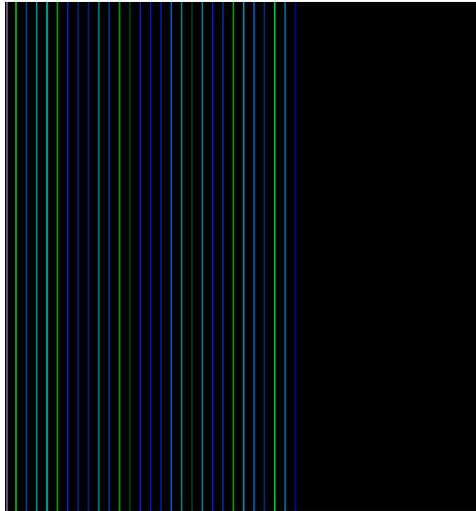


FIXED ASSET MANAGEMENT POLICY

NEWCASTLE MUNICIPALITY



Prepared By: Asset Manager Effective Date:

01 July 2012

CONTENTS

1.	INTRODUCTION	5
2.	OBJECTIVES.....	6
3.	DEFINITIONS AND ABBREVIATION	6
4.	STATURY AND REGULATORY FRAMEWORK.....	8
5.	ROLE OF MUNICIPAL MANAGER	8
6.	ROLE OF CHIEF FINANCIAL OFFICER	9
7.	ROLE OF ASSET MANAGER.....	10
8.	ROLE OF SENIOR MANAGERS/ DIRECTORS.....	10
9.	FORMAT OF FIXED ASSET REGISTER.....	12
10.	CLASSIFICATION OF FIXED ASSETS.....	14
11.	INFRASTRUCTURE ASSETS.....	16
12.	INVESTMENT PROPERTY	17
13.	FIXED ASSETS TREATED AS INVENTORY	17
14.	.RECOGNITION OF DONATED ASSETS	19
15.	.SAFEKEEPING OF ASSETS AND INTERNAL CONTROLS	19
16.	.IDENTIFICATION OF FIXED ASSETS	20
17.	PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION OR IMPAIRMENT OF FIXED ASSETS	20
18.	.CAPITALISATION CRITERIA: MATERIAL VALUE	21
19.	.CAPITALISATION CRITERIA: ELEMENTS OF COST	21
20.	.MAINTENANCE PLANS	22
21.	.DEFERRED MAINTENANCE	23
22.	.GENERAL MAINTENANCE OF FIXED ASSETS	23
23.	.DEPRECIATION OF FIXED ASSETS	23
24.	.RATE OF DEPRECIATION	24
25.	.METHOD OF DEPRECIATION	24
26.	AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS	25
27.	.ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES	25
28.	.CARRYING VALUES OF FIXED ASSETS	26
29.	.VERIFICATION OF FIXED ASSETS	28
30.	.ALIENATION AND TRANSFER OF FIXED ASSETS	28
31.	.OTHER WRITE-OFFS OF FIXED ASSETS	31
32.	.REPLACEMENT NORMS	32
33.	.INSURANCE OF FIXED ASSETS	33
34.	BIOLOGICAL ASSETS	33
35.	.FINANCIAL DISCLURE.....	34
36.	IMPAIRMENT OF FIXED ASSETS.....	35

DOCUMENT CONTROL PAGE

Document Title	Newcastle Municipality Fixed Asset Management Policy				
Filename ref.	Fixed Asset Register Policy				
Document No.		Revision	1.0	Date	01 January 2013
	Name	Signature			Date
Prepared by:	Sakhile Ngcongco				01 January 2013
Reviewed by:					
Approved by:					
Amendment History (last four releases)					
Revision	Date	Details			Author

DISTRIBUTION & ACKNOWLEDGEMENT

For Action & Acknowledgement			
For Information			
MANAGER	<i>Name</i>	<i>Signature</i>	<i>Date</i>
I have received, read and understood this document, and will relay it to the responsible parties for implementation.			
IMPLEMENTER	<i>Name</i>	<i>Signature</i>	<i>Date</i>
I have received, read and understood this document, and shall implement the procedures herein.			

If the text in this box is not red, then this is not a controlled document

1. INTRODUCTION

1.1 This Policy for the management of Council Assets has been designed to assist management and officials of Newcastle Local Municipality with the description of management procedures for PPE.

It also should assist with the capacity to between activities, which are acceptable in terms of general authorization, responsibilities and limits of authority to the management of PPE and functions of the organisation.

1.2 This Policy will provide certainty with respect to the handling of PPE management procedures undertaken within the organization and will ensure that management and understand their respective responsibilities and duties

2. POLICY OBJECTIVES

- To ensure the effective and efficient control, utilisation, safeguarding and management of Newcastle Municipal Council's property, plant and equipment.
- To ensure Asset Custodians are aware of their responsibilities in regards of 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 inappropriate loss or utilisation.
- To specify the process required before expenditure on property, plant and equipment occurs.
- To prescribe the accounting treatment for property, plant and equipment in Newcastle Municipal Council including:
 - o The criteria to be met before expenditure can be capitalised as an item of property, plant and equipment,
 - o The criteria for determining the initial cost of the different items of property, plant and equipment,
 - o The method of calculating depreciation for different items of property, plant and equipment,
 - o The criteria for capitalising subsequent expenditure on property, plant and equipment,
 - o The policy for scrapping and disposal of property, plant and equipment,
 - o The classification of property, plant and equipment.
 - o To emphasize a culture of accountability over assets.

