

**SEKHUKHUNE DISTRICT MUNICIPALITY**  
**FIXED ASSETS POLICY**

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**2015/16 Medium Term Revenue and Expenditure Framework (MTREF)  
Policy Review**

**ASSET MANAGEMENT POLICY VERSION 3**

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1. INTRODUCTION

This policy is a budget-related policy within the definition of such policies contained in Section 1 of the MFMA. This policy must therefore be reviewed, and revised if necessary, as part of each annual budget process/cycle.

2. OBJECTIVES

- ❖ To ensure the effective and efficient control, utilization, safeguarding and management of Sekhukhune District Municipality's property, plant and equipment;
- ❖ To ensure that asset managers are aware of their responsibilities in regards to property, plant and equipment;
- ❖ To set out the standards of physical management, recording and internal controls to ensure property, plant and equipment are safeguarded against loss or utilization
- ❖ To specify the process required before expenditure on property, plant and equipment occurs;
- ❖ To prescribe the accounting treatment of property, plant and equipment in Sekhukhune District Municipality including:
  - The criteria to be met before expenditure can be capitalized as an item of property, plants and equipment,
  - The criteria for determining the initial cost of the different items of property, plant and equipment;
  - The method of calculating depreciation for different items of property, plant and equipment;
  - The criteria for capitalizing subsequent expenditure on property, plant and equipment; the policy for scraping and disposal of property, plant and equipment ; and
  - The classification of property, plant and equipment
- ❖ To ensure that the Municipality has:
  - consistent application of asset management;
  - implements accrual accounting;
  - complies with PFMA, MFMA, Treasury Regulation and some other legislation;
  - safeguards and controls the assets of the Municipality; and
  - optimize asset usage

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**3. BACKGROUND**

- ❖ The utilization and management of property, plant and equipment is the prime mechanism by which a municipality can fulfill its constitutional mandates for:
  - Delivery of sustainable services,
  - Social and economic development,
  - Promoting safe and health environments and,
  - Providing the basic needs to the community.
  
- ❖ As trustee on behalf of the local community, the municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in property, plant and equipment.
- ❖ The asset management policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of property, plant and equipment.
- ❖ Stewardship has two components being the:
  - Financial administration by the chief financial officer, and
  - The physical administration by the asset managers.
  
- ❖ Statutory provisions are being implemented to protect public property against arbitrary and inappropriate management of disposal by a local government.
- ❖ Accounting standards are being promulgated by the Accounting Board to ensure the appropriate management of disposal by a local government.
- ❖ Accounting standards are being promulgated by the Accounting Standard Board to ensure the appropriate financial treatment for property, plant and equipment. The requirements of this new accounting standards include:
  - The compilation of asset registers covering all property, plant and equipment controlled by the municipality.
  - Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant and equipment.
  - The standards to which these financial records must be maintained.
  
- ❖ **References**
  - Public Finance and Management Act, of 1999
  - National Treasury Asset Management Framework
  - Municipal Finance Management Act, 2003
  - Local Government Financial Best Practise Manual

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- South African Institute of Chartered Accountants Statements
- Disaster Management Act, 2002
- National Water Act, 1998
- Water Service Act, 1997
- Municipal Systems Act, 2000
- Municipal Structures Act, 1998
- Municipal Asset Transfer Regulations

#### 4. DEFINITIONS

**“Fixed Asset”** – A fixed asset is defined in GRAP 17 as a tangible item of property, plant or equipment held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative.

A fixed asset is thus an asset, either movable or immovable, 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. Purposes, and which is expected to be used during more than one reporting period (financial year).

To be recognized as a fixed asset, an asset must also meet the criteria referred to in parts 13, 14 and 15 below.

An asset held under a finance lease, shall be recognized as a fixed asset, as the municipality has control over such an asset even though it does not own the asset.

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

**“Community Assets”** – are defined as any asset that contributes to the community’s well being. Examples are parks, libraries and fire stations.

