ANNEXURE F

BUDGET RELATED POLICIES

NEWCASTLE MUNICIPALITY

CASH MANAGEMENT & INVESTMENT POLICY

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1. DEFINITIONS

In this Policy, unless the context indicates otherwise, a word or expression, to which a meaning has been assigned in the Municipal Finance Management Act (MFMA) No. 56 of 2003, has the same meaning.

Accounting Officer refers to the Municipal Manager of Newcastle Municipality

Auditor-General means the person appointed as Auditor-General in terms of section 193 of the Constitution, and includes a person as acting as Auditor-General, designated by the Auditor-General to exercise a power or perform a duty of the Auditor-General.

Chief Financial Officer or his delegate means an officer of the Municipality, designated by the Municipal Manager to be administratively in charge of the financial affairs of the Municipality;

Creditor in relation to a municipality, means a person to whom money is owing by the municipality.

Debt means a monetary liability or obligation created by a financing agreement, bond or overdraft, or by the issuance of municipal debt instruments; or a contingent liability such as that created by guaranteeing a monetary liability.

Debt Agreement includes any loan agreement under which a municipality undertakes to repay a long-term debt over a period of time.

Financial year means a year ending on 30 June.

Investee means an institution with which an investment is placed or its agent.

Investment in relation to funds of a municipality, means
- the placing on deposit of funds of a municipality with a financial institution,
- the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds.

Lender in relation to a municipality, means a person who provides debt finance to a municipality.

Long-term debt means debt repayable over a period exceeding one year.

Long-term investments means any cash or liquid securities owned by the Municipality which have a maturity date, and/or callable date reasonably expected to be exercised, that is greater than one year.

Month means one of the 12 months of a calendar year.

Council means the Municipal Council of Newcastle Municipality.

Municipal entity has the meaning assigned to it in section 1 of the Municipal Systems Act.

Municipality means Newcastle Municipality.

Municipal Systems Act means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000)

Primary bank account means the main bank account referred to in section 8(1) of the MFMA.

Provincial treasury means KwaZulu-Natal Provincial Treasury (KZNPT)

Short-term debt means debt repayable over a period not exceeding one year.

Short-term investments Any cash or liquid securities owned by the municipality which is having a maturity date, and/or callable date reasonably expected to be exercised, that is equal to or less than one year.

2. INTRODUCTION

2.1. This Policy is aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes. The effectiveness of this Policy is dependent on the accuracy of the Municipality's cash management programme, which must identify the amounts surplus to the Municipality's needs, as well as the time when and period for which such revenues are surplus.

2.2 Managing the cash resources of the Municipality is a key requirement to ensure the liquidity of the Municipality in order to meet its financial obligations. In order to achieve this objective the Newcastle Municipality has to adopt and review this Policy as and when required.

3. STATUTORY FRAMEWORK

Section 13 (2) of the Local Government: Municipal Finance Management Act 2003 (Act No 56 of 2003) requires that the Municipality must establish an appropriate and effective cash management and investment policy in accordance with a framework that may be prescribed by the Minister of Finance.

4. SCOPE OF POLICY

This Policy applies to all cash investments made by Newcastle Municipality, and the Municipality shall at all times manage its cash management and investments in compliance with this Policy and must not be inconsistent with the Municipal Finance Management Act and the Municipal Investment Regulations.

5. THE PURPOSE AND OBJECTIVES OF THE POLICY

The purpose of this Policy is to ensure that investment of surplus funds forms part of the financial system of the Municipality and to ensure that prudent investment procedures are consistently applied in order:

i) To manage cash flows in an efficient and prudent manner

ii) To maintain a level of liquidity sufficient to meet both planned and unforeseen cash requirements

iii) To invest only in approved financial institutes

iv) To minimize the risk of investments

v) To maximize returns on investments without incurring undue risks

vi) To ensure all relevant information is disclosed to Council

vii) To ensure that all investment decisions are made by the appropriate delegated authority
viii) To prohibit investment of funds for speculative purposes

ix) To ensure transparency and compliance in all investment processes

6. RESPONSIBILITIES OF THE ACCOUNTING OFFICER

6.1 According to the Municipal Finance Management Act 2004, chapter 8, paragraph 60 and 61, the Accounting Officer of a municipality is the Accounting Officer of the Municipality for the purposes of this Act, and, as Accounting Officer, must –

(a) Exercise the functions and powers assigned to an Accounting Officer in terms of this Act; (b) Provide guidance and advice on compliance with this Act to –
(i) The political structures, political office-bearers and officials of the Municipality; and
(ii) Any municipal entity under the sole or shared control of the Municipality.

6.2 The Accounting Officer of a municipality must in terms of Municipal Finance Management Act:
(a) Exercise utmost care to ensure reasonable protection of the assets and records of the entity;
(b) Act with fidelity, honesty, integrity and in the best interest of the entity in managing the financial affairs of the entity;
(c) disclose to the entity's parent municipality and the entity's board of directors, all material facts, including those reasonably discoverable, which in any way may influence the decisions or actions of the parent municipality or the board of directors; and
(d) Seek, within the sphere of influence of that Accounting Officer, to prevent any prejudice to the financial interests of the parent municipality or the municipal entity.

6.3 The Accounting Officer may not –

(a) Act in a way that is inconsistent with the responsibilities assigned to Accounting Officers of municipal entities in terms of this Act; or

(b) Use the position or privileges of, or confidential information obtained as Accounting Officer, for personal gain or to improperly benefit another person.

6.4 The Accounting Officer is therefore accountable for all transactions entered into by his designates. One of the main functions of Accounting Officer is that of adequate and effective cash management.

6.5 The Chief Financial Officer is responsible for establishing systems, procedures, processes and training and awareness programmes to ensure efficient and effective banking and cash management.

6.6 Sound cash management includes the following:

a) Collecting revenue when it is due and banking it promptly;

b) Making payments, including transfers to other levels of government and non-government entities, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the government's normal terms for account payments;

c) Avoiding pre-payments for goods or services (i.e. payments in advance of the receipt of goods or services), unless required by the contractual arrangements with the supplier;

d) Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the relevant treasury;

e) Pursuing debtors with appropriate sensitivity and rigor to ensure that amounts receivable by the Municipality are collected and banked promptly;

f) Accurately forecasting the institution's cash flow requirements;

g) Timing the inflow and outflow of cash;

h) Recognizing the time value of money, i.e. economically, efficiently, and effectively managing cash; and

i) Taking any other action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or obsolete assets in terms of the Asset Management Policy.

6.7 The overall responsibility of investments lies on the Accounting Officer. However the day to day handling of investments is the responsibility of the Chief Financial Officer or his designate.

6.8 In the instance that the investment amount requires that the Chief Financial Officer submit recommendations to the Accounting Officer for decision on the best investment to be made, quotations are required from the various financial institutions. In the case of telephonic quotations, the following information is required:

a) The name of the person who gave the quotation;

b) The relevant terms and rates; and

c) Other facts such as if interest is payable on a monthly basis or on maturation date

d) The Council needs to pass a resolution in respect of the limits for the investment of its funds.

6.9 In the instance where the investment will be processed via electronic funds transfer system, the banking details of the successful institution that exist of the municipal supplier database should be utilised. Where such details are not available, the successful institutional shall be required to complete and submit supplier database information in terms of the municipality's supply chain management policy.

6.10 In the instance that the Chief Financial Officer authorizes the investment, two authorized signatories must authorize and affect the electronic funds transfer in respect of the investment amount.

6.11 Where payments to financial institutions in respect of investments are to be effected by cheques, the following procedures apply:

a) The Accountant must complete a cheque requisition form and submit it to the Chief Financial Officer together with the supporting quotations;

b) The Chief Financial Officer must either authorize the requisition or submit it to the Accounting Officer, pending on the value of the investment;

c) When the Accounting Officer or the Chief Financial Officer has authorized the requisition, the Chief Financial Officer or two authorized signatories are required to sign the cheque and submit it to the financial institution.

7. CASH MANAGEMENT PROCEDURES

7.1 Bank Arrangements

7.1.1 The Accounting Officer is responsible for the management of the bank accounts. All withdrawals from the primary or other municipal banks account must be authorised by the Accounting Officer.

7.1.2 Written and signed delegations clearly indicating power and/or duties delegated should be in place. This is in terms of section 79 of the MFMA.

7.1.3 The Accounting Officer is responsible for opening the primary bank account with authorized banking institutions.

7.1.4 The Chief Financial Officer must prepare the bank reconciliation within 7 days after the end of each month, investigate any irregularities and report them to the accounting officer. The bank statements are analyzed on a daily basis. The monthly bank reconciliation prepared must reflect agreeing balances between the balances as per bank statement to that arrived at by the Municipality in its cash book.

7.2 Revenue Collection

7.2.1 The Accounting Officer or delegated official must ensure that all revenue is properly accounted for.

7.2.2 The collection and control of arrear revenue and accounts must be managed in accordance with policies issued and implemented in terms of section 64(2) of the MFMA and section 95 of the Municipal Systems Act.

7.2.3 Adequate provision must be made for writing off irrecoverable revenue in terms of the Credit Control & Debt Collection Policy.

7.3 Debtor Collections

7.3.1 All monies due to the Municipality must be collected by the due dates and banked daily.

7.3.2 All monies collected must be deposited daily or on the next working day into the primary bank account of the Municipality.

7.3.3 A numbered official receipt reflecting the name of the Municipality must be issued for the receiving of all monies.

7.3.4 The debt collection process must be reviewed regularly to determine the efficiency and effectiveness thereof.

7.3.5 Any debt older than the period determined by the credit control policy must be handed over to the applicable section for recovery.

7.4 Payment to Creditors

7.4.1 All payments should be settled on or before the due date, that is, within 30 days of the receipt of the invoice, unless otherwise agreed to between the supplier and the municipality.

7.4.2 However, the Municipality will strive to settle the amounts payable to suppliers within the settlement period as advised on the invoice to take advantage of any settlement discounts.

7.4.3 Due regard must be taken of terms of credit offered.

7.4.4 All payments by Municipality, where possible, should be effected electronically.

7.4.5 Payments may not be split to circumvent the tender regulation and any such non-compliance constitutes financial misconduct.

7.5 Receipt of Money

7.5.1 All payments received over the counter by the Municipal cashier must be acknowledged by the issuing of a numbered official receipt.

7.5.2 An endorsed cancelled receipt must be attached to the day end cash reconciliation form.

7.5.3 A cancelled receipt must be retained for audit purposes.

7.5.4 Any money, including cheques and postal orders received via mail must be recorded in a designated register that must reflect all necessary details to enable later use and identification of such receipts.

7.5.5 The register, including all payments received, must be submitted to the cashier for receipting.

7.5.6 All receipts will be recorded in the designated register, and any documents relative to the payments will be filed for audit purposes.

7.5.6 All deposits must be promptly identified and receipted into the correct revenue source or debtor account to avoid identified deposits.

7.6 Management of Cash Flow

7.6.1 The Chief Financial Officer must prepare an annual estimate of the cash flow per calendar month, this is in terms of section 71 of the MFMA.

7.6.2 The Chief Financial Officer must, every month, update estimated cash flow with the actual cash flow.

7.6.3 Comments and explanations must be provided for any significant cash flow deviations.

7.6.4 The Accounting Officer must by no later than 10 working days after the end of each month submit to the Mayor of the Municipality / Executive Committee (EXCO) and the KZNPT a statement in the prescribed format in terms of section 71 of the MFMA.

7.6.5 The analysis of the cash flow will include:
(i) When surplus revenue should be invested;
(ii) When investments should be liquidated; and
(iii) When long and short-term debt should be incurred.

