strategic purposes which would be accounted for in accordance with GRAP 17.
- Where a property is utilised partly in the ordinary course of operations and partly to generate rentals or for capital appreciation it will only be classified as investment property if a significant portion is utilised to generate investment income.

## **20.2 Initial measurement of Investment Property**

- Investment property is measured initially at its cost (including transaction costs). Where an investment property is acquired at no cost (for example donated assets), or for a nominal cost, its cost is its fair value as at the date of acquisition.
- The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure, such as, professional fees for legal services, property transfer taxes and other transaction costs.
- The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, the Moses Kotane Local Municipality applies the GRAP standard on accounting for PPE (GRAP 17). At the completion date, the property becomes investment property and the Standard on investment property applies (GRAP 15).
- Investment property is only recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the Moses Kotane Local Municipality and the cost or fair value of the investment property can be measured reliably.

## **20.3 Measurement of Investment Property subsequent to initial measurement**

- Subsequent expenditure relating to an investment property that has already been recognised should be added to the carrying amount of the investment property when it is probable that future economic benefits or service potential over the total life of the investment property, in excess of the most recently assessed standard of performance of the existing investment property, will flow to the Council. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

For example: If a municipality purchases a building as an investment property and will incur renovation costs, the renovation cost may be capitalised if it improves the condition of the asset over its most recently assessed standard of performance. Assume that before the renovation the building can earn R5 000 per month rental income, but after the renovation it will earn R7 000 per month rental income. In this case the renovation cost will be added to the carrying amount of the investment property.

- After initial recognition of the investment property the Council may choose to reflect the investment property at fair value or at cost less accumulated depreciation.
- The fair value of investment property is usually its market value. Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. After initial recognition, a municipality that chooses the fair value model should measure all of its investment property at its fair value at each Statement of Financial Position date. A gain or loss arising from a change in the fair value of investment property should be included

in net surplus/deficit for the period in which it arises. No depreciation will be calculated on this property.

For Example: The Council purchases four houses at a cost of R200 000 each for purposes of leasing them out to Head of unit of the Council at market related rates. The legal fees and transport duties relating to the transaction amount to R15 000. At the end of the financial year the fair value of the houses is determined to be R900 000. This means that the Council will recognise a fair value gain in the Statement of Financial Performance for the year of R84 000. (R900 000 – R815 000).

- If, after initial recognition, the Council chooses the cost model it should measure all of its investment property using the guidelines for normal assets that is, at cost less any accumulated depreciation and accumulated impairment losses.

#### **20.4 Transfers and disposals of investment properties**

##### **Transfers**

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

- Commencement of own-occupation, for a transfer from investment property to own-occupied property;
- Commencement of development with a view to sale, for a transfer from investment property to inventories;
- End of own-occupation, for a transfer from other classified property to investment property;
- Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or
- End of construction or development, for a transfer from property in the course of construction or development to investment property.

For a transfer from investment property carried at fair value to own-occupied property or inventories, the property's cost for subsequent accounting under the relevant GRAP on PPE (GRAP 17) or inventories should be its fair value at the date of change in use.

If an own-occupied property becomes an investment property that will be carried at fair value, a municipality should apply GRAP 17 up to the date of change in use. The council should treat any difference at that date between the carrying amount of the property and its fair value in the same way as a revaluation under GRAP 17 by crediting a reserve.

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

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

**Disposals**

On disposal or permanent withdrawal from use of investment property:

- An investment property should be eliminated from the Statement of Financial Position;
- Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the carrying amount of the asset. For the purposes of display in the financial statements, the gain or loss should be included in the Statement of Financial Performance as an item of revenue or expense.

**20.5 Budget implications relating to Investment Property.**

The following amounts will have to be budgeted for in the operating budget relating to investment properties:

- Gains on the disposal of investment properties that are intended to be sold during the next financial year.
- Fair value gains that are expected to be obtained on investment properties that will be held during the next financial year.
- Depreciation on investment properties that are intended to be transferred to own-occupied properties during the next financial year.
- The effect of reduced depreciation on own-occupied properties that are intended to be transferred to investment properties during the next financial year.
- Revenue through operating lease income; and
- Fair value gains where the intention to sell a building (inventory) is changed and the inventory is held as an investment property on which rental income and capital appreciation will be earned by the Council in the next financial year.