3. DEFINITIONS AND ABBREVIATIONS *Definitions*

3.1 "Accounting Standards Board" means the board established in terms of section

87 of the Public Finance Management Act (PFMA). The section refers to the function of the board, which is to establish standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa

3.2 "Assets" A fixed asset is the collective term for property, plant and equipment, Investment Property and Inventory held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and which is expected to be used during more than one reporting period (financial year). An asset held under a finance lease, shall be recognised as a fixed asset, on the basis that the municipality has taken transfer of the risks and rewards associated with such an asset even though it does not own the asset.

3.3 "Asset Manager" is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality's assets in accordance with the council's standards, policies, procedures and guidelines.

3.4 Infrastructure means assets that usually display some or all of the following characteristics

3.4.1 they are part of a system or network;

3.4.2 they are specialised in nature and do not have alternative uses;

3.4.3 they are immovable; and

3.4.4 they may be subject to constraints on disposal

3.4.5 Examples of infrastructure assets include road networks, sewer systems, water

3.4.6 and power supply systems and communication networks

3.5 Community assets-are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.

3.6 Community Facilities: Discrete assets that provide a service directly to the community (such as parks, sports facilities, cemeteries, landfill sites etc

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

3.8 Investment properties-are defined as properties that are acquired for economic and capital gains. Examples are leased office buildings and underdeveloped land acquired for the purpose of resale in future years.

3.9 "Attractive items" are items of property, plant or equipment that are not significant enough for financial recognition but are attractive enough to warrant special safeguarding.

3.10 "Capitalization" is the recognition of expenditure as an Asset in the Financial Asset Register.

3.11 "Carrying amount" is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation thereon. is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses

3.12 "Cost" is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

3.13 "Cost of acquisition" is all the costs incurred in bring an item of plant, property or equipment to the required condition and location for its intended use.

3.14 Component is a part of an asset with a significantly different useful life and significant cost in relation to the rest of the main asset. Component accounting requires that each such part should be separately accounted for and is treated separately for depreciation, recognition and derecognition purposes. It is also referred to as separately depreciable parts

3.15 "Depreciation" is the systematic allocation of the depreciable amount of an asset over its useful life.

3.16 "Depreciable 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.

3.17 Economic Life is either:

3.17.1 the period over which an asset is expected to yield economic benefits or service potential to one or more users, or

3.17.2 the number of production or similar units expected to be obtained from the

3.17.3 asset by one or more users

3.18 Enhancement/Rehabilitation is an improvement or augmentation of an existing asset (including Separately depreciable parts) beyond its originally recognised service potential for example, remaining useful life, capacity, quality, and functionality

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

3.20 “Financial asset register” is the controlled register recording the financial and other key details for all municipal assets recognized in accordance with this policy. is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements.

3.21 Financially Sustainable, in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants and subsidies for the service, is sufficient to cover the costs of—the initial capital expenditure required for the service; operating the service; and maintaining, repairing and replacing the physical assets used in the provision of the service

3.22 Property, plant and equipment” are tangible assets that: *Are held by a municipality for use in the production of goods or supply of goods or services, for rental to others, for administrative purpose, and are expected to be used during more than one period.*

3.23 Recoverable amount” is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal. is the higher of a cash-generating asset’s or units net selling price and its value in use.

3.24 “Recognition” is the process by which expenditure is included in the Financial Asset Register as an asset.

3.25 Recognition is the process of incorporating in the statement of financial position or statement of financial performance an item that meets the definition of an element (of financial statements) and satisfies the criteria for recognition, namely:

It is probable that any future economic benefit or service potential associated with the item will flow to or from the entity and

The item has a cost or value that can be measured reliably

3.26 Refurbishment/Maintenance to an asset will restore or maintain the originally assessed future economic benefits or service potential that an entity can expect from an asset and is necessary for the planned life to be achieved

3.27 “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. is the estimated amount that an entity 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

3.28 Remaining Useful Life is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness

3.29 “senior manager” is a manager referred to in section 56 of the municipal systems act being someone reporting directly to the municipal manager.

3.30 “senior management teams” are the incumbent of post level 1, 2 and 3 in each directorate being the “senior manager” and everyone up to two levels below them.

3.31 Service Potential is a tangible capital asset’s output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life

3.32 “Stewardship” is the act of taking care of and managing property, plant or equipment on behalf of another.

3.33 “Useful life” is either:

3.33.1 *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,*

Or

3.33.2 *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.*

3.34 “Useful life” is either:

3.34.1 *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,*

Or

3.34.2 *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.*

4. STATURY AND REGULATORY FRAMEWORK

4.1 This policy must comply with all relevant legislative requirements including:

4.1.1 The constitution of the republic of south Africa, 1996

4.1.2 Municipal systems act, 2000

4.1.3 Municipal Finance Management Act

4.2 This policy will be updated whenever legislative or accounting standard amendments significantly change the Requirements pertaining to asset management in general and the administration of council’s Assets.