8. INVESTMENT ETHICS

8.1 The Chief Financial Officer or delegated official, shall be responsible for investing the surplus revenues of the Municipality, and shall manage such investments in compliance with this Policy and any other policy directives formulated by Council and any regulations promulgated.

8.2 In making such investments the Chief Financial Officer, shall at all times have only the best interests on the Municipality and shall not accede to any influence or interference from other Council officials, Councilors, investment agents or institutions or any other outside parties.

8.3 Neither the Chief Financial Officer or any other Municipal Official, Executive Member or Councilor, may accept any undue gift or benefit, from any investment agent or institution or any party with which the Municipality has made or may potentially make an investment.

8.4 Prudence

Investment shall be made with care, skill, prudence and diligence. The approach must be that which a prudent person acting in a like capacity and familiar with investment matters would use in the investment of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Municipality. Investment officials are required to:

a) Adhere to written procedures and policy guidelines.

b) Exercise due diligence.

c) Prepare all reports timeously.

d) Exercise strict compliance with all legislation.

8.5 Ownership

All investments must be made in the name of the Newcastle Municipality.

9. INVESTMENT PRINCIPLES

9.1 Limiting Exposure

a) Where large sums of money are available for investment the Chief Financial Officer shall ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the Municipality.

b) The Chief Financial Officer shall further ensure that as far as it is practically and legally possible, the Municipality's investments are so distributed that more than one investment category is covered i.e. Call, Money Market and Fixed Deposit. There is a limitation to the extent on investment on the institution selected. Any investments made shall be placed with registered banks.

9.2 Risk and Return

The offer of best interest rates on an investment must be considered with the degree of risk involved to both the financial institution and the investment instrument concerned. No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions. Money's invested may not be made for speculation and no funds may be borrowed at any time to be used for investments.

10. INVESTMENT PROCEDURE

10.1. After determining whether there is cash available for investment and fixing the maximum term of investment, the Chief Financial Officer must consider the way in which the investment is to be made.

10.2. Short-term Investment

a) The term of investment shall not be more than 12 months.

b) Quotations must be obtained from a minimum of three registered financial institutions, for the term of which the funds will be invested.

c) Should one of the institutions offer a better rate for a term, other than the term originally quoted for, the other institutions which were approached, must also be asked to quote a rate for the other term.

d) Quotations must be obtained via e-mail communication, as rates generally change on a regular basis and time is a determining factor when investments are made.

e) No attempts must be made to make institutions compete with each other.

10.3. Long-term investment

a) Written quotations must be obtained for investments made for periods longer than twelve months.

b) The prior approval of the Accounting Officer must be obtained for all investments made for periods longer than twelve months after considering the cash requirement for the next three years.

10.4. Investment maturity

a) Upon maturity of the investment the Municipality shall do one of the following:

i. Shall withdraw the whole amount invested.

ii. Shall re-invest 100% interest plus the original amount that had been invested, in terms of the investment procedure, unless if Council wishes to utilize the original money or the interest.

iii. Shall invest in part.

10.5. Early withdrawal of invested funds

a) When investing the funds with the banking institutions, the Chief Financial Officer shall ensure that such funds are not withdrawn earlier than the maturity date agreed upon, by so doing the Municipality will not incur fruitless and wasteful expenditures in form of penalties resulting from early withdrawal of investments.

b) The Chief Financial Officer shall only withdraw funds if :

i) the banking institution concerned has agreed to exempt any penalties due to early withdrawal of investment or;

ii) the Chief Financial Officer my grant approval to withdraw the invested funds after he/she has satisfied himself/herself that the urgency was unforeseeable at the time when funds were invested and that the need for funds far outweighs the penalties being paid for such early withdrawal

11. CONTROL OVER INVESTMENTS

11.1 The Chief Financial Officer shall ensure that proper records are kept of all investments made by the Municipality. Such records shall indicate:

i. The date on which the investment is made
ii. The institution with which the money's are invested
iii. The amount of investment
iv. The interest rate applicable and
v. The maturity date

11.1.2 The Chief Financial Officer shall ensure that all interest and capital properly due to the Municipality are timeously received and shall take appropriate steps if interest or capital is not fully or timeously received.

11.2 The Chief Financial Officer shall ensure that all investment documents are adequately safeguarded.

11.3 If an Investment Adviser is ever engaged, the Chief Financial Officer shall ensure that such Adviser has the credentials specified for the "Investment Manager" in Regulation 1 of the Act.

11.4 The Chief Financial Officer shall maintain a review a register of all investments held by the municipality.

11.5 All new investments accounts shall be reported to the Provincial Treasury and the Auditor General.

12 BANKING ARRANGEMENTS

12.1 The Accounting Officer is responsible for the management of the Municipality's bank accounts, but may delegate this function to the Chief Financial Officer. The Accounting Officer and Chief Financial Officer are authorised at all times to sign cheques and any other documentation associated with the management of such accounts. The Accounting Officer, in consultation with the Chief Financial Officer, is authorised to appoint two or more additional signatories in respect of such accounts, and to amend such appointments from time to time.

12.2 In compliance with the requirements of good governance, the Accounting Officer shall open a primary bank account for ordinary operating purposes, and shall further maintain a separate accounting records for each of the following: the administration of Government grants & Subsidies, monies received from Department of Human Settlements for the administration of various housing projects.

12.3 The Accounting Officer shall invite tenders in accordance with the necessary SCM Regulations & Policies in as far as the opening of the primary bank account is concerned.

13 GENERAL INVESTMENT PRACTICE

13.1 General

After determining whether there is cash available for investment and fixing the maximum term of investment, the Chief Financial Officer or his/her Delegate must consider the way in which the investment is to be made. As rates can vary according to money market perceptions with regard to the terms of investment, quotations must be requested via email, within term limitations, and these must be set out on a schedule.

13.2 Commission Certificate

The Auditor General requires the financial institution, where the investment is made, to issue a certificate for each investment made. This certificate must state that no commission has, nor will, be paid to any agent or third party, or to any person nominated by the agent or third party.

13.3 Reports

The Council must be given a monthly report on all investments.

13.4 Cash in the Bank

Where money is kept in current accounts, it would be possible to bargain for more beneficial rates with regards to deposits, for instance call deposits. Fixed term deposits can increase these rates. The most important factor is that the cash in the current account must be kept to an absolute minimum.

13.5 Obtaining Quotations

a) Quotations for call deposits greater than 7 days, fixed deposits or any other investment with a financial institution should be requested via e-mail for a period within the limitations of the anticipated term of the investment.

b) Quotations must be solicited from a minimum of three registered financial institutions referred to, bearing in mind the limits of the term for which it is intended to invest the funds.

c) All quotations must be recorded on a schedule by the accountant. This schedule, together with the printed e-mails, must thereafter be given to the Chief Financial Officer or review or his delegate for final consideration.

d) The person responsible for requesting quotations from institutions should record the name of institution, the name of the person who gave the quotation and the relevant terms and rates and other facts such as whether the interest is payable on a monthly basis or on a maturity date. Written confirmation of the quotation accepted is essential.

e) Where an investment is made at an institution at a rate lower than that of other quotations, reasons must be recorded by the Accounting Officer/delegated official and reported to Council quarterly report by the Chief Financial Officer or his/her delegated official.

f) Investments funds must be placed with the entity that offers the best offer, while taking into account the risk limiting the risk exposure as per 9.1 above, as well the investment ethics in terms of 8 above.

14 INTERNAL CONTROL PROCEDURES

14.1 An investment register must be kept of all investments made. The following facts must be indicated:

a) Name of institution;

b) Capital invested;

c) Date invested;

d) Interest rate; and

e) Maturity date and

f) Interests earned on investments,

g) The Reason for investment (Purpose).

14.2 The investment register and accounting records must be reconciled on a monthly basis. The investment register must be examined on a fortnightly basis by the senior official under the direction of the Chief Financial Officer as instructed, to identify investments falling due within at least two weeks.

14.3 Where investments are to be undertaken for a period longer than three (3) months, a cash flow analysis is required.

14.4 Interest, correctly calculated, must be received timeously, together with any distributable capital. The Chief Financial Officer or his or her assignee must check that the interest is calculated correctly, in terms of sound universally accepted financial management practices.

14.5 All investment must be denominated in South African Rand (ZAR)

15 AUTHORITY

The Accounting Officer is responsible for ensuring that this Policy is implemented and enforced. The Accounting Officer may delegate any authority and duty assigned to him within this Policy by delegating it in writing and in conformance with requirements of the MFMA.

16 IMPLEMENTATION OF THIS POLICY

The Accounting Officer shall be responsible for the implementation and administration of this policy with the assistance of the Strategic Executive Director: Budget and Treasury Office.

The policy shall be reviewed on annual basis and updated if there are any changes brought about through an amendment of any legislation and/or policies by National Treasury or arrangement within the municipality.

Newcastle Local Municipality

ASSET MANAGEMENT POLICY

2020

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1. PREAMBLE

Whereas section 14 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services, and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued.

And whereas the municipal council of Newcastle Local Municipality wishes to adopt a policy to guide the municipal manager in the management of the municipality's assets.

And whereas the municipal manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets.

And whereas these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes.

And whereas the Municipal Manager must ensure an effective Asset Management Committee that will give guidance regarding the execution of the asset management policies and procedures is in operation.

Now therefore the municipal council of the Newcastle Local Municipality adopts the following asset management policy:

2. DEFINITIONS

Accounting Officer means the Municipal Manager appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act no. 117 of 1998) and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act 2000 (Act no. 32 of 2000).

Agricultural Produce is the harvested product of the municipality's biological assets.

Biological Assets are defined as living animals or plants.

Assets are items of Biological Assets, Intangible Assets, Investment Property or Property, Plant or Equipment defined in this Policy.

Carrying Amount is the amount at which an asset is recognised after deducting any accumulated depreciation (or amortisation) and accumulated impairment losses thereon.

Chief Financial Officer (CFO) means an officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.

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, or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Critical Assets are assets identified as having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected.

Depreciable Amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

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

Fair Value *is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of items of plant and equipment is usually their market value determined by appraisal, while the fair value of land and buildings is usually determined from market-based evidence by appraisal.*

GAAP are standards of Generally Accepted Accounting Practice.

GRAP are standards of Generally Recognised Accounting Practice.

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

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

Intangible Assets are defined as identifiable non-monetary assets without physical substance.

Investment Properties are defined as properties (land or buildings) that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

Land and Buildings are defined as a class of PPE when the land and buildings are held for purposes such as administration and provision of services. Land and Buildings therefore exclude Investment properties and Land Inventories.

MFMA refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003).

Other Assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

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

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

Recoverable Amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable Service Amount is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.

Residual Value of an asset 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.

Useful Life is:-

- The period of time over which an asset is expected to be used by the municipality; or

- The number of production or similar units expected to be obtained from the asset by the municipality's accounting officer.

Write-off includes the sale, loss, theft, destruction, decommissioning, derecognition or any other form of alienation that is the result of loss of control of the asset in question.

3. OBJECTIVE

The MFMA was introduced with the objective of improving accounting in the municipal sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, whilst the trend has been to move to an accrual system.

With the cash system, assets were written off in the year of disposal or, in cases where infrastructure assets were financed from advances or loans, they were written off when the loans were fully redeemed. No costs were attached to subsequent periods in which these assets would be used.