**20.6 Disclosure**

The disclosure requirements adhered disclosing information on investment property is to be done in accordance with the requirements as per the relevant GRAP statement.

**Section 21**

**Replacement Strategy**

The Municipal Manager, in consultation with the CFO and other Head of Department shall formulate strategies and standards for the replacement of all operational property, plant and equipment. Such strategies and standards shall be incorporated in a formal policy, which shall be submitted to the Council for approval. This policy shall cover the replacement of infrastructure and operational movable vehicles and equipment.

This strategy should take into consideration:

- The nature of the asset
- The usage of the asset
- Priorities
- Available funding
- Operational and maintenance costs

- Operational skills
- Future expected developments
- Technology
- Outsourcing
- Private sector partnerships

## **Section 22**

### **Asset Risk Management**

#### **22.1 Insurance**

Departments are responsible for managing the risks associated with their activities.

This decision will depend on the amount of excess, the residual risk the Council are prepared to carry, the types of risks they insure against, taking due cognisance of the budgetary constraints of the Council.

Complete property, plant and equipment identification and valuation may prevent the Council from being over or under insured. Specific supportable insurable values are defined in the insurance policy in effect and should be reviewed regularly. In some instances, an in-house estimate of cost or insurable value may not be sufficient to substantiate the amount of a loss. Rather, an appraisal by an independent third party may be required.

#### **22.2 Other risk reducing methods**

Municipal regulations or "operating policies" can also reduce risks. Head of Departments should investigate their operations and set operating policies as to how personnel should operate and use property, plant and equipment to minimize risk. Examples are as follows:

- Only authorised personnel should be allowed in areas where expensive equipment is kept;
- Only authorised personnel should be allowed to operate plant or vehicles;
- The keys for office vehicles should be controlled in a central office during the day, and employees should sign when they take the keys;
- Ensure that drivers or operators have the necessary qualifications and licenses;
- It should be part of service conditions that employees incur personal liability if they drive while under the influence of alcohol, drugs, medication, and so forth; or if they leave the vehicle unattended and unlocked;
- Physical access to buildings, or areas within buildings, should be restricted, especially after hours.

## **Section 23**

### **Maintenance and management of assets**

#### **23.1 Maintenance and asset management plans (AMPs)**

Regular maintenance can prevent unplanned and expensive breakdowns. Maintenance plans must therefore be drawn up to ensure minimum maintenance standards and execution to achieve the optimum use of assets as planned

Every Head of Department shall ensure that a maintenance and asset management plan (AMP) in respect of infrastructural asset is prepared and submitted to Council for approval.

If so directed by the Municipal Manager, the maintenance and asset management plan (AMP) shall be submitted to Council prior to any approval being granted for the acquisition or construction of new infrastructural assets.

The Head of Department controlling or using the infrastructure assets in question, shall budget for the executing of the approved plan and will annually report to Council of the extent to which the relevant maintenance and asset management plan (AMP) has been complied with, and of the likely effect which any non-compliance and / or budgetary constraints may have on the useful operating life of the asset concerned.

### **23.2 Deferred Maintenance**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructural asset (see 18 above), the CFO shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the Council has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the Head of Department controlling or using such asset shall redetermine the useful operating life of the fixed asset in question, if necessary in consultation with the Asset Management Section, and the Asset Management Section shall recalculate the annual depreciation expenses accordingly.

### **23.3 General maintenance**

Every Head of Department shall be directly responsible for ensuring that all assets that are in his/her care are properly maintained and, in a manner, which will ensure that such assets attain their useful operating lives as well as the compilation and annual update of the relevant maintenance and asset management plans (AMPs)

## **Section 24**

### **General Requirements**

#### **24.1 Bar coding**

Bar coding means to place a control number on a piece of equipment or property. All movable assets must be bar code if probable.

The primary purpose of bar coding is to maintain a positive identification of assets. Bar coding is important to:

- Provide an accurate method of identifying individual assets
- Aid in the annual physical inventory
- Control the location of all physical assets
- Aid in maintenance of fixed assets

Fixed property and plant is not bar coded; such as:

- Buildings (record legal description in asset record),
- Land (record legal description in asset record),
- Infrastructural assets.

