

# **MSUNDUZI MUNICIPALITY**



<b>Policy Name:</b>	<b>Asset Management Policy</b>
<b>Policy Number:</b>	
<b>Status:</b>	<b>draft</b>
<b>Date:</b>	
<b>Approved By:</b>	
<b>Date Approved:</b>	
<b>Date Last Amended:</b>	<b>28 February 2024</b>
<b>Date for Next Review:</b>	<b>28 February 2025</b>
<b>Date Published on Intranet:</b>	



# The Msunduzi Municipality

## **ASSET MANAGEMENT POLICY**

## INDEX

SECTION	SUB-SECTION	HEADER	PAGE NO.
		<b>DEFINITIONS AND ABBREVIATIONS</b>	6
1		<b>OBJECTIVE OF THE ASSET MANAGEMENT POLICIES AND PROCEDURES</b>	7
2		<b>ROLE OF THE CITY MANAGER</b>	8
3		<b>ROLE OF THE CHIEF FINANCIAL OFFICER</b>	9-11
	3.1	Asset Management Unit	9
	3.2	The Supply Chain Management	10
	3.3	Role of the Asset Steering Committee	10-11
4		<b>ROLE OF OTHER STRATEGIC BUSINESS UNITS</b>	12-13
	4.1	Human Resources Business Unit	12
	4.2	All Strategic Business Units	12-13
5		<b>DEFINITION AND ROLE OF AN ASSET</b>	14
	5.1	Definition of an asset	14
	5.2	Role of assets	14
6		<b>FORMAT OF THE FIXED ASSET REGISTER</b>	15-17
	6.1	Format	15-16
	6.2	Different categories of registers	16-17
7		<b>CLASSIFICATION AND IDENTIFICATION OF FIXED ASSETS</b>	18-23
	7.1	Classification	18
	7.2	Property, Plant and Equipment	18-19
	7.3	Infrastructure Assets	19-20
	7.4	Community Assets	20
	7.5	Heritage Assets	20
	7.6	Investment Property	20-21
	7.7	Intangible Assets	21-22
	7.8	Identification	22
	7.9	Verification of Movable Assets	22-23
	7.10	Safekeeping	23
8		<b>HERITAGE ASSETS</b>	24
	8.1	Definition of Heritage Assets	24
	8.2	Disclosure of Heritage Assets	24
	8.3	Recognition	24
	8.4	Depreciation	24
9		<b>DONATED ASSETS</b>	25
10		<b>BIOLOGICAL ASSETS</b>	25
11		<b>CAPITALISATION CRITERIA</b>	26-28
	11.1	Capitalisation	26-27
	11.2	Capitalisation Criteria	27
	11.3	Subsequent Expenditure	27
	11.4	Intangible Assets	27-28

SECTION	SUB-SECTION	HEADER	PAGE NO.
12		<b>CALCULATION OF CAPITALISATION COST OF ASSETS</b>	29-31
	12.1	Initial Cost	29
	12.2	Costs incurred on existing PPE subsequent to the initial recording of the cost price	29-31
13		<b>DEPRECIATION OF ASSETS</b>	31-36
	13.1	Definition	31
	13.2	Assets to be Depreciated	31
	13.3	Determining useful lives of assets	31-32
	13.4	Depreciation calculation	32-33
	13.5	Amendment of Asset Lives and Diminution in the Value of Fixed Assets	33-34
	13.6	Alternative Methods of Depreciation in Specific Instances	34
	13.7	Offset Depreciation	34-37
	13.8	Disclosure Requirements	35-36
14		<b>REVALUATION OF FIXED ASSETS</b>	36-40
	14.1	Revaluation process	36
	14.2	Revaluation Reserve	36
	14.3	Investment Property	37
15		<b>DISPOSAL OF ASSETS</b>	38-40
	15.1	Disposal	38-39
	15.2	Asset Disposal Committee	39
	15.3	Other Write-Offs	40
	15.4	Proceeds/Loss on Disposal of Assets	40
	15.5	Disclosure of Assets Disposed of	40
16		<b>RECOGNITION OF ASSETS IN THE FINANCIAL STATEMENTS</b>	41-42
17		<b>FUNDING SOURCES</b>	43-45
	17.1	The External Loans	43
	17.2	Grants, Subsidies and Public Contributions	43-44
	17.3	Capital Replacement Reserve	44-45
18		<b>IMPAIRMENT LOSSES</b>	46-51
	18.1	Impairment	46-47
	18.2	Disclosure of impairment losses	47
	18.3	Reversal of an Impairment Loss	47-48
	18.4	Identification of Impairment: Cash Generating Assets	48-49
	18.5	Identification of Impairment: Non-Cash Generating Assets	49-51
19		<b>INVESTMENT PROPERTY</b>	51-57
	19.1	Definition of Investment Property	51-53

SECTION	SUB-SECTION	HEADER	PAGE NO.
	19.2	Initial measurement of Investment Property	53
	19.3	Measurement of Investment Property subsequent to initial measurement	53-54
	19.4	Transfers and disposals of investment properties	54-56
	19.5	Budget implications relating to Investment Property	56
	19.6	Disclosure	56-57
20		<b>REPLACEMENT STRATEGY</b>	58
21		<b>ASSET RISK MANAGEMENT</b>	59
	21.1	Insurance	59
	21.2	Other risk reducing methods	59
22		<b>MAINTENANCE OF ASSETS</b>	60-61
	22.1	Maintenance Plans	60
	22.2	Deferred Maintenance	60
	22.3	General Maintenance	60-61
23		<b>GENERAL REQUIREMENTS</b>	61-64
	23.1	Tagging	61
	23.2	Physical inventory of all movables assets	61-62
	23.3	Acquisition	62-63
	23.4	Asset management responsibilities	63
	23.5	Additions / Improvements	63
	23.6	Termination of employee's service	63
	23.7	Transfer of Assets	63-64
	23.8	Sale of Land and Buildings	64
<b>ANNEXURE A</b>		<b>FIXED ASSET LIVES</b>	65-70
<b>ANNEXURE B</b>		<b>PARAPHRASE OF S14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2004</b>	70

## DEFINITIONS AND ABBREVIATIONS

TERM / ITEM	ABBREVIATION	DESCRIPTION / DEFINITION
Carrying Amount		The amount at which an asset is included in the statement of financial position after deducting any accumulated depreciation and any accumulated impairment losses thereon
Cost		The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction
Depreciation		This is the systematic allocation of the depreciable amount of an asset over its useful life
Depreciable amount		The cost of an asset, or other amount substituted for cost in the financial statements, less its residual value
Disposal Committee		A committee established in accordance with the provisions of section 4 of Msunduzi Municipality's Supply Chain Management Policy.
Fair Value		The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction
	GRAP	Standards of Generally Recognised Accounting Practice
		International Accounting Standards
		Property, Plant & Equipment – These are tangible assets that are held by an entity for use in the production or supply of goods or services, for
	PPE	are held by an entity for use in the production or supply of goods or services, for
		renal to others or for administrative purposes are expected to be used during
		more than one reporting period
Recoverable amount		The amount that the entity expects to recover from the future use of an asset, including residual value on disposal
Residual Value		The net amount which the entity expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal
	SCM	Supply Chain Management
	GM	General Manager
	CM	City Manager
	CFO	Chief Financial Officer
Useful Life		Useful life is either:
		the period of time over which an asset is expected to be used by the entity, or the
		number of production or similar units expected to be obtained from the asset by
		the entity.
Fixed Asset Register	FAR	Fixed asset register is the controlled register recording the financial and other key details for all municipal assets recognized in accordance with this policy (FAR).
Impairment		An impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits

		or service potential through depreciation. Impairment is when the recoverable amount of an asset is less than the carrying value of such an asset
Recognition		Cost of an item will be recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the entity; and the cost or fair value of the item can be measured reliably. Recognition is the process by which expenditure is included in the Financial Asset Register as an asset <del>or attractive item</del>
Accounting Standards Board	ASB	Accounting Standards Board was established by the Public Finance Management Act to set standards of General Recognized Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa
Replacement Value		Replacement Value is the amount which is needed in current terms to replace an asset
Asset Management	AM	Systematic and coordinated activities and practices through which Msunduzi will optimally manage its assets and their associated performance, risks, and expenditure over their lifecycles to achieve its strategic objectives.
Asset management objective		What Msunduzi intends to achieve from its asset management activities.
Asset Management Policy	AM Policy	Principles and mandated requirements that align with the plans of the organisation to drive the development and implementation of the strategic asset management plan and objectives.
Asset Management Plan	AMP	Documented information that specifies the activities, resources and timescales required for an individual asset, or a grouping of assets, to achieve the asset management objectives.
Asset Management System	AMS	Management system for asset management whose function is to establish the asset management policy and asset management objectives.
City Infrastructure and Management System	CIDMS	A fully compliant SANS 55001 asset management system specifically designed for cities with large and varied immovable asset portfolios which incorporates best practice processes, techniques, and tools to optimise performance right across the urban infrastructure value chain
Integrated Development Plan	IDP	An approach to planning that involves the entire municipality and its citizens in finding the best solutions to achieve good long-term development.
Failure mode and effects analysis	FMEA	A systematic, proactive method for evaluating a process or component to identify where and how it might fail and to assess the relative impact of different failure modes, to identify the most suitable maintenance intervention/strategy.
	ISO 55000	South African National Standard that provides an overview of asset management, its principles and terminology, guideline for implementation and the expected benefits for adopting an asset management system.
Reliability Centred Maintenance	RCM	A systematic methodology for developing a comprehensive maintenance plan for tangible/physical assets or asset system.

**SECTION 1****OBJECTIVES OF THE ASSET ACCOUNTING POLICIES**

The Asset Accounting Policy is to be used to ensure that the management adopt appropriate and correct, accounting and control of Fixed Assets owned or controlled by The Msunduzi Municipality.

The overall objectives of this Accounting Policy are:

- ✓ To provide the accounting treatment of the assets acquired and used in terms of the accounting policy of the Municipality; and
- ✓ To comply with current legislation, in particular the Municipal Finance Management Act plus standards specified by the Accounting Standards Board e.g. GRAP 17 Property Plant and Equipment.
- ✓ To comply with international best practices in asset management, SANS 55001 and GFMAM (Global Forum in Maintenance and Asset Management)

This policy complies with all relevant legislative requirements, including:

- ✓ The Constitution of the Republic of South Africa, 1996
- ✓ Municipal Structures Act 117 of 1998
- ✓ Municipal Systems Act 32 of 2000
- ✓ Division of Revenue Act (enacted annually)
- ✓ Municipal Finance Management Act, Act 56 of 2003

Also, this policy complies with the standards specified by the Accounting Standards Board (ASB). However, this policy does not over rule the requirement to comply with other policies like Supply Chain Management, tendering or budget policies etc.



## SECTION 2

### ROLE OF THE CITY MANAGER

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

The City Manager or his or her duly delegated representative is responsible to ensure implementation of the approved Asset Management Policy as required in terms of section 63 of the Municipal Finance Management Act (MFMA), which include:

- ✓ The management of the assets of the Municipality, including the safeguarding and the maintenance of those assets.
- ✓ Ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality.
- ✓ Ensure that the municipality's assets are valued in accordance with the standards of generally recognised accounting practise.
- ✓ Ensure that the municipality maintains a system of internal control of assets, including an asset register.

Therefore, the City manager shall be the principal custodian of all the Municipality's assets.

In terms of section 79 (3) (e), even though the City Manager may have delegated his/her duties, it does not divest the City manager from the responsibility of the delegated duty. The City Manager will still be responsible for monitoring the activities of the person delegated to, to ensure that they are performing the responsibilities and duties delegated to them.

#### Leadership Commitment

SANS 55001 requires that top management demonstrates leadership and commitment with respect to the asset management system by:

- ensuring that the asset management policy, the SAMP and asset management objectives are established and are compatible with the organizational objectives;
- ensuring the integration of the asset management system requirements into the organization's business processes;
- ensuring that the resources for the asset management system are available;
- communicating the importance of effective asset management and of conforming to the asset management system requirements;
- ensuring that the asset management system achieves its intended outcome(s);
- directing and supporting persons to contribute to the effectiveness of the asset management system;
- promoting cross-functional collaboration within the organization;

- promoting continual improvement;
- supporting other relevant management roles to demonstrate their leadership as it applies to their areas of responsibility;
- ensuring that the approach used for managing risk in asset management is aligned with the organization's approach for managing risk.