**“Heritage Assets”** – are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

**“Investment properties”** – *is property (land-building –or part of a building-or both) held (held by the owner or by lessee under the finance lease) to earn rentals or for the capital appreciation or both, rather than for*

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*(a) Use in the production or supply of goods or services or for administration purpose*

*Sale in the ordinary course of operations*

**“Other assets”** – are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings

**“Capitalization”** – is the recognition of expenditure as an Asset in the Financial Asset Register.

**“Capitalisation value”**

- Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised.
- The purchase price exclusive of VAT should be capitalised, unless the Municipality is not allowed to claim input VAT paid on purchase of such assets. In such an instance, the Municipality should capitalise the cost of the asset together with VAT
- Listed hereunder is a list of directly attributable costs, this list is not exhaustive.
- The cost of site preparation,
- Initial delivery and handling costs,
- Installation costs,
- Professional fees such as for architects and engineers, and
- The estimated cost of dismantling and removing the asset and restoring at the site.

**“Carrying amount”** – is the amount at which asset is included in the balance sheet after deducting any accumulated depreciation or *accumulated impairment losses*

**“Cost”** – is the amount of cash or cash equivalent paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction, *or where applicable, the amount attributed to the asset when initially recognized in accordance with the GRAP standards.*

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**“Cost of acquisition”** – is all the costs incurred in bring an item of property, plant and equipment to the required condition of the depreciation and for its intended use.

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

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

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

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

**“GAMAP”** – stands for “generally accepted accounting standard”

**“GRAP”** – stands for “Generally Recognized Accounting Practice”

**“Property, plant and equipment”** – are tangible assets that:

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

**“Recognition”** – is the process by which expenditure is included in the financial asset register as an asset.

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

**“Useful life”** – is either:

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

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This policy will be reviewed or updated annually or whenever legislative or accounting standard amendments significantly change the requirements pertaining to asset management in general and the administration on property, plant and equipment.

This policy does not over rule the requirement to comply with other policies, like the Supply Chain management Policy. The Chief Financial Officer will provide guidance or adjust this policy where an apparent conflict exists between this policy and other policies, legislation or regulations.

#### 4. ROLE OF MUNICIPAL MANAGER

4.1 The municipal manager, being the accounting officer of the municipality, is responsible for the following in terms of Section 63 of the Municipal Finance Management Act (Act 56 Of 2003):

- 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 recognized accounting practice.
- Ensure that the municipality maintains a system of internal control of assets, including an asset register.
- Ensure that heads of department and their teams comply with this policy. Therefore, the municipal manager shall be the principal custodian of the municipality's fixed asset management policy and ensure that the policy is applied and adhered to.

#### 5. ROLE OF CHIEF FINANCIAL OFFICER

- 5.1 The chief financial officer shall be the custodian of the fixed asset register (FAR) of the municipality, and shall ensure that a complete, accurate and up-to-date computerized fixed asset register is maintained.
- 5.2 No amendments, deletions or additions to the fixed asset register shall be made other than by the Chief Financial Officer or by an official acting under the written instruction of the Chief Financial Officer.
- 5.3 Ensure that all acquisitions of assets are in accordance with the Supply Chain Management Policy.

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- 5.4 Ensure that council assets are accounted for in accordance with generally recognised accounting practice (GRAP).
- 5.5 The systems, processes and registers required to substantiate the financial values of the municipalities assets are maintained at standards of generally recognized accounting practice (GRAP).
- 5.6 The chief financial officer may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring these activities are performed.