Consistently place asset bar codes in the same location on each similar type asset. If possible, the bar codes shall be accessible for viewing. Place the tag where the number can be seen easily and identified without disturbing the operation of the item, which will aid in taking inventory.

#### **24.2 Physical inventory of all movable assets**

The Asset Management Section will conduct a physical inventory of movable assets annually. They will require the cooperation of departmental personnel in accomplishing the physical inventory task and will attempt to minimize the time demanded of them.

The designated officials in the different Departments within Council must execute the functions listed below.

- Ensure that the bar code number and location number are reflected on the asset movement form by the relevant official on the receipt of the asset. Where applicable, the serial number or registration number should be included.
- Complete the asset movement form when transfers occur and forward the completed original form to Asset Management Section.
- Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained.
- Asset Management Section must be notified by the relevant Department of any of the following possible movements:
  - Donations
  - Additions / Improvements
  - Departmentally manufactured items
  - Loss or damage
  - Transfers
  - Terminations
  - Land Sales

#### **24.3 Acquisition**

Acquisition - In making the decision to acquire an asset the following fundamental principles should be carefully considered:

- The purpose for which the fixed asset is required is in keeping with the objectives of Council and will provide significant, direct and tangible benefit to it.
- The fixed asset has been budgeted for.
- The purchase is absolutely necessary as there is no alternative municipality asset that could be upgraded or adapted.
- The fixed asset is appropriate to the task or requirement and is cost effective over the life of the asset.
- The fixed asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources.

- Space and other necessary facilities to accommodate the asset are in place.
- The most suitable and appropriate type, brand, and model etc. has been selected.

**24.4 Asset management responsibilities**

- Utilisation - All assets should be used for the purposes they were acquired.
- Asset performance should be regularly reviewed to identify under-utilised and under-performing assets. The reasons for this should be critically examined and appropriate action taken.
- Disciplinary action must be taken against individuals if there is misuse of the Council's assets.

**24.5 Additions / Improvements**

Depending upon the type of addition or improvement to a specific asset the responsible official in the Department must notify the Asset Management Section of the change in status. The asset master record will be amended on receipt of the required asset acquisition form from the responsible Department.

When capital expenditure is incurred for any enhancement/improvement of an asset, the Department shall complete the necessary asset acquisition form and forward it to the Asset Control Section.

When any changes to vacant land or land and buildings are affected such as subdivision, transfer to another Department, extent or holders title, the current owner must complete the relevant asset movement form and forward it to the Asset Management Section.

**24.6 Termination of employee's service**

At the termination of an employee's service, the applicable Department representative must complete the asset clearance form and forward the original to the Asset Management Section. This form is a statement that the inventory and assets entrusted to the employee to execute his/her daily duties are in good order and handed in where necessary. A copy of this form is forwarded to the HR Business Section concerned or its relevant Department for further investigation in the case of missing assets.

**24.7 Transfer of Assets**

When a Department transfers an asset or inventory item within the Department, the asset movement form must be completed and forwarded to the Asset Management Section. The copy of this form must be forwarded to the party receiving the asset or inventory item.

When a Department transfers an asset or inventory item to another Department, the transferring Department must approve the transfer. After approval has been granted the asset movement form must be completed and forwarded to the Asset Management Section.

**24.8 Disposal of assets.**

**Paraphrase of Section 14 of the Municipal Finance Management Act 2004**

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

A municipality may dispose of any other capital asset, provided that:

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

All Departments must submit the properly completed asset disposal forms together with copies of all relevant approvals for the disposal of assets to the Asset Management Section.

**POLICY AMENDMENT**

This policy should be reviewed annually to ensure continued compliance with the relevant legislation and accounting standards. 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 AO and respective HODs. The recommendations of the CFO shall be considered for adoption by Council.