The following presents the MLM's policy statements with regards to the planning, implementation, operation, maintenance, monitoring of the asset portfolio and asset management system in accordance with SANS55001. Policy Statements demonstrate leadership commitments to an integrated asset management that is compliant to both SANS 55001 and the MFMA.

<b>Asset Management Strategy and Planning</b>	
<b>Asset Management Policy</b>	MLM shall develop and implement an Asset Management System that is aligned with SANS55001 and MFMA. The MLM Asset Management Policy shall inform the development and implementation of the Strategic Asset Management Plan (SAMP) and the achievement of the Asset Management Objectives.
<b>Asset Management Strategy and Objectives</b>	MLM will develop Asset Management Objectives aligned with the MLM IDP and will review them annually.
<b>Asset Management Planning</b>	MLM will develop a 10-year Asset Management Plan (AMP) that is reviewed annually.
<b>Decision Making</b>	
<b>Capital Investment Decision Making</b>	MLM shall consider the impact of full lifecycle costs, maintenance and operations implications, operational risks, and long-term asset performance in capital investment decision-making for new asset and capital renewals.
<b>Operations and maintenance decision-making</b>	MLM shall adopt decision-making criteria that considers the asset lifecycle costs at every phase of the asset lifecycle.
<b>Lifecycle Delivery</b>	
<b>Technical Standards</b>	MLM shall adopt the AMS that adheres to relevant and appropriate international and national technical and accounting standards in achieving the Asset Management Objectives.
<b>Asset creation, operation and disposal</b>	MLM will develop, implement and maintain processes for the acquisition, creation, installation, commissioning, decommissioning, disposal and hand-over of new assets.
<b>Maintenance Delivery</b>	MLM shall carry out the maintenance of the assets through a centralised, formalised and computerised maintenance management system (CMMS) that includes preventative, predictive and corrective maintenance management.
<b>Configuration Management</b>	MLM shall establish, document and implement a process to record and update the asset information including design, maintenance and operational information throughout its life.
<b>Resource Management</b>	MLM shall ensure the appropriate use of resources including funds, people, plant, tools and materials in the delivery of asset management activities.  Assets used by MLM shall be safely and effectively operated and maintained according to the maintenance and operational specifications, including those specified by Original Equipment Manufacturers.

	MLM employees and service providers shall have suitable tools and equipment to conduct their responsibilities in an efficient, effective and safe manner.
<b>Organisation and People</b>	
<b>Organisational Structure and Culture</b>	MLM shall ensure that its asset management processes are appropriately resourced, have an appropriate organisational structure and an asset management culture to deliver on the Asset Management Objectives.
<b>Competence Management</b>	MLM will ensure that employees who manage assets are appropriately trained and equipped to deliver the tasks they are responsible for.  All MLM staff shall have the appropriate qualifications, skills, and experience in accordance with their specified role.
<b>Asset Management Leadership</b>	The leadership of MLM shall promote a whole-of-life asset management approach and establish processes of continuous improvement to deliver on the Asset Management Objectives of the organisation.
<b>Procurement and supply chain</b>	MLM shall establish processes that ensure that outsourced activities are carried in accordance with the Asset Management Policy and are aligned with the achievement of the Asset Management Objectives.
<b>Asset Information</b>	
<b>Asset Data and Information Strategy</b>	MLM shall develop and maintain a data and information strategy that defines the data collection requirements, data storage and information systems capability needed to support the achievement of the Asset Management Objectives.
<b>Asset Information System</b>	MLM shall utilise appropriate asset information management systems with suitable decision support system capability to effectively manage an integrated asset management system, that includes technical, financial, and related information and support decision-making.
<b>Asset Data and Information</b>	Using data analytics, trends & reporting against defined performance targets, the MLM shall establish processes to accurately record and maintain data and information relating to all assets to keep the data relevant and reliable.
<b>Risk and Review</b>	
<b>Asset Costing and Valuation</b>	MLM shall record asset capital, renewal, and maintenance costs to support lifecycle costs analysis and inform financial planning.
<b>Performance Management</b>	MLM shall develop a performance management framework that will consist of levels of service, performance measures (KPIs) and performance targets.
<b>Risk management</b>	MLM shall establish policies and processes to manage asset and non-asset related risks in alignment with the corporate risk management framework.
<b>Health, safety, and environment</b>	MLM shall adopt a balanced approach to SHE activities by considering economic, safety, environmental, and social impacts. MLM shall make provision to comply with the Occupational Health and Safety Act 85 of 1993 of South Africa.
<b>Stakeholders</b>	MLM shall identify its key stakeholders to ensure that the Asset Management Objectives are aligned with stakeholder needs.
<b>Management review, audit, and assurance</b>	Asset Management Leadership shall conduct an annual performance review of the Asset Management System which shall include targets for monitoring and maintenance of AM system for MFMA, GRAP, CIDMS and SAN55001 compliance.

## SECTION 3

### ROLE OF THE CHIEF FINANCIAL OFFICER

The Chief Financial Officer (CFO) shall be the custodian of the assets management system of the City, and shall ensure that a complete, accurate and up-to-date computerised assets management system is maintained. No amendments, deletions or additions to the assets management system shall be made other than by the Chief Financial Officer or by an official acting under the written instruction of the Chief Financial Officer.

The CFO shall be responsible for the operation and management of the Asset Management Unit.

#### 3.1 The Asset Management Unit

1. Shall ensure that complete and accurate records of asset items are kept, verified and balanced regularly.
2. Shall ensure that all movable assets are properly tagged and accounted for (see also 23.1)
3. Ensure that physical asset verification is performed annually on all movable assets by all Business Units in conjunction with Asset unit to verify the movable assets on the asset register. The results of this verification must be reported to the City Manager and Council.
4. Upon completion of the physical verification cycle, ensure that a verification report is compiled. The report shall –
  - a. Reflect a complete list of all assets found during the verification;
  - b. Reflect whether appropriate records have been maintained indicating what articles should have been found during verification;
  - c. Reflect any discrepancies (gaps) between the articles found during verification and the record referred to above;
5. Shall ensure that the assets management system is balanced monthly with the general ledger and the financial statements in conjunction with the CFO.
6. Shall ensure adequate bar codes, descriptions, name-plates etc. to exercise the function relating to asset control are available at all times.
7. Provide the Auditor-General (AG) or his personnel, on request within the indicated reporting/response period, with the financial records relating to assets belonging to Council as recorded in the assets management system.

8. Ensure that all audit queries are resolved in a timeous manner.
9. Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the Strategic Business Units and provided to the Strategic Business Unit Finance in the prescribed format.
10. Shall ensure that asset acquisitions are allocated to the correct asset code.
11. Shall ensure that, before accepting an obsolete or damaged asset(s) or asset inventory item(s), a completed asset disposal form, countersigned by the Asset Management Unit, is presented.
12. Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from Strategic Business Units.
13. Shall compile a list of the items to be auctioned in accordance with their guidelines in the Supply Chain Management (SCM) Policy.
14. Shall compile and circulate a list of unused assets to enable other Strategic Business Units to obtain items that are of use to them.
15. Shall ensure that the Supply Chain Management is notified of any auctioning or disposing of or written-off asset(s) or asset inventory item(s).

### **3.2 Supply Chain Management**

1. Ensure that invoices authorised for payment are matched to the goods received note before processing such payment.
2. Shall dispose of assets in accordance with the provisions in the Supply Chain Management (SCM) Policy, MFMA and Municipal Asset Transfer Regulations.
3. The Bid Adjudication / Bid Specification Committee must comply with and be constituted in accordance with the procurement SCM policy.

### **3.3 Role of the Asset Steering Committee**

The role of asset steering committee is:

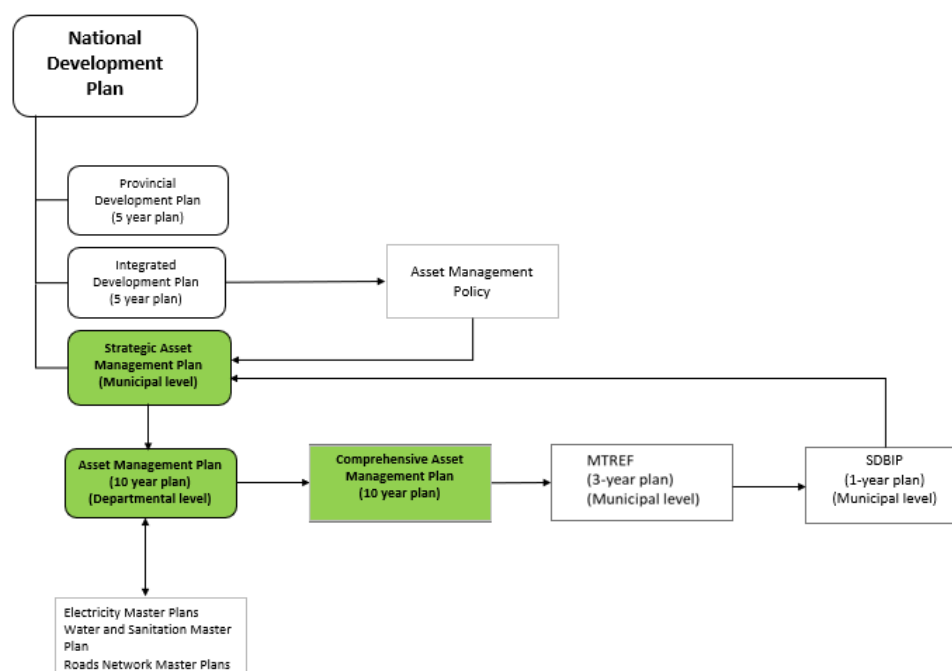
- (a) To monitor the development and implementation of Asset Management Plans for different Units covering 10 years;
- (b) To monitor the development and implementation of Comprehensive Asset Management Plan for the Council covering 10 years;
- (c) To monitor the development of Long-term Financial Plan covering 10 years;
- (d) To monitor the development and implementation of Asset Management Strategy for the Council;
- (e) To monitor unbundling of Infrastructure Assets of the Council;
- (f) To monitor conditional assessment of Infrastructure Assets

