



Thembisile Hani Local

Municipality

Asset Management Policy

2017/2018

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## Definitions and Abbreviations

Item	Description
Asset	An asset is a resource controlled by the entity which is expected to last more than twelve months and from which future economic benefits or service potential will flow.
Carrying Amount	The amount at which an asset is included in the statement or financial position after deducting any accumulated depreciation and any impairment losses thereon.
CFO	Chief Financial Officer
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 cost of use 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.
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.
FAR	Fixed Assets Register
GRAP	Standards of Generally Recognised Accounting Practice
IAS	International Accounting Standards
Impairment	An asset is impaired when the carrying amount exceeds its recoverable amount
PPE	Property, Plant & Equipment – These are tangible assets that: <ul style="list-style-type: none"> <li>• are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and</li> <li>• are expected to be used during more than one reporting period</li> </ul>

## Section 1

### Objective of the Asset Management Policy.

The Asset Management Policy provides direction for the management, accounting and control of Property, Plant & Equipment (Fixed Assets) owned or controlled by the Council.

## Section 2

### 2.1 Role of the Municipal Manager

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

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

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

## Section 3

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

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

#### 3.1 Manager Assets and Insurance

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

## Section 4

### Role of other departments

#### 4.1 Corporate service Department

The Corporate services Department:

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

#### 4.2 Community Services

The Community Services Section:

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

#### 4.3 All Departments

General Manager:

- Shall ensure that employees in their departments adhere to the approved Asset Management Policy.
- Shall ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in the department. The Asset management Section must be notified of who the responsible person is. Although

- Intangible assets
- Agricultural assets

— Movable Assets:

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

## Section 6

### Format of the fixed asset register

#### 6.1 Format

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

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

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



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

**Immovable Assets:**

- Infrastructure assets:
  - Electricity assets
  - Water networks and related assets
  - Waste water networks and related assets
  - Roads, bridges and Storm water
- Land and Buildings
- Investment properties
- Community assets
- Heritage assets
- Intangible assets
- Agricultural assets
- Other assets

**Movable Assets:**

- Office Equipment
- Furniture and Fittings
- Bins and Containers
- Emergency Equipment
- Motor Vehicles
- Aircraft
- Watercraft
- Plant and Equipment
- Capital work-in-progress. Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is available for use.

## **Section 7**

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

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

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

- Assets owned or acquired by Council with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by Council with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as non-current assets held for sale, and not included in either property, plant and equipment or investment property in Council's statement of financial position.
- Such assets shall, however, be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

#### **Investment Property**

### 7.3 Verification

The Asset Management Section shall at least by-annually (twice) during every financial year provide all General Managers of department with a comprehensive list of assets which is registered under their control.

General Managers of departments shall be responsible for verifying this list with the assets under their control and investigate any discrepancies arising out of the asset verification exercise. General Managers of the departments will be required to sign and date a declaration stating that the list of assets verified for his/her department is complete & accurate except for the discrepancies as reported to the Asset Management Section.

### 7.4 Safekeeping

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

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

Every General Manager of a department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by his/her department.

## **Section 9**

### **Donated Assets**

#### **9.1 Definition**

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

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

Donated assets will be disclosed in the Statement of Financial Position at fair value less accumulated depreciation at date of acquirement. Fair value being what the asset would cost in the open market at the date of acquirement. If there is no open market for such assets the depreciated replacement value will be applied to determine fair value.

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

## **Section 10**

### **Agricultural Assets**

#### **10.1 Definitions**

Biological assets are defined as living animals or plants. Agricultural produce is the harvested product of the biological assets.

## Section 11

### Intangible Assets

#### 11.1 Definition

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

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

Examples of intangible items are:

- Mineral exploration rights
- Computer software (not operational software)
- Licensing rights.
- Servitudes

## **11.5 Review of useful life assessment**

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

## **Section 12**

### **Capitalisation criteria**

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

All items of PPE acquired that comply with the fixed asset definition must be capitalised in the FAR at cost and be provided for on the capital budget. These items will be bar-coded (when moveable).

#### **12.2 Group Assets**

Are assets of a similar nature and usually purchased as a group.

Group items identified are:

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

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

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

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

### Enhancements / Rehabilitation:

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

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

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

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

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

## Section 14

### Residual Values

#### 14.1 Definition

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

#### 14.2 Determine residual value

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

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

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



### 15.3 Determining useful lives of assets

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

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

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

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

The useful life of an asset shall be reviewed at least at each reporting date. The amortisation period for an intangible asset with a finite useful life shall be reviewed at least

## 15.4 Depreciation calculation

### Tangible assets

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

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

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

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

### Intangible assets

Amortisation period and amortisation method

#### Finite useful life

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised. The amortisation

- pro rata for commission year and full 12 months for ensuing years on commission year.
- For ensuing years 1 January of each year will be regarded as date of commissioning.

The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of property, plant and equipment.

## 15.6 Offset Depreciation

### Assets financed by Government Grants or Public Contributions

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

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

### Assets re-valued

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

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

## Section 16

### Revaluation of fixed assets

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

#### 16.1 Revaluation process

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

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

#### 16.2 Revaluation Reserve

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

General Managers of the Departments shall report in writing to the CFO annually on all fixed assets controlled or used by the department concerned which such General Manager of a Department wishes to dispose of such assets by public auction or public tender within the period up to 30 June of the next financial year. The CFO shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Disposal Committee prior to being reported to Council or the Municipal Manager, as the case may be, recommending the process of disposal to be adopted.