**Annexure A**

**Condition grading scales**

<b>Grade</b>	<b>Description</b>	<b>Detailed Description</b>	<b>Indicative RUL</b>
<b>1</b>	<b>Very good</b>	Sound structure, well maintained. Only normal maintenance required.	<b>71 - 100% EUL</b>
<b>2</b>	<b>Good</b>	Serves needs but minor deterioration (< 5%). Minor maintenance required.	<b>46 - 70% EUL</b>
<b>3</b>	<b>Fair</b>	Marginal, clearly evident deterioration (10-20%). Significant maintenance required.	<b>26 - 45 % EUL</b>
<b>4</b>	<b>Poor</b>	Significant deterioration of structure and/or appearance and impairment of functionality (20-40%). Significant renewal/upgrade required.	<b>11 - 25% EUL</b>
<b>5</b>	<b>Very poor</b>	Unsound, failed needs reconstruction/ replacement (> 50% needs replacement)	<b>0 - 10% EUL</b>

**Annexure B**

**Asset useful lives**

**GRAP 17: Infrastructure Assets**

<b>Component Type</b>	<b>Component Descriptor</b>	<b>Descriptor Class</b>	<b>EUL (yrs)</b>	<b>Residual Value (%)</b>
Auto recloser			30	5%
Auxiliary equipment	HV substation control infrastructure (AC, DC, cabling etc)		60	0%
Auxiliary equipment	Prepaid vending master stations		10	0%
Auxiliary equipment	Prepaid Vending stations		10	0%
Auxiliary equipment			20	0%
Baler			15	0%
Ballast			80	50%
Battery charger			10	0%
Bowling green			20	0%
Box culvert			50	0%
Carports	Parking - Shade net		7	0%
Carports	Parking - Sheet metal		30	0%
Cattle grid			50	0%
Channel	Lined open (lined area)		30	0%
Channel	Unlined open		5	10%
Chemical Toilet			10	0%
Circuit breaker panel	Bus-section/coupler panel		50	0%
Circuit breaker panel	Feeder panel		50	0%
Circuit breaker panel	Indoor switch in switchboard		45	0%
Circuit breaker panel	Incomer panel		50	0%
Communal standpipe	Base, tap and pipework		10	0%
Commuter shelters			15	0%
Compressor	Workshop type - fixed		10	0%
Concrete structure	Above ground structure		50	0%
Concrete structure	Below ground structure		50	0%
Concrete structure	Mass concrete		50	0%
Concrete structure	Shuttered RC eng structure - water retaining		50	0%
Concrete structure	Shuttered RC eng structure		80	0%

**MOSES KOTANE LOCAL MUNICIPALITY [NW375]**
**Asset Management Policy**

Component Type	Component Descriptor	Descriptor Class	EUL (yrs)	Residual Value (%)
Control cable			50	0%
Control panel			50	0%
Cricket field	Cricket		30	0%
Current transformer			45	10%
Cut-off drain	Galvanized grid		20	10%
Doser			15	0%
Earth structure			50	0%
Electrical installation	Standard building reticulation		30	0%
Electrical service connection	LV Overhead		50	0%
Electrical service connection	LV Underground		45	0%
Electricity meter	Credit meter		20	0%
Electricity meter	Pre-pay meters		10	0%
Electricity meter	Remote meters		10	0%
Engine	Diesel		15	0%
Erosion protection	Gabions		50	0%
Erosion protection	Rip Rap		20	0%
External furniture			20	0%
External lighting	Bollard-type		45	0%
External lighting	Floodlights		30	0%
External lighting	Streetlight with own network		45	0%
External lighting	Stadium lights		20	0%
Fabricated steel	Galvanised steel		20	0%
Fabricated steel	Mild steel	Aggressive exposure	10	0%
Fabricated steel	Mild steel	Mild exposure	20	0%
Fabricated steel	Stainless steel	Aggressive exposure	20	0%
Fabricated Steel	Stainless steel	Mild exposure	40	0%
FF & E (finishes, fixtures and equipment)			15	0%
Fibre			50	0%
Filter			15	0%
Fire protection			20	0%
Floors			50	0%
Foundation / formation	Flat terrain	Construction platform	100	50%
Foundation / formation	Flat terrain	Channels	100	50%
Foundation / formation	Flat terrain	Gravel road	50	50%
Foundation / formation	Flat terrain	UA/UB Road	50	50%
Foundation / formation	Flat terrain	UC/UD Road	100	50%
Foundation / formation	Flat terrain	Ground rehabilitation provision	20	0%
Foundation / formation	Rolling terrain	Construction platform	100	50%