4.3 This policy does not over rule the requirement to comply with other policies like procurement, tendering or policies. The Asset Management Unit will provide guidance or adjust this policy where an apparent conflict exists between this policy and other policies, legislation or regulations.

5. ROLE OF MUNICIPAL MANAGER

As accounting officer of the municipality, the municipal manager shall be the principal custodian of all the municipality’s fixed assets, and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to.

The Municipal Manager is responsible for:

- 1) The management of the assets of the municipality, including the safeguarding and the maintenance of those assets.
- 2) Taking all reasonable steps to ensure:
 - a) That the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;

- b) That the municipality's assets are valued in accordance with current standards of accounting practices; and
 - c) That the municipality has and maintains a system of internal control of assets including an asset register.
- 3) The formal delegation of responsibilities to the appropriate persons in the organisation (such as the function of Fixed Assets Registrar to the CFO) as prescribed by legislation.

6. ROLE OF CHIEF FINANCIAL OFFICER

The chief financial officer shall be delegated by the Municipal Manager as the fixed asset registrar of the municipality.

No amendments, deletions or additions to the fixed asset register shall be made other than by the chief financial officer or by an official or service provider acting as per the authority delegated to them by of the chief financial officer.

The Chief Financial Officer shall:

- 1) Ensure that he/she is aware of the requirements of legislation pertaining to his/her responsibilities as gazetted from time to time and that he/she is aware of any changes to the current standards of accounting practices;
- 2) Ensure that Fixed Assets are accounted for (Accurately Allocated, Recognised, Valued, Depreciated, Impaired, Disclosed) in the Financial Statements as prescribed by current accounting standards;
- 3) Ensure that complete records of assets are kept,
- 4) Ensure that all departments carry out annual asset verification assessments, the results of which must be reported to the Municipal Manager or Council.
- 5) The asset verification report shall:
 - a) Reflect a complete list of all assets found during the verification;
 - b) Reflect whether appropriate records have been maintained, and reflect what assets should have been found during the verification;
 - c) Reflect any discrepancies between assets found during the verification and the records as per (b) above.
 - d) Be submitted to the departments for comment on variances reflected.

- 6) Ensure that a Supply Chain Management Practitioner is tasked with the responsibility of ensuring that ALL new assets purchased are appropriately bar-coded and that all of the details of the asset are recorded in the asset register.
- 7) Ensure that adequate bar codes and equipment to exercise the functions relating to asset control are available at all times.

7. ROLE OF ASSET MANAGER

To ensure that;

- Appropriate systems of physical management and control are established and carried out for assets in their area of responsibility;
- The municipal resources assigned to them are utilised effectively, efficiently, economically and transparently;
- Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
- Their asset management systems and controls can provide an accurate, reliable and up to date account of assets under their control.
- They are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives.
- Within the scheme of delegation the Asset Manager may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring these activities are performed.
- To certify in writing at each financial year-end that he / she has assessed all assets under his / her control for impairment, and review of useful lives.
- The full facts of cases are reported in writing to the Chief Financial Officer, Accounting Officer and subsequently to the Council in the event of an asset or attractive item being demolished, destroyed, damaged or any occurrence of any other event materially affecting it's value.
- Approve the temporary or permanent transfers of a moveable asset between departments as determined in the "Powers of Delegation" of the municipality.
- The Chief Financial Officer is informed in writing at least once per annum, of all moveable and immoveable property, plant and equipment to be included for insurance purposes.

8. ROLE OF SENIOR MANAGERS (HEADS OF DEPARTMENTS)

- The Heads of Department must take all reasonable steps to ensure that:
- Appropriate systems of physical management and controls are established and carried out for assets in their areas of responsibility;
- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- The assets under their control are appropriately safeguarded and maintained to the extent necessary and that risk management systems are in place and applied.
- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- Their asset management systems and controls can provide an accurate, reliable and up to date account of assets under their control.
- They are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives.
- The purchase of assets complies with all municipal policies and procedures.
- All movable property, plant and equipment is duly processed and identified when it is

received into his/her stewardship.

- All movable assets received into his/her stewardship are appropriately safeguarded against inappropriate use or loss. This will include control over the physical access to assets and regular asset counts to ensure any losses have not occurred. Any known losses should be immediately reported to the Chief Financial Officer.
- Assets are appropriately utilized for the purpose for which the municipality acquired them.
- In addition, the **Strategic Executive Directors** are responsible to ensure that all employees within their respective department adhere to the approved Asset Management Policy and the Head of Department must nominate an employee to implement and maintain asset control (i.e. Departmental Asset Controller) in his/her department