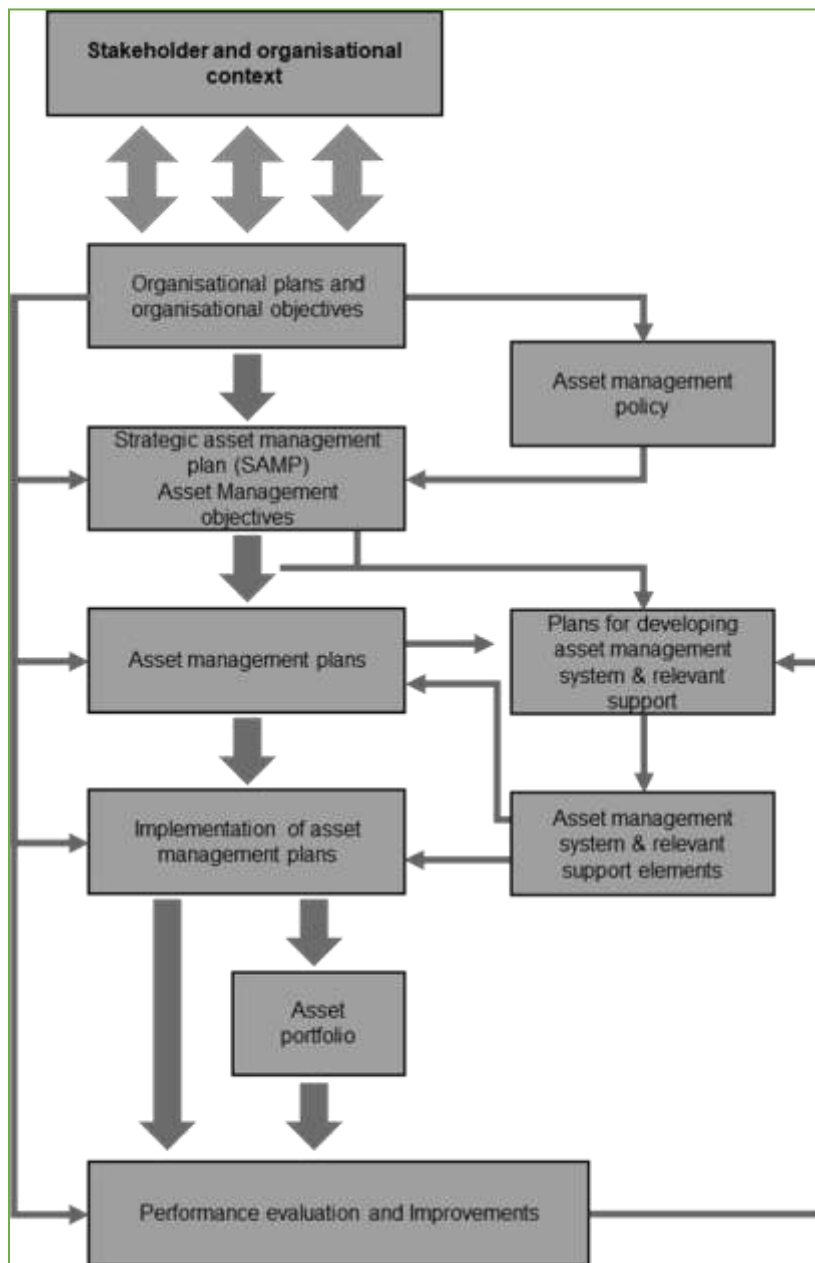
- (g) To monitor and assess progress and determine responsibility for implementation of projects arising from the Comprehensive Asset Management Plan, Asset Management Plans and the Asset Management Systems Review.
- (h) To assist in the preparation of progress reports for the Audit Committee, Strategic Management Committee, Executive Committee and Council;
- (i) To complement the work undertaken by the Development Services Department with a view to realise integration opportunities for sustainable asset management and service planning.
- (j) To create synergy between Asset Accounting and Asset Management within the Council
- (k) Embed asset management best system within the municipality

### 3.4 Embedding Asset Management within the Municipality

Asset management must be integrated into the strategic planning (IDP development) and budgeting processes of the Municipality, and the Asset Management Committee should play a key role in this process. The improvement projects or initiatives identified in the Asset Management Plans must inform and align to the annual budgets of each department which in turn informs the MTREF of the municipality. The AMPs must provide input to the next 5-year Integrated Development Plan of the municipality and so ensues the continuous improvement process. The municipality should invest in an integrated enterprise asset management solution as part of the information/knowledge management strategy to enable effective asset management and enhance decision making.

**Figure 1: Proposed AM Framework to comply to SANS 55001**





**Figure 2: Generic SANS 55001 AM framework**

**SECTION 4****ROLE OF OTHER STRATEGIC BUSINESS UNITS****4.1 Human Resources Departments of Business Units**

The Human Resources Departments:

1. Shall ensure that no monies are paid out on termination of service without receiving the relevant asset resignation form signed off by the relevant Strategic Business Unit. (See also 23.6)
2. Shall ensure that every asset resignation form is counter signed by the Asset Management Unit before processing the termination of service.
3. Shall routinely conduct skills audit to ensure that employees who manage assets are appropriately trained and equipped to deliver the tasks they are responsible for
4. Shall routinely facilitate the review of organizational structure and culture against the demands of current asset management objectives

**4.2 All Strategic Business Units**

1. Shall ensure that employees in their Strategic Business Units adhere to the approved Asset Management Policies and Procedures.
2. Shall ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in his / her Strategic Business Unit. The Asset Management Unit must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the GM.
3. Shall ensure that assets are properly maintained in accordance with their respective asset maintenance policy.
4. Shall ensure that the assets and / or inventory items of the City are not used for private gain.
5. Shall ensure that all their movable asset are reflected, correctly and accurately on the Fixed Asset Register and are bar-coded, as applicable
6. Shall ensure that the Asset Management Unit is notified of any changes in the status of the assets under the Strategic Business Unit's control.

This must be done on the prescribed form and include the following:

- a. Movements/Disposals which relate to the transfer of assets (inter departmental transfers)
- b. Changes in the estimated useful lives of assets for depreciation purposes.



- c. The identification of impairment losses on assets by following the procedures as outlined in Section 18 of this policy document.
7. Shall certify in writing that they have assessed and identified impairment losses on all assets as outlined in Section 18 of this policy document.
8. 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 Unit without delay.
9. Shall be responsible for maintaining and managing their own Strategic Business Unit Inventory Listing (DIL) for items that will not be recorded in the Fixed Asset Register or Insignificant Items Register. These inventory assets are acquired via the operational budget. The information to be recorded in the DIL must include the description, quantity and location of the items.
10. Shall ensure that the correct cost element and description are being used before authorising any requisitions.
11. Shall not procure any asset until the asset number is obtained; asset number allocated and will ensure that assets are bar-coded by the Asset Management Unit and insured by Finance (Insurance Department).
12. The detailed projects as created, are categorized, and classified as follows: **a.**

**Immovable Assets:**

- i. Infrastructure assets
- ii. Administrative Buildings
- iii. Land
- iv. Community Assets
- v. Recreational Facilities
- vi. ~~Asset under construction (WIP) (Only an asset after completion)~~
- vii. Investment Properties
- ix. Intangible assets
- x. Agricultural assets
- xi. Heritage assets
- xii. Living Resources
- xiii. Social Housing

**b. Movable Assets:**

- i. Office Equipment
- ii. Furniture and Fittings
- iii. Bins and Containers
- iv. Emergency Equipment
- v. Motor Vehicles
- vi. Watercraft
- vii. Plant and Equipment

## SECTION 5

### DEFINITION AND ROLE OF AN ASSET

#### 5.1 Definition of an Asset

A fixed asset is a resource, either movable or immovable, owned by or under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year, which cost or fair value can be measured reliably. (GRAP 1).

An asset is resource that has potential or actual value to Msunduzi. (SANS55000)

Capital assets are all assets that have a life cycle of more than one year.

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

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

Fixed assets will include Property, Plant and Equipment (as defined in GRAP 17), Intangible Assets (as defined in GRAP 31), Investment Property (as defined in GRAP 16), Heritage Assets (as defined in GRAP 103), Agricultural assets (as defined in GRAP 27), Living and Non-living Resources (as defined in GRAP 110), as well as Assets held under a finance lease, in accordance with the principles contained in GRAP 13.

#### 5.2 Role of Assets

The role of assets is to support the delivery of a service to the public. Assets should exist to support programme delivery.

## 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 generally recognised accounting practice (GRAP) and any other 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. a brief but identifiable description of each asset;
- b. the date on which the asset was acquired or commissioned;
- c. the location of the asset;
- d. the departments or cost centre within which the assets will be utilised;
- e. the title deed number, in the case of fixed property;
- f. the stand number and physical address, in the case of fixed property;
- g. where applicable, the identification number, as determined in compliance with 7.2 below;
- h. the original cost or fair value if no costs is available;
- i. the (last) revaluation date of the fixed assets subject to revaluation;
- j. the re-valued value of such fixed assets;
- k. accumulated depreciation to date;
- l. the carrying value of the asset;
- m. the method and rate of depreciation;
- n. impairment losses;
- o. impairment recovery;
- p. the source of financing ;
- q. the current insurance arrangements;
- r. the date on which the asset is disposed of;
- s. the disposal price; and
- t. the date on which the asset is retired from use, if not disposed of.
- u. asset condition grading as per CIDMS module 3
- v. asset criticality grade as per CIDMS module 3
- w. extent / size of asset e.g. sqm or meters
- x. unit rates (e.g., R/sqm)
- y. asset hierarchy according to mSCOA /CIDMS

All GM's of Strategic Business Units under whose control any fixed asset falls shall promptly provide the Chief Financial Officer in writing of any information required to compile the fixed asset register, and shall promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.

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

Immovable assets on the asset register will not be physically numbered with barcode labels but will have a unique asset master record number.

If an asset has been fully depreciated but is still being used by the Municipality, it indicates that the asset's estimated useful life needs to be reviewed and re-estimated. Therefore the municipality will have to account for a change in estimate based on the Business Unit, using the asset's adjusted estimated useful life.

## **6.1 Different categories of registers**

The following is an outline of the requirements relating to the various types of asset registers that the City will maintain:

- a. The Chief Financial Officer is responsible for ensuring that complete records of asset items are kept, verified, and balanced regularly.
- b. The Fixed Asset Register (FAR) for the City will contain the following types of assets categorized as immovable or movable assets:

### **Immovable Assets:**

- a. Infrastructure assets:
  - i. Electricity assets
  - ii. Water networks and related assets
  - iii. Waste water networks and related assets
  - iv. Roads and Stormwater
  - v. Information and Communications Technology (ICT)
- b. Land and Buildings
- c. Investment properties
- d. Community assets
- e. Heritage assets
- f. Intangible assets
- g. Agricultural assets
- h. Living and Non-living resources
- i. Other assets

### **Movable Assets:**

- a. Office Equipment
- b. Furniture and Fittings
- c. Bins and Containers
- d. Emergency Equipment
- e. Motor Vehicles
- f. Aircraft
- g. Watercraft
- h. Plant & Equipment

- c. The FAR will consist of all the asset master records of assets capitalised each inclusive of non-claimable VAT. These assets, except for group assets must be numbered with the approved barcode labels.
- d. Immovable assets on the FAR will also be physically numbered with barcode labels and will have a unique asset master record number.
- e. Capital work-in-progress (WIP); Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is available for use in the manner intended by management.

## SECTION 7

### CLASSIFICATION AND IDENTIFICATION OF FIXED ASSETS

#### 7.1 Classification

In compliance with the requirements of GRAP, the Chief Financial Officer shall ensure that all fixed assets, or items of property, plant and equipment, are classified under the following headings, and Heads of Departments shall in writing provide the Chief Financial Officer with such information or assistance as is required to compile a proper classification:

- a. Land (not held as investment assets)
- b. Buildings (Administrative)
- c. Infrastructure assets (assets which are part of a network of similar assets)
- d. Community assets (resources contributing to the general well-being of the community)
- e. Other assets
- f. Heritage assets (culturally significant resources)
- g. Intangible assets (ordinary operational resources)
- h. Investment properties (resources held for capital or operational gain).
- i. Agricultural assets (Living animal or plant)
- j. Living and Non-living Resources (resources undergoing biological transformation or occur naturally and have not been extracted)

The Chief Financial Officer shall adhere to the classifications indicated in the annexure on fixed asset lives (as per Assets Procedure Manual), 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 Property, Plant and Equipment (PPE)

In terms of generally recognised accounting practise, property, plant and equipment is defined as tangible assets that:

- ☐ Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- ☐ Are expected to be used for a period more than one financial year.

The different classifications for property, plant and equipment are as follows:

1. Land (not held as investment assets);
2. 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.)
3. Infrastructure asset
4. Community assets
5. Other assets
6. Emergency equipment
7. Office equipment

8. Furniture and fittings
9. Bins and containers
10. Motor vehicles
11. Aircraft
12. Watercraft
13. Plant and equipment

### **Inventory assets**

Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, within 12 months after financial year end shall be accounted for as inventory, and not included in either property, plant or equipment or investment property in the municipality's statement of financial position, at a value equal to the lower of cost and net realisable value, in accordance with GRAP 12.

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

Land that was purchased for explicit township development will initially be accounted for in terms of GRAP 12 as Work in Progress and when the township development has been completed, the service delivery assets, for example water distributions will be reclassified to Property, plant, and equipment in accordance with GRAP 17. Once the houses are transferred to the beneficiaries, the land should be removed as inventory from the municipality's records.

### **7.3 Infrastructure Assets (Classified as Property, Plant, and Equipment)**

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:

- a. They are part of a system or network;
- b. They are specialised in nature and do not have alternative uses,
- c. They are immovable; and
- d. 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.