**MOSES KOTANE LOCAL MUNICIPALITY [NW375]**
**Asset Management Policy**

Component Type	Component Descriptor	Descriptor Class	EUL (yrs)	Residual Value (%)
Foundation / formation	Rolling terrain	Channels	100	50%
Foundation / formation	Rolling terrain	Gravel road	50	50%
Foundation / formation	Rolling terrain	UA/UB Road	50	50%
Foundation / formation	Rolling terrain	UC/UD Road	100	50%
Foundation / formation	Mountainous terrain	Gravel road	50	50%
Foundation / formation	Mountainous terrain	UA/UB Road	50	50%
Foundation / formation	Mountainous terrain	UC/UD Road	100	50%
Foundation / formation	Mountainous terrain	Channels	100	50%
Foundation / formation	Mountainous terrain	Construction platform	100	50%
Fuel dispenser pump	Standard		20	0%
Fuse			5	0%
Generator			20	0%
Golf course			50	0%
Grid Inlet			30	0%
Guard-rail	Steel		20	0%
Guard-rail	Wood		15	0%
Heating, ventilation and air conditioning			5	0%
High mast			45	0%
HV Busbar indoor	Copper bar		60	0%
HV Busbar indoor	GIS bus ducting		50	0%
HV Busbar outdoor	Strung conductor (m)		60	0%
HV Cable			50	0%
HV Control panel			50	0%
HV Overhead line conductor			50	0%
HV Overhead line insulators			50	0%
HV Overhead line support structure			50	0%
HV Power transformer			50	0%
HV Switchgear - Circuit breaker			50	0%
HV Switchgear - Isolating link			50	0%
Hydrant			20	0%
Irrigation systems			10	0%
Kerb inlet			20	0%
Kerbing	Barrier kerb	UA/UB Roads	20	0%
Kerbing	Barrier kerb	UC/UD Roads	50	0%
Kerbing	General kerbing	Paved areas	20	0%
Kerbing	Mountable kerb	UA/UB Roads	20	0%
Kerbing	Mountable kerb	UC/UD Roads	50	0%
Land			NA	NA
Landscaped areas	Flower beds, shrubs & trees		30	0%

**MOSES KOTANE LOCAL MUNICIPALITY [NW375]**
**Asset Management Policy**

Component Type	Component Descriptor	Descriptor Class	EUL (yrs)	Residual Value (%)
Landscaped areas	Lawns		50	0%
Lifts	Passenger lift		30	0%
Line link			30	5%
Lining - landfill			50	0%
Load control set			20	0%
Load shed relay	Load control Controllers		20	0%
Local transformer			45	0%
Low water bridge	Deck with concrete culverts / pipes		50	0%
LV Cable			60	0%
LV Overhead line			45	0%
LV Overhead line	LV Airdac OH service connection (per 30m service)		45	0%
LV Overhead line	LV Airdac OH service connection (per 30m service)		60	0%
Masonry structure			50	0%
Mini traffic circle			20	0%
Mini-Sub			45	0%
Mini-Sub foundation structure	Above ground structure		50	0%
Mini-Sub ring main unit (RMU)			45	0%
Mini-Sub control panel	Equipment control panel		50	0%
Mini-Sub transformer	Substation transformer		45	0%
Motor			15	0%
MV Busbar indoor	Copper bar		60	0%
MV Busbar outdoor	Strung conductor (m)		60	0%
MV Busbar outdoor	Tubular Conductor		50	0%
MV Cable			50	0%
MV Overhead line			45	0%
MV Power transformer			45	0%
MV Switchgear - Circuit breaker			45	0%
MV Switchgear - Isolating link			30	0%
Netball / basketball / volleyball court	Netball / basketball / volleyball		15	0%
Paving	Asphalt		50	0%
Paving	Block paving		20	0%
Paving	Concrete surface		50	0%
Paving	Imported gravel / stones		50	0%
Paving	Seal paving		20	0%
Paving	Unpaved (earthworks only)		10	0%