09. FINANCIAL MANAGEMENT

9.1. Pre-Acquisition Planning

- 1.1 Before a capital project is included in the budget for approval, the senior manager of the relevant department must demonstrate that they have considered:
 - 1.2 The projected cost over all the financial years until the project is operational;
 - 1.3 The future operational costs and revenue on the project, including tax and tariff implications;
 - 1.4 The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
 - 1.5 The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
 - 1.6 The inclusion of this capital project in the integrated development plan and future budgets;
 - 1.7 The chief financial officer is accountable to ensure the senior manager of the relevant department receives all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

9.2 Approval to Acquire Property Plant and Equipment

- 2.1 Money can only be spent on a capital project if:
 - 2.1.1 The money has been appropriated in the capital budget,
 - 2.1.2 The project, including the total cost, has been approved by the council,
 - 2.1.3 The CFO confirms that funding is available for that specific project, and
 - 2.1.4 Any contract that will impose financial obligations beyond two years after the budget year Must be appropriately disclosed.
 - 2.1.5 Acquisition of the Assets will then follow the normal process of the Supply Chain Management Policy and Procedures

9.3 Funding of capital projects

Within the municipality's on-going financial, legislative or administrative capacity, the chief financial officer

Will establish and maintain the funding strategies that optimise the municipality's ability to achieve its Strategic objectives as stated in the integrated development plan.

9.4 Disposal of property plant and equipment.

- 4.1 The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a non-current asset needed to provide the minimum level of basic municipality services.
- 4.2 The municipality may transfer ownership or otherwise dispose of a non-current asset other than one contemplated above ,but only after the council, in a meeting open to the public

- 4.3 Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic services, and
- 4.4 Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- 4.5 The decision that a specific non-current asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset been sold, transferred or otherwise disposed of.
- 4.6 The municipal manager may approve the disposal of an item of property, plant and equipment as delegated by the municipal council. The delegations to approve contracts for the disposal an item of property, plant and equipment is stated in the Preferential Procurement Policy.
- 4.7 The disposal an item of property, plant and equipment must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management. The Preferential Procurement Policy covers these issues.
- 4.8 Transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions.

10. FORMAT OF FIXED ASSET REGISTER

A fixed asset register shall be maintained in a format compliant with the requirements of current standards of accounting practice.

The fixed asset register shall reflect the following information:

- x a brief but meaningful description of each asset
- x the date on which the asset was acquired or brought into use
- x the location of the asset
- x the department(s) or vote(s) within which the assets will be used
- x the title deed number, in the case of fixed property
- x the stand number, in the case of fixed property
- x the bar coded asset number shall be used to uniquely identify the asset
- x the original cost, or the revalued amount determined in compliance with part 27 below, or the fair value if no costs are available
- x the last revaluation date of the fixed assets subject to revaluation
- x the revalued value of such fixed assets
- x who did the last revaluation
- x accumulated depreciation to date
- x the depreciation charge for the current financial year
- x the carrying value of the asset
- x the method and rate of depreciation

- x impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- x the source of financing

x the current insurance arrangements

x whether the asset is required to perform basic municipal services whether the asset has been used to secure any debt, and – if so – the nature and durationsuch security arrangements

x the date on which the asset is disposed of

x the disposal price

x the date on which the asset is retired from use, if not disposed of

All heads of department under who 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.

A fixed asset shall be capitalised, 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 capitalised as a fixed asset.

The Head of Department Technical shall be required to notify the Chief Financial Officer timeously:

- x When construction of Infrastructure Assets starts, in order to ensure that they are recorded as Work In Progress
- x When construction is completed, the completion certificate issued and beneficial use is being derived from the asset so that capitalisation may take place.

The Head Of Department Technical shall be responsible for consolidating the Project Bill of Quantities into the Infrastructure categories as defined in this policy, to ensure that the project is accurately reflected in the Asset Register.(unbundling process)

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-off such an asset. The condition assessment of the assets and the review of useful life will be performed annually.

11. CLASSIFICATION OF FIXED ASSETS

In compliance with the requirements of the National Treasury, 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 writing provide the chief financial officer with such information or assistance as is required to compile a proper classification:

PROPERTY, PLANT AND EQUIPMENT

- x Land and Buildings (not held as investment assets)
- x Infrastructure Assets (assets which are part of a network of similar assets)
- x Community Assets (resources contributing to the general well-being of the community)
- X Housing Assets (rental stock or housing stock not held for capital gain)
- x Heritage Assets (culturally significant resources)
- x Other Assets (ordinary operational resources)

INVESTMENT PROPERTY

X Investment property (held for capital appreciation or for earning rentals)

Examples of property that would be classified as investment property

- Property held for long-term capital appreciation
 - Vacant property held for the purpose of leasing it in the future;
- and
- Property held for sale in the ordinary course of business
 - Land and buildings held for undetermined use

Examples of property that would not be classified as investment property

- Property leased out to another party under an operating lease;
- Property that is leased out to another party under a finance lease;
- Property that is owner occupied;
- Property that is in the process of being constructed or developed.