Other assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings. The different classifications for infrastructure assets are as follows:

- a. Electricity
- a. Gas
- b. Sewerage
- c. Road
- d. Pedestrian malls
- e. Airports
- f. Water
- g. Buildings
- h. ICT

#### **7.4 Community assets (Classified as Property, Plant, and Equipment)**

Community assets are land and buildings owned or managed by community organisations. These assets cover a wide spectrum and include town halls, community centres, sports facilities, affordable housing and libraries.

Community assets are those assets which are specifically designed to service the surrounding community and should be identified separately. These assets include:

- a. Buildings
- b. Recreational facilities
- c. Security

#### **7.5 Heritage assets**

In terms of this policy heritage assets are defined as any asset with a clearly definable intrinsic and remarkable heritage significance acknowledged by the South African Resources Agency in accordance with the National Heritage Resources Act, 1999 (Act No. 25 of 1999) or any other asset that has a cultural, environmental or historical significance. Examples are works of art, historical buildings, statues, conservation areas and nature reserves.

#### **7.6 Investment property**

Investment properties shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of financial position.

Investment property shall comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.



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

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

A Professional Valuer or Internal Valuer who possess proper qualification and experience shall be engaged by the municipality to undertake the valuations.

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an investment asset.

## **7.7 Intangible assets**

An intangible asset is defined as an identifiable non-monetary asset without physical substance. This asset can be held for any purpose, but must be controlled by the municipality and expected to provide future economic benefit to the municipality or to be used for service delivery.

The Chief Financial Officer acting in strict compliance with the criteria set out in GRAP31 dealing with research and development expenses, may recommend to council that specific development costs be recognised as an asset

The following are examples of items that generally have a physical substance of some sort, but where the physical substance is secondary (incidental) to the intangible asset. Physical substance is deemed to be incidental when it is not the driver of the value of the asset.

Item	Physical substance	Why is it still seen as “without physical substance”
<b>Licences (software licences, etc.)</b>	Licence document/ agreement	The entity pays for the right of use of, e.g. software. Thus an entity does not pay for the tangible item being the piece of paper on which the licence agreement is printed, but rather for information contained on the document (you can’t touch a right of use).
<b>Application software</b>	CD	The value of application software is not driven by the CD that it is loaded on, but rather by the knowledge that it embodies. Thus the physical substance is deemed to be incidental.
<b>Patents</b>	Patent registration document	The value of a patent is not driven by the piece of paper that it is printed on, but rather by the knowledge that it embodies. Thus the physical substance is deemed to be incidental.

## 7.8 **Identification**

The City Manager shall ensure that the city 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 City Manager, acting in consultation with the Chief Financial Officer and other GM’s of Strategic Business Units, 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 city’s budget.

Every GM of a Strategic Business Unit shall ensure that the asset identification system approved for the city is scrupulously applied in respect of all fixed and movable assets controlled or used by the Strategic Business Unit in question.

## 7.9 **Verification of Movable Assets**

Every Head of Department shall undertake a comprehensive verification of all movable assets controlled or used by the department concerned.

An annual complete electronic verification of all movable assets must be done in the first half of the financial year thereafter within the second half of the same financial year written confirmation must be submitted to the Asset Control Unit that the inventory lists remain unchanged as per the inventory lists produced during the electronic verification.

Should the inventory need to be altered, these amendments must be reported to the Asset Control Unit immediately as soon as the activity that resulted in the inventory change in order to update the Fixed Asset Register.

Activities which will result in changes to inventory:

- a. Movements
- b. Disposals
- c. Theft or Losses
- d. Impairments

The verification must be done in compliance with the relevant written directives issued by the Chief Financial Officer, The directives issued by the Chief Financial Officer shall stipulate the date(s) when such verification shall be undertaken.

Every Head of Department shall promptly and fully report in writing to the Chief Financial Officer in the format determined by the Chief Financial Officer, all relevant results of such movable asset verification, and the resultant report shall be submitted to the Chief Financial Officer not later than stipulated date.

#### **7.10 Safekeeping**

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

Section 78 of the Municipal Financial Management Act (Act no. 56 of 2003) determines each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary. A senior manager or such official must perform the functions subject to the directions of the accounting officer of the municipality.

Every GM of a Strategic Business Unit shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the Strategic Business Unit in question.

In exercising this responsibility, every GM of a Strategic Business Unit shall adhere to any written directives issued by the City Manager to the Strategic Business Unit in question, or generally to all Strategic Business Units in regard to the control of or safekeeping of the city's fixed assets.

## SECTION 8

### HERITAGE ASSETS

#### 8.1 Definition

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

#### 8.2 Disclosure of Heritage Assets

Heritage assets shall be carried at its cost less any accumulated impairment losses after recognition as an asset, in accordance with GRAP 103, except Artwork and jewellery that are measured using the revaluation model.

If no original costs or reasonable values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, if it is believed that the determination of a reasonable value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the assets management system without an indication of the costs or reasonable value concerned. For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note, with reasons why the value of such heritage assets or class of heritage assets, if any, could not be measured reliably.

#### 8.3 Recognition

A heritage asset shall be recognised as an asset if, and only if:

- (a) It is probable that future economic benefits or service potential associated with the asset will flow to the entity and the cost or fair value of the asset can be measured reliably; or
- (b) Only if the portion not Heritage Asset is insignificant.

#### 8.4 Depreciation

Heritage assets are not 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.

## **SECTION 9**

### **DONATED ASSETS**

Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the assets management system at such reasonable value as the Chief Financial Officer assigns to the asset in question, and the CFO will be authorised to utilise the services of valuers, if deemed necessary.

The asset's fair value shall either be its market price or the amount the asset can be sold for in an arm's length transaction between two knowledgeable willing parties.

In the case on infrastructure assets, where there is no market-based evidence because of the specialised nature of the item, the municipality may need to estimate the fair value using the reproduction cost or the depreciated replacement cost.

## **SECTION 10**

### **BIOLOGICAL ASSETS**

Accounting for biological assets shall take place in accordance with the requirements of GRAP 27.

The Chief Financial Officer, in consultation with the head(s) of department concerned, shall ensure that all biological assets, such as livestock and crops, are valued at 30 June each year at fair value less estimated point-of-sales costs. Such valuation shall be undertaken by a recognised Valuer in the line of the biological assets concerned. Any losses on such valuation shall be debited to the department or vote concerned as an operating expense, and any increase in the valuation shall be credited to the department or vote concerned as operating revenue.

If any biological asset is lost, stolen or destroyed, the matter – if material – shall be reported in writing by the Head of Department concerned in exactly the same manner as though the asset were an ordinary fixed asset.

Records of the details of biological assets shall be kept in a separate section of the fixed assets register or in a separate accounting record, and such details shall reflect the information which the Chief Financial Officer, in consultation with the Head of Department concerned and the internal auditor, deems necessary for accounting and control purposes.

The Chief Financial Officer shall annually insure the municipality's biological assets, in consultation with the head(s) of department concerned, provided the Council of the municipality considers such insurance desirable and affordable.

## SECTION 11

### CAPITALISATION CRITERIA

#### 11.1 Capitalisation

All fixed assets that comply with the definition of an asset and role of asset of this policy must be capitalised in the Fixed Asset Register inclusive of non – claimable vat.

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

A fixed asset is an asset, either movable or immovable, owned by or under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year, which cost or fair value can be measured reliably.

Fixed assets will include Property, Plant and Equipment (as defined in GRAP 17), Intangible Assets (as defined in GRAP 31), Investment Property (as defined in GRAP 16), Heritage Assets (as defined in GRAP 103), Agricultural assets (as defined in GRAP 27), Living and Non-living Resources (as defined in GRAP 110), as well as Assets held under a finance lease, in accordance with the principles contained in GRAP 13.

##### **Role of Assets**

The role of assets is to support the delivery of a service to the public. Assets should exist to support programme delivery.

##### **Group Assets**

Meters (Water and electricity) and chairs for halls will be classed as a group asset. All group asset purchases inclusive of non-claimable VAT must be capitalised in the Fixed Asset Register and provided for on the capital budget.

##### **Providing for asset expenditure in the budget:**

It is essential that actual costs are expensed on the correct capital vote in accordance to the asset classification. Below is a guideline on the item code to be used as per asset classification when creating a vote (account) for the acquisition of an asset.

##### **Item**

Road Construction  
Storm water Drainage  
Sewers  
Water loss Programme  
Mains and services  
Distribution  
Major overhead lines  
Substations  
Buildings  
Purchase of land

Plant and equipment  
Computers  
Furniture and fittings  
Vehicles  
Internal insurance funded assets

### **11.2 Capitalisation criteria**

All asset types approved by the Chief Financial Officer for capitalisation shall be treated as capital assets and recorded in the asset register.

### **11.3 Subsequent Expenditure**

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

If expenditure only restores the originally assessed standard of performance, then it is regarded as repairs and should be expensed. The following will assist in distinguishing capital expenditure from maintenance expenditure:

- a. Enhancing an existing asset so that its use is expanded (Capital)
- b. Maintaining an asset so that it can be used for the period for which it was initially intended. (maintenance)
- c. Replacing an existing asset (capital)
- d. Further developing an existing asset so that its original useful life is extended (capital)
- e. The Chief Financial Officer will be responsible for implementing procedures to ensure that operating expenses are not capitalised.

### **11.4 Intangible Assets**

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:

- a. is separate, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract asset or liability; or
- b. arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations; and can be further classified as:
- c. Intangible assets with a finite useful life; and
- d. Intangible assets with an infinite useful life.

An intangible asset shall be regarded by the entity as having an indefinite useful life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Examples of intangible items are:

1. Mineral exploration rights
2. Computer software (not operational software)
3. Valuation Roll
4. Licensing rights
5. Servitudes

Intangible items are treated in accordance with the provisions of GRAP 31 and in applying the cost model are initially recorded at their cost price. After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

#### **11.4.1 Retirements and Disposal**

An intangible asset shall be de-recognised:

- a. on disposal; or
- b. When no future economic benefits are expected from its use or disposal.

#### **11.4.2 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 12

### CALCULATION OF CAPITALISATION COST OF ASSETS

#### 12.1 Initial Cost

The initial recording (or measurement at recognition) of an asset is dealt with as follows in GRAP 17:

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:

- a. The cost of site preparation,
- b. Initial delivery and handling costs,
- c. Installation costs, and
- d. Professional fees such as for architects and engineers;
- e. The estimated cost of dismantling the asset and restoring the site, to the extent that it is recognised as a provision.
- f. 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.

Where there is insufficient supporting documentation to verify or confirm the actual costs, the deemed cost method shall apply, where the asset concerned shall be recorded in the asset register at its fair value, as determined by the Chief Financial Officer. The asset's fair value shall either be its market price or the amount the asset can be sold for in an arm's length transaction between two knowledgeable willing parties.

#### 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:

##### 12.2.1 **Enhancement / 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 entity 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:**

- a. Modification of an item or plant to extend its useful life, including an increase in its capacity;
- b. Upgrading machine parts to achieve a substantial improvement in the quality of output;
- c. Adoption of new production enabling a substantial reduction in previously assessed operating costs;
- d. Extensions or modifications to improve functionality such as installing computer cabling or increasing the speed of a lift;
- e. Improve the performance of the asset;
- f. Increase the capacity of the asset;
- g. Prolong the expected working life of the asset;
- h. Increase the size of the asset; or
- i. Change the shape of the asset.

#### **12.2.2 Maintenance / Refurbishment / Rehabilitation:**

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 an entity can expect from the asset.

Rehabilitation and refurbishment of works prolongs the expected working life of the asset and are a necessary part of infrastructure asset lifecycle management. In such cases, the value and remaining useful life of the asset is affected, and the costs of the refurbishment or rehabilitation is regarded as capital expenditure in the statement of financial performance. Routine maintenance (preventative, predictive or corrective) that is meant to maintain or restore the normal functionality of the asset, without affecting the expected useful life is regarded as an operational expense.

Thus if the performance or expected useful 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

### DEPRECIATION OF ASSETS

#### 13.1 Definition

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

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed, from the date that the asset is brought into use i.e. acquired and available for use (purchase dates/invoice date).