**6. ROLE OF ASSET MANAGER**

- 6.1 Ensure that appropriate physical management and control systems are established and maintained for all assets in their area of responsibility.
- 6.2 The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently.
- 6.3 Any unauthorized, irregular or fruitless or wasteful utilization and losses of assets resulting from criminal or negligent conduct are prevented.
- 6.4 The asset management system and controls can provide an accurate, reliable and up to date account of assets under their control.
- 6.5 The SDM should be able to justify that their asset plans, budgets and purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives.
- 6.6 The asset manager may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.
- 6.7 Certify in writing at the end of each financial year-end, that he/she has assessed and identified impairment losses on all assets under his/her control.
- 6.8 Report in writing to the Chief Financial Officer the full facts in the event of an asset or attractive item being demolished, destroyed, and damaged or occurrence of any other event materially affecting its value.
- 6.9 Approve the temporary or permanent transfers of a movable asset between departments as determined in the "Powers of Delegation" of the municipality

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**7. FORMAT OF FIXED ASSET REGISTER**

7.1. The fixed asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of the Generally Recognized Accounting Practice (GRAP) and Generally Accepted Municipal Accounting Practice (GAMAP) and any other accounting requirements which may be prescribed.

7.2 The fixed asset register data requirements include:

❖ **Acquisition**

Date  
Supplier  
Reference  
Amount

❖ **Identity**

Description / Serial Number  
Asset Type / Model  
Facility Type  
Stand number (in the case of land/property)  
Title Deed (in the case of land/property)  
Photograph(s) of assets and/or components

❖ **Accountability**

Location (Asset coordinates in WGS84 standard, where available)  
Responsible Manager  
Custodian Department  
Vote No.  
Source of financing  
Current insurance arrangements  
Conventions or restrictions  
Heritage or cultural identifier

❖ **Performance**

Capacity  
Condition Index (%)  
Remaining Useful life  
Residual value  
Warranties or guarantees  
Measures (quantity and size/dimensions)  
Whether the asset performs basic municipal services  
Impairment Reason

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❖ **Design**

Capacity  
Condition Index (%) – desired/designed  
Expected Useful life  
Residual value

❖ **Accounting**

Historic cost  
Revalued amount of fair value  
Valuation date  
Valuator  
Replacement value  
Depreciation method and rate  
Security arrangements if secured to debt  
Impairment Date  
Impairment Amount

❖ **Disposal**

Date of disposal  
Disposal price  
Date retired from use

- 7.3. All heads of department under whose control any fixed asset falls shall promptly provide the Chief Financial Officer in writing with any information required to compile the fixed asset register, and shall promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.
- 7.4. A fixed asset shall be capitalized, that is, recorded in the fixed assets 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, where after it shall be appropriately capitalized as a fixed asset.
- 7.5. A fixed asset shall remain in the fixed assets register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-of such an asset.

**8. CLASSIFICATION OF FIXED ASSETS**

- 8.1. In compliance with the requirements of the GRAP 17, the Chief Financial Officer shall ensure that all fixed assets are classified under the following headings in the fixed assets register, and heads of departments shall in

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writing provide the Chief Financial Officer with such information or assistance as is required to compile a proper classification:

**PROPERTY, PLANT AND EQUIPMENT**

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

**INVESTMENT PROPERTY**

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

- 8.2. The Chief Financial Officer shall adhere to the classifications indicated in the annexure on fixed assets lives, 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.

**9. INVESTMENT PROPERTY**

- 9.1 Investment assets shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of financial position.
- 9.2 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.
- 9.3 Investment assets shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.
- 9.4 Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value. Investment assets shall be recorded in the balance sheet (statement of financial position) at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or service controlling the assets concerned.
- 9.5 An expert valuer shall be engaged by the municipality to undertake such valuations. If the valuation roll of the local municipality where the property is located contains the value of the investment property, such valuation shall be accepted as the fair value of the investment assets.

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- 9.6 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 asset.

**10. FIXED ASSETS TREATED AS INVENTORY**

- 10.1 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, plant and equipment or investment property in the municipality's statement of position.
- 10.2 Such inventories shall, be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

**11. RECOGNITION OF HERITAGE ASSETS IN THE FIXED IN THE FIXED ASSETS REGISTER**

- 11.1 If no original costs or fair 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 fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or fair value concerned.
- 11.2 For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

**12 RECOGNITION OF ASSETS**

- 12.1 Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the fixed asset register at its fair value, as determined by the chief financial officer.