With an accrual system the assets are incorporated into the books of accounts and systematically written off over their anticipated useful lives. This necessitates that a record is kept of the cost of the assets, the assets are verified, and the condition assessed periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

According to the MFMA, the Accounting Officer in the Municipality should ensure:

- that the municipality has and maintains an effective and efficient and transparent system of financial and risk management and internal control;
- the effective, efficient and economical use of the resources of the municipality;
- the management (including safeguarding and maintenance) of the assets of the municipality;
- that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
- that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and
- that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

The objective of this Asset Management Policy is to ensure that the municipality:

- has consistent application of asset management principles;
- implements accrual accounting;
- complies with the MFMA, Treasury Regulations, GRAP and other related legislation;

- safeguards and controls the assets of the municipality; and
- Optimises asset usage.

ASSET MANAGEMENT COMMITTEE

To facilitate and assist the Chief Financial Officer in his/her functions, the Municipal Manager, hereby, delegates the custody of and responsibility for assets to the various Strategic Executive Directors (SEDs) as defined in the organisational structure of the Newcastle Local Municipality. Strategic Executive Directors will identify officials on an appropriate level to assist them with the application of the policy and procedures proclaimed from time to time. The Asset Management Committee as established in terms of paragraph 1 must be informed in writing of the appointment of Asset Controllers.

The responsibilities for asset management as detailed hereunder include and remain until the asset is disposed of or transferred to another entity:

- Ensuring that, when acquiring assets, decisions on how to account for the transactions, e.g. whether they should be capitalised or expensed, are made in full compliance with the MFMA, accounting standards, National Treasury and other guidelines;
- Ensuring that the purchase of assets complies with all municipal policies and procedures, including the MTREF;
- Ensuring that the correct date on which an asset is put into service or commissioned is properly recorded in the Asset Register and that the appropriate financial data are recorded;
- Ensuring that all assets are duly processed, identified and recorded before being issued for use;
- Ensuring that all assets under the Asset Manager's control are appropriately safeguarded from inappropriate use or loss, including appropriate control over the physical access to these assets and regular asset verification to ensure that losses have not occurred, and ensuring that any known losses are immediately reported to the Chief Financial Officer and loss control officer;
- Ensuring that proper procedures for the movement of assets from one asset holder to another, for maintenance, or disposals outside the municipality are in place and enforced;
- Ensuring that assets are utilised for the purpose for which they were acquired/intended by the municipality.
- Ensuring that all assets having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected.

4. LEGISLATIVE FRAMEWORK

4.1 LEGAL FRAMEWORK

A municipality exercises its legislative and executive authority by, among others, developing and adopting policies, plans, strategies and programmes, including setting targets for delivery (section 11(3) of the MSA).

Participation by the local community in the affairs of the municipality must take place through, among others, generally applying the provisions for participation as provided for in the MSA (section 17(1) of the MSA).

A municipality must communicate to its community, information concerning, among others, municipal governance, management and development (section 18(1) of the MSA).

As head of administration the Municipal Manager is, subject to the policy directions of the municipal council, responsible and accountable for, among others, the following:

- The management of the provision of services to the local community in a sustainable and equitable manner;
- Advising the political structures and political office bearers of the municipality (section 55(1) of the MSA); and
- Providing guidance and advice on compliance with the MFMA to the political structures, political office-bearers and officials of the municipality (section 60 of the MFMA).

As accounting officer of the municipality, the Municipal Manager is responsible and accountable for, among others, all assets of the municipality (section 55(2) of the MSA).

The Municipal Manager must take all reasonable steps to ensure, among others, that the resources of the municipality are used effectively, efficiently and economically (section 62(1) of the MFMA).

4.2 RATIONALE FOR MANAGEMENT OF ASSETS

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objectives:

- Providing democratic and accountable government for local communities;
- Ensuring the provision of services to communities in a sustainable manner;
- Promoting social and economic development;
- Promoting a safe and healthy environment; and

- Encouraging the involvement of communities and community organisations in matters of local government.

In terms of the MFMA, the accounting officer is responsible for managing the assets and liabilities of the municipality, including the safeguarding and maintenance of its assets.

The MFMA further requires the accounting officer to ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for its assets and liabilities;
- The municipality's assets are valued in accordance with standards of generally recognised accounting practice; and
- The municipality has and maintains a system of internal control of assets and liabilities.

The OHSA requires the municipality to provide and maintain a safe and healthy working environment, and in particular, to keep its infrastructure assets safe.

According to the International Infrastructure Management Manual (IIMM), the goal of infrastructure asset management is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers.

The core principles of infrastructure asset management are:

1. Taking a life-cycle approach;
2. Developing cost-effective management strategies for the long-term;
3. Providing a defined level of service and monitoring performance;
4. Understanding and meeting the impact of growth through demand management and infrastructure investment;
5. Managing risks associated with asset failures;
6. Sustainable use of physical resources; and
7. Continuous improvement in asset management practices.

5. POLICY FRAMEWORK

The main challenges associated with managing assets can be characterised as follows:

- Moveable assets – controlling acquisition, location, use, and disposal (over a relatively short term lifespan)
- Immovable assets – life-cycle management (over a relatively long-term lifespan).

The policy approach has been to firstly focus on the financial treatment of assets, which needs to be consistent across both the movable and immovable assets, and secondly to focus on the management of immovable assets as a fundamental departure point for service delivery. This arrangement is summarised in Figure 1.

Asset Management Policy

Immovable Asset Management Strategy

Immovable Asset Maintenance Strategy

Movable Asset Control Procedures

Immovable Asset Management Plan

Immovable Asset Maintenance Plan

FIGURE 1: PROPOSED POLICY AND STRATEGIC FRAMEWORK

5.1 POLICY PRINCIPLES

The following policy principles serve as a framework for the achievement of the policy objective:

5.1.1 Effective Governance

The municipality strives to apply effective governance systems to provide for consistent asset management and maintenance planning in adherence to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected. To this end, the municipality will:

- Adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- Regularly review and update amendments to the above legislation;

- Review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- Effectively apply legislation for the benefit of the community.

5.1.2 Sustainable Service Delivery

The municipality strives to provide to its customers services that are technically, environmentally and financially sustainable. To this end, the municipality will:

- Identify levels and standards of service that conform to statutory requirements and rules for their application based on the long-term affordability to the municipality;
- Identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- Identify current and future demand for services, and demand management strategies;
- Set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose assets, where applicable in line with national targets;
- Apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- Prepare and adopt an immovable (infrastructure) asset management strategy and immovable (infrastructure) asset management plans to support the achievement of the required performance;
- Prepare and adopt an immovable (infrastructure) asset maintenance strategy and immovable (infrastructure) asset maintenance plans to execute maintenance timeously;
- Allocate budgets that take cognisance of the full life cycle needs of existing and future assets;
- Implement its Tariff and Credit Control and Debt Collection Policies to sustain and protect the affordability of services by the community.

5.1.3 Social and Economic Development

The municipality strives to promote social and economic development in its municipal area by means of delivering municipal services in a manner that meet the needs of the various customer user-groups in the community. To this end, the municipality will:

- Regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- Implement changes to services in response to changing customer needs and expectations where appropriate;

- Foster the appropriate use of services through the provision of clear and appropriate information;
- Ensure services are managed to deliver the agreed levels and standards; and
- Create job opportunities and promote skills development in support of the national EPWP.

5.1...4 Custodianship

The municipality strives to be a responsible custodian and guardian of the community's assets for current and future generations. To this end, the municipality will:

- Establish a spatial development framework that takes cognisance of the affordability to the municipality of various development scenarios;
- Establish appropriate development control measures including community information;
- Cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- Ensure that heritage resources are identified and protected; and
- Ensure a long-term view and life-cycle costs are taken into account in immovable asset management decisions.

5.1.5 Transparency

The municipality strives to manage its immovable assets in a manner that is transparent to all its customers, both now and in the future. To this end, the municipality will:

- Develop and maintain a culture of regular consultation with the community with regard to its management of immovable assets in support of service delivery;
- Clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);
- Avail asset management information on a ward basis; and
- Continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

5.1.6 Cost-effectiveness and Efficiency

The municipality strives to manage its immovable assets in an efficient and effective manner. To this end, the municipality will:

- Assess life-cycle options for proposed new immovable assets;

- Regularly review the actual extent, nature, utilisation, criticality, performance and condition of immovable assets to optimise planning and implementation works;
- Assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of immovable assets;
- Ensure the proper utilisation and maintenance of existing assets;
- Establish and implement demand management plans;
- Timeously renew immovable assets based on capacity, performance, risk exposure, and cost;
- Timeously dispose of immovable assets that are no longer in use;
- Establish documented processes, systems and data to support effective life-cycle immovable asset management;
- Strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and
- Conduct annual assessments to support continuous improvement of immovable asset management practice.

6. Asset Recognition

6.1 Classification of Assets

General

When accounting for assets, the municipality should follow the various standards of GRAP relating to the assets. An item is recognised in the statement of financial position as an asset if it satisfies the definition and the criteria for recognition of assets. The first step in the recognition process is to establish whether the item meets the definition of an asset. Secondly, the nature of the asset should be determined, and thereafter the recognition criterion is applied. Assets are classified into the following categories for financial reporting purposes:

1. Property, Plant and Equipment (GRAP 17)
    - Land and Buildings (land and buildings not held as investment)
    - Community Assets (properties held to provide a social service and rental income is incidental)
    - Infrastructure Assets (immovable assets that are used to provide basic services)
    - Work in progress
    - Other Assets (ordinary operational resources)
2. Finance Lease Assets GRAP 13 (agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation/ maintenance of such assets)
3. Intangible Assets (GRAP 31)
    - Intangible Assets (assets without physical substance held for ordinary operational resources)
4. Investment Property (GRAP 16)
    - Investment Assets (resources held for capital or operational gain)
5. Heritage Assets (GRAP 103)
    - Heritage Assets
6. Agriculture (GRAP 27)
    - Biological Assets (livestock and plants held)

When accounting for Current Assets (that is of non-capital nature), the municipality should follow the various standards of GRAP relating to these assets.

Further asset classification has been defined in GRAP. The classifications used for infrastructure are limited and do not represent all asset types. However, these classifications are used for financial reporting consistency and should be used.

To facilitate the practical management of infrastructure assets and Asset Register data, infrastructure assets have been further classified. The recommended classifications for all assets are provided in ***Appendix B***.

Policy

The asset classification specified by GRAP shall be adhered to as a minimum standard. The extended asset classification specified in ***Appendix B*** shall be adopted. The CFO shall ensure that the classifications adopted by the municipality are adhered to.

Procedures and Rules

- The Asset Management Committee shall ensure that the classifications specified by National Treasury, GRAP, and those adopted by the municipality are adhered to.
- The Asset Management Committee shall inform Strategic Executive Directors of the classification requirements.
- Strategic Executive Directors shall ensure that all fixed assets under their control are classified correctly.

6.2 Identification of Assets

General

An asset identification system is a means to uniquely identify each asset in the municipality in order to ensure that each asset can be accounted for on an individual basis. Movable assets are usually identified using a barcode system by attaching a barcode to each item. Immovable assets are usually identified by means of an accurate description of their physical location.

Policy

An asset identification system shall be operated and applied in conjunction with an Asset Register. As far as practical, every individual asset shall have a unique identification number. This allows for tool boxing of lower-value items for example plastic stackable chairs.

Procedures and Rules

- The Asset Management Committee shall develop and implement an asset identification system, while acting in consultation with Strategic Executive Directors.
- Strategic Executive Directors shall ensure that all the assets under their control are correctly identified.
- As far as practicable, all movable assets must be bar-coded or uniquely marked.
- Immovable assets must be identified using naming and numbering conventions that enable easy location of the assets in the field.
- GPS coordinates must be captured on the Asset Register for infrastructure assets and buildings where practicable. The Head: Information Technology will update the GIS and ensure that the GPS coordinates on the Asset Register and the GIS are reconciled at least once per year after the annual physical asset verification.