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

The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

#### 13.2 Assets to be depreciated

All fixed assets, except Land, Investment property, and heritage 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 building 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.

#### 13.3 Determining Useful Lives of assets and residual values

The Chief Financial Officer shall assign a useful operating life (or Expected Useful Life, EUL) and residual value to each depreciable asset recorded on the city's Fixed Asset Register. In determining such a useful life, the Chief Financial Officer shall adhere to the useful lives set out in the annexure to this document (refer Annexure A) or to the recommendation of the head of the department involved. The residual values should only be applicable to motor vehicles and computer items.

In the case of a fixed asset which is not listed in this annexure, the Chief Financial Officer shall determine a useful operating life, if necessary, in consultation with the GM of the Strategic Business Unit 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 the likely pattern in which the asset's economic benefits or service potential will be consumed. The residual value and the useful life of an asset shall be reviewed at least at each reporting date.

The amortisation period of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life, and 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 amended accordingly.

## **13.4 Depreciation Calculation**

### **13.4.1 Tangible assets**

The city uses the straight-line depreciation method whereby items of property, plant and equipment are depreciated on a constant or uniform amount over their estimated useful life. For example, if a vehicle is purchased and has an estimated useful life of 5 years, each month 1/60th of the vehicle will be depreciated.

Depreciation is an expense both calculated and debited on a monthly basis against the appropriate line item in the Strategic Business Unit 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 brought into commission and will continue until the accumulated depreciation equals the depreciable amount of the respective item of property, plant and equipment or the item is disposed or written off, or asset is held for sale.

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 brought into commission. 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.

### **13.4.2 Intangible assets**

#### **Amortisation period and amortisation method**

##### **a. 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 entity. 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 this or another Standard permits or requires it to be included in the carrying amount of another asset.

b. Infinite useful life

No amortisation will take place.

The amortisation period and the amortisation method 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. 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.

**(a) Amendment of Asset Lives and Diminution in the Value of Fixed Assets**

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

The Chief Financial Officer shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, based on the reports submitted from departmental heads.

If the value of a fixed asset 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.

Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off the assets management system.

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

If any of the foregoing event arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalised at a value other than a purely nominal value, such fixed asset shall be partially or fully depreciated, as the case may be, as though it were an ordinary depreciable asset, and the department or vote controlling or using the fixed asset in question shall bear the full depreciation expenses concerned.

**In assessing whether there is any indication that the expected useful life of an asset has changed, the municipality considers the following indications:**

The composition of the asset changed during the reporting period, i.e. the significant components of the asset changed.

(b) The use of the asset has changed, because of the following:

- (i) The entity has changed the manner in which the asset is used.
- (ii) The entity has changed the utilisation rate of the asset.

- (iii) The entity has made a decision to dispose of the asset in a future reporting period(s) such that this decision changes the expected period over which the asset will be used.
  - (iv) Technological, environmental, commercial or other changes that occurred during the reporting period that have, or will, change the use of the asset.
  - (v) Legal or similar limits placed on the use of the asset have changed
  - (vi) The asset was idle or retired from use during the reporting period.
- (c) The asset is approaching the end of its previously expected useful life.
  - (d) Planned repairs and maintenance on, or refurbishments of, the asset and/or its significant components either being undertaken or delayed.
  - (e) Environmental factors, e.g. increased rainfall or humidity, adverse changes in temperatures or increased exposure to pollution.
  - (f) There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.
  - (g) The asset is assessed as being impaired in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets.

### **13.6 Alternative Methods of Depreciation in Specific Instances**

The Chief Financial Officer may employ the sum-of-units method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services.

The Chief Financial Officer shall only employ this method of depreciation if the Head of Department controlling or using the fixed asset in question gives a written undertaking to the City Manager to provide:

- a. estimates of statistical information required by the Chief Financial Officer to prepare estimates of depreciation expenses for each financial year; and
- b. actual statistical information, for each financial year.

The Head of Department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the Chief Financial Officer.

Where the Chief Financial Officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the Chief Financial Officer shall inform the Council of the municipality of the decision in question.

### **13.7 Offset Depreciation**

#### **13.7.1 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.

### **13.7.2 Assets financed by the Capital Replacement Reserve (CRR)**

To offset the double cost allocation by having to fund annual depreciation charges as well as contributions to the CRR, when the Capital Replacement Reserve is used to finance the acquisition of assets, a once-off transfer equal to the amount used to finance the item of property, plant and equipment is made from the Reserve to Accumulated Surplus / Deficit account to accommodate future annual depreciation charges on these assets.

## **13.8 Disclosure Requirements**

According to GRAP 17 the following information relating to depreciation should be disclosed in the financial statements:

- 1. In the Accounting Policy Notes**
  - a. The depreciation methods used and the depreciation rates or useful lives.
- 2. On the Statement of Financial Position**
  - a. The accumulated depreciation is part of the Net Property, Plant and Equipment amount.
- 3. On the Statement of Financial Performance**
  - a. The depreciation charged in arriving at the net surplus or deficit disclosed in the income statement.
- 4. In the notes to the Statements**
  - a. 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.
- 5. In Annexure B and C to the Financial Statements**
  - a. These Annexures disclose a more detailed analysis of the various classes of assets (Annexure B) as well as a detailed analysis on the allocation of assets (Annexure B) on the allocation of assets to the various departments and functions (Annexure C). These Annexures must show a reconciliation of the carrying amount at the beginning and end of the period showing:
    - i. Additions
    - ii. Disposals
    - iii. Acquisitions through business combinations
    - iv. Increases or decreases resulting from revaluations
    - v. Reductions in carrying amount (Impairment loss)
    - vi. Depreciation
    - vii. 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 financed from a Government Grant and there is still a balance left regarding this item on the Deferred Income Account: Government Grant, this balance must then be transferred to the Accumulated Surplus / Deficit account.

- b) Disclosure for capital under construction with comments for project status, projects open beyond estimated timeframe and classifications of each project.



## SECTION 14

### REVALUATION OF FIXED ASSETS

#### 14.1 Heritage Assets

The Municipality has adopted revaluation model in respect of artworks. The revaluation of artworks is performed every 4 years.

#### 14.2 Revaluation Reserve

The Chief Financial Officer shall also, where applicable, create a revaluation reserve for fixed assets equal to the difference between the value as recorded in the asset register and the fair value of the fixed assets being valued.

The revaluation amount of an asset should reflect in the asset register as well as in the revaluation reserve.

#### 14.3 Investment Property

Investment properties will be re-valued on an annual basis, and any increases or decreases will be recorded against the surplus or deficit. Any gains or losses on the disposal shall be accounted for as below, and the carrying value will be written off against the surplus or deficit.

The CFO can also utilize the services of a Valuer to determine the values of investment properties, where it is expected that the fair value, as calculated from the values reflected in the Valuation roll, differ materially from what can be expected, due to changes in market conditions since the fixed date used for the determination of market values in the valuation roll. Any adjustments made in this regard will be accounted for as gains or losses in the municipality's operating account.

## **SECTION 15**

### **DISPOSAL OF ASSETS**

#### **15.1 Disposal**

In compliance with the principles and prescriptions of the Municipal Financial Management Act (Annexure B) and Municipal Asset Transfer Regulations, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the city's supply chain management policy.

Every Head of Department shall report in writing to the Chief Financial Officer on a quarterly basis on all fixed assets controlled or used by the department concerned which such Head of Department wishes to dispose by public auction or public tender. The Chief Financial Officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Council or the City Manager of the municipality, 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 Unit for safekeeping. No items will be received by the Asset Management Unit without a completed asset disposal form counter-signed by the Asset Management Unit, describing the status of the item and the reason for writing-off the item.

Each Strategic Business Unit 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 Strategic Business Unit to ensure that all such assets to be disposed of are delivered to and received at the Asset Management Unit.

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

Every GM of a Strategic Business Unit shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the Strategic Business Unit in question is promptly reported in writing to the Insurance Section as well as the Asset Management Unit by using the asset disposal form. Such incidents must also be reported to the Internal Audit Unit and, in cases of suspected theft or malicious damage, also to the South African Police Services.. Once the fixed assets are disposed, the Chief Financial Officer shall remove the relevant records from the fixed asset register.

The Council shall delegate to the City Manager the authority to approve the alienation of any fixed asset with a carrying value less than R50 000.00 (Fifty Thousand Rand).

It is important to note that a disposal of an asset must comply with the following requirements:

- a. Capital assets needed to provide the minimum level of basic municipal services may not be disposed of.
- b. Capital assets may only be disposed of after the municipal council in a meeting open to the public:
  - i. Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal service, and
  - ii. Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

## **15.2 Asset Disposal Committee**

The Asset disposal committee will deliberate on recommendations from Business Units for the disposal and transfer of all movable and immovable assets including land and leases.

The committee will report to the Accounting Officer their recommendations regarding the disposal and transfer of municipal assets. Thereafter the Accounting Officer shall submit considerations and recommendations of the disposal and transfers to the appropriate portfolio committee for their recommendations and final approval.

The Asset Disposal Committee shall comprise of the following officials:

- a. Senior Manager: Assets and Liabilities
- b. Manager: Fleet
- c. Manager : Real Estates and Valuations
- d. Legal Advisor
- e. Senior Manager: Area Based Management
- f. Senior Manager: ICT
- g. Manager: Assets

**15.3 Other Write-Offs**

A fixed asset, even though fully depreciated, shall be written-off only on the recommendation of the GM of a Strategic Business Unit controlling or using the concerned, and with the final approval of Council.

Every GM of a Strategic Business Unit shall report to the Chief Financial Officer on any fixed assets which such GM of the Strategic Business Unit wishes to have written off, stating in full the reason for such recommendation. The Chief Financial Officer shall consolidate all such reports and shall promptly 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.

**15.4 Proceeds / 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 cost centre of the Strategic Business Unit concerned.

If this asset has an outstanding balance on the government Grants Reserve account or the Revaluation Reserve, this balance must be transferred to the Accumulated Surplus.

All proceeds realised on the disposal of assets shall be appropriated annually to the city's Capital Replacement Reserve and all losses on the disposal of assets shall remain as expenses on the cost centre of the department concerned. If, however, both gains and losses arise in any one financial year in respect of the disposal of assets of any department, only the net gain (if any) on the disposal of such assets shall be appropriated.

**15.5 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 16****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:

1. A note to the Financial Statements;
2. With a detailed disclosure as an annexure reflecting the movements for the financial year by category and subcategory;
3. Movements are also reflected on an annexure per Strategic Business Unit;
4. 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:

1. Probability criteria (it is probably that any future economic benefits or service potential associated with the asset will flow to the entity);
2. 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 city 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 city 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 of the city to obtain the future economic benefits of service potential from its other assets. When this is the case, such acquisitions of assets qualify for recognition as assets, in that they enable future economic benefits or service potential from related assets to be derived by the city 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 the entity expects to recover from their continued use and ultimate disposal.

## **SECTION 17**

### **FUNDING SOURCES**

The main sources of finance utilised to acquire assets are:

1. External Loans
2. Grants, Subsidies and Public Contributions
3. Revenue Contributions
4. Capital Replacement Reserve

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.

There will be a departure from GRAP 1.144 regarding Capital Reserves, in accordance with GRAP 1.22 and .23, read with GRAP 3.07, as the inclusion of capital receipts applied for the purchase of Property, Plant and Equipment in the Accumulated surplus will lead to a misinterpretation by users, particularly Council and Ratepayers/Consumers. These Reserves will be disclosed in accordance with GRAP 1.86.

#### **17.1 External Loans**

Major expenditure on PPE, especially Infrastructure and major items of Plant, can be financed from external financing sources, if the municipality complies to the requirements of the MFMA in this regard. Costing of this source of finance must include finance costs and depreciation against the Statement of Financial Performance over the period of financing. The period of financing should ideally be aligned to the estimated lifespan of the assets thus financed, but should never exceed such.

#### **17.2 Grants, Subsidies and Public Contributions**

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/ (deficit) to the Grants Reserve equal to the Grant recorded as revenue in the Statement of Financial Performance. When such items of property, plant and equipment are depreciated, a transfer is made from the Reserve to the accumulated surplus/ (deficit). The purpose of this procedure is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from Grants.

