

**MUBESKO AFRICA**

Municipal Business Consultants

# Theewaterskloof MUNICIPALITY

REVIEWED ASSET MANAGEMENT POLICY

(For discussion only)

**REVIEWED**

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## **ASSET MANAGEMENT POLICY FOR THE THEEWATERSKLOOF MUNICIPALITY**

### **1 INTRODUCTION**

This Policy for the management of fixed assets and intangible assets has been designed to assist management and officials of the Theewaterskloof Municipality with the description and management procedures for Property, Plant and Equipment (PPE), Intangible Assets and Investment Property. It should also assist with the capacity to differentiate between activities, which are acceptable in terms of general authorization, supervisory responsibilities and limits of authority to the management of fixed assets and functions of the organisation.

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

For the purpose of this policy, assets exclude inventory and monetary assets such as debtors.

This Policy replaces all asset management procedures/instructions and memoranda that have been previously issued.

### **2 OBJECTIVE OF THIS POLICY**

The first objective of an asset management policy is to ensure that the assets of the municipality are properly accounted for. The second objective is to ensure that assets are utilised and maintained in an economic, effective and efficient way. Proper accounting for assets will be achieved by means of *inter alia*:

- (a) Accurate recording of all information regarding assets;
- (b) Effective control over the moving of assets;
- (c) Effectively planned maintenance;
- (d) Proper proof of- and accounting for assets as required by GRAP;
- (e) Continuous evaluation of insured values and proper insurance of all assets.
- (f) Ensuring the effective and efficient control, utilization, safeguarding and management of the Municipality's property, plant and equipment.
- (g) Ensuring that managers are aware of their responsibilities with regards to property, plant and equipment, and
- (h) Setting out the standards of physical management, recording and internal controls to ensure property, plant and equipment are safeguarded against inappropriate loss or utilization.

### **3 DEFINITIONS**

**Accounting officer** means the municipal manager appointed in terms of section 82 of the Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) and being the head of administration and accounting officer in terms of section 60 of the Local Government: Municipal Systems Act 2000 (Act No. 32 of 2000).

**Assets** are resources controlled by the municipality as a result of past events and from which future economic benefit or service potential are expected to flow but for the purpose of this policy exclude inventory and other monetary assets.

**Carrying amount** is the amount at which an asset is recognized after deducting any accumulated depreciation and accumulated impairment losses.

**Chief Financial Officer** means an officer of a municipality designated by the municipal manager to be administratively in charge of the budgetary and treasury functions.

**Class of property, plant and equipment** means a grouping of assets of a similar nature or function in a municipality's operations, which is shown as a single item for the purpose of disclosure in the financial statements.

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

**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 recognized in accordance with the specific requirements of Standards of GRAP.

**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 between knowledgeable, willing parties in an arm's length transaction.

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

An **impairment loss** of a cash generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An **impairment loss** of non-cash generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

**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 identifiable non-monetary assets without physical substance.

**Investment properties** are defined as property (land or a building-or part of a building-or both) held (by the owner or by lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production and supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of business.

**Municipal valuation** means the official valuation of an immovable property as reflected in the Municipality's valuation roll.

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

**Owner-occupied property** is property held (by the owner or by lessee under a finance lease) for use in the production or supply of goods and services or for administrative purposes.

**Property, plant and equipment** are tangible assets that:-

- (a) 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
- (b) 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 future value in use.

**Recoverable service amount** is the higher of a non-cash-generating asset's fair value less costs to sell and its future 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 condition expected at the end of its useful life.

**Useful life is:-**

- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality's accounting officer.

#### **4 BACKGROUND**

The utilization and management of property, plant and equipment, intangible assets and investment property is the prime mechanism by which the Municipality can fulfil its constitutional mandates for:-

- (a) Delivery of sustainable services;
- (b) Social and economic development;
- (c) Promoting safe and healthy environments; and
- (d) Fulfilling the basic needs to the community.

As trustees on behalf of the local community, the Municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in property, plant and equipment, intangible assets and investment property. The policy for the management of assets deals with the Municipal rules required to ensure the enforcement of appropriate stewardship of property, plant and equipment, intangible assets and investment property. Stewardship has two components being the:-

- (a) Financial administration by the Chief Financial Officer; and
- (b) Physical administration by the relevant managers.

Statutory provisions are being implemented to protect public property against arbitrary and inappropriate management or disposals by local government.