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13 **SAFEKEEPING OF ASSETS**

- 13.1 Every official shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by him/her.
- 13.2 In exercising this responsibility, every official shall adhere to any written directives issued by the Municipal Manager, in regard to the control of or safekeeping of the municipality's fixed assets.

14 **IDENTIFICATION OF FIXED ASSETS**

- 14.1 The municipal manager shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerized fixed asset register.
- 14.2 The identification system shall be determined by the municipal manager, acting in consultation with the Chief Financial Officer and other heads of departments, and shall comply with any legal presentations, as well as any recommendations of the Auditor-General as indicated in the municipality's audit report(s), and shall be decided upon within the context of the municipality's budgetary and human resources.
- 14.3 Every head of department shall ensure that the asset identification system approved for the municipality is scrupulously applied in respect of all fixed assets controlled or used by the department in question.

15 **PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION, OR IMPAIRMENT OF FIXED ASSETS**

- 15.1 Every head of the department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the Chief Financial Officer, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service.

16 **CAPITALISATION CRITERIA: MATERIAL VALUE**

- 16.1 All capital items as required in terms of GRAP 17 shall be recognised as fixed assets except smaller items that can be regarded as office essentials and minor tools and equipment with a short lifespan. Items regarded by the Chief Financial Officer as non capital items shall however be recorded on a stock sheet at every work station.

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- 16.2 The Chief Financial Officer shall moreover ensure that the existence of items recorded on such stock sheets is verified from time to time, and at least two times in every financial year, and any amendments which are made to such stock sheets pursuant to such stock verifications shall be retained for audit purposes.

**17 CAPITALISATION CRITERIA:INTANGIBLE ITEMS**

- 17.1 No intangible item shall be recognized as a fixed asset, except that the Chief Financial Officer, acting in strict compliance with the criteria set out in GRAP 102 (dealing with research and development expenses) may recommend to the council that specific development costs be recognized as fixed assets.

**18 CAPITILISATION CRITERIA: REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES**

- 18.1 Only expenses in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operation life of a fixed asset shall be capitalized.
- 18.2 Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalized, irrespective of the quantum of the expenses concerned.
- 18.3 Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may include but need not be limited to import duties, forward cover costs, transportation cost costs, installation, assembly and communication costs.
- 18.4 In the case of qualifying assets, as defined in the GRAP Standard on Borrowing and Financing Costs, applicable net borrowing and financing costs as set out in that Standard shall be capitalised as part of the cost of the assets concerned.

**19 MAINTENANCE PLANS**

- 19.1 Every head of department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred rand) or more is promptly prepared and submitted to the council of the municipality for approval.

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- 19.2 If so directed by the municipal manager, the maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure of the asset concerned.
- 19.3 The head of department controlling or using the infrastructure asset in question, shall annually report to the council, not later than in July, of the extent to which the relevant maintenance plan has been compiled with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

20 **DEFERRED MAINTENANCE**

- 20.1 If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset, the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements of the maintenance requirements concerned.
- 20.2 If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the head of department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

21 **GENERAL MAINTENANCE OF FIXED ASSETS**

- 21.1 Every head of department shall be directly responsible for ensuring that all assets are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

22 **DEPRECIATION OF ASSETS**

- 22.1 All fixed assets, except land and heritage assets shall be depreciated or amortized in the case of intangible assets.
- 22.2 Depreciation may be defined as the monetary qualification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services.
- 22.3 Depreciation shall generally 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.

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- 22.4 However, depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the day following the day in which the fixed asset is brought into use, until the end of the calendar month concerned. Thereafter, depreciation charges shall be calculated monthly.
- 22.5 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.
- 22.6 The procedures to be followed in accounting and budgeting for the amortization of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

**23 RATE OF DEPRECIATION**

- 23.1 The Chief Financial Officer shall assign a useful operating life to each depreciable asset recorded on the municipality'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 policy.
- 23.2 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 head of department who shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely pattern in the asset's economic benefits or service potential will be consumed.