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:

- a. The cash which backs up the grant is invested until it is utilised.
- b. 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 recognised as interest earned in the Statement of Financial Performance and might be allocated, in part or fully, to the unspent portion of the grant if it is so stated in the accounting policy.
- c. Whenever an asset is acquired from a conditional government 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. Thereafter an equal amount is transferred to the Grant Reserve. This account must have equal book value of assets purchased from conditional government grants and is utilised to offset depreciation charged on assets purchased out of conditional government grants.

When an asset, previously financed by a conditional government grant, is disposed of with a balance left on the Grants Reserve account such a balance must be transferred to the Accumulated Surplus account.

### **17.3 Capital Replacement Reserve**

The CRR is an asset financing source that represents an alternative to the other funding sources available to the municipality namely external loans (interest bearing borrowings) and government grants & subsidies. It is a GRAP requirement that the balance on the CRR must always be represented by cash, which must be held in a separate identifiable investment account.

Subsequent to the implementation of GRAP in 2008, Reserves and Funds had to be discontinued as they are not permissible in terms of GRAP. However the National Treasury determined that the CRR is one of the few funds and reserves that are allowed. Therefore it is a requirement that since fund accounting is not allowed in terms of GRAP, for disclosure in the Annual Financial Statements, CRR should form part of Accumulated Surplus and should not be disclosed on the face of the Statement of Financial Position.



As a matter of principle, the focus is the manner in which these reserves are created and accounted for, which in this instance the capital replacement of major components of Infrastructure Assets in the event of technical failure. For accounting purposes, the CRR will be created by transferring amounts out of Accumulated surpluses/deficits to the respective reserve account, or vice versa, in the Statement of Changes in Net Assets. The net effect of these transfers will be nil in the Statement of Changes in Net Assets, and will not affect the value of reserves in totality. It is the requirement of GRAP that no transactions should be accounted for, directly to the Statement of Changes in Net Assets other than those specifically allowed in terms of GRAP, i.e. Revaluation Surplus Reserve. Therefore situations should be avoided where reserves are created and accounted for, by taking amounts directly to the Statement of Changes in Net Assets thereby circumventing the Statement of Financial Performance.

The municipality should determine a policy on the revenue sources that will be used to maintain or increase the balance of the CRR. These revenue sources may include, but not limited to, the following:

- o Interest earned by the municipality on the CRR investment account;
- o Cash proceeds from the sale of any item of PPE or Investment Property;
- o Percentage of amount that was utilised in the previous financial year for the purchase of items of PPE;
- o VAT input recovered from SARS.

The CRR will only be utilised for the purpose of purchasing items of property, plant and equipment for the municipality and will not be used for the maintenance of such items.

## SECTION 18

### IMPAIRMENT LOSSES

#### 18.1 Impairment

The carrying amount (book value) of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.

All impairments must be done in compliance to:

- a. Impairment of cash-generating assets (GRAP 26)
  - i. Cash-generating asset: asset held with primary objective of generating commercial return
- b. Impairment of non-cash generating assets (GRAP 21)
  - ii. Non-cash generating assets are primarily held for service delivery purpose, no commercial return)

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

The recoverable service amount or recoverable amount is the higher of an asset's fair value less cost to sell and its value in use.

When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation on properties in which case it should be charged to the Revaluation Reserve

The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification work is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amounts of the smallest grouping of assets for which it is possible to make an assessment of recoverable amounts.

During the physical annual verification of movable assets, condition assessments are performed using the grading scales to identified potential impaired assets. The Asset Management Unit performs the impairment testing to identify impairment losses.

The Asset Management Unit together with the relevant department will review immovable assets for potential impairment losses. The Asset Management Unit performs the impairment testing to identify impairment losses.

The following may be indicators that an asset has become impaired:

- a. The item has been damaged,
- b. The item has become technologically obsolete;
- c. The item remains idle for a considerable period of either prior to it being put into use or during its useful life;

- d. Land is purchased at market value and is to be utilised for subsidized housing developments, where the subsidy is less than the purchase price.

**Example:**

An example of where the City has suffered an impairment loss is the purchase of land for an amount of R 5,000,000. The land will be utilised for new subsidised housing developments. If at year-end the expectation is that the City will receive only R 1,000,000 by way of subsidies, an impairment loss of R 4,000,000 needs to be recognised. The recoverable amount (R 1,000,000) is calculated as being the larger of:

1. Net Selling Price of the land which is the amount obtainable from the sale of the market in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal.
2. Value in use of the land which is the present value of the estimated future net cash inflows expected from the continuing use of the asset and from its disposal at the end of its useful life.

## **18.2 Disclosure of Impairment Losses**

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

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

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

## **18.3 Reversal of an Impairment Loss**

- a. The same procedures as for the identification of impaired assets are followed as to whether there is an indication that impairment may have decreased. If so, the recoverable amount must be added to the carrying value of the asset.
- b. The life cycle must be adjusted.
- c. The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised.
- d. Reversal of an impairment loss is recognised as income in the income statement.
- e. Depreciation must be adjusted for the remaining life cycle.

## 18.4 Identification of Impairment: Cash Generating Assets

To assess whether there is any indication that an asset may be impaired; the following indications are considered **as a minimum**:

### 18.4.1 External sources of information:

- a. Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal or government policy environment in which the entity operates. For example, sanctions have been imposed on the exporting of the asset;
- b. Market value of the asset has declined significantly during the period (not as a result of passage of time of use). For example, an asset sold to the public has received a bad reputation for not being reliable, as a result the market value of the asset has decreased significantly;
- c. Interest rates (such as market interest rates) have increased and those increases will most likely affect the discount rate used in calculating the asset's value in use and decrease the asset's recoverable amount significantly.

### 18.4.2 Internal sources of information:

- a. Obsolescence or physical damage of the asset (for example, flood damage to a building);
- b. Significant changes in the extent to which, or manner in which, an asset is used or expected to be used that have an adverse effect on the entity, have taken place during the period or are expected to take place in the near future. These changes may include the asset becoming idle, plans to discontinue or restructure the operation to which as asset belongs, or plans to dispose of an asset before the previously expected date; and
- c. Internal reporting indicated that the economic performance of an asset is, or will be, significantly worse than expected. This evidence relates to the ability of the asset to perform - to generate future economic benefits or service potential (i.e. internal source). Examples can include:
  - i. increase in costs to maintain or operate the asset that are significantly higher than those originally budgeted;
  - ii. actual net cash flows or net surplus or deficit flowing from the asset that are significantly worse than those budgeted;
  - iii. a significant decline in budgeted net cash flows or surplus or a significant increase in budgeted loss, flowing from the asset; or
  - iv. Deficits or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

This list is not exhaustive and other indicators of impairment should be considered.

## **18.5 Identification of Impairment: Non Cash Generating Assets**

### **18.5.1 External sources of information:**

The demand or the need for services provided by the asset has ceased or is about to cease. For example, the need for a service (provided by an asset) has ceased because the parties to whom the service was provided for has obtained its own asset to perform the service. Another example may be where the demand for the service has decreased due to adverse economic circumstances;

Significant long-term changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, legal or government policy environment in which the entity operates. For example, sanctions have been imposed on the importing of a significant component of the asset, or a vehicle that does not meet new emission standards;

The demand or the need for services (not necessarily a near cessation or cessation as indicated in first bullet point above) provided by the asset has taken a significant long-term decline. For example, a number of countries have made use of services provided by certain assets of an entity, but during the current period, other entities also provided similar services to certain of those countries. As a result, the entity will be experiencing a significant long-term decline in the demand for the services provided by its assets; and

Market value of the asset has declined significantly during the period (, more than what is expected from passage of time or use).

### **18.5.2 Internal sources of information:**

- a. Obsolescence or physical damage of the asset (for example, flood damage to a building);
- b. Significant changes in the extent to which, or manner in which, an asset is used or expected to be used that have an adverse effect on the entity, have taken place during the period or are expected to take place in the near future. These changes may include the asset becoming idle, plans to discontinue or restructure the operation to which as asset belongs, or plans to dispose of an asset before the previously expected date; and
- c. Internal reporting indicated that the economic performance of an asset is, or will be, significantly worse than expected. This evidence relates to the ability of the asset to perform - to generate future economic benefits or service potential (i.e. internal source).

Examples can include:

- i. increase in costs to maintain or operate the asset that are significantly higher than those originally budgeted;
- ii. actual net cash flows or net surplus or deficit flowing from the asset that are significantly worse than those budgeted;

- iii. a significant decline in budgeted net cash flows or surplus or a significant increase in budgeted loss, flowing from the asset; or
  - iv. Deficits or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.
- d. Entity has decided to halt the construction of the asset before it is complete or in a usable; and
- e. Internal reporting indicated that the economic performance of an asset is, or will be, significantly worse than expected. This evidence relates to the ability of the asset to provide services (i.e. internal source), rather than a decline in the demand or need for services provided by the asset (i.e. external source). Examples can include a significant increase in the cost of maintaining or operating the asset and significantly lower service or output levels than those originally budgeted and expected respectively.

This list is not exhaustive and other indications of impairment should be considered

If, based on the assessment, indications of possible impairment are identified; the relevant assets should be tested for impairment. This implies that the test of impairment of assets (other than intangible assets with an indefinite useful life, or intangible assets that are not yet available for use) will be performed at the end of each reporting period.

- i. It will be the responsibility of all Business Units and Budget and Treasury Department to;
- ii. At each reporting date consider whether there is an indication of a possibility of impairment for any asset. If there is an indication that an asset is impaired the business units will be responsible to perform an impairment test that will have to be reported to the Assets unit in Budget and Treasury Department, if satisfied with the calculation, will refer the possible impairment to the Chief Financial Officer for approval.
- iii. Irrespective of whether there is an indication of impairment, the entity shall also test intangible assets with indefinite useful life or an intangible asset.

## **SECTION 19**

### **INVESTMENT PROPERTY**

Investment Property shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of financial position.

Investment assets shall comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.

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

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

A professional Valuer shall be engaged by the municipality to undertake such valuations.

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

#### **19.1 Definition of Investment Property**

Investment Property is defined as:

- a. Property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both, rather than for:
  - i. Use in the production or supply of goods or services or for administrative purposes; or
  - ii. Sale in the ordinary course of operations.
- b. Investment Property generates cash flows largely independently of the other assets of the city.



**Investment Property is held to earn rentals or for capital appreciation of both****The following are examples of Investment Property**

- a. Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;
- b. Land held for a currently undetermined future use. (If the city 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);
- c. A building owned by the city (or held by the city under a finance lease) and leased out under one or more operating leases on a commercial basis; and
- d. 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.
- e. Property that is being constructed or developed for future use as investment property.

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

- a. Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- b. Property being constructed or developed on behalf of third parties;
- c. 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;
- d. 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
- e. Property held for strategic purpose which would be accounted for in accordance with GRAP 17.
- f. 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.

**19.2 Initial measurement of Investment Property**

- a. 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.
- b. 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.
- c. 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 city applies the GRAP standard on accounting for PPE. At the completion date, the property becomes investment property and the Standard on Investment Property applies.
- d. 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 entity and the cost or fair value of the investment property can be measured reliably.

**19.3 Measurement of Investment Property subsequent to Initial Measurement**

- a. 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 entity. All other subsequent expenditure should be recognised as an expense in the period in which it is incurred.

For example: If a city 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 R 5,000 per month rental income. In this case the renovation cost will be added to the carrying amount of the investment property.

- b. After initial recognition of the investment property the city may choose to reflect the investment property at fair value or at cost less accumulated depreciation.

- c. 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, an entity 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 city purchases four houses at a cost of R 200,000 each for purposes of leasing them out to senior manager of the city at market related rates. The legal fees and transport duties relating to the transaction amount to R 16,000. At the end of the financial year the fair value of the houses is determined to be R 900,000. This means that the city will recognise a fair value gain in the Statement of Financial Performance for the year of R 84,000. (R900,000 – R816,000).

- d. If, after initial recognition, the city 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.