Accounting standards have been approved by the Accounting Standards Board to ensure the appropriate financial treatment for property, plant and equipment, intangible assets and investment property. The requirements of these new accounting standards includes:-

- (a) The compilation of asset registers covering all property, plant and equipment, intangible assets and investment property controlled by the Municipality.
- (b) Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant and equipment, intangible assets and investment property.
- (c) The standards to which financial records must be maintained to comply with the new accounting standards.
- (d) Accounting treatment for the recording and subsequent measurement of investment property.
- (e) Accounting treatment for the recording and subsequent measurement of intangible assets.

## **5 DELEGATION OF POWERS**

This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Municipal Manager and other responsible officials as well as between the Council and the Executive Mayor and the Council and the Municipal Manager. All delegations in terms of this policy must be recorded in writing.

In accordance with the Local Government: Municipal Finance Management Act (Act 56 of 2003) (MFMA), the Municipal Manager is the accounting officer of the Municipality and therefore all designated officials are accountable to him/her. The Municipal Manager is therefore accountable for all transactions entered into by his/her designates.

The overall responsibility of asset management lies with the Municipal Manager. However, the day to day handling of fixed assets should be the responsibility of all officials in terms of delegated authority reduced in writing.

## **6 PURPOSE OF THE POLICY**

The purpose of this policy is to ensure that proper management of assets forms part of the financial management procedures of the Theewaterskloof Municipality and to ensure that prudent asset management procedures are applied consistently.

## **7 PURCHASE OR HIRE OF ASSETS**

The affordability and the necessity of the acquisition of assets will be considered according to the following principles:

- (a) The purpose for which the asset is acquired, as well as the benefit it holds for the municipality and the community, should be motivated in detail by the head of the department involved.
- (b) The purchase price must be determined accurately. Everything possible shall be done to identify hidden costs in advance.
- (c) Possible integrated use as well as minimum standards for the asset must be identified by all departments. Possible partnerships with the private sector and other municipalities should also be included here.

- (d) The income potential as well as the estimated cost of maintenance of the asset should be calculated beforehand, and the effect on existing and future tariffs must be indicated;
- (e) All possible alternatives should be indicated where necessary;
- (f) Where immovable property is acquired for development, possible restrictions regarding the development thereof and existing servitudes should be identified beforehand. A quantity survey must be done before the time to identify possible issues regarding environmental conservation.

The municipality may acquire by purchase, or by hire, immovable property within- or outside the municipal boundary provided it complies with the requirements of the MFMA and the Supply Chain Management Policy and subject to the following:

- (a) The cost of the purchase or hire had been budgeted for; and
- (b) The intention to buy or hire the immovable property had been advertised for public comment.
- (c) After consideration of any public comments/objections the Council will:-
  - o In the case of the following paragraph complies with the requirements of that paragraph; and
  - o In the case of all other immovable property, finally resolve to continue with the purchase or hire and apply the supply chain management processes
- (d) The Council will not continue with the purchase or hire of any immovable property where:
  - o The price is in excess of the market value thereof as assessed by an appraiser; or
  - o The rental which, when calculated per annum in the case of:
    - Immovable property hired for agricultural purposes, exceeds six percent; and
    - Immovable property hired for any other purpose, exceed twelve percent of the market value of the property, as assessed by an appraiser.

The Council may accept a gift or conveyance of immovable property either for the municipality or in trust for charitable or other public purposes not connected with public worship, and hold the same in such trust or for such purpose as may be declared by such donors and may administer, utilize and improve such property.

The trustees of any immovable property held in trust for any township village of settlement which has become a municipality or part of a municipality may transfer such property to the Council, subject to any special trusts in their deeds of title and upon conditions not at variance therewith.

## **8 EFFECTIVE ASSET MANAGEMENT**

### **8.1 Responsibilities**

The Municipal Manager is responsible for the management of the assets of the Municipality, including the safeguarding and the maintenance of those assets. He/she must ensure that:-

- (a) The Municipality has and maintains a management, accounting and information system that accounts for the assets of the Municipality.

- (b) The Municipality's assets are valued in accordance with standards of Generally Recognized Accounting Practice (GRAP).
- (c) The Municipality has and maintains a system of internal control of assets, including an asset register.
- (d) Senior managers and their teams comply with this policy.