**MOSES KOTANE LOCAL MUNICIPALITY [NW375]**
**Asset Management Policy**

Component Type	Component Descriptor	Descriptor Class	EUL (yrs)	Residual Value (%)
Pedestrian bridge - Over road			100	0%
Pedestrian bridge - Under road			100	0%
Perimeter protection	1.2m Wire mesh fence		15	0%
Perimeter protection	1.8m Brick wall		30	0%
Perimeter protection	1.8m Wire mesh fence		15	0%
Perimeter protection	Concrete palisade fence		30	0%
Perimeter protection	Precast concrete wall		30	0%
Perimeter protection	Razor mesh fence		15	0%
Perimeter protection	Steel palisade fence		30	0%
Perimeter protection	Vibrocrete fence		20	0%
Perimeter protection	Wooden fence		15	0%
Pipe - sewer (excl manholes)	AC		40	0%
Pipe - sewer (excl manholes)	Concrete		40	0%
Pipe - sewer (excl manholes)	Steel		40	0%
Pipe - sewer (excl manholes)	uPVC		80	0%
Pipe - sewer (excl manholes)	Vitrified Clay Pipe (VCP)		100	0%
Pipe - sewer (incl manholes)	AC		40	0%
Pipe - sewer (incl manholes)	Concrete		40	0%
Pipe - sewer (incl manholes)	Steel		40	0%
Pipe - sewer (incl manholes)	uPVC		80	0%
Pipe - sewer (incl manholes)	Vitrified Clay Pipe (VCP)		100	0%
Pipe - stormwater	Concrete		50	0%
Pipe - water (excl valves, hydrants & meters)	AC		40	0%
Pipe - water (excl valves, hydrants & meters)	HDPE		80	0%
Pipe - water (excl valves, hydrants & meters)	Steel		80	0%
Pipe - water (excl valves, hydrants & meters)	uPVC		80	0%
Pipe - water (excl valves, hydrants & meters)	GRP		80	0%
Pipe - water (excl valves, hydrants & meters)	Unknown (assumed HDPE)		80	0%
Pipe - water (excl valves, hydrants & meters)	Unknown (assumed steel)		80	0%
Pipe - water (excl valves, hydrants & meters)	Unknown (assumed uPVC)		80	0%
Pipe - water (incl valves & hydrants, excl meters)	AC		40	0%
Pipe - water (incl valves & hydrants, excl meters)	HDPE		80	0%

**MOSES KOTANE LOCAL MUNICIPALITY [NW375]**
**Asset Management Policy**

Component Type	Component Descriptor	Descriptor Class	EUL (yrs)	Residual Value (%)
Pipe - water (incl valves & hydrants, excl meters)	Steel		80	0%
Pipe - water (incl valves & hydrants, excl meters)	Unknown (assumed HDPE)		80	0%
Pipe - water (incl valves & hydrants, excl meters)	Unknown (assumed uPVC)		80	0%
Pipe - water (incl valves & hydrants, excl meters)	uPVC		80	0%
Pipe - water (incl valves & hydrants, excl meters)	Unknown (assumed steel)		80	0%
Plumbing	Standard installation		20	0%
Points (rail)			15	0%
Pole transformer	Pole transformer		45	0%
Power factor equipment	Capacitor bank		50	0%
Power factor equipment	Single phase, 20 min battery back-up		30	0%
Public lighting	12m Public light		45	0%
Pump - booster	Low volume / pressure - complete assembly		15	0%
Pump - borehole	Submersible pump - deep well		15	0%
Pump - hand			15	0%
Pump - sewer			15	0%
Pump - submersible			12	0%
Pump - water			15	0%
Reactor			10	0%
Retaining wall			50	0%
Ring main unit (RMU)			45	0%
Road bridge - Over rail			100	0%
Road bridge - Over river			100	0%
Road bridge - Over road (Main)			100	0%
Road bridge - Over road (Minor)			100	0%
Road bridge - Over road (National)			100	0%
Road reserve			NA	NA
Road signs	General - large		10	0%
Road signs	General - standard		10	0%
Road signs	General - very large		10	0%
Road signs	Overhead gantry cantilever		50	0%
Road signs	Overhead gantry portal		50	0%
Road signs	Regulatory - large		7	10%
Road signs	Regulatory - standard		7	10%