**24 METHOD OF DEPRECIATION**

- 24.1 The Chief Financial officer shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question, except as specifically identified in this policy.

**25 AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS**

- 25.1 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.

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- 25.2 The Chief Financial Officer shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.
- 25.3 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.
- 25.4 Similarly, if the value of 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 in the fixed asset register.
- 25.5 In the all foregoing instances, the additional depreciation expenses shall be debited to the department or department or vote controlling or using the fixed asset in question.
- 25.6 If any of the foregoing events arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalized at a value other than a purely nominal value, such fixed asset shall be partially or fully 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.
- 26 **ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES**
- 26.1 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.
- 26.2 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 municipal manager to provide:
- Estimates of statistical information required by the Chief Financial Officer to prepare estimates of depreciation expenses for each financial year; and actual statistical information, for each financial year.

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

26.4 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.

27 **CARRYING VALUES OF FIXED ASSETS**

27.1 All fixed assets shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements,

27.2 The only exceptions to this rule shall be revalued assets and fixed heritage assets in respect of which no value is recorded in the fixed asset register

28 **REVALUATION OF FIXED ASSETS**

28.1 All land and buildings are recorded in the municipality's fixed asset register shall be revalued with the adoption by the municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another municipality, with the adoption by such municipality of each new valuation roll).

28.2 The Chief Financial Officer shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll, provided the Chief Financial Officer is satisfied that such value reflects the fair value of the fixed asset concerned.

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

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

28.5 The Chief Financial Officer shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset

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before the revaluation in question is transferred each month from the revaluation reserve to the municipality's Accumulated Surplus account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary

- 28.6 If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the asset register, the Chief Financial Officer shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll. Such additional depreciation expenses shall form a charge; in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question.
- 28.7 Revalued land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation (in the case of buildings).

29. VERIFICATION OF FIXED ASSETS

- 29.1 The Chief Financial Officer shall at least two times during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

30. ALIENATION OF FIXED ASSETS

- 30.1 In compliance with the principles and prescriptions of the Municipal Finance Management Act, read with the Municipal Asset Transfer Regulations, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.
- 30.2 The council shall delegate to the municipal manager the authority to approve the alienation of any fixed asset with a carrying value less than R5 000 (five thousand rand).
- 30.3 The municipal manager shall ensure that the alienation of any fixed asset with a carrying value equal to or in excess of R5 000 (five thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004, read with the provisions of the Municipal Asset Transfer Regulations

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- 30.4 Once the fixed assets are alienated, the Chief Financial Officer shall adjust the relevant records from the fixed asset register.
- 30.5 If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognized as a loss in the income statement of the department or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognized as a gain in the income statement of the department or vote concerned.
- 30.6 All gains realized on the alienation of fixed assets shall be appropriated annually to the municipality's asset financing reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the income statement of the department or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any department or vote, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.
- 30.7 Transfer of assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty in accordance with the municipality's supply chain management policy and the municipal asset transfer regulations.

31. **DISPOSAL OF FIXED ASSETS**

- 31.1 In compliance with the MFMA, the Municipal Asset Transfer Regulations, and the Supply Chain Management Regulation no. 27636, the management team as representatives of user departments shall identify underperforming and no longer functional assets.
- 31.2 SDM shall render an asset to be underperforming or no longer functional if not providing minimum required level of the intended service, which may be attributed to:
- no longer performing the function for which the assets was purchased.
  - no longer located to where the service is required.
  - asset been replaced.
  - no longer performing the required level of service.
  - acquired specifically for resale.
  - redundant
  - obsolete
  - uneconomical to maintain or operate

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- 31.3 Under-performed, under-utilised and no longer needed assets are identified by user department and submitted with clear and enough evidence to Asset Unit.
- 31.4 The responsible manager and the Asset Manager shall critically examine reasons attributed to the condition take corrective action to remedy or decision to dispose.
- 31.5 SDM shall ensure that a disposal is fair, equitable, transparent and competitive.
- 31.6 Different disposal methods will be needed for different types of assets.
- 31.7 Appropriate types of disposal may include:
- public auction
  - public tender
  - transfer to another institution
  - trade-in
  - sale
  - letting to another institution
- 31.8 The Asset Manager will consolidate such reports with recommendation to the Chief Financial Officer further submitted to the Municipal Manager for approval and to council for final approval /noting.