6.3 Asset Register

General

An Asset Register is a database of information related to all the assets under the control of the municipality. The Asset Register consists of an inventory of all the assets, with each asset having a unique identifying number. Data related to each asset should be able to be stored in the Asset Register. The data requirements for the Asset Register are as follows:

Data type	Land	Movable	Infrastructure/ Buildings
Identification			
• Unique identification number or asset mark	✓	✓	✓
• Unique name	✓	✓	✓
• National Treasury Classification	✓	✓	✓
• Internal Classification	✓	✓	✓
• Descriptive data (make, model, etc.)	✓	✓	✓
• Erf/Registration	✓	✓	✓
• Title deed reference	✓		

Data type	Land	Movable	Infrastructure/ Buildings
Accountability			
• Department	✓	✓	✓
• Insurance reference		✓	✓
Performance			
• Age		✓	✓
• Condition		✓	✓
• Remaining Useful life		✓	✓
• Expected Useful Life		✓	✓
• Technical Asset Residual Value			✓
• Criticality		✓	✓
Accounting			
• Historic cost	✓	✓	✓
• Take on value	✓	✓	✓
• Take on date	✓	✓	✓
• Revalued amount	✓	✓	✓
• Valuation Difference (for purposes of Valuation Reserve and depreciation)	✓	✓	✓
• Depreciation method	✓	✓	✓
• Depreciation portion that should be transferred from Revaluation reserve to accumulated depreciation (where assets were revalued)	✓	✓	✓
• Depreciation charge for the current financial year	✓	✓	✓
• Depreciation charge for ensuing year (for purposes on current portion)	✓	✓	✓
• Impairment losses in the current year	✓	✓	✓

Data type	Land	Movable	Infrastructure/ Buildings
• Accumulated depreciation	✓	✓	✓
• Carrying value	✓	✓	✓
• Residual value	✓	✓	✓
• Source of financing	✓	✓	✓

Assets remain in the Asset Register for as long as they are in physical existence or until being written off. The fact that an asset has been fully depreciated is not in itself a reason for writing-off such an asset.

Policy

An Asset Register shall be maintained for all assets. In some cases, such as Investment Properties, Heritage Assets and Intangible Assets, separate Asset Registers will have to be maintained. The format of the register shall include the data needed to comply with the applicable accounting standards and data needed for the technical management of the assets. The Asset Register should be continuously updated and asset records should be reconciled to the general ledger on a monthly basis.

Procedures and Rules

- The CFO must define the format of the Asset Register in consultation with the Strategic Executive Directors and must ensure that the Asset Register format complies with legislative requirements.
- The Asset Management Committee must ensure that a defined process and forms exist to update and maintain the Asset Register.
- The Strategic Executive Directors must provide the CFO with the information required to compile and maintain the Asset Register.

7. RECOGNITION OF CAPITAL ASSETS: INITIAL MEASUREMENT

General

A Capital asset should be recognised as an asset in the financial and asset records when:

- The entity has control of the asset;
- It is probable that future economic benefits or potential service delivery associated with the item will flow to the municipality;
- The cost or fair value of the item to the municipality can be measured reliably;
- The cost is above the municipal capitalisation threshold (if any); and
- The item is expected to be used during more than one financial year.

Spare parts and servicing equipment are usually carried as inventory in terms of the Standard of GRAP on *Inventories* and recognised in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

CALCULATION OF INITIAL COST PRICE

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the municipality is not allowed to claim input VAT paid on purchase of such assets. In such an instance, the municipality should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:

- Costs of employee benefits (as defined in the applicable standard on Employee Benefits) arising directly from the construction or acquisition of the item of the Asset
- The cost of site preparation;
- Initial delivery and handling costs;
- Installation costs;
- Professional fees e.g. architects and engineers etc.;
- The estimated cost of dismantling and removing the asset and restoring the site; and

When payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.

Component approach

The component approach is a GRAP-supported approach where complex assets are split into separate depreciable parts for recording. The key considerations in determining what should become a separately depreciable part (component) are:

- Significant cost; and
- Considerable difference in useful life

If the value of a part of the asset is significant (i.e. material) compared to the value of the asset as a whole and/or has a useful life that is considerably different to the useful life of the asset a whole, it should be recognised as a separately depreciable part (component).

SUBSEQUENT EXPENSES

Only expenses incurred on the enhancement of an 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 an asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of an asset that ensures that the useful operating life of the asset is attained, shall be considered as operating expenses and shall not be capitalised, irrespective of the quantum of the expenses concerned.

Rehabilitation/Enhancements/Renewals of capital assets

Expenditure to rehabilitate, enhance or renew an existing capital asset (including separately depreciable parts) can be recognised as capital if:

- The expenditure satisfies the recognition criteria;
- That expenditure is enhancing the service potential of that capital asset beyond its original expectation and either that expenditure:
    - increases the useful life of that capital asset (beyond its original useful life);
    - increases the capital asset capacity (beyond its original capacity);
    - increases the performance of the capital asset (beyond the original performance);
    - increases the functionality of that capital asset;
    - reduces the future ownership costs of that capital asset significantly; or
    - increases the size of the asset or changes its shape.

The expenditure to restore the functionality of the capital asset to its original level is a maintenance or refurbishment expense and will not be capitalised to the carrying value of the capital asset. The rehabilitated or renewed separately depreciable part will be derecognised and the replacement will be recognised. Where the separately identifiable asset is rehabilitated or renewed, the amount incurred will be added to the carrying value of the asset.

LEASED ASSETS – (GRAP 13)

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases are categorised into finance and operating leases:

- A Finance Lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred. Where the risks and rewards of ownership of an asset are substantially transferred, the lease is regarded as a finance lease and is recognised as an asset.
- Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an Operating Lease and payments are expensed in the income statement on a systematic basis.

Policy

All capital assets shall be correctly recognised as assets and capitalised at the correct value in its significant components. All assets will be capitalised, except those listed as examples in *Annexure C*, but the application thereof will be determined annually by the municipality.

However, the municipality (Municipal Manager or to whom the right is delegated) can determine with an internal memorandum which assets, as mentioned in *Annexure C*, may not be classified as capital assets.

The Council shall specify which kinds of leases the municipality may enter into. A lease register shall be maintained with all the information that is necessary for reporting purposes.

Procedures and Rules

- Strategic Executive Directors shall ensure that all leased assets under their control are correctly accounted for and recognised as assets.
- The CFO must keep a lease register with all the information that is necessary for reporting purposes, for example, opening balance, acquisitions, disposals, transfers, depreciation, accumulated depreciation, contracts, amortisation tables, etc.

8. SUBSEQUENT MEASUREMENT OF ASSETS

General

After initial recognition of Property, Plant and Equipment, the municipality values its assets using the cost model, unless a specific decision have been taken to revalue a certain class of assets and in such instance the PPE will be valued using the revaluation or fair value model.

When an item of PPE is revalued, the entire class of property to which that asset belongs, should be revalued.

When an asset's carrying amount is increased as a result of the revaluation, the increase should be credited to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

When an asset's carrying amount is decreased as a result of devaluation, the decrease should be recognised as an expense in the annual financial statements. However, the decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Procedures and Rules

- The CFO shall ensure that all Property, Plant and Equipment are correctly recorded in the Asset Register and revaluated (if applicable) in terms of the municipality's policies.

9. RECOGNITION OF INVENTORY ITEMS (NON-CAPITAL ITEMS)

General

Inventories encompass finished goods purchased or produced, or work in progress being produced by the municipality. They also include materials and supplies awaiting use in the production process and goods purchased or produced by the municipality, which are for distribution to other parties for no charge or for a nominal charge. GRAP 12.7 defines Inventories as assets:

- In the form of materials or supplies to be consumed in the production process;

- In the form of materials or supplies to be consumed or distributed in the rendering of services;
- Held for sale or distribution in the ordinary course of operations; or
- In the process of production for sale or distribution.

Examples of Inventories may include the following:

- Ammunition
- Consumable stores;
- Maintenance materials;
- Spare parts for plant and equipment other than those dealt with under PPE;
- Strategic stockpiles (e.g. Water reserves);
- Work in progress; and
- Land / Property held for sale or development (and where plans have been approved)

Cost of inventories shall comprise of all costs of purchase (i.e. purchase price, import duties, other taxes and transport, handling and other costs attributable to the acquisition of finished goods, materials and supplies), costs of development, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Trade discounts, rebates and other similarities are deducted. Taxes recoverable by the entity from the SARS may not be included.

Costs of development for housing or similar developments which are acquired or developed for resale will include costs directly related to the development – e.g. purchase price of land acquired for such developments, surveying, conveyance costs and the provision of certain infrastructure. Infrastructure costs relating to extending the capacity of existing infrastructure are excluded. The costs of inventories of a service provider consisting of direct labour and other costs of personnel directly engaged in providing the service and other attributable overheads are included.

Policy

Assets acquired or owned by the municipality for the purpose of selling or developing such assets with the intention to sell it or utilising the asset in the production process or in the rendering of services shall be accounted for in the municipality's financial statements as inventory items and not as property, plant and equipment.

Inventories are recorded in a dedicated section of the Inventory Register and it is maintained for this purpose. The amount of cost of inventories is recognised and carried forward until related revenues are recognised.

Inventories are measured at the lower of cost and current replacement cost where they are held for distribution at no charge or for nominal charge, or for consumption in the production process of goods to be distributed at no charge or for a nominal charge.

In cases where the above does not apply, inventories are measured at lower of cost and net realisable value.

10. RECOGNITION AND DERECOGNITION OF LAND (iGRAP 18)

General

iGRAP 18 was early adopted and will subsequently be used in the recognition and derecognition of land.
iGRAP 18 can be applied to clarify the treatment of land where the building is owned by another party including, but not limited to:

- Formal RDP houses
- Informal RDP houses (without council permission)
- Schools, clinics, churches and similar
- Private properties on municipal land

It will also assist in confirming the treatment of the following assets regardless of ownership of the land:

- Infrastructure assets
- Community assets
- Vacant stands registered at the title deeds office
- Vacant stands not registered at the title deeds office

Policy

The control of land is evidenced by the following criteria:

(a) legal ownership; and/or

(b) the right to direct access to land, and to restrict or deny the access of others to land.

In assessing the control criteria, any binding arrangements over properties will be considered. Binding agreements can be in written form, a verbal agreement, or the result of past practice.

The loss of control will result in the derecognition of the property, despite legal title, while assets over which the entity does not hold the legal title may be recognized as an asset if control over the property has been established.

11. ASSET TYPES

11.1 Property, Plant and Equipment: LAND AND BUILDINGS

General

Land and Buildings comprise any land and buildings held (by the owner or by the lessee under a finance lease) by the municipality to be used in the production or supply of goods or for administrative purposes and/or to provide services to the community. These assets include building assets such as offices, staff housing, aquariums, cemeteries, clinics, hospitals, game reserves, museums, parks and also include recreational assets such as tennis courts, swimming pools, golf courses, outdoor sports facilities, etc.

Land held for a currently undetermined future use, should not be included in PPE: Land and Buildings, but should be included in Investment Properties. For this class of Land and Buildings there is no intention of developing or selling the property in the normal course of business. This land and buildings include infrastructure reserves.

Policy

Land and buildings shall be accounted for using the cost model. Land shall initially be accounted for at cost price, or fair value in cases where cost price is not known, and shall not be depreciated. Land on which infrastructure and/or buildings are located shall be listed separately in the land register and not with the infrastructure or building assets. A reference to the land shall however be included in the infrastructure and/or building Asset Register.