**MOSES KOTANE LOCAL MUNICIPALITY [NW375]**
**Asset Management Policy**

Component Type	Component Descriptor	Descriptor Class	EUL (yrs)	Residual Value (%)
Road structural layers		UA Road	30	0%
Road structural layers		UB Road	50	0%
Road structural layers		UC Road	80	0%
Road structural layers		UD Road	80	0%
Road surface	Asphalt		12	0%
Road surface	Block paving		15	0%
Road surface	Concrete		20	0%
Road surface	Gravel		5	20%
Road surface	Seal		9	0%
Roofing systems	Flat concrete (170mm thick)		40	0%
Roofing systems	Sheet metal		30	0%
Roofing systems	Thatch		40	0%
Roofing systems	Tiled		40	0%
Rubbish bin	Concrete		15	0%
Rubbish bin	Metal		10	0%
Rubbish bin	Plastic		5	10%
Rugby / soccer field			30	0%
Sectionalizer			30	5%
Secure distribution pillars			45	0%
Security systems	Security and access control		7	0%
Security systems	Alarm & sensors		10	0%
Septic Tank	Complete assembly		40	0%
Servitude			NA	NA
Sidewalk			30	0%
Sign - general			15	0%
Small building / enclosure	Brick, block walls & concrete roof slab		50	0%
Small building / enclosure	Brick, block walls & other roof		50	0%
Small building / enclosure	Container 6m : Furbished and serviced - office use		30	0%
Small building / enclosure	Steel cage		20	0%
Small building / enclosure	Steel shed		20	0%
Speed humps			50	0%
Squash court	Regulation size - indoor		15	0%
Stadium			50	0%
Steel fuel tank	Above ground		50	0%
Steel fuel tank	Below ground		20	0%
Street light	Streetlight shared with LV network		45	0%
Street light	Streetlight with own network		45	0%
Sub-soil drain	Dewatering sub-soil drain		50	0%
Swimming pool			20	0%

## MOSES KOTANE LOCAL MUNICIPALITY [NW375]

### Asset Management Policy

Component Type	Component Descriptor	Descriptor Class	EUL (yrs)	Residual Value (%)
Tank			15	0%
Telemetry			15	0%
Tennis court			15	0%
Timber structure			15	0%
Traffic island			40	0%
Traffic signals			10	0%
Transformer NEC			45	0%
Transformer NER			45	0%
Valve	Air release		15	0%
Valve	Butterfly		20	0%
Valve	Non-return		15	0%
Valve	Pressure Reducing		15	0%
Valve	Resilient seal		20	0%
Vending station			15	0%
Voltage transformer			45	0%
Walls	Complete building (internal and external)		60	0%
Walls	Face brick		60	0%
Walls	Fibre cement board, timber frame, plaster board		60	0%
Walls	Metal sheet, plaster board		30	0%
Walls	Plastered brick		60	0%
Walls	Semi-face brick		60	0%
Water meter	Mechanical		20	0%
Water meter	Mag-flow		20	0%
Water meter	Pre-pay meters		20	0%
Weigh bridge			30	0%
Well			30	0%
Windmill			30	0%

### Heritage Assets

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

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

## MOSES KOTANE LOCAL MUNICIPALITY [NW375]

### Asset Management Policy

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#### Investment Assets

It is not possible to adopt an exhaustive list of investment assets, as the actual list will depend very much on local circumstances. However, the following will be amongst the most frequently encountered:

Component Type	Average EUL (yrs)
Office parks	30
Housing developments (that is developments)	30

#### Other Assets

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

Component Type	Average EUL (yrs)	Residual Value (%)
<b>Office equipment</b>		
Computer hardware	5	10%
Computer software	3	0%
Office machines	5	0%
Air conditioners	5	10%
<b>Furniture and fittings</b>		
Chairs	7	0%
Tables and desks General	7	0%
Cabinets and cupboards	7	0%
Other Furniture and fittings	7	0%
<b>Bins and containers</b>		
Household refuse bins	7	0%
Bulk refuse containers	10	0%
<b>Emergency equipment</b>		
Fire hoses	5	0%
Other fire-fighting equipment	15	0%
Emergency lights	5	0%
<b>Motor vehicles</b>		
Bakkies and LDV's	7	10%
Compactor	10	10%
Forklift	10	10%
Grader	10	10%
Grit roller	10	10%
Trailers	7	10%
Tractor	10	10%
Buses	10	10%
Trucks and light delivery vehicles	10	10%
Ordinary motor vehicles	7	10%
Motor cycles	3	10%
<b>Plant and equipment</b>		
Bomag Roller	10	0%
Brick Maker	7	0%
Electronic Equipment	5	0%
Brush Cutter	4	0%
Chain saw	4	0%
General	4	0%
Generators	7	0%
Compressor	7	0%