**32 OTHER WRITE-OFFS OF FIXED ASSETS**

- 32.1 A fixed asset even though fully depreciated shall be written off only on the recommendation of the head of the department controlling or using the asset concerned, and with the approval of the council of the municipality.
- 32.2 Every head of department shall report to the Chief Financial Officer at least once in each financial year on any fixed assets which such head of department 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 of the municipality on the fixed assets to be written off.
- 32.3 The only reasons for writing off fixed assets, other than the alienation of such fixed assets, shall be the loss, theft, and destruction or material impairment of the fixed asset in question.
- 32.4 In every instance where a not fully depreciated fixed asset is written off, the Chief Financial Officer shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned

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**33 REPLACEMENT NORMS**

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

**34 INSURANCE OF FIXED ASSETS**

- 34.1 The municipal manager shall ensure that all movable fixed assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils at an amount not less than replacement value.
- 34.2 If the municipality operates a self-insurance reserve (assuming such reserve to be allowed), 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.
- 34.3 The municipal 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 assets concerned. Such recommendation shall take due cognizance of the budgetary resources of the municipality.
- 34.4 The Chief Financial Officer shall annually submit a report to the council of the municipality on any reinsurance cover which it is deemed necessary to produce for the municipality's self-insurance reserve.

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**35 BIOLOGICAL ASSETS**

- 35.1 Accounting for biological assets shall take place in accordance with the requirements of IAS 41.
- 35.2 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 recognized valour 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 as an operating revenue.
- 35.3 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.
- 35.4 Records of the details of biological assets register shall be kept in a separate section of the fixed assets register or in a separate accounting record altogether 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.
- 35.5 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.

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36 ANNEXURE: FIXED ASSET LIVES

36.1 INFRASTRUCTURE ASSETS

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

❖ <b>Electricity</b>	
Power station	(30)
Cooling towers	(30)
Transformer kiosks	(30)
Meters	(20)
Load control equipment	(20)
Switchgear	(20)
Supply and reticulation networks	(20)
Mains	(20)
❖ <b>Roads</b>	
Motorways	(15)
Other roads	(10)
Traffic islands	(10)
Traffic lights	(20)
Street lights	(25)
Overhead bridges	(30)
Storm water drains	(20)
Bridges, subways and culverts	(30)
Car parks	(20)
Bus terminals	(20)
❖ <b>Water</b>	
Mains	(20)
Supply and reticulation networks	(20)
Reservoir and reticulation networks	(20)
Meters	(15)
Rights (that is, the right to draw water from a particular source belonging to another party)	(20)
❖ <b>Gas</b>	
Supply and reticulation networks	(20)
Storage tanks	(20)
Mains	(20)
Meters	(20)
❖ <b>Sewerage</b>	
Sewer mains	(20)
Outfall sewers	(20)
Sewage purification works	(20)

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Sewerage pumps	(15)
Sludge machines	(15)
❖ <b>Pedestrian malls</b>	
Footways	(20)
Kerbing	(20)
Paving	(20)
❖ <b>Airports</b>	
Runways	(20)
Aprons	(20)
Taxiways	(20)
Airport and radio beacons	(20)
❖ <b>Security measures</b>	
Access control Systems	(5)
Security Systems	(5)
Security fencing	(3)