## **19.4 Transfers and Disposals of Investment Properties**

### **19.4.1 Transfers**

- a. Transfers to, or from, investment property should be made when, and only when, there is a change in use, evidenced by:
- i. Commencement of own-occupation, for a transfer from investment property to own-occupied property;
  - ii. Commencement of development with a view to sale, for a transfer from investment property to inventories;
  - iii. End of own-occupation, for a transfer from other classified property to investment property;
  - iv. Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or

- b. For a transfer from investment property carried at fair value to own-occupied property or inventories, the property's cost for subsequent accounting under the relevant GRAP Standards on PPE or inventories should be its fair value at the date of change in use.
- c. If an own-occupied property becomes an investment property that will be carried at fair value, an entity should apply the relevant GRAP standard on PPE up to the date of change in use. The city should treat any difference at that date between the carrying amount of the property and its fair value in the same way as a revaluation under the relevant GRAP Standard on PPE by crediting a reserve.
- d. 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 recognised in net surplus/deficit for the period.

#### **19.4.2 Disposals**

On disposal or permanent withdrawal from use of investment property:

- a. An investment property should be eliminated from the Statement of Financial Position;
- b. 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 Statement, the gain or loss should be included in the Statement of Financial Performance as an item of revenue or expense.

### **19.5 Budget Implications relating to Investment Property**

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

- a. Gains on the disposal of investment properties that are intended to be sold during the next financial year.
- b. Fair value gains that are expected to be obtained on investment properties that will be held during the next financial year.
- c. Depreciation on investment properties that are intended to be transferred to own-occupied properties during the next financial year.
- d. The effect of reduced depreciation on own-occupied properties that are intended to be transferred to investment properties during the next financial year.
- e. Revenue through operating lease income; and
- f. Fair values 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 city in the next financial year.

### **19.6 Disclosure**

The disclosure requirements adhered disclosing information on investment property reflected at fair value:

- a. The criteria developed by the city to distinguish investment property from own-occupied property and from property held for sale in the ordinary course of operations;
- b. The methods and significant assumptions applied in determining the fair value was supported by market evidence or was more heavily based on other factors (which the entity should disclose) because of the nature of the property and lack of comparable market data;
- c. The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent Valuer who holds a recognised and relevant professional qualification and who has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact should be disclosed;
- d. The amounts included in the Statement of Financial Performance for:
  - i. Rental revenue from investment property;
  - ii. Direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and

- e. Direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;
- e. The existence and amounts of restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal;
- f. Material contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements;
- g. A reconciliation of the carrying amount of investment property at the beginning and end of the period showing the following:
  - Additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalised subsequent expenditure;
  - Additions resulting from acquisitions through entity combinations;
  - Disposals;
  - Net gains or losses from fair value adjustments;
  - The net exchange differences arising on the translation of the financials statements of a foreign entity;
  - Transfers to and from inventories and owner-occupied property; and
  - Other movements.
- h. The fair value of the investment property. In the exceptional cases, when the city cannot determine the fair value of the investment property reliably, the entity should disclose:
  - A description of the investment property;
  - An explanation of why fair value cannot be determined reliably; and
  - If possible the range of estimates within which fair value is highly likely to lie.

**SECTION 20****REPLACEMENT STRATEGY**

The City Manager, in consultation with the Chief Financial Officer and other GM's of Strategic Business Units 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:

- a. The nature of the asset
- b. The usage of the asset
- c. Priorities
- d. Available funding
- e. Operational and maintenance costs
- f. Operational skills
- g. Future expected developments
- h. Technology
- i. Outsourcing
- j. Private sector partnerships

## SECTION 21

### ASSET RISK MANAGEMENT: INSURANCE

#### 21.1 Insurance

Strategic Business Units are responsible for managing the risks associated with their activities. The City Manager shall ensure that all movable / immovable assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

If the municipality operates a self-insurance reserve, the Chief Financial Officer shall annually determine the premiums payable by the departments or votes after having received a list of the fixed assets and insurable values of all relevant fixed assets from the heads of departments concerned.

The City Manager shall recommend to the Council of the municipality, after consulting with the Chief Financial Officer, the basis of the insurance to be applied to each type of fixed asset; either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

The Chief Financial Officer shall annually submit a report to the Council of the municipality on any reinsurance cover which is deemed necessary to procure for the municipality's self-insurance reserve.

#### 21.2 Other risk reducing methods

Departmental regulations or "operating policies" can also reduce risks. 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:

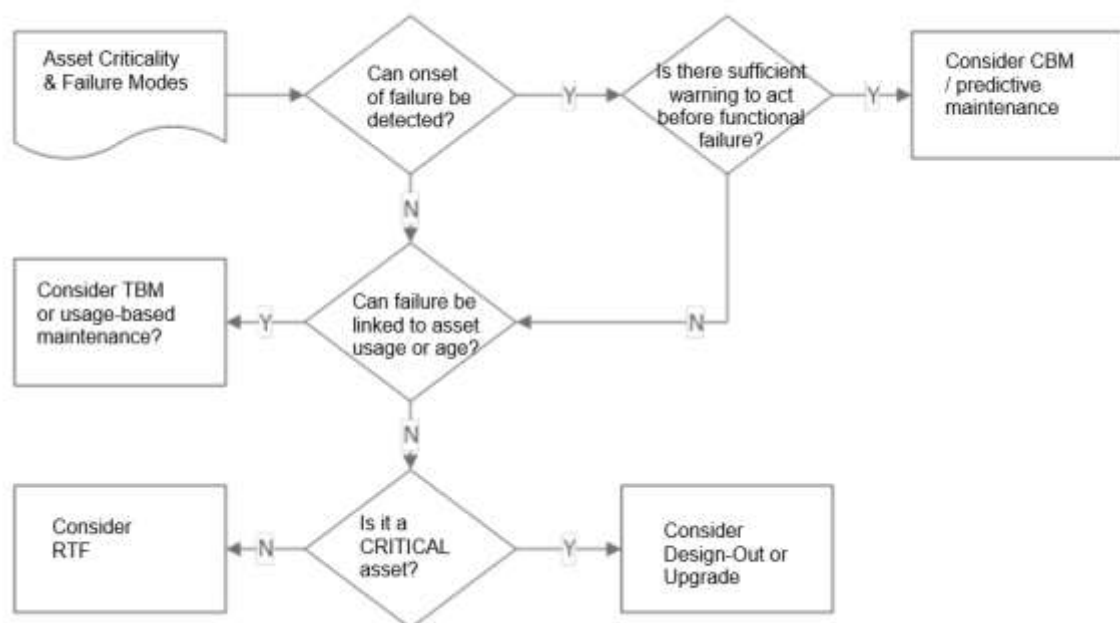
- a. Only authorised personnel should be allowed in areas where expensive equipment is kept;
- b. Only authorised personnel should be allowed to operate plant or vehicles;
- c. The keys for office vehicles should be controlled in a central office during the day, and employees should sign when they take the keys;
- d. Ensure that drivers or operators have the necessary qualifications and licences;
- e. 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;
- f. Physical access to buildings, or areas within buildings, should be restricted, especially after hours.



**SECTION 22****MAINTENANCE OF ASSETS****22.1 Maintenance Plans**

Regular maintenance can prevent unplanned and expensive breakdowns. Maintenance plans must therefore be drawn up to ensure optimal maintenance standards and execution to realize the expected useful life (value) from the asset.

Three general types of maintenance strategies can be identified, namely corrective maintenance or run to failure (RTF), preventive or time-based (TBM) or use-based maintenance (UBM), predictive or condition-based maintenance (CBM). Choice of strategy depends on failure mode type, consequence, probability, and predictability of failure.

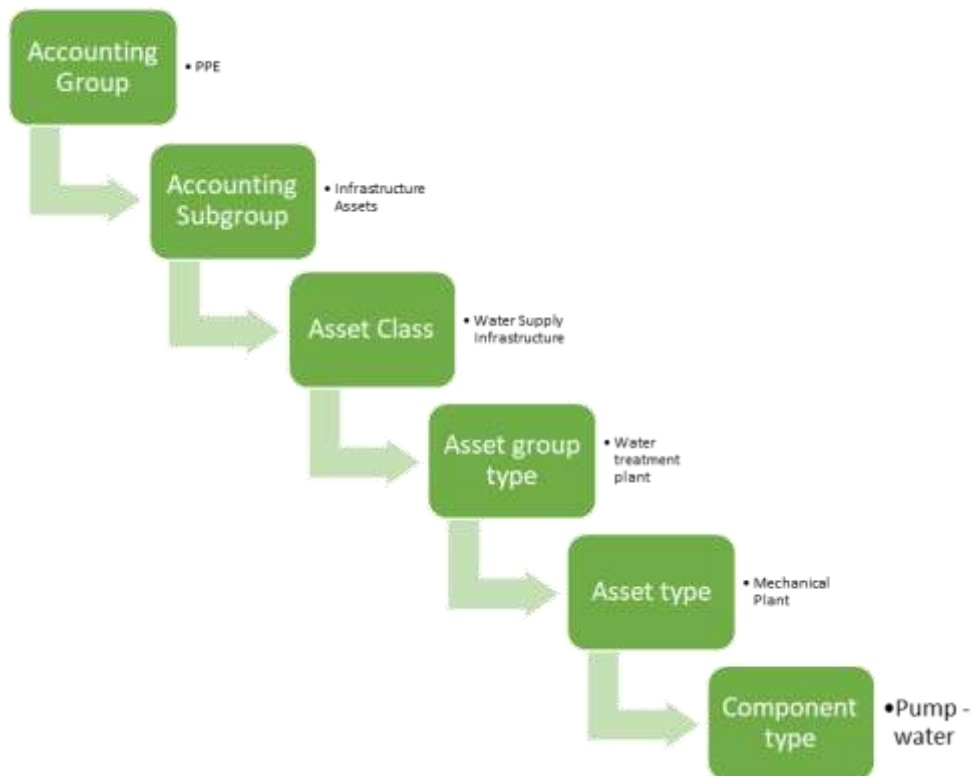


**Figure 3: Maintenance Strategy type decision making tree**

Strategy	Preventative	Predictive	Corrective (RTF)
<b>Maintenance Tactic/ Activity</b>	<p>Examples:</p> <ul style="list-style-type: none"> <li>Lubrication, cleaning, and replacements at predetermined intervals (before failure occurs)</li> <li>OHS Act Statutory maintenance plans fall in this category.</li> <li>Paint walls and repair waterproofing every 5 years</li> <li>Replace pump mechanical seal every 3 years.</li> <li>Change diesel generator oil every 500 running hours</li> </ul>	<p>Examples:</p> <ul style="list-style-type: none"> <li>Annual Transformer Oil Analysis</li> <li>Inspections and condition assessments – visual or using condition monitoring technology and tools either continuously (SCADA) or at predetermined intervals.</li> </ul>	<p>Examples:</p> <ul style="list-style-type: none"> <li>Replace fused bulb</li> <li>Repair leaking pipe</li> <li>Replace broken window (Failure has already occurred, can also be triggered by a Predictive Maintenance task)</li> </ul>

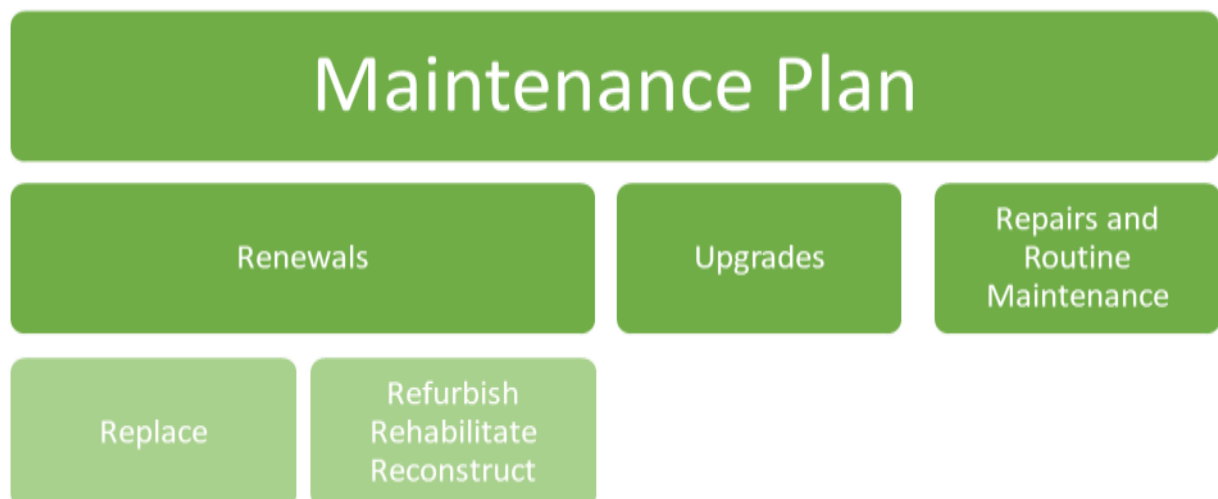
Maintenance plans are formulated based on the strategies most appropriate and cost effective. RCM and FMEA are methodologies often used to develop a comprehensive maintenance plan for an asset. Ideally maintenance plans must be developed at component type level (as defined in CIDMS Module 3).