Land and Buildings shall be recorded under the following categories;

- LAND
  - Developed Land
  - Undeveloped Land
- BUILDINGS
  - Dwellings
  - Non-residential Structures
- LANDFIL SITE

Procedures and Rules

- The CFO shall ensure that all land and buildings are correctly recorded in the Asset Register. The Asset Management Committee shall ensure that land and buildings are revalued (if applicable) in terms of the municipality's policies.

- The CFO shall ensure the recognition, measurement and revaluation of *Land and Buildings* in terms of GRAP 17.

11.2 Property, Plant and Equipment: INFRASTRUCTURE ASSETS – GRAP 17

General

Infrastructure Assets comprise assets used for the delivery of infrastructure-based services. These assets typically include electricity, sanitation, solid waste, storm water, transport, and water assets. Many infrastructure assets form part of a greater facility e.g. a transformer in a sub-station.

Level of detail of componentisation

For the technical management of infrastructure, the most effective level of management is at the maintenance item level. It is at this level that work orders can be executed and data collected. This data is useful for maintenance analysis to improve infrastructure management decision making. This level in most cases coincides with the level that means the accounting criteria of different effective lives and materiality. However, the collection of data at this level of detail can be very costly when dealing with assets that are very numerous in nature e.g. water meters, street signs, household connections, etc. It is therefore prudent to balance the value of the information with the cost of collecting the data i.e. Costs vs Benefits.

The compilation of a detailed infrastructure Asset Register in one financial term is a costly and onerous exercise. To ensure the practicality of implementing Asset Registers (and asset management planning as a whole), the International Infrastructure Management Manual (IIMM) recommends the adoption of a continuous improvement process as a practical implementation approach. This approach recognises the value of limited data above no data and enables the municipalities to slowly, but steadily, increases their knowledge in the assets they own. The improvement principles of the IIMM recommend starting with complete coverage of the infrastructure types at a low level of detail (e.g. level 2 or 3) and then improving the level of detail over a period of several years, starting with the high risk assets, such as pump stations, treatment works, etc.

Policy

The infrastructure Asset Register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimising the risks of the municipality. An improvement plan stipulating the level of detail and the timing of improvements shall be prepared. Infrastructure assets should be valued at cost less accumulated depreciation and accumulated impairment. If cost can however not be established, then infrastructure assets will be valued at depreciated replacement cost. Depreciated replacement cost is an accepted fair value calculation for assets where there is no active and liquid market. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value of, and the depreciation methods applied to Infrastructure assets should be reviewed annually, but the cost related to such reviews should be measured against benefits derived to ensure value for money. Such reviews will have to be performed at least once in a three year cycle.

Infrastructure assets having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected must be rated as critical in the Asset Register. Assets identified as critical in terms of the aforementioned are identified in ***Annexure B***.

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Infrastructure Assets shall be recorded under the following main categories;

- Electricity Network;
- Roads Network;
- Solid Waste Disposal;
- Storm Water Network

Procedures and Rules

- The Asset Management Committee shall define the level of detail of the infrastructure Asset Register in consultation with the Strategic Executive Directors.
- The Asset Management Committee shall approve an improvement process that defines the target level of detail for each infrastructure asset type with the target year of implementation in consultation with the Strategic Executive Directors.
- The Asset Management Committee shall ensure the recognition and measurement of *Infrastructure Assets* in terms of GRAP 17.
- Although a category of assets may not be regarded as critical as a whole, individual assets may fulfil in the definition of criticality and Strategic Executive Directors must inform the Asset Management Committee of such assets or any changes in the criticality of an asset/category of assets and the Asset Registers must be updated accordingly.

11.3 HERITAGE ASSETS – (GRAP 103)

General

A *Heritage Asset* is an asset that has historical, cultural or national importance and needs to be preserved. The following is a list of some typical heritage assets encountered in the municipal environment:

- Archaeological sites;
- Conservation areas;
- Historical buildings or other historical structures (such as war memorials);
- Historical sites (for example, historical battle site or site of a historical settlement);
- Museum exhibits;
- Public statues; and
- Works of art (which will include paintings and sculptures).

Policy

Heritage assets are valued at cost less accumulated impairment losses. No depreciation shall be charged against such assets. If the cost price of heritage assets is not known, then the heritage asset will be valued at fair value.

Procedures and Rules

- A register of all heritage assets will be kept by the municipality.
- For reporting purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note in the Financial Statements.
- The Asset Management Committee, in consultation with Strategic Executive Directors, shall ensure that all heritage assets are appropriately recorded and valued in terms of the municipality's policies.

11.4 Property, Plant and Equipment: OTHER ASSETS

General

Other Assets include a variety of assets that are of indirect benefit to the communities they serve. These assets include office equipment, furniture and fittings, bins and containers, emergency equipment, motor vehicles, plant and equipment.

Policy

Other assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Other assets are not revalued.

Other assets having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected must be rated as critical in the Asset Register. Assets identified as critical in terms of the aforementioned are identified in ***Annexure B***.

Other Assets shall be recorded under the following main categories;

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

Procedures and Rules

- The Asset Management Committee, in consultation with Strategic Executive Directors, shall ensure that all other assets are appropriately recorded in terms of the municipality's policies.
- Although a category of assets may not be regarded as critical as a whole, individual assets may fulfil in the definition of criticality and Strategic Executive Directors must inform the Asset Management Committee of such assets or any changes in the criticality of an asset/category of assets and the Asset Registers must be updated accordingly.

11.5 Intangible Assets – GRAP 31

General

Intangible Assets can be purchased, or can be internally developed, by the municipality and includes, but are not limited to, computer software, website development cost, valuation roll, servitudes and mining rights.

Policy

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset. If an intangible asset is generated internally by the municipality, then a distinction should be made between research and development costs. Research costs should be expensed, and development costs may be capitalised if all the criteria set out in GRAP 31 has been met.

Procedures and Rules

- The Asset Management Committee, in consultation with Strategic Executive Directors, shall ensure that all intangible assets are appropriately recorded in terms of the municipality's policies.
- It is the responsibility of the Head of Information Technology to ensure that all licensed computer software other than operating software are accounted.

11.6 Investment Property – GRAP 16

General

Investment Property comprise of land or buildings (or parts of buildings) or both, held by the municipality as owner, or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both. Investment property does not include property used in the production or supply of service or for administration. It also does not include property that will be sold in the normal course of business. Typical investment properties include:

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties);
- Shopping centres (developed along similar lines);
- Housing developments (developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit).
- Land held for a currently undetermined future use. For this class of Land and Buildings there is no intention of developing or selling the property in the normal course of business. This land and buildings include infrastructure reserves.

Policy

Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position. Investment Property is initially measured at its cost. Transaction costs shall be included in this initial measurement. Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

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 PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.

RECOGNITION: Investment property recognised at cost, if acquired through a non-exchange transaction, the cost is measured as the fair value of the asset.

COST: After initial recognition, all investment property shall be measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the asset. Land has an indefinite useful life thus it is acceptable practice that no depreciation is calculated on land parcels.

FAIR VALUE: After initial recognition, all investment property shall be measured at fair value. The fair value should reflect market conditions and circumstances as at the reporting date. Management shall assess at each reporting period whether conditions exist that indicate the fair value does not reflect market conditions and circumstances, and only adjust fair values of required. The fair values of properties will be adjusted at a minimum with every update of the municipal valuation roll, or any supplementary valuation roll.

A gain or loss arising from a change in the fair value of investment property shall be included in surplus or deficit for the period in which it arises.

Investment assets are recorded in an Investment Property register.

The following classes of Municipal Property will be classified as Investment Property:

a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations which council intends to sell at a beneficial time in the future.
b) Land held for a currently undetermined future use.
c) A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis.
d) A building that is currently vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.
e) Property that is being constructed or developed for future use as investment property.

The following classes of Municipal Property will not be classified as Investment Property:

a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale. This property is treated as inventory.
b) Property being constructed or developed on behalf of the Provincial Government: Housing Department.

c) Owner-occupied property which is defined as property which is held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes as per definition criteria of GRAP 17 which includes all council buildings used for administration purposes.

d) Property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) are also regarded to be owner–occupied property.

e) Property that is leased to another entity under a finance lease.

f) Property held by council for strategic purposes or to meet service delivery objectives rather than to earn rental or for capital appreciation. The decision should be documented and approved through a resolution.

g) Where council has properties that are used both for administrative and commercial purposes and part of the properties cannot be sold separately these properties will not be classified as investment properties.

11.7 Agricultural Assets – GRAP 27

General

Biological Assets are living plants and animals such as trees in a plantation or orchard, cultivated plants, sheep and cattle. Managed agricultural activity such as raising livestock, forestry, annual or perennial cropping, fish farming that are in the process of growing, degenerating, regenerating and / or procreating which are expected to eventually result in agricultural produce. Such agricultural produce is recognised at the point of harvest. Future economic benefits must flow to the municipality from its ownership or control of the asset.

Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to the market.

Where the municipality is unable to measure the fair value of biological assets reliably, a biological asset should be measured at cost less any accumulated depreciation and accumulated impairment losses.

Policy

Biological assets, such as livestock and crops, shall be valued annually at fair value less estimated point-of-sales costs.

Procedures and Rules

- The Asset Management Committee, in consultation with Strategic Executive Directors, shall ensure that all biological assets obtained from a managed agricultural activity, such as livestock and crops, are valued at

30 June each year by a recognised valuator in the line of the biological assets concerned.

- The Asset Management Committee shall ensure the recognition and measurement of *Biological Assets* in terms of GRAP 27.

11.8 INVENTORY PROPERTY (GRAP 12)

General

Inventory Property comprises 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.

Policy

Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the municipality's asset register or Statement of Financial Position. Inventory property shall be valued annually at reporting date at the lower of carrying value or net realisable value, except where they are held for:

a) distribution at no charge or for a nominal charge, or

b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge, then they shall be measured at the lower of cost and current replacement cost.

Inventory properties shall be recorded in the Inventory register.

11.9 Minor Assets

General

Short term assets with a limited value and life span.

Policy

Assets costing less than R1000.00 (VAT excluded) are deemed to be minor assets unless that type of asset is specifically excluded by the Chief Financial Officer.

The capitalisation threshold is R1000.00 (VAT excluded). All items below the capitalisation threshold are not capitalised and are not reflected in the Assets Register.

Procedures and Rules

- Receipting these items through specified control points.
- Maintaining and updating minor assets register.
- Regular stock takes by assigned person to ensure these minor assets are properly safe guarded.
- Regular audits by the finance department (through Assets Controllers) to ensure that minor assets are appropriately managed by the assigned persons.
- Recording and reporting of any disposals or loss of minor assets to the CFO and adjustment of the minor assets register.
- Minor Assets will not be:
  - Capitalised as an asset,
  - Depreciated,
  - Revalued
  - Recorded in the financial asset register. Or
  - Otherwise be treated as an asset.

12. ASSET ACQUISITION

12.1 Acquisition of Assets

General

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing.

Policy

Should the municipality decide to acquire an asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset:

- The purpose for which the asset is required is in line with the objectives of the municipality and will provide significant, direct and tangible benefit to it;

- The asset fits the definition of an asset (as defined in GRAP 12, GRAP 16, GRAP 17, GRAP 27, GRAP 31 and GRAP 103)
- The asset has been budgeted for;
- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
- The asset is appropriate to the task or requirement and is cost-effective over the life of the asset.
- The 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, model, etc. has been selected.

Procedures and Rules

- The Asset Management Committee shall ensure that the Supply Chain Management Policy makes provision for these principles.
- The CFO shall ensure that all acquired assets are appropriately insured.