### 36.2 COMMUNITY ASSETS

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

❖ <b>Buildings and other assets</b>	
Ambulance stations	(30)
Aquariums	(30)
Beach developments	(30)
Care centers	(30)
Cemeteries	(30) #
Civic theaters	(30)
Clinics and hospitals	(30)
Community centers	(30)
Fire Stations	(30)
Game reserves and rest camps	(30)
Indoor sports	(30)
Libraries	(30)
Museums and art galleries	(30)
Parks	(30)
Public conveniences and bath houses	(30)
Recreation centers	(30)
Sports and related stadiums	(30)
Zoos	(30)
❖ <b>Recreation Facilities</b>	
Bowling greens	(20)
Tennis courts	(20)

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Swimming pools	(20)
Golf courses	(20)
Jukskei Pitches	(20)
Outdoor sports facilities	(20)
Organs (that is, pipe organs that are fixtures in a municipal hall or other centre)	(20)
Lakes and dams	(20)
Fountains	(20)
Flood lighting	(20)

# Sum-of-units method of depreciation may be preferred.

### 36.3 HERITAGE ASSETS

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

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

### 36.4 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 municipality. However, the following will be among the most frequently encountered:

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties) (30)
- Shopping centers (again developed along similar lines) (30)
- Housing developments (that is, developments financed and managed by the municipality itself, with the sole purpose of selling such houses for profit) (30)

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### 36.5 OTHER ASSETS

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

❖ <b>Buildings</b>	
Abattoirs	(30)
Asphalt plant	(30)
Cable stations	(30)
Caravan parks	(30)
Compacting stations	(30)
Hostels used to accommodate the public or tourists	(30)
Housing schemes	(30)
Kilns (30)	
Laboratories	(30)
Nurseries	(30)
Office buildings	(30)
Old age homes	(30)
Quarries	(30)
Tip sites	(30) #
Training centers	(30)
Transport facilities	(30)
Workshops and depots	(30)
❖ <b>Office equipment</b>	
Computer hardware	(3-5)
Computer software	(3-5)
Office machines	(3-5)
Air conditioners	(5-7)
❖ <b>Furniture and fittings</b>	
Chairs (7-10)	
Tables and desks	(7-10)
Cabinets and cupboards	(7-10)
❖ <b>Bins and containers</b>	
Household refuse bins	(5)
Bulk refuse containers	(10)
❖ <b>Emergency equipment</b>	
Fire hoses	(5)
Other fire-fighting equipment	(15)
Emergency lights	(5)
❖ <b>Motor vehicles</b>	
Ambulances	(5-10)
Fire engines	(20)

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Buses (15)	
Trucks and light delivery vehicles	(5-7)
Ordinary motor vehicles	(5-7)
Motor cycles	(3)
<b>❖ Plant and equipment</b>	
Graders	(10-15)
Tractors	(10-15)
Mechanical horses	(10-15)
Farm equipment	(5)
Lawn Mowers	(2)
Compressors	(5)
Laboratory equipment	(5)
Radio equipment	(5)
Firearms	(5)
Telecommunication equipment	(5)
Cable cars	(15)
Irrigation systems	(15)
Cremators	(15)
Lathes	(15)
Filling equipment	(15)
Conveyors	(15)
Feeders	(15)
Tippers	(15)
Pulverizing mills	(15)
<b>❖ Other</b>	
Aircraft	(15)
Watercraft	(15)

# Sum-of-units may be preferred.

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37 ANNEXURE: PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2003 and THE MUNICIPAL ASSET TRANSFER REGULATIONS

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

37.2 A municipality may alienate any other capital asset, but provided

- 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.

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38 CERTIFICATE OF ENDORSEMENT:

This Policy shall come into effect on the date of endorsement and shall cease only in the event where such changes/variations has been reduced to writing, approved by council and been signed by the Speaker. The policy shall be renewed annually, unless in the event where any changes in any applicable Act, Legislation has jurisdiction to supersede.

\_\_\_\_\_  
**For and on behalf of Municipality**

\_\_\_\_\_  
**Date**

DRAFT