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

Each Department must take the necessary steps to ensure that all their obsolete or damaged assets are disposed of in the correct and approved manner. It is the responsibility of each Department to ensure that all such assets to be disposed of are delivered to and received at the Asset Management Section.

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

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

recognised as a loss in the vote of the Department concerned. If the proceeds of the disposal, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the vote of the Department concerned.

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

#### **17.4 Disclosure of assets disposed of**

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

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

however, a reasonable estimate cannot be made, the item is not recognised in the Statement of Financial Position or Statement of Financial Performance.

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

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

Where the expenditure has been incurred in connection with an asset already recognised, consideration should be given to the probability that the expense will result in an extension of the asset's estimated useful life. If the probability is high the expense will be added to the value of the asset in the Statement of Financial Position and written off by way of depreciation over the *remaining life* of the asset.

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

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

- The cash which backs up the grant is invested until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If the conditions are silent on investment interest it is recognized as interest earned in the Statement of Financial Performance and might be allocated, through the Statement of Changes in Net Assets, in part or fully to the unspent portion of the grant if it is so stated in the accounting policy.
- Whenever an asset is acquired from a conditional grant an amount equal to the cost of the asset is transferred from the Unspent grant creditor to the Statement of Financial Performance as revenue.
- The amount spent from this grant, meeting the condition, is transferred to an operational revenue account and reflected on the Statement of Financial Performance. It will then increase the surplus for the year and the accumulated surplus representing an offset depreciation surplus.

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



## Section 20

### Impairment Losses

#### 20.1 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.

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

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

The 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 amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.

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

### 20.3 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 recognised 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.

### 20.4 Reversal of an Impairment Loss

- 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.
- The life cycle must be adjusted.
- 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.
- Reversal of an impairment loss is recognised as income in the income statement.
- Depreciation must be adjusted for the remaining life cycle.

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

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

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

- After initial recognition of the investment property the Council may choose to reflect the investment property at fair value or at cost less accumulated depreciation.
- The fair value of investment property is usually its market value. Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. After initial recognition, a municipality that chooses the fair value model should measure all of its investment property at its fair value at each Statement of Financial Position date. A gain or loss arising from a change in the fair value of investment property should be included in net surplus/deficit for the period in which it arises. No depreciation will be calculated on this property. For Example: The Council purchases four houses at a cost of R200 000 each for purposes of leasing them out to senior managers of the Council at market related rates. The legal fees and transport duties relating to the transaction amount to R16 000. At the end of the financial year the fair value of the houses is determined to be R900 000. This means that the Council will recognise a fair value gain in the Statement of Financial Performance for the year of R84 000. (R900 000 – R816 000).
- If, after initial recognition, the Council chooses the cost model it should measure all of its investment property using the guidelines for normal assets that is, at cost less any accumulated depreciation and accumulated impairment losses.

## Disposals

On disposal or permanent withdrawal from use of investment property:

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

## 21.5 Budget implications relating to Investment Property.

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

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

## 21.6 Disclosure

## Asset Risk Management

### 23.1 Insurance

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

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

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

### 23.2 Other risk reducing methods

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

- Only authorised personnel should be allowed in areas where expensive equipment is kept;
- Only authorised personnel should be allowed to operate plant or vehicles;
- The keys for office vehicles should be controlled in a central office during the day, and employees should sign when they take the keys;
- Ensure that drivers or operators have the necessary qualifications and licenses;

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

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

### **24.3 General maintenance**

Every General Manager of a Department shall be directly responsible for ensuring that all assets that are in his/her care are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

## **Section 25**

### **General Requirements**

#### **25.1 Bar coding**

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

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

- Complete the asset movement form when transfers occur and forward the completed original form to Asset ManagementSection.
- Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained.
- Asset ManagementSection must be notified by the relevant Department of any of the following possible movements:
  - Donations
  - Additions / Improvements
  - Departmentally manufactured items
  - Loss or damage
  - Transfers
  - Terminations
  - Land Sales

### 25.3 Acquisition

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

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



## **25.6 Termination of employee's service**

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

## **25.7 Transfer of Assets**

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

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

## **25.8 Disposal of assets.**

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

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Car parks	(20)
Bus terminals	(20)
Parking Meters	(15)
Parking Areas	(10)
Guidance Signs	(10)
Pedestrian Facilities	(10)
Sidewalks	(10)
Taxi Facilities	(20)
• <b>Water</b>	
Mains	(20)
Supply and reticulation networks	(20)
Reservoirs and storage tanks	(20)
Rights (that is, the right to draw water from a particular source belonging to another party)	(20)
Meters	(15)
Water Treatment Works	(20)
Dams	(20)
• <b>Sewerage</b>	
Sewer mains	(20)
Outfall sewers	(20)
Sewage purification works	(20)
Sewerage pumps	(15)
Sludge machines	(15)
• <b>Pedestrian Malls</b>	
Footways	(20)
Kerbing	(20)
Paving	(20)

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•	<b>Recreational facilities</b>	
	Bowling greens	(20)
	Tennis courts	(20)
	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)
	Floodlighting	(20)

### Heritage Assets

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

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

### Investment Assets

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

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• Plant and equipment	
Chlorination Equipment	(5)
Compactors	(5)
Electronic Equipment	(5)
Fire Hoses	(5)
General	(5)
Generators	(5)
Graders	(10-15)
Horticultural Equipment	(5)
Mobile Pumps	(5)
Other Fire Fighting Equipment	(5)
Pumps	(5)
Tractors	(10-15)
Trailers	(5)
Mechanical horses	(10-15)
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)

## **Annexure B**

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

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

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

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

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## Document Version Control

Version	Author	Date	Pages/Sections affected	Remarks