INTANGIBLE ASSETS

- x Intangible Assets (assets without physical substance held for ordinary operational resources)

BIOLOGICAL ASSETS

- x Biological Assets (livestock and plants held)

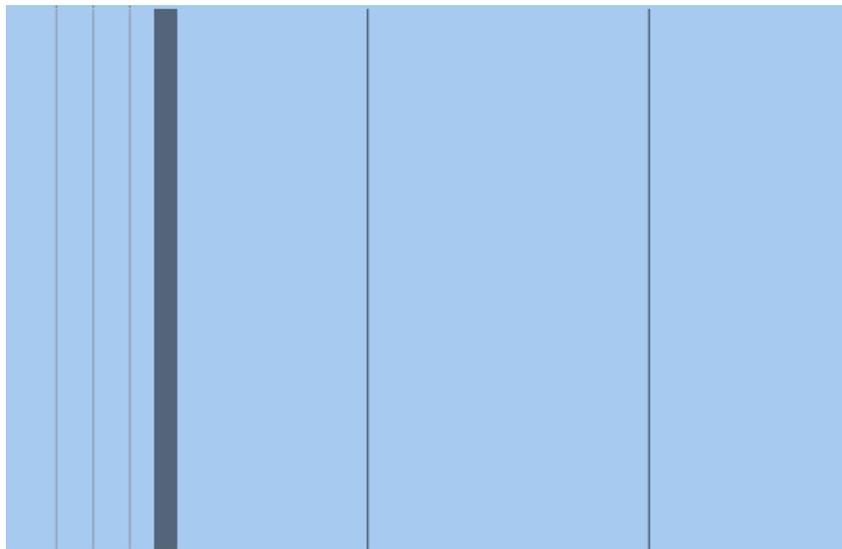
12. INFRASTRUCTURE ASSETS

Infrastructure Assets within the Newcastle Municipality will be classified in the following manner:

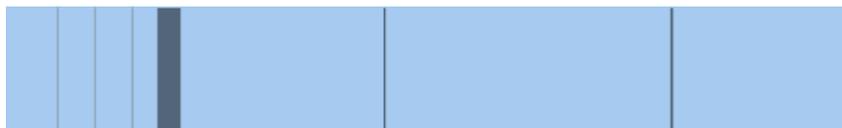
Category: Water:

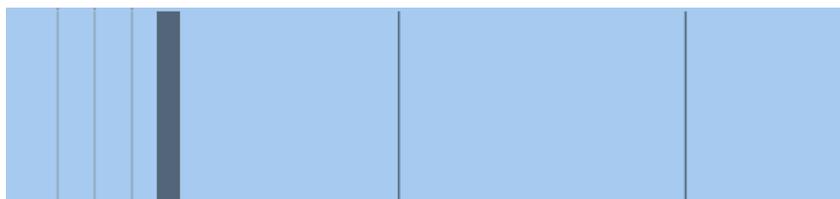
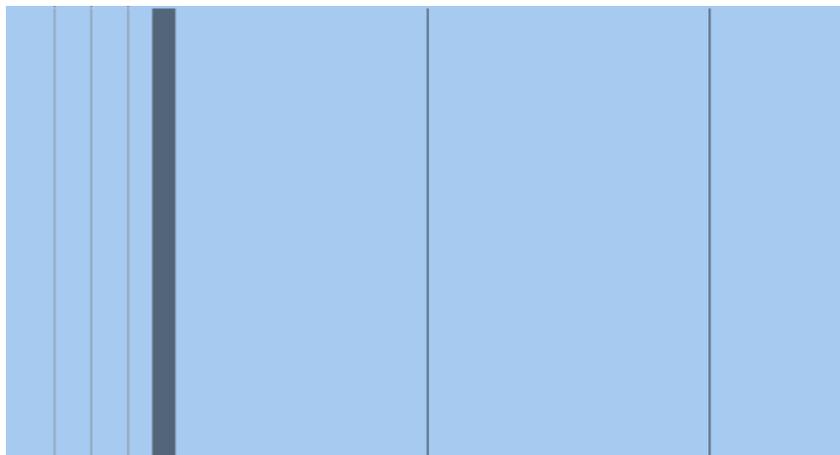


Category: Electrical:



Category: Solid Waste



Category: Storm Water**Category: Roads**

Items of infrastructure plant that are sufficiently critical to cause impairment on the whole network as a result of failure or impairment and whose Useful Life can be assessed separately from the main asset shall be recognised separately on the asset register.

13. INVESTMENT PROPERTY**Newcastle Municipality Fixed Asset Management Policy**

.Newcastle Municipality chooses the cost model to measure all of its investment property in accordance with the Standard of GRAP on Property, Plant and Equipment, i.e., at cost less any accumulated depreciation and any accumulated impairment losses, other than those that meet the criteria as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations. Investment properties that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) shall be measured in accordance with that Standard.

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.

14. FIXED ASSETS TREATED AS INVENTORY(HELD FOR SALE)

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, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality's statement of position.

Such inventories 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.

15. RECOGNITION OF DONATED ASSETS

Where a fixed asset is donated to the municipality, acquired by means of exercising the powers of sequestration at nil or a nominal value or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the fixed asset register at its fair value as at the date it is acquired, as determined by the chief financial officer.

16. SAFEKEEPING OF ASSETS

Each Head of Department of the municipality and each official of the municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets of the municipality are managed effectively and that assets are safeguarded and appropriately and that the provisions of current legislation, to the extent applicable to that Head of Department or official, including any delegations are being complied with.