<b>Component Type</b>	<b>Average EUL (yrs)</b>	<b>Residual Value (%)</b>
Concrete Mixer	7	0%
Crane	7	0%
Fuel Browser	7	0%
Mobile Pumps	7	0%
Other Fire Fighting Equipment	5	0%
Pumps	7	%
Hydraulics Power tools	7	0%
Mechanical horses	4	0%
Farm equipment	5	0%
Lawn mowers	7	0%
Line Marker	10	0%
Laboratory Equipment	5	0%
Radio Equipment	7	0%
Firearms	5	0%
Telecommunication equipment	7	0%
Irrigation systems	5	0%
TAR Sprayer	10	0%
TAR Roller Trailer	10	0%
Slasher	7	0%
Pressure Washer	7	0%
Scaffolding	7	0%
Spike Roller	7	0%
Conveyors	7	0%
Water Testing Equipment	7	0%
Workshop Equipment	7	0%

Annexure c

## **ASSET DISPOSAL / WRITE-OFF FORM**

*(In terms of MFMA Section 14 and Municipal Asset Management Policy)*

### **SECTION A: ASSET DETAILS**

<b>Item</b>	<b>Information Required</b>
Department	
Asset Description	
Asset Category	Movable / Immovable
Asset Number / Barcode	
Serial Number	
Location of Asset	
Responsible Official	
Date Acquired	

<b>Item</b>	<b>Information Required</b>
Original Cost	
Accumulated Depreciation	
Carrying Value	
Current Condition	Good / Fair / Poor / Beyond Repair

## **SECTION B: REASON FOR DISPOSAL**

Tick the applicable reason:

- Obsolete
- Damaged beyond repair
- Uneconomical to repair
- Lost / Stolen
- Redundant / No longer required
- Replaced by new asset
- Other (Specify): \_\_\_\_\_

Provide detailed motivation:

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## **SECTION C: TECHNICAL ASSESSMENT**

(To be completed by the relevant department or technical official)

<b>Item</b>	<b>Information</b>
Condition Assessment	
Estimated Repair Cost	
Recommendation	Repair / Dispose
Comments	

Name of Technical Official: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## SECTION D: RECOMMENDED DISPOSAL METHOD

Tick the recommended disposal method:

- Public Auction
- Trade-in
- Transfer to another Municipal Department
- Transfer to another Organ of State
- Donation (where permitted)
- Scrap / Destroy
- Insurance Claim
- Write-off

Motivation:

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## SECTION E: ASSET MANAGEMENT VERIFICATION

<b>Item</b>	<b>Verification</b>
Asset recorded in FAR	Yes / No
Asset physically verified	Yes / No
Supporting documents attached	Yes / No
Insurance claim applicable	Yes / No

Verified by:

Head: Asset Management \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## SECTION F: CHIEF FINANCIAL OFFICER RECOMMENDATION

I confirm that the above asset disposal complies with:

- Municipal Finance Management Act (MFMA)
- Municipal Asset Management Policy
- Supply Chain Management Regulations

Recommendation:

- Approve Disposal
- Not Approved
- Further Investigation Required

CFO Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## SECTION G: ASSET DISPOSAL COMMITTEE DECISION

Meeting Date: \_\_\_\_\_

Decision:

- Approved for Disposal
- Referred back for further information
- Not Approved

Recommended Disposal Method:

ADC Chairperson: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

## SECTION H: COUNCIL APPROVAL

In terms of **Section 14 of the MFMA**, Council approve the disposal of the above asset.

Council resolution number \_\_\_\_\_

Date: \_\_\_\_\_

## SECTION I: FINANCIAL RECORD UPDATE

(To be completed by Asset Management Unit)

Item	Details
Disposal Date	
Disposal Proceeds	
Method of Disposal	
FAR Updated	Yes / No
GL Updated	Yes / No

Processed by:

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

### GRAP 13 Definitions of Finance Leases

A lease must meet one of the following criteria to be classified as a finance lease:

- the lease transfers ownership of the asset to the lessee by the end of the lease term,
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for the major part of the economic life of the asset even if title is not transferred,
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset,

- the leased assets are of a such a specialised nature that only the lessee can use them without major modifications, and
- the leased assets cannot easily be replaced by another asset.
- if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee,
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease), and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