12.2 Creation of New Infrastructure Assets

General

Creation of new infrastructure assets refers to the purchase and / or construction of totally new assets that have not been in the control or ownership of the municipality in the past.

Policy

The cost of all new infrastructure facilities (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs of new infrastructure into its significant components, each of which have an appropriate useful life.

Work in progress shall be flagged as such in the Asset Register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for it to operate in the manner intended by management.

Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Procedures and Rules

- Strategic Executive Directors shall ensure that relevant documents are submitted to Finance that includes the details of the work in progress relating to the relevant invoice and/or payment request.
- Strategic Executive Directors shall notify Finance when the works have been completed and the assets can be recognised.
- Strategic Executive Directors shall guide the service provider to submit invoices of work in progress as per the components and classification of assets as in the Asset Register.
- Strategic Executive Directors shall keep a timesheet system for internal staff to capture professional time spent on infrastructure projects. The time shall be priced at recognised professional fee scales and should be included in the capitalisation cost of the asset.

12.3 Self-constructed Assets

General

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality.

Policy

All assets that can be classified as assets and that are constructed by the municipality should be recorded in the Asset Register and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged as such in the Asset Register until such time that the facility is completed. Depreciation will commence when the asset is in the condition necessary for it to operate in the manner intended by management.

Procedures and Rules

- Strategic Executive Directors shall ensure that proper records of staff time, transport and material costs are kept such that all costs associated with the construction of these assets are completely and accurately accounted for.
- Strategic Executive Directors shall open a job card for each infrastructure project constructed by the municipality.
- Strategic Executive Directors shall keep a timesheet system for internal staff to capture professional time spent on infrastructure projects. The time shall be priced at recognised professional fee scales and should be included in the capitalisation cost of the asset.

- On completion of the infrastructure project, the Strategic Executive Directors shall notify the Budget and Treasury Office of the asset being commissioned and will assist the Budget and Treasury Office in ensuring that all costs (both direct and indirect) associated with the construction of the assets are summed and capitalised to the assets that make up the project.

12.4 Donated Assets

General

A donated asset is an item that has been given to the municipality by a third party in government or outside government without paying or actual or implied exchange.

Policy

Donated assets should be valued at fair value, reflected in the Asset Register, and depreciated as normal assets.

Procedures and Rules

- All donated assets must be approved by the Asset Management Committee and ratified by Council prior to acceptance.
- The Asset Management Committee must evaluate the future operational costs of donated assets and the effect it might have on future tariffs and taxes, before a donated asset is accepted by the municipality.
- The conditions associated with the donation must be agreed upon and signed by the Municipal Manager.
- Municipal officers must inform the Asset Management Committee of any donations made to the Municipality.

13. ASSET MAINTENANCE

13.1 Useful Life of Assets

General

Useful Life of assets is defined in paragraph 2 of the Policy and is basically the period or number of production units for which an asset can be used economically by the municipality.

National Treasury (NT) published its Local Government Asset Management Guideline in August 2008 that includes directives for useful lives of assets, but municipalities must use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for the particular classes of assets. Should the municipality decide on a useful life outside the given parameters, the National Treasury (OAG) should be approached and provided with a motivation, for its agreement of the rate utilised. The calculation of useful life is based on a particular level of planned maintenance.

Policy

The remaining useful life of assets shall be reviewed annually. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

Procedures and Rules

- Strategic Executive Directors must determine the reasonable remaining useful lives of the assets under their control. Changes in remaining useful lives must be approved by the Asset Management Committee.
- During annual physical verification the condition of each asset must be reviewed to determine the validity of its remaining useful life as reflected on the Assets Register. All items identified as being impaired (with remaining useful live shorter than anticipated as per the Assets Register) must be reported to the Chief Financial Officer who will implement steps to ensure that the impairments are incorporated in the Assets Register and reported on as required by the relevant standards of GRAP.
- The CFO shall ensure that remaining useful lives, and changes thereof, are properly recorded and accounted for in the Asset Register, general ledger and Financial Statements.
- The Asset Management Committee shall ensure that the *Remaining Useful Life* of an asset shall be reviewed at each reporting date.

13.2 Residual Value of Assets

General

The Residual Value of an asset is the estimated amount that the municipality 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.

The residual values of most assets are however considered to be insignificant and therefore immaterial in the calculation of the depreciable amount. The reason is that the majority of assets are hardly ever recovered through sale, but rather through use of the asset until the end of its useful life, after which insignificant amounts, if any, are expected to be obtained, as these assets will most probably be replaced in its entirety.

Assets typically not sold by the municipality are land, buildings, infrastructure and community assets, which assets will have a residual value of zero, allowing the asset to be fully depreciated over its useful life cycle. Residual values will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. Past experiences of municipal auctions held revealed that furniture, computer equipment and other movable assets does not reach selling prices that are material.

Policy

Residual values should be determined upon the initial recognition (capture) of assets. However, this will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The residual value of assets shall be reviewed annually at reporting date. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

Procedures and Rules

- Strategic Executive Directors must determine the reasonable residual values of the assets under their control. Changes in residual values must be approved by the Asset Management Committee.
- The CFO shall ensure that residual values, and changes thereof, are properly recorded and accounted for in the Asset Register and the general ledger.
- The Asset Management Committee shall ensure that the *residual value* of an asset shall be reviewed at each reporting date.

13.3 Depreciation of Assets

General

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

The depreciation method used must reflect the pattern in which economic benefits or service potential of an asset is consumed by the municipality. The following are the allowed alternative depreciation methods that can be applied by the municipality:

- Straight-line;
- Diminishing Balance; and
- Sum of the Units.

Policy

All assets, except land, investments properties and heritage assets, shall be depreciated over their reasonable useful lives. The *residual value* and the *useful life* of an asset shall be reviewed at each reporting date. The depreciation method applied must be reviewed at each reporting date. Reasonable budgetary provisions shall be made annually for the depreciation of all applicable assets controlled or used by the municipality or expected to be so controlled or used during the ensuing financial year.

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed. Depreciation of an asset should begin when the asset is ready to be used, i.e. the asset is in the location and condition necessary for it to be able to operate in the manner it is intended by management. Depreciation of an asset ceases when the asset is de-recognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under certain methods of depreciation the depreciation charge can be zero while there is no production.

In the case of intangible assets being included as assets, 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 assets.

Procedures and Rules

- Strategic Executive Directors must ensure that a budgetary provision is made for the depreciation of the assets under their control in the ensuing financial year.

- Strategic Executive Directors must determine the reasonable useful life of the asset classifications under their control. Deviations from the standards of useful life must be motivated in writing to the Asset Management Committee for approval.

- In the case of an asset which is not listed in the asset classification list, Strategic Executive Directors shall determine a useful operating life, in consultation with the CFO, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed. The Asset Management Committee must be informed of the additional asset classification and amend the Asset Management Policy accordingly.

- Alternative depreciation methods may be used in exceptional cases, if motivated by the Strategic Executive Director controlling the asset to the Asset Management Committee. The Strategic Executive Director must then provide the Asset Management Committee with sufficient statistical information to make estimates of depreciation expenses for each financial year.

- The CFO shall ensure that depreciation shall be up to date on a monthly basis and be reconciled between the Asset Register and the general ledger.

- The CFO shall ensure that the *residual value*, *useful life* and *depreciation method* of an asset shall be reviewed at each reporting date.

13.4 Impairment Losses – GRAP 21

General

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. The following serve as examples of impairment indicators:

- Carrying amount of an asset far exceeds the recoverable amount or market value;
- During routine physical inspection of the asset there was evidence of physical damage (or obsolescence);
- The asset is not being used, or access to the asset is restricted, due to structural damage.
- The asset is not able to perform at the planned or required level and as a result is not meeting service delivery targets.
- During routine physical inspection of the asset it was identified that the asset deteriorated faster than expected, or was subject to damage, which will result in replacement or significant maintenance earlier than expected.

The entity will designate its assets as either non-cash generating or cash generating in accordance with GRAP 21.

Designation is based on the entities objective of using the asset at initial recognition for:

- Delivery of service (service assets) or
- Generating commercial return (profit assets)

It is expected that some assets may have a dual-purpose.

A dual-purpose asset is only classified as cash-generating (profit assets) if the purpose to create a profit clearly stands out and the service delivery aspect is incidental. If the purpose is not clear, the assets are presumed to be non-cash-generating (service assets)

The designation has to be done on an asset or cash-generating unit.

In the designation process assets are first designated using a group of assets and any remaining assets are then designated on an individual asset basis. The designation is applied to individual assets.

An asset could comprise a group of assets that are part of a system or network, that is, infrastructure assets.

Examples of a cash-generating unit (group of assets):

- Administrative / owner-occupied assets
- Infrastructure – Roads
- Infrastructure – Water
- Infrastructure – Electricity
- Infrastructure – Sewer
- Infrastructure – Waste Management
- Community Assets – Swimming Pool
- Community Assets – Community Hall

For non-cash generating assets GRAP 21 will be applied.

For cash generating assets GRAP 26 will be applied.

The impairment amount is calculated as the difference between the carrying value and the recoverable value.

Non-cash generating assets

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

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Cash generating assets

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

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

Where the recoverable amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at re-valued amount.

If the asset is carried at a re-valued amount the impairment should be recorded as a decrease in the revaluation reserve. Where immovable property, plant and equipment surveys are conducted, the recoverable service value is determined using the depreciated replacement costs method by assessing the remaining useful life.

Policy

Assets shall be reviewed annually for impairment. Impairment of assets shall be recognised as an expense, unless if it reverses a previous revaluation in which case it should be charged to the *Revaluation Surplus.* The reversal of previous impairment losses recognised as an expense is recognised as an income.

Procedures and Rules

- The Asset Management Committee must ensure that annual impairment surveys are performed.
- The CFO shall ensure that impairment losses, or reversals thereof, are properly recorded and accounted for in the Asset Register and the general ledger.

13.5 Maintenance of Assets and the Asset Register

General

Maintenance refers to all actions necessary for retaining an asset as near as practicable to its original condition in order for it to achieve its expected useful life, but excluding rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance.

For linear infrastructure assets, such as pipes and roads, the following test is applied to differentiate between maintenance and renewal when partial sections of linear assets are renewed:

- If a future renewal of the entire pipe will include the renewal of the partial section that is now renewed, then the renewal of the partial section is treated as maintenance.
- If a future renewal of the entire pipe will retain the partial section that is now renewed, then the renewal of the partial section is treated as renewal and the pipe is split into two separate assets.

The splitting of linear infrastructure has a data management implication, but it is the easiest method that maintains the data integrity over time.

Maintenance analysis is an essential function of infrastructure management to ensure cost-effective and sustainable service delivery. In order to analyse maintenance data, maintenance actions undertaken against individual infrastructure assets should be recorded against such assets.

Policy

Maintenance actions performed on infrastructure assets shall be recorded against the individual assets that are individually identified in the Asset Register.

The risk and criticality of all assets must be assessed in conjunction with the annual physical asset verification process. All assets with a condition rating greater than 3 (three) must be reported to the Asset Management Committee who will give instructions with regard to the criticality grading of the assets on the Asset Register. Strategic Executive Directors must ensure that the assets identified as critical are attended to in order to prevent possible failure.

Procedures and Rules

- Strategic Executive Directors responsible for the control and utilisation of infrastructure assets shall monitor maintenance actions and budget for the operation and maintenance needs of each asset or class of assets under their control. Operating expenses must include all labour and material costs for the repair and maintenance of the assets. This includes both contracted services and services performed by employees.
- Strategic Executive Directors shall ensure that the operating expenses are expended against the operating budget and not the capital budget.
- Strategic Executive Directors shall report to the Council annually of the extent to which the approved maintenance plan has been complied with and the extent of deferred maintenance.
- Strategic Executive Directors shall report to the Council annually on the likely effects that maintenance budgetary constraints may have on the useful operating life of the infrastructure asset classes;
- Strategic Executive Directors shall ensure that maintenance plans make provision for the additional maintenance burden of future infrastructure to be acquired.