A Head of Department or such official must perform the functions referred to above subject to the directions of the Municipal Manager.

Every head of department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.

All heads of department under whose control any fixed asset falls shall:

- 1) Ensure that employees in their department are aware of and adhere to this policy.
- 2) Ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in his/her department. The Asset Management Unit must be notified who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the Head of Department of that department.
- 3) Ensure that the assets are properly maintained in accordance with this policy.
- 4) Ensure that those assets are appropriately secured against loss, damage or theft and that they are not used for private gain.

- 5) Ensure that the Asset Management Unit is immediately notified of any changes in the status of the assets under the department's control. This must be done in the prescribed manner and shall include the following:
 - x Receipt or commissioning of new assets under his/her control.
 - x Asset theft, loss or damage.
 - x Asset write-off, removal, disposed or transfer.
 - x Valuations for Insurance purposes.
- 6) Maintain and manage departmental Asset Inventory Records (DIR) for items that will not be recorded in the Fixed Asset Register.

17. IDENTIFICATION OF FIXED ASSETS

The municipal manager shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register.

The identification system shall use Anodised Aluminium bar code labels. Each label shall reflect a unique number which is recorded as the Asset Code in Asset Register.

Every head of department shall ensure that the asset identification system approved for the municipality has been scrupulously applied in respect of all fixed assets controlled or used by the department in question.

18. PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION OR IMPAIRMENT OF FIXED ASSETS

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

Every incident of theft or loss shall be investigated internally by the head of department and a Loss Report must be forwarded to the Chief Financial Officer. Reference to be made to Loss and Control Policy and IT Policy

Newcastle Municipality Fixed Asset Management Policy**Page: 14**

Newcastle Municipality requires that appropriate Human Resources Procedures are followed where members of its staff are implicated and due consideration must be given to current legislative requirements should such a staff member be the Chief Financial Officer, a head of department, an accounting officer or any other senior official.

19. CAPITALISATION CRITERIA: MATERIAL VALUE

No item shall be recognised as an asset unless the following criteria apply to that asset:

- a) It is probable that future economic benefits or service potential is associated with the item and such benefits/service potential shall flow to the municipality, and
- b) The cost or fair value of the item can be measured reliably.
- c) The Expected Useful Life of the item can be determined separately from its associated items.

In order to manage this definition the following guidelines have been defined:

- a) Moveable assets that can be utilised separately (despite being purchased collectively) shall be recognised as fixed assets provided that their Useful Lives can be determined independently from the collective items and the value of the item exceeds 30% of the value of the collective asset.
- b) All items that are classified in terms of this policy as Infrastructure Assets that are sufficiently critical to cause impairment of multiple Infrastructure Assets as a result of failure or impairment and whose Useful Lives can be assessed separately from the collective items and their value exceeds 30% of the value of the collective asset shall be recognised separately on the asset register.

21. CAPITALISATION CRITERIA: ELEMENTS OF COST

The cost of an item of property, plant and equipment comprises:

- a) Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
- b) Any costs directly attributable to bringing the asset to the location and the condition necessary for it to be capable of operating in the manner intended by the organisation.
- c) The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Expenses which are reasonably ancillary to the bringing into operation of a fixed asset will be capitalised as part of such a fixed asset. Such expenses may include but need not be limited to import duties, forward cover costs, transportation costs, and installation, assembly and communication costs.

Only expenses incurred 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 operating life of a fixed asset shall be capitalised.

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 capitalised, irrespective of the quantum or source of the expenses concerned.

20. MAINTENANCE PLANS

Every Head of Department shall ensure that a maintenance plan, in respect of every new infrastructure asset listed on the Asset Register, is prepared and submitted to the council of the municipality for approval within the first quarter of every subsequent financial year.

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 asset concerned.

The head of the 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 complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned. The Heads Of Departments responsible for existing assets that exceed R 100 000 will be required to analyse the maintenance costs incurred during the financial year.

financial year and to prioritise the development of maintenance plans for the top five assets according to their maintenance expenditure per annum. Reference be made to the Maintenance Plans Policy

22. DEFERRED MAINTENANCE

If there is a material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see part 14 above), the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the annual financial statements. Such a note shall also indicate any plans which the council of the municipality 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 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.

23. GENERAL MAINTENANCE OF FIXED ASSETS

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

24. DEPRECIATION OF FIXED ASSETS

All fixed assets, except land, assets in construction and heritage assets, shall be depreciated – or amortised in the case of intangible assets.

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

Depreciation shall 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.

Depreciation shall initially be calculated so as to include the day on which a fixed asset is brought into use and the days remaining until the end of the calendar month concerned. Thereafter, depreciation charges shall be calculated monthly.

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

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

25. RATE OF DEPRECIATION

The chief financial officer shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register. The useful life of an asset is defined in terms of the assets expected utility to the entity. In determining such a useful life the Chief Financial Officer may rely on the experience of organisations with similar assets. The useful operating lives of assets is attached as the Annexure

26. METHOD OF DEPRECIATION

Except in those cases specifically identified in part 21 below, the Chief Financial Officer shall depreciate all depreciable assets using the straight-line method of depreciation over the assigned useful operating lives of the assets in question.

27. AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS

The chief financial officer may recognise an asset as being impaired when the carrying value of the asset exceeds its fair value due to significant long term changes with an adverse effect on the organisation, physical damage to the asset or the asset condition has deteriorated significantly within the reporting period. When any such impairment occurs the Chief Financial Officer shall inform the council of the municipality.

The Chief Financial Officer shall ensure that annual assessments are carried out to ascertain the correctness of the remaining useful operating lives of the assets in the asset register. Calculations to determine remaining useful lives will be based upon a basic condition assessment of the asset (weighted 40%) and the age of the asset (weighted 60%). Changes in the remaining useful lives of assets due to annual assessments shall be used to determine depreciation of the assets during the following financial year. If expectations differ significantly from previous estimates, such changes shall be accounted for as changes in accounting estimates in accordance with the applicable accounting standard.

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

Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be written off the fixed asset register.

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

If any of the foregoing events arises in the case of a normally non-depreciable fixed asset, and such a fixed asset has been capitalised at a value other than a purely nominal value, such a 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.

28. ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES

The Chief Financial Officer shall employ the “sum-of-units” method of depreciation in the cases of cemeteries and solid waste sites because these are fixed assets which are physically wasted unevenly during each year of their useful lives.

The head of department controlling or using the fixed assets in question will give a written undertaking to the Municipal Manager to provide:

- a) estimates of statistical information required by the chief financial officer to prepare estimates of depreciation expenses for each financial year; and
- b) actual statistical information, for each financial year

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

29. CARRYING VALUES OF FIXED ASSETS

All fixed assets including Investment Properties shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation. The heritage assets will be disclosed in the Annual Financial Statements at their cost or fair value less impairments. The Carrying Value of the Infrastructure assets will be verified every five years by a suitable professional service provider.

30. VERIFICATION OF FIXED ASSETS

The Municipality shall on the quarterly basis undertake a comprehensive verification of all fixed assets controlled or used by the Municipality. The Asset Management Unit shall report on the results of such verifications to the Chief Financial Officer.

31. ALIENATION/DISPOSAL AND TRANSFER OF FIXED ASSETS

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

Every head of department shall submit to the Asset Manager the lists of assets to be disposed and the reasons for disposal. The Asset Manager shall verify the assets as per the lists received from departments and submit the list to the Asset Disposal Committee. The Asset Disposal Committee shall consolidate all the information into a report to be submitted to the Council with recommendations on the process of disposal.

The Council shall delegate to the Municipal Manager the authority to approve the alienation or disposal of any fixed asset with a carrying value less than R5 000 (five thousand rand).

The council 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 (see part 31 below).

Once the fixed assets are alienated or transferred, the Asset Management Unit shall remove them from the fixed asset register.

If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognised 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 proceeds of the sale must first be applied to discharge any borrowing against that asset at its redemption date, the difference (if any) shall be recognised as a gain in the income statement of the department or vote concerned.

All gains realised 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.

The decision to transfer or dispose of assets must take into account the following key principles:

- a) Valuation – the interests of the municipality and its stakeholders may not be prejudiced by the transfer or disposal of the assets.
- b) Continuity of Service – there may not be a disruption in municipal services when a municipal asset that is being used in the delivery of that service is transferred or disposed.
- c) Risk Transfer – risk relating to the ownership of the asset (i.e. staffing requirements) shall be transferred in conjunction with the transfer of the asset.
- d) Asset Preservation – policies and practices shall be in place to prevent the indiscriminate or unsustainable transfer of municipal assets that may undermine the ability of the Municipality to render or expand municipal services in the longer term.

A high value capital asset is an asset whose current replacement value is in excess of R1 million or 5% of the total value of the Municipality's assets whichever is the lesser amount.

In order to ensure that the process to transfer or dispose of high value capital assets is as rigorous and transparent as possible the following process must be followed:

- a) Request the council to authorise a public participation process which shall include the following specific comprehensive information:
 - o Reasons for the proposal
 - o The current replacement value of the asset and the carry value of the asset
 - o The benefits of the transfer or disposal of assets
 - o The anticipated proceeds or loss that could be expected if the proposal went ahead
- b) The Municipal Manager must make public the information statement and invite the local community and National and Provincial Government, at least 60 days before a meeting, to consider the proposal and to submit comments or representations.
- c) At a meeting open to the public the Council must take into consideration all comments and representations prior to deciding whether the asset should be transferred or disposed of. The following specific considerations must be taken into account:
 - o Minimum level of basic municipal service – if the asset is required to provide a minimum level of basic municipal services the asset may only be transferred to another municipality, a municipal entity or a national or provincial organ of state subject to agreement over the continuation of the service. Such transfers are only permitted where the transfer results from:
 - x The review of service delivery mechanisms when an organ of state is the preferred service provider.
 - x A reorganisation of functions between a municipality and its entity. x An adjustment of powers and functions through legislation.
 - x The transfer of land to an organ of state for housing the poor. x National legislation which requires or permits the transfer.
 - o The full extent of the assets associated with the service – this includes plant, machinery, land, buildings, staff and any associated liabilities (i.e. pension funds). Such transfers must take into consideration applicable legislation and any other impact it may have on parties to the transfer and the sustainability of the service.
 - o Sustainability – Such assets may only be transferred on the condition that any subsequent transfer of the asset may only occur with the permission of the

municipality and that the ownership of the asset must revert back to the municipality should that organ of state cease or be unable to provide the service which is attached to the asset.