The Chief Financial Officer is responsible to the Municipal Manager to ensure that the financial investment in the Municipality's assets is safeguarded and maintained. He/she may delegate or otherwise assign responsibility for performing these functions but he/she will remain accountable for ensuring that these activities are performed. He/she must ensure that:-

- (a) Appropriate systems of financial management and internal control are established and carried out diligently.
- (b) The financial and other resources of the Municipality assigned to him/her are utilized effectively, efficiently, economically and transparently.
- (c) Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented.
- (d) The systems, processes and registers required to substantiate the financial values of the Municipality's assets are maintained to standards sufficient to satisfy the requirements of effective management.
- (e) Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- (f) The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets.
- (g) The senior managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets.

The Functional Managers must ensure that:-

- (a) Appropriate systems of physical management and control are established and carried out for fixed assets in their area of responsibility.
- (b) The Municipal resources assigned to them are utilized effectively, efficiently, economically and transparently.
- (c) Any unauthorized, irregular or fruitless or wasteful utilization and losses resulting from criminal or negligent conduct are prevented.
- (d) Their management systems and controls can provide an accurate, reliable and up to date account of fixed assets under their control.
- (e) They are able to justify that their plans, budgets, purchasing, maintenance and disposal decisions for fixed assets optimally achieve the Municipality's strategic objectives.

The functional managers may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring that these activities are performed.

## **8.2 Asset Register**

### **Establishment and Management of the Asset Register**

The Chief Financial Officer will establish and maintain the Register containing key financial data on each item of Property, Plant or Equipment, Intangible Assets and Investment Property that satisfies the criterion for recognition.

Functional Managers are responsible for establishing and maintaining any additional register or database required to demonstrate their physical management of their assets.

Each functional manager is responsible to ensure that sufficient controls exist to substantiate the quantity, value, location and condition of all assets in their registers.

### **Contents of the Asset Register**

**The Asset Register should, as a minimum, include the following fields, or alternatively the Chief Financial Officer must maintain systems in order to provide the information required to comply with the following fields:**

- (a) The measurement based used (Cost or Fair Value);
- (b) The depreciation methods used;
- (c) The useful life;
- (d) The residual value;
- (e) Depreciation or amortisation charged for the period;
- (f) The accumulated depreciation;
- (g) The gross carrying amount;
- (h) Date of acquisition;
- (i) Date of disposal (if applicable);
- (j) Increases or the decreases resulting from revaluations (if applicable);
- (k) Date of last revaluation;
- (l) Location;
- (m) Source of finance;
- (n) Method of calculating recoverable amount (when impairment tests are required in terms of GRAP);
- (o) Any restrictions on title to the asset;
- (p) Location;
- (q) Strategic purpose and if it is required to provide minimum basic services; and
- (r) Responsible Functional Manager/ department/ vote.

## **8.3 Classification of Assets**

In compliance with the requirements of the National Treasury, the Chief Financial Officer shall ensure that all Fixed Assets are classified under the following headings in the Asset Register, and Heads of Departments shall in writing provide the Chief Financial Officer with such information or assistance as is required to compile a proper classification:-

### **8.3.1 Property, Plant and Equipment (PPE)**

- (a) Land and buildings (not held as investment assets).
- (b) Infrastructure assets (assets which are part of a network of similar assets).

- (c) Community assets (assets contributing to the general well-being of the community).
- (d) Heritage assets (culturally significant assets).
- (e) Other assets (ordinary operational assets).
- (f) Housing (rental stock or housing stock not held for capital gain).

### **8.3.2 Investment Property**

Investment assets (resources held for capital or operational gain and which are not used by the Municipality).

Properties occupied by the Municipality, Councilors or officials are classified as owner-occupied property and are therefore not classed as investment property.

Investment properties will be treated in accordance with IAS 40 and will separately be classified in the Statement of Financial Position. Investment properties will not be depreciated but will be revalued bi-annually.

### **8.3.3 Intangible Assets**

Intangible assets are identifiable non-monetary assets without physical substance.

Intangible assets will be treated in accordance with IAS 38 and will separately be classified in the Statement of Financial Position. Intangible assets shall be valued at cost less any accumulated amortization and any impairment losses.

The Chief Financial Officer shall adhere to the classifications indicated in the Annexure on estimated lives of PPE, and in the case of an item of PPE not appearing in the Annexure shall use the classification applicable to the asset most closely comparable in the Annexure.

## **8.4 Depreciation**

### **8.4.1 Depreciation of PPE and Amortisation of Intangible Assets**

All PPE, except land and heritage assets, shall be depreciated.