13.6 Renewal of Assets

General

Asset Renewal is restoration of the service potential of the asset. Asset renewal is required to sustain service provision from infrastructure beyond the initial or original life of the asset. If the service provided by the asset is still required at the end of its useful life, the asset must be renewed. However, if the service is no longer required, the asset should not be renewed. Asset renewal projections are generally based on forecast renewal by replacement, refurbishment, rehabilitation or reconstruction of assets to maintain desired service levels.

Policy

Assets renewal shall be accounted for against the specific asset. The renewal value shall be capitalised against the asset and the expected life of the asset adjusted to reflect the new asset life.

Procedures and Rules

- The Asset Management Committee must ensure that processes are in place to capture renewals data against specific assets and to capitalise it correctly.
- Strategic Executive Directors shall ensure that renewals expenditure are correctly budgeted for in the capital budget and posted accordingly against this budget.
- Strategic Executive Directors must ensure that renewals expenditure data are correctly captured against the assets and the expected lives adjusted.

13.7 Replacement of Assets

General

This paragraph deals with the complete replacement of an asset that has reached the end of its useful life so as to provide a similar or agreed alternative level of service.

Policy

Assets that are replaced shall be written off at their carrying value. The replacement asset shall be accounted for as a separate new asset. All costs incurred to replace the asset shall be capitalised against the new asset.

Procedures and Rules

- The Asset Management Committee must ensure that processes are in place to capture replacement data against specific assets and to capitalise it correctly.
- Strategic Executive Directors shall ensure that replacement expenditure are correctly budgeted for in the capital budget and posted accordingly against this budget.

14. ASSET DISPOSAL

14.1 Transfer of Assets

General

The processes and rules for the transfer of an asset to another municipality, municipal entity or national/provincial organ of state are governed by an MFMA regulation namely "the Local Government: Municipal Asset Transfer Regulations".

Transfer of assets or inventory items refers to the internal transfer of assets within the municipality or from the municipality to another entity. Procedures need to be in place to ensure that the Asset Control Department can keep track of all assets and ensure that the fixed Asset Register is updated with all changes in asset locations. These procedures must be followed and apply to all transfers of assets from:

- One Department to another Department;
- One location to another within the same department;
- One building to another; and
- One entity to another.

Policy

The transfer of assets is regulated by the SCMP and shall be controlled by the transfer processes in the policy and the Asset Register shall be updated accordingly.

Procedures and Rules

- Strategic Executive Directors must ensure that all asset transfer information is passed to Budget and Treasury Office.
- The CFO must ensure that a process is in place to capture and record asset transfer data.
- Staff of the Municipality, except for duly authorised staff, shall not move rented assets, such as photocopy machines.
- No person shall transfer any IT equipment without the knowledge and written consent of the Head: Information Technology.
- Strategic Executive Directors must immediately report to the Asset Management Committee any damages caused to an asset and will be held responsible to investigate the cause or nature of such damage.

14.2 Exchange of Assets

General

According to GRAP 17.29 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

(a) the exchange transaction lacks commercial substance; or

(b) the fair value of neither the asset received, nor the asset given up is reliably measurable.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Policy

The SCMP will be applied when assets are exchanged. The cost of assets acquired in exchange for another asset shall be measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred.

Procedures and Rules

- An item of PPE may be acquired in exchange for a similar asset that has a similar use in the same line of operations, and which has a similar fair value or may be sold in exchange for an equity interest in a similar asset. No gain or loss is recognised in both cases.
- The Asset Management Committee shall approve all asset exchanges in consultation with the relevant Strategic Executive Director.

14.3 Alienation / Disposal of Assets

General

Alienation / Disposal (alienation) is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality.

The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the disposal of assets. Specifically:

- A municipality may not ..." permanently dispose of an asset needed to provide the minimum level of basic municipal services"
- Where a municipal council has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of

an asset must be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

Policy

There are various methods of disposal. Different disposal methods will be needed for different types of assets. When deciding on a particular disposal method and consideration of the following, the SCMP on disposal of assets must be applied:

- The nature of the asset
- The potential market values
- Other intrinsic value of the asset
- Its location
- Its volume
- Its trade-in prices
- Its ability to support wider Government programmes;
- Environmental considerations
- Market conditions
- The asset's life

Appropriate means of disposal may include:

- Public auction
- Public tender
- Transfer to another institution
- Sale to another institution
- Letting to another institution
- Trade-in
- Controlled dumping (for items that have low value or are unhygienic)

Alienated assets shall be written-off in the Asset Register.

Procedures and Rules

- Strategic Executive Directors shall report in writing to the Asset Management Committee timeously during the financial year on all assets which they wish to alienate and the proposed method of alienation.
- The CFO shall consolidate the requests received from the various departments and shall promptly report the consolidated information to the Asset Management Committee, recommending the process of alienation to be adopted.

- The Council shall delegate to the Asset Management Committee the authority to approve the alienation of any asset.
- The Council shall ensure that the alienation of any asset takes place in compliance with Section 14 of the Municipal Finance Management Act, 2003. The Act states that the municipality may not alienate any asset required to provide a minimum level of service. The municipality may alienate any other asset, provided the municipality has considered the fair market value and the economic and community value to be received in exchange for the asset.
- Selling: Assets to be sold shall be sold in terms of paragraph 9.4 below.
- Donations: Donations may be considered as a method of alienation, but such requests must be motivated to the Asset Management Committee for approval.
- Destruction: Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.
- Scrapping: Scrapping of assets that cannot be alienated otherwise may be considered as a method of alienation, but such requests must be motivated to the Asset Management Committee.
- Once the assets are alienated, the CFO shall write-off the relevant assets in the Asset Register.
- The letting of immovable property must be done at market-related tariffs, unless the relevant treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.
- The Asset Management Committee must review, at least annually when finalising the budget, all fees, charges, rates, tariffs or scales of fees or other charges relating to the letting of municipal property to ensure sound financial planning and management.

14.4 Selling of Assets

General

Selling of assets refers to the public sale of municipal assets approved for alienation.

Policy

The selling of assets must be within the parameters laid down in the SCMP. Further must all assets earmarked for sale be sold by public auction or tender and the following steps shall be followed:

- A notice of the intention of the municipality to sell the asset shall be published in a local newspaper;
- In the case of a public auction, the municipality shall appoint an independent auctioneer to conduct the auction; and

- In the case of a tender, the prescribed tender procedures of the municipality shall be followed.

Sold assets shall be written-off in the Asset Register.

Procedures

- A request for assets to be sold must be submitted to the Asset Management Committee for approval. The request must be accompanied by a list of assets to be sold and the reasons for sale as described in paragraph 11.3 above.
- The Asset Management Committee may approve the engagement of auctioneers either on a quotation basis or by tender depending on the goods to be alienated.

The municipality reserves that right to dispose the properties to the current lessees of the property and the right to dispose mobile devices to the current device users through a private treaty process

Should the municipality decides to dispose properties and mobile devices to the current lessees (and/or users) in terms of the clause … above, council resolution to this effect must be obtained

- Bidding: Bidders are afforded the opportunity to make an offer on identifiable items. Bids are compared and the highest bidder is awarded the bid.
- Tenders: Tenders shall be invited according to the municipality's tender procedures.
- Once the assets are sold, the CFO shall write-off the relevant assets in the Asset Register.
- If the proceeds of the sales are less than the carrying value recorded in the Asset Register, such difference shall be recognised as a loss for the department or vote concerned in the Statement of Financial Performance. If the proceeds of the sales, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain for the department or vote concerned in the statement of financial performance.
- Transfer of assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

14.5 Writing-off of Assets

General

The write-off of assets is the process to permanently remove the assets from the Asset Register. Assets can be written-off after approval of the Asset Management Committee of a report indicating that:

- The useful life of the asset has expired;
- The asset has been destroyed;
- The asset is out dated;
- The asset has no further useful life;
- The asset does not exist anymore;
- The asset has been sold; and
- Acceptable reasons have been furnished leading to the circumstances set out above.
- The SCMP has been adhered to.

The CFO may approve the *ad hoc* writing-off of assets without prior approval of the Asset Management Committee on condition that –

- The write-offs fall after but between the next scheduled Asset Management Committee meeting and financial year end closure; and
- The Asset Management Committee is informed of the write-offs at the next scheduled Asset Management Committee meeting.

Policy

The only reasons for writing off assets, other than the sale of such assets during the process of alienation, shall be the loss, theft, destruction, material impairment, or decommissioning of the asset in question.

Procedures and Rules

- Strategic Executive Directors shall report to the CFO during the financial year on any assets which such Strategic Executive Director wishes to have written-off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports and shall promptly submit a recommendation to the Asset Management Committee on the assets to be written off.
- An asset, even though fully depreciated, shall be written-off only on the recommendation of the Strategic Executive Director controlling or using the asset concerned, and with the approval of the Asset Management Committee.
- In every instance where a not fully depreciated asset is written off with no proceeds for the asset being obtained, the CFO shall immediately debit to

such department or vote the full carrying value of the asset concerned as impairment expenses.

- Assets that are replaced should be written-off and removed from the Asset Register.

15. ASSET PHYSICAL CONTROL

15.1 Physical Control / Verification

General

Movable assets require physical control and verification of existence.

Policy

All movable assets shall be actively controlled, including an annual verification process.

Procedures and Rules

- All movable assets, where practicable, must have a visible bar code or unique asset marking as determined by the Asset Management Committee.
- Annual verification of movable assets should be conducted under the direction of Finance. This procedure would enable the municipality to identify discrepancies and dispositions and properly investigate and record the transactions.
- Procedures should be established to adequately identify assets owned by others or subject to reclamation by donors.
- The Asset Management Committee shall co-ordinate and control regular physical checks, and all discrepancies are to be reported immediately to the Asset Management Committee.
- Registers must be kept for those assets allocated to staff members. The individuals are responsible and accountable for the assets under their control. These registers should be updated when the assets are moved to different locations or allocated to a different staff member in order to facilitate control and physical verification.
- Where a change in person in direct control of equipment takes place, a handing-over certificate shall be completed and signed by both parties concerned and a copy of this certificate must be forwarded to Finance. If surpluses or deficiencies are found, the certificates shall be dealt with as with stock-taking reports.
- If for any reason the person from whom the asset is being taken over is not available, the asset controller should assist the person taking over with the checking of the equipment and the certification of any discrepancies.
- In case of failure to comply with the requirements of a handing-over certificate, the person taking over shall be liable for any shortages, unless it can be established that the shortages existed prior to their taking over.
- Any losses of and damage to equipment, excluding discrepancies at stocktaking of losses resulting from normal handling or reasonable wear and tear, shall be reported to the Asset Management Committee.

- Independent checks from asset records shall be conducted to ensure that the assets physically exist, especially those that could be disposed of without a noticeable effect on operations.
- Yearly physical inspections of assets shall be performed to identify items which are damaged, not in use or are obsolete due to changed circumstances, to ensure that they are appropriately repaired, written off or disposed of.
- All newly acquired assets shall be delivered to / received by the procurement section where the assets will be bar-coded before dispatch to the persons who will be the custodians of the assets. Where this is not practicable, the acquired assets must be delivered to the section issuing the requisition and that section must notify the finance section so that bar-coding or asset marking can be arranged.
- Delivery of assets by procurement staff must be to the person requiring the asset and he/she will sign a form accepting responsibility for the asset.
- The Asset Management Committee may, on request of a Strategic Executive Director, waive full physical verification and accept written confirmation from the Strategic Executive Director of infrastructure assets being verified during the course of a financial period as part of routine and/or planned maintenance and/or physical inspections. Documentation in this regard must be kept by departments and be available for inspection. The Chief Financial Officer will inform the external auditors of the Asset Management Committee's decision

15.2 Insurance of Assets

General

Insurance provides selected coverage for the accidental loss of the asset value. Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury.