- o Compensation – the parties to the transaction must first agree if compensation is to be paid. If it is agreed that compensation is appropriate, such compensation is to be based upon the value of the assets to be transferred. The municipality must receive a fair market value for such assets as determined by generally recognised accounting standards.

Where the plight of the poor or public interest demands otherwise it is possible to consider a lesser value provided that the following is taken into account:

- ❶ Interests of the state and local community
- ❷ Strategic and economic interests of the municipality or entity
- ❸ Constitutional rights and legal interests of all parties
- ❹ Whether the interests of the parties to the transfer should carry more weight than the interests of the wider community
- ❺ Whether the local community would be better served if the asset is transferred at less than fair market value.

32. OTHER WRITE-OFFS OF FIXED ASSETS

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

Every head of department shall report to the chief financial officer on 31 October and 30 April of 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 and including supporting documentation from a subject matter expert i.e. for IT Equipment the IT Manager must support the write-off of IT Equipment. 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.

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.

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.

36. REPLACEMENT NORMS

In compliance with National Treasury prescriptions on how municipalities must identify the need to replace or acquire fixed assets, the municipality shall apply the following standards for the replacement of the following classes of assets:

- X **Motor Vehicles:** will be reviewed every five years, specifically with regard to operational performance and ongoing maintenance costs, the heads of departments will then make a recommendation on their continued use to the Chief Financial Officer.
- X **Furniture and Fittings:** _____ will only be replaced once they have been declared unserviceable, and have been "alienated"¹ as per section 26 of this policy.
- X **Computer and IT Equipment:** will automatically be replaced once the Operating System of the equipment is greater than TWO versions old.

33. INSURANCE OF FIXED ASSETS

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.

The basis of the insurance to be applied shall be the replacement value of the fixed assets concerned.

34. BIOLOGICAL ASSETS

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

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

Records of the details of biological assets shall be kept in a separate section of the fixed assets register or in a separate accounting record 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.

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.

35. FINANCIAL DISCLOSURE

The financial statements will disclose, in respect of each class of property, plant and equipment classified under the categories of infrastructure, community, heritage, investment properties and other assets:

- (a) The measurement bases used for determining the gross carrying amount and when more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed;
- (b) The depreciation methods used;
- (c) The useful lives of the depreciation rates used;
- (d) Depreciation charged in arriving at net surplus or deficit for the period;
- (e) The gross carrying amount and the accumulated depreciation at the beginning and the end of the period; and
- (f) A reconciliation of the carrying amount at the beginning and end of the period showing:
 - (i) Additions;
 - (ii) Disposal;
 - (iii) Acquisition through business combinations;
 - (iv) Increases or the decreases resulting from revaluations;
 - (v) Deductions in carrying amount;
 - (vi) Amounts written back;
 - (vii) Depreciation;
 - (viii) Other movements.

The Annual Financial Statements will also disclose:

- (a) Whether or not, in determining the recoverable number of items of property, plant and equipment, expected future cash flows have been discounted to their present values;
- (b) The existence and restrictions on title and property, plant and equipment pledged as security for liabilities;
- (c) The accounting policy for restoration costs relating to items of property, plant and equipment;
- (d) The amount of expenditures on account of property, plant and equipment in the course of construction; and
- (e) The amount of commitments for the acquisition of property, plant and equipment.

When items of property are stated at revalued amounts, the financial statements will disclose:

- (a) The basis used to revalue the assets;
- (b) The effective date of revaluation;
- (c) Whether an independent value was involved;
- (d) The nature of any indices used to determine replacement cost;
- (e) The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less depreciation;
- (f) The revaluation surplus, detailing the movement for the period; and
- (g) The portion of the depreciation charge relating to the revaluation

36. PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2003

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

A municipality may alienate any other capital asset, provided that

- x 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
- x 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

37. Impairment of fixed assets

A fixed asset is said to be impaired where the recoverable amount or the recoverable service value is less than the carrying amount reflected in the accounting record

- . Each departmental head shall annually, judge the useful lives, value and impairment of all the fixed assets under their control and submit to the Asset Manager
- . 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 in which case it should be charged to a non-distributable reserve
- . For asset providing economic benefits, the recoverable amount is the net present value of future ownership
- . For asset providing future service delivery, the recoverable amount is the remaining proportional of its useful life, service capacity or quality of service that is not intended to be restored by normal maintenance program

37.1 Subsequent increase in recoverable amount

A subsequent increase in the recoverable amount of an asset, previously written down due to a decline in the carrying amount should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future

The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred