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

Depreciation shall generally take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the item of PPE is used or consumed.

However, depreciation shall initially be calculated from the day following the day in which an item of PPE is acquired or – in the case of construction works and plant and machinery – the day following the day in which the item is brought into use, until the end of the quarter concerned. Thereafter, depreciation charges shall be calculated monthly.

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

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

#### **8.4.2 Rate of Depreciation and Amortisation**

The Chief Financial Officer shall assign a useful operating life to each depreciable item of PPE recorded on the Municipality's fixed asset register. In determining such a useful life the Chief Financial Officer shall adhere to the useful lives set out in the annexure to this document.

In the case of an item of PPE which is not listed in this annexure, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the Head of Department who shall control or use the item in question, and shall be guided in determining such useful life by the likely pattern in which the item's economic benefits or service potential will be consumed.

The procedures to be followed in determining the rate of amortisation of intangible assets shall be identical to those applying to the rate of depreciation of other PPE.

#### **8.4.3 Method of Depreciation and Amortisation**

The Chief Financial Officer shall allocate the depreciable amount of all depreciable PPE and intangible assets on a systematic basis over its useful life, after deducting the residual value on assets where it is expected that the residual value will be significant.

The residual value is estimated at the date of acquisition and is not subsequently increased or decreased for a change in prices. However, with each revaluation of buildings, the residual value is reviewed and, if expectations differ from previous estimates, the changes shall be accounted for as a change in accounting estimate in accordance with GRAP 3.

The useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the changes shall be accounted for as a change in accounting estimate in accordance with GRAP 3.

### **8.5 Amendment of Asset Lives and Diminution in the Value of PPE and Intangible Assets**

Only the Chief Financial Officer may amend the useful operating life assigned to any PPE and intangible assets, and when any material amendment occurs the Chief Financial Officer shall inform the Municipal Manager of such amendment.

The Chief Financial Officer shall amend the useful operating life assigned to any item of PPE and intangible assets if it becomes known that such item has been materially impaired or improperly maintained to such an extent that its useful operating life will not be

attained, or any other event has occurred which materially affects the pattern in which the item's economic benefits or service potential will be consumed.

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

Similarly, if an item of PPE has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the item has physically ceased to exist, it shall be written off in the fixed asset register.

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

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

Additional depreciation or amortisation not budgeted for as a result of unforeseeable or unavoidable circumstances must be provided for in an adjustments budget and, if such circumstances arises close to the end of the financial year and there will not be time for Council to consider the adjustments before the end of the financial year, may in advance be approved by the Mayor in terms of Section 29 of the MFMA, provided that any other provisions of the MFMA be complied with.

## **8.6 Funding of Fixed Assets and Reserves**

The purchase of property, plant and equipment, intangible assets and investment property may be funded from the raising of external loans, leases, government- and public contributions, the Capital Replacement Reserve and surplus cash.

The Chief Financial Officer shall ensure that in respect of all PPE, intangible assets and investment properties financed from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of assets donated to the Municipality, a government grants reserve or public contribution reserve for future depreciation is created equal in value to the capitalised value of each item of PPE, intangible assets and investment property in question.

The Chief Financial Officer shall thereafter ensure that in the case of depreciable PPE an amount equal to the monthly depreciation expenses of the items concerned are transferred each quarter from such reserve to the Municipality's accumulated surplus.

## **8.7 Carrying Values of PPE and Intangible Assets**

All PPE and intangible assets shall be carried in the asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation or amortisation in the case of intangible assets.

The original cost of an item of PPE or intangible assets may include:

- (a) Cost price;
- (b) Financing costs (MFMA section 46(4));
- (c) Import tax;
- (d) Non-claimable purchase tax; and
- (e) Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

When an item of PPE or intangible assets is acquired to be exchanged or partly exchanged for a dissimilar item of PPE or other asset, the cost of such item is 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 paid additional. For the purpose hereof, "fair value" shall be determined by the council with due regard to the definition ascribed to fair value in paragraph 2 hereof.

The only exceptions to this rule shall be revalued items of PPE (see part 8.8 below) and heritage assets in respect of which no depreciation is recorded in the fixed asset register.

#### **8.8 Revaluation of items of PPE**

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

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

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

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

The Chief Financial Officer shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such buildings before the revaluation in question is transferred each quarter from the revaluation reserve to the Municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary.

If the amount recorded on the valuation roll is less than the carrying value of the item of land or buildings recorded in the fixed asset register, the Chief Financial Officer shall adjust the carrying value of such item by increasing the accumulated depreciation of the

item in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such item, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the item of land or building in question.

Revalued land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation (in the case of buildings)

### **8.9 Other Write-offs of PPE**

An item of PPE, even though fully depreciated, shall be written off when it can no longer be used, in consultation with the Head of Department controlling or using the item concerned.

Every Head of Department shall report to the Chief Financial Officer on 31 October and 30 April of each financial year on any item of PPE which such Head of Department wishes to have written off, stating in full the reason for such recommendation.

The Chief Financial Officer shall consolidate all such reports, and shall promptly notify the Executive Mayoral Committee on the PPE to be written off.

The only reasons for writing off PPE, other than the alienation of such item of PPE, shall be the loss, theft, and destruction or material impairment of the PPE in question.

If an item of PPE must be written off as a result of an occurrence out of the control of the municipality, such as malicious damage, theft or destruction, the municipal manager must determine whether a third party or an employee was involved in the loss and take all reasonable steps to recover such loss, including reporting the incident to the South African Police Services and the Auditor General, the insurance as well as institute disciplinary steps against any employee or Councilor who might have been involved in such incident.

In every instance where a not fully depreciated item of PPE is written off, the Chief Financial Officer shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the item concerned.

### **8.10 Carrying Values of Investment Property**

An investment property shall be measured initially at its cost. Transaction costs shall be included in the initial measurement. The cost of purchased investment property includes all directly attributable expenditure (professional fees for legal services, property transfer taxes and other transaction costs).

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

When investment property is acquired to be exchanged or partly exchanged for a dissimilar investment property or other asset, the cost of such item is 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 paid additional. For the purpose hereof, "fair value" shall be determined by the council with due regard to the definition ascribed to fair value in paragraph 2 hereof.

After initial recognition investment property will be measured at fair value. A gain or loss arising from a change in fair value shall be recognized as a profit or loss in the Statement of Financial Performance in the period in which it arises. The fair value of investment property shall reflect market conditions at reporting date.

In terms of IAS 40 transfers to and from investment property shall be made when there is a change in use, such as:

- (a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) Commencement of development with a view to sale, for a transfer from investment property to inventories;
- (c) End of owner-occupation, for a transfer from owner-occupied property to investment property; or
- (d) Commencement of an operating lease to another party, for a transfer from inventories to investment property.

When an investment property is transferred to inventory or owner-occupied property, the property's deemed cost is the fair value of the property at the date of the change in use.

For a transfer from inventories to investment property, that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount shall be recognized in the Statement of Financial Performance.

### **8.11 Management and Operation of Property, Plant and Equipment and Investment Property**

Each Functional Manager is accountable to ensure that municipal resources assigned to them are utilized effectively, efficiently, economically and transparently. This will include:-

- (a) Developing appropriate management systems, procedures, processes and controls for managing PPE and investment property;
- (b) Providing accurate, reliable and up to date account of PPE and investment property under their control; and
- (c) The development and motivation of relevant strategic PPE and investment property management plans and operational budgets that optimally achieve the Municipality's strategic objectives.

Functional Managers need to manage PPE and investment property under their control to provide the required level of service or economic benefit at the lowest possible long-term cost. To achieve this, the Functional Manager will need to develop strategic PPE and investment property management plans that cover:-

- (a) Alignment with the Integrated Development Plan;
- (b) Operational guidelines;
- (c) Performance monitoring;
- (d) Maintenance programs;
- (e) Renewal, refurbishment and replacement plans;

- (f) Disposal and Rehabilitation plans;
- (g) Operational, financial and capital support requirements, and
- (h) Risk mitigation plans including insurance strategies

The operational budgets are the short to medium term plan for implementing this strategic PPE and investment property management plan.

Each Functional Manager should report to the Municipal Manager on issues that will significantly impede the item of PPE and investment property capabilities to provide the required level of service or economic benefit.

Every Head of Department shall at least once during every financial year undertake a comprehensive verification of all PPE controlled or used by the department concerned.

Every Head of Department shall promptly and fully report in writing to the Chief Financial Officer, in the format determined by the Chief Financial Officer, all relevant results of such PPE and investment property verification, provided that each such item of PPE and investment property verification shall be undertaken and completed during the month of June of each financial year, and that the resultant report shall be submitted to the Chief Financial Officer not later than 30 June of the year in question.