Policy

Assets that are material in value and substance shall be insured at least against destruction, fire and theft. All municipal buildings shall be insured at least against fire and allied perils. Land shall not be included for the purpose of insurance.

Procedures and Rules

- The Departments will ensure that all assets are properly insured in terms of the policy.

15.3 Safekeeping of Assets

General

Asset safekeeping is the protection of assets from damage, theft, and safety risks.

Policy

Directives for the safekeeping of assets shall be developed and the safekeeping of assets shall be actively undertaken. The municipality shall establish and implement the Loss Control Policy for such purpose.

Procedures and Rules

- The Asset Management Committee must issue directives that detail the safekeeping of assets.
- Strategic Executive Directors must ensure that safekeeping directives are adhered to.
- Malicious damage, theft, and break-ins must be reported to the CFO and loss control officer within 48 hours of its occurrence or awareness. The CFO will inform the Asset Management Committee of such occurrence.
- The Municipal Manager must report criminal activities to the South African Police Service.
- If any biological asset is lost, stolen or destroyed, the matter shall be reported in writing by the Strategic Executive Director concerned in exactly the same manner as though the asset were an ordinary asset.

16. ASSET FINANCIAL CONTROL

16.1 CAPITAL REPLACEMENT RESERVE (CRR)

General

The CRR is a reserve account to set aside funds for the financing of property, plant and equipment. The CRR is therefore an asset financing source that represents an alternative to the other funding sources available to the municipality, namely external loans (interest bearing borrowings) and government grants& subsidies. The value of this reserve is not represented by any values of assets under the municipality's control and shall preferably be cash-backed.

Policy

It is the policy of Council to annually make contributions to the CRR to ensure that the CRR remains a capital funding source for the future. The municipality will determine its future capital financing requirements and transfer sufficient cash to its CRR in terms of this determination. The Integrated Development Plan, the municipality's ability to raise external finance and the amount of government grants and subsidies that will be received in future will need to be taken into account in determining the amount that must be transferred to the CRR. Whenever an asset is sold by the municipality, the proceeds on the sale of the assets must be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets. All proceeds on the sale of land will be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets. Whenever an asset is purchased out of the CRR an amount equal to the cost price of the asset purchased, is transferred from the CRR into accumulated surplus on the Statement of Changes in Net Assets.

16.2 NON-DISTRIBUTABLE RESERVES (PUBLIC CONTRIBUTIONS AND DONATIONS RESERVE AND CAPITALISATION RESERVE)

General

The Public Contributions and Donations Reserve and the Capitalisation Reserves are reserve accounts dedicated towards funding the future depreciation of assets. The value of these reserves is equal to the carrying values of all depreciable assets under the municipality's control that was funded from Public Contributions / Donations or Internal Advances.

An amount equal to the monthly depreciation expenses and impairment losses recognised is transferred from the non-distributable reserve to the municipality's appropriation account (retained income) on a monthly basis.

For all new assets capitalised which are funded from Public Contributions / Donations, an amount equal to the capitalisation amount is appropriated to the Public Contributions and Donations Reserve from the Appropriation Account.

Since Internal Advances are not allowed anymore, no assets will be acquired from this source with the result that the Capitalisation Reserve will become totally depleted once the assets funded Internal Advances under IMFO standards, are fully depreciated.

Policy

The CFO shall ensure that the asset financing non-distributable reserves are created equal in value to the carrying value of all assets under the municipality's control funded from public contributions / donations and internal advances. The CFO shall thereafter ensure that in the case of depreciable assets, an amount equal to the monthly depreciation expenses and impairment losses recognised of the assets concerned is transferred each month from such non-distributable reserve to the municipality's appropriation account. For acquisitions of depreciable assets funded from public contributions / donations, an amount equal to the capitalisation amount is appropriated to the reserve from the municipality's appropriation account.

16.3 GOVERNMENT GRANTS RESERVE

General

The Government Grants Reserve is a reserve account dedicated towards funding the future depreciation of assets. The value of this reserve is equal to the carrying values of all depreciable assets under the municipality's control that was funded from *Government Grants.*

An amount equal to the value of Government Grants spent on capital assets (conditions met) is recorded as revenue. The amount is then transferred from the accumulated surplus account to the Government Grant Reserve. Monthly depreciation expenses and impairment losses recognised is released from the reserve to the municipality's accumulated surplus.

Policy

The CFO shall ensure that the Government Grant Reserve is created equal in value to the carrying value of all assets under the municipality's control funded from government grants. The CFO shall thereafter ensure that in the case of depreciable assets, an amount equal to the monthly depreciation expenses and impairment losses recognised of the assets concerned is released each month from the government grant reserve to the municipality's accumulated surplus. For acquisitions of depreciable assets funded from government grants, revenue is recorded and an amount equal to the capitalisation amount is transferred from the accumulated surplus to the GGR.

16.4 BORROWING COSTS (GRAP 5)

General

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of premiums or discounts associated with such borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance charges in respect of finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as an adjustment to interest costs. The capitalisation of borrowing costs should take place when borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. During extended periods in which development of an asset is interrupted, the borrowing costs incurred over that time period should be recognised as an expense when incurred. Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

It is inappropriate to capitalise borrowing costs when there is clear evidence that it is difficult to link a borrowing requirement directly to the nature of the expenditure to be funded, i.e. Capital or Current.

Policy

Borrowing costs shall be capitalised, if directly attributable to the acquisition construction or production of an asset over a significant period, except when it is inappropriate to do so.

16.5 FUNDING SOURCES

General

The Municipal Finance Management Act (MFMA) provides guidelines on how to utilize funds in financing assets (Section 19 of MFMA). The municipality shall utilise any of the following sources to acquire and / or purchase assets:

- Grants, Subsidies and Public Contributions;
- Revenue Contributions;
- Capital Replacement Reserve;
- Cash Surplus; and / or
- External / Donor Funds.

Policy

The annual capital budget must be funded and the sources of finance must be disclosed as part of the Council's budget.

16.6 DISASTER

General

In terms of the Disaster Management Act, 2002, Disaster means a progressive or sudden, widespread or localised, natural or human – caused occurrence which causes or threatens to cause:

- death, injury or disease;
- damage to property, infrastructure or the environment; or
- disruption of life of community; and
- is of a magnitude that exceeds the ability of those affected by the disaster to cope with
  its effects using only their own resources.

In terms Section 56 (b) of the Disaster Management Act, 2002 the cost of repairing or replacing public sector infrastructure should be borne by the organ of state responsible for the maintenance of such infrastructure. The National, Provincial and Local organs of state may contribute financially to response efforts and post – disaster recovery and rehabilitation.

Policy

The Municipality will correspond with the Provincial organs to gain funds for repairing assets damaged in disaster events. The municipality must adhere to the disaster management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster.

ANNEXURES

ANNEXURE A
ABBREVIATIONS

AM	Asset Management
AMC	Assets Management Committee
AMS	Asset Management System
CFO	Chief Financial Officer
DM	District Municipality
EPWP	Expanded Public Work Program
GAMAP	Generally Accepted Municipal Accounting Practice
GIS	Geographical Information System
GRAP	Standards of Generally Recognised Accounting Practice
HR	Human Resource
IAM	Infrastructure Asset Management
IAMP	Infrastructure Asset Management Plan
AR	Asset Register
IAR	Infrastructure Asset Register
IAS	International Accounting Standards
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act
MTREF	Medium Term Revenue and Expenditure Framework
NT	National Treasury
OAG	Office of the Accountant General
LM	Local Municipality
O&M	Operation and Maintenance
SCMP	Supply Chain Management Policy

ANNEXURE B
ASSET HIERARCHY

CLASS	MINOR GROUP	EUL (YRS)	EUL (MONTHS)
LAND	LAND	0	0
	LANDFILL SITE	55	660
BUILDINGS			
	FIXED STRUCTURES	30	360
	MOBILE	10	120
	OFFICE BUILDINGS	25	300
INFRASTRUCTURE	ROADS AND PAVING	80	960
	BRIDGES	80	960
	PUBLIC PARKING	25	300
	STORMWATER PIPES & DRAINS & PUMPSTATIONS BUILDINGS	50	600
	WATER BOREHOLES	30	360
	BULK WATER METERS	20	240
	ELECTRICAL SUBSTATIONS	30	360
	HIGH MAST LIGHTS	10	120
	FENCING	20	240
	LAYERING	20	240
	ELECTRICAL MAINS	20	240
	CONTAINERS	10	120
	SEWERAGE PUMPSTATION	30	360
	POWER STATION	60	720
	WATER SUPPLY/RETICULATION	20	240
	ELECTRICITY TRANSFORMERS	30	360
	UNDERGROUND LINES	45	540
	ELECTRICITY PANELS	5	60
	STREET LIGHTING	40	300
	TRAFFIC LIGHTS	15	180
	TELEMETERY	7	84
	OVERHEAD LINES	30	360
	CABLES	45	540
	AIRPORT - BUILDING	25	300
	AIRPORT – SPECIALISED EQUIPMENT	15	180
	AIRPORT – RUNWAY AND TAXIWAY	15	180
COMMUNITY	CLINIC AND HEALTH FACILITIES	30	360

CLASS	MINOR GROUP	EUL (YRS)	EUL (MONTHS)
	STADIUMS	25	300
	SECURITY SYSTEMS	5	60
	CEMETERY	30	360
	COMMUNITY HALLS	80	960
	FIRE STATIONS	25	300
	LIBRARY	25	300
	TAXI RANK	15	180
	COMMUNITY CENTRES AND PUBLIC ENTERTAINMENT BUILDINGS	25	300
	SPORTS AND RECREATIONAL FACILITIES (TENNIS COURTS, SOCCER FIELDS, PARKS)	25	300
	ABLUTION/ PUBLIC FACILITIES	25	300
OTHER ASSETS	HONEY SUCKER TANKER	10	120
	BINS AND CONTAINERS	5	60
	EMERGENCY EQUIPMENT	5	60
	WASTE COLLECTION VEHICLES	10	120
	MOTOR VEHICLES	5	60
	FURNITURE AND FITTINGS	7	84
	AIRCONDITIONERS	3	36
	PLAYGROUND EQUIPMENT	12	144
	PLANT AND EQUIPMENT	5	60
	COMPUTER EQUIPMENT	5	60
INTANGIBLE ASSETS	SOFTWARE	5	60
LEASED ASSETS	CELLPHONES	2	24
	3G	2	24
	IPad	2	24
HERITAGE ASSETS	MUSEUMS AND ART GALLERIES	25	300

ANNEXURE C: ASSET TYPES NOT CAPITALISED DUE TO BEING UTILISED LESS THAN 12 MONTHS

- Kitchenware, e.g. Kettles, toasters, two-plate stove, etc.
- Stationery equipment, e.g. Punches (not heavy duty), staplers (not heavy duty), etc.
- Garden equipment, e.g. Brooms, rakes, spade, etc.
- Machines (not heavy duty), e.g. Spanners, screw drivers, etc.
- Electrical equipment, e.g. Extension lead, multi plug, etc.
- Mattresses
- Cutlery & crockery
- Other, as may be determined by management