Figure 4: Example of a CIDMS asset hierarchy



GRAP maintenance classification considers the impact of the maintenance activity on the remaining useful life of the asset. Renewals and upgrades extend the useful life of the asset therefore cost is capitalized, whereas repairs and routine maintenance are classified as operational costs. Renewals and upgrades can also be categorized as preventative, predictive or corrective maintenance as per the maintenance strategy type decision making criteria.

Figure 5: GRAP Maintenance Classification



Every Head of Department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000.00 (One Hundred Thousand Rand) or more is promptly prepared and submitted to the Council of the municipality for approval.

If so directed by the City Manager, the maintenance plan shall be submitted to Council prior to any approval being granted for the acquisition or construction of new infrastructural assets.

The GM of Strategic Business Units controlling or using the infrastructure asset in question, shall budget for the executing of the approved plan and will annually report to Council, not later than 31 March, of the extent to which the relevant maintenance plan 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.

## 22.2 Asset Criticality analysis

Maintenance is a risk management plan to manage risk associated with the ownership and use of assets therefore any asset reliability or performance improvement initiatives should start with an asset criticality (risk) analysis. There are many models for conducting criticality analysis and each organization has its own system which takes into consideration that organization's specific risk appetite. These models consider the consequence of asset loss or failure on production or service levels, quality, safety, and the environment, as well as probability of the failure and its predictability. It is basically a risk-ranking system that estimates consequences of a failure or loss to the organization and its probability.

The criticality matrix provides a very basic method of assessing and ranking asset risk. A matrix is used as a qualitative method to assess the level of risk, ranking events as very low (blue), low (green), medium (yellow), high (orange) or very high (red). This allows all asset risks and organizational risks to be compared and ranked. Risk responses are prioritised according to the highest risk exposure categories. Special care should be given to the assets that are in the high and very high-risk categories. This implies that asset criticality should be used as a system of prioritization by informing decision making with regards to projects, maintenance work management and inventory or spares management (supply chain management).

The CIDMS Module 3 provides guidance on the criticality grading and condition grading of public infrastructure assets.

Consequence/Criticality						
Probability/ Condition Grading		Insignificant	Minor	Moderate	Major	Catastrophic
	Almost certain	Medium	Medium	Very High	Very High	Very High
	Likely	Medium	Medium	High	Very High	Very High
	Moderate	Low	Low	Medium	High	Very High
	Unlikely	Very Low	Low	Low	High	High
	Rare	Very Low	Very Low	Low	High	High

**RISK = Condition grading (probability) X Criticality grading (consequence)**

Each Strategic Business Unit should incorporate criticality analysis in developing a risk register as input to the Municipality's Operational risk register.

### **22.3 Preparing Maintenance Budgets**

The costs associated with the maintenance activities in the Maintenance Plan shall be calculated based on historic costs or through a budget quotation. The individual maintenance activity costs shall be summarised per Business Unit and used to inform the required maintenance budgets.

Where available maintenance budgets are inadequate, the criticality of the asset shall be used to prioritise the maintenance actions to be performed. Maintenance activities that cannot be funded as per maintenance schedule shall be classified as deferred maintenance and recorded as such. Expenditure on maintenance shall be recorded against the asset or facility (preferably component level where possible) and cost centres where the cost is incurred

### **22.4 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, the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the Council has approved to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the GM of a Strategic Business Unit controlling or using such asset shall re-determine the useful operating life of the fixed asset in question, if necessary, consultation with the Asset Management Unit and the Asset Management Unit shall recalculate the annual depreciation expenses accordingly.

### **22.5 General Maintenance**

Every GM of a Strategic Business Unit 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. This requires that standard operating procedures (SOPs) must be formulated for every maintenance activity incorporating SHEQ requirements.

## SECTION 23

### GENERAL REQUIREMENTS

#### 23.1 Tagging

Tagging means to place a control number on a piece of equipment or property.

All movable assets must be tagged.

The primary purpose of tagging is to maintain a positive identification of assets.

Tagging is important too:

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

Fixed property and plant is **not** tagged; such as:

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

Consistently place asset tags in the same location on each similar type asset. If possible, the tags 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.

#### 23.2 Physical Inventory of all Movable Assets

A physical inventory of movable assets is taken to verify assets recorded in the Asset register. Inventories are taken twice a year and shall be completed prior to the financial reporting due date.

The Asset Management Unit in liaison with all Strategic Business Unit will conduct a physical inventory of movable assets twice a year. They will require the co-operation 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 Strategic Business Units within the City must execute the functions listed below:

- a. 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.
- b. Complete the asset movement form when transfers occur and forward the completed original form to Asset Management Unit.
- c. Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained.
- d. Asset Management Unit must be notified by the relevant Strategic Business Unit within 14 days of any of the following possible movements:
  - i. Donations
  - ii. Additions / Improvements
  - iii. Departmentally manufactured items
  - iv. Loss or damage
  - v. Transfers
  - vi. Terminations
  - vii. Land Sales

### **23.3 Acquisition**

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

- a. New acquisitions should be informed by the Asset Management Plan in the case of infrastructure assets, land, and buildings
- b. The purpose for which the fixed asset is required is in keeping with the objectives of the city and will provide significant, direct and tangible benefit to it.
- c. The fixed asset has been budgeted for.
- d. The purchase is absolutely necessary as there is no alternative city asset that could be upgraded or adapted.
- e. The fixed asset is appropriate to the task or requirement and is cost effective over the life of the asset.
- f. The fixed asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources.
- g. Space and other necessary facilities to accommodate the asset are in place.
- h. The most suitable and appropriate type, brand, and model etc. has been selected.

**23.4 Asset Management Responsibilities**

- a. Utilisation – All assets should be used for the purposes they were acquired.
- b. 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.
- c. Disciplinary action must be taken against individuals if there is misuse of Council's assets.

**23.5 Additions / Improvements/Upgrades**

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

When capital expenditure is incurred for any enhancement / improvement / upgrade of an asset, the Strategic Business Unit shall complete the necessary asset acquisition form and forward it to the Asset Management Unit. Such upgrades / improvements/ enhancements to infrastructure assets should also be informed by the Asset Management Plan for that specific asset class.

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

**23.6 Termination of Employee's Service**

At the termination of an employee's service, the applicable Strategic Business Unit representative must complete the asset resignation form and forward the original to the Asset Management Unit. 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 Unit concerned or its relevant Strategic Business Unit for further investigation in the case of missing assets.

**23.7 Transfer of Assets**

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



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

#### **23.8 Sale of Land and Buildings**

The Manager Real Estates and Valuation must submit the properly completed asset disposal forms together with copies of all relevant approvals, in terms of the Land Disposal policy, for the sale of land and buildings to the Asset Management Unit.

## ANNEXURE A

### FIXED ASSET LIVES

#### INFRASTRUCTURE ASSETS

The following is the list of infrastructure assets, with the estimated useful life in years indicated in the corresponding column in each case.

Date reviewed, period of review,

#### 1. Electricity

High Voltage Overhead lines	50
High voltage substations	50
High voltage underground cables	50
Low voltage street lighting	50
Medium voltage ground mounted transformers	50
Medium voltage mini substations	50
Medium voltage overhead line	50
Medium voltage substations	10
Medium voltage underground cables	50
Medium voltage pole mounted transformer	50
Medium voltage ring main unit	45

#### 2. Roads

Overhead Gantry	100
Concrete Roads	40
Flexible roads	30
Unpaved roads	10
Structures	80
Signalised intersections	15
Airport runway	40
Other roads	20

#### 3. Storm water

Major culverts	50
Minor culverts	40
Kerb inlets	25
Manholes	25
Open channels	50
Reticulation	50
Head and wing walls	25

#### 4. Water

Water supply – bulk water pipes	50
---------------------------------	----

Water supply – pressure reduce valves	15
Pump stations	55
Reservoirs	50
Water reticulation	50
Water meters	15

**5. Sewerage**

Pump stations	55
Sewerage treatment works	55
Bulk sewer	50
Sewer Reticulation	60

**6. Security**

Access control systems	5
Security systems	5
Security fencing	10
Security lighting	10

**COMMUNITY ASSETS**

The following is a list of community assets, showing again the assigned or estimated useful lives in years in brackets:

**7. Buildings and Other Assets**

Cemeteries	50
Civic Theatres	50
Clinics and hospitals	50
Community centres	50
Fire Stations	50
Game Reserves and Rest Camps	50
Indoor Sports	50
Libraries	50
Museums and art galleries	50
Parks	50
Public Conveniences and Bath houses	50
Recreation centres	50
Sports and related stadiums	50
Zoos	30

**8. Recreational Facilities**

Bowling Greens	50
Tennis Courts	50
Swimming pools	50
Golf Courses	50

Outdoor sports facilities	50
Organs (that is, pipe organs that are fixtures in a municipal hall or other centre)	20
Fountains	30
Floodlighting	10

### **HERITAGE ASSETS**

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

- a. Museum Exhibits
- b. Works of Art (which will include paintings and sculptures)
- c. Public statues
- d. Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement)

### **INVESTMENT ASSETS**

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

Office parks (which have been developed by the city itself or jointly between the city and one or more other parties)	50
Shopping centres (again developed along similar lines)	50
Housing developments (that is, developments financed and managed by the city itself, with the sole purpose of selling or letting such houses for profit)	50

### **OTHER ASSETS**

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

#### **1. Buildings**

Housing Schemes	50
Kilns	50
Fresh produce and other markets	50
Nurseries	50
Office buildings	50
Old Age homes	50
Tip sites	55

Training centres	50
Transport facilities	50
Workshops and depots	30

**2. Office equipment**

Computer hardware	5
Computer software	5
Office machines	5
Air conditioners	5

**3. Furniture and Fittings**

Chairs	10
Tables and desks	10
General	10
Cabinets and cupboards	10

**4. Bins and containers**

Household refuse bins	5
Bulk refuse containers	10

**5. Emergency Equipment**

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

**6. Motor Vehicles**

Ambulances	10
Fire engines	20
Tankers	20
Mobile Libraries	15
Buses	15
Trucks and light delivery vehicles	7
Ordinary motor vehicles	7
Motor cycles	3

**7. Plant and Equipment**

Chlorination Equipment	5
Compactors	5
Electronic Equipment	5
Fire Hoses	5
General	5

Generators	10
Graders	15
Horticultural Equipment	5
Mobile Pumps	5
Other Fire Fighting Equipment	15
Pumps	5
Tractors	15
Trailers	20
Mechanical horses	10
Farm Equipment	5
Lawn mowers	5
Compressors	5
Laboratory equipment	5
Radio Equipment	5
Firearms	5
Telecommunication equipment	5
Irrigation systems	15
Cremators	15
Lathes	15
Conveyors	15
Feeders	15
Tippers	15
Workshop Equipment	5
Pulverising mills	15

**8. Airports**

Aprons	20
Runways	40
Taxiways	20
Airports / Radio beacons	20

## **ANNEXURE B**

### **PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2004**

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

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

- The 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
- The Council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.