Every Head of Department shall promptly and fully report in writing to the Chief Financial Officer, in the format determined by the Chief Financial Officer, all transfers from its original location of PPE within 5 working days after transfer of such item.

## **8.12 Capitalization**

Only expenses incurred in the enhancement of an item of PPE, intangible assets and investment property (in the form of improved or increased services or benefits flowing from the use of such item) or in the material extension of the useful operating life of an item of PPE, intangible assets and investment property shall be capitalised.

Expenses incurred in the maintenance or reinstatement of an item of PPE, intangible assets and investment property shall be considered as operating expenses incurred in ensuring that the useful operating life of the item concerned is attained, and shall not be capitalised, taking into account International Financial Reporting Standards in respect of the expenses concerned.

Expenses which are reasonably ancillary to the bringing into operation of an item of PPE, intangible assets and investment property may be capitalised as part of such item. Such expenses may include but need not be limited to development costs, import duties, forward cover-, transportation-, installation-, assembly- and communication costs.

## **8.13 Maintenance**

### **Maintenance Plans**

Every Head of Department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the Executive Mayoral Committee for approval.

If so directed by the Municipal Manager, the maintenance plan shall be submitted to the Council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.

The Head of Department controlling or using the infrastructure asset in question, shall annually report to the Council, not later than in July or the earliest Council meeting thereafter, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the item concerned.

#### **Deferred Maintenance**

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

If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer shall redetermine the useful operating life of the fixed asset in question, if necessary in consultation with the Head of Department controlling or using such item, and shall recalculate the increased annual depreciation expenses accordingly.

#### **General Maintenance of PPE and Investment Property**

Every Head of Department shall be directly responsible for ensuring that all PPE and investment properties are properly maintained in a manner which will ensure that such items attain their useful operating lives.

### **8.14 Replacement Strategy**

The Municipal Manager, in consultation with the Chief Financial Officer and other Heads of Departments, shall formulate norms and standards for the replacement of all normal operational PPE. Such norms and standards shall be incorporated in a formal strategy, which shall be submitted to the Council for approval. This strategy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items.

Such strategy shall also provide for the replacement of PPE which are required for service delivery but which have become uneconomical to maintain.

### **8.15 Insurance of Assets**

The Municipal Manager shall ensure that all movable assets are insured at least against fire, accidents and theft, and that all immovable assets are insured at least against fire and allied perils.

If the Municipality creates a self-insurance reserve the Chief Financial Officer shall annually determine the premiums payable by the departments or votes after having received a list of the PPE and insurable values of all relevant items from the Heads of Departments concerned.

The Municipal Manager shall approve, after consulting with the Chief Financial Officer, the basis of the insurance to be applied to each type of asset. Such approval shall take due cognisance of the budgetary resources of the Municipality.

## **9 DISPOSAL OF FIXED ASSETS**

### **9.1 Restrictions Imposed by the MFMA**

The Municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a fixed asset needed to provide the minimum level of basic municipal services.

The Municipality may transfer ownership or otherwise dispose of an item of PPE or investment property other than one contemplated above, but only after the Council, in a meeting open to the public:-

- (a) has decided on reasonable grounds that the item of PPE is not needed to provide the minimum level of basic municipal services; and
- (b) has considered the fair market value of the item and the economic and community value to be received in exchange for the asset.

The decision that a specific item of PPE is not needed to provide the minimum level of basic municipal services, may not be subsequently reversed by the Municipality after that asset has been sold, transferred or otherwise disposed of.

The Municipal Manager may approve the disposal of an item of moveable property, plant and equipment, where the carrying value of such item of property, plant and equipment at the date of decision to dispose of the item, does not exceed R 50 000. The delegations to approve contracts for the disposal of an item of property, plant and equipment and are stated in the Supply Chain Management Policy.

The disposal of an item of property, plant and equipment and investment property must be fair, equitable, transparent, competitive and cost effective and comply with the prescribed regulatory framework for Municipal Supply Chain Management. The Supply Chain Management Policy covers these issues.

Transfers of PPE or investment property to another Municipality, Municipal Entity, National Department or Provincial Department are excluded from these provisions and must be dealt with in accordance with the prescribed framework contemplated in Section 14(6) of the MFMA.

### **9.2 Obsolete Assets**

Assets are regarded as being obsolete when they are replaced or withdrawn from use because of uselessness. Such assets may be dealt with in terms of the municipality's Supply Chain Management policy as envisaged in section 111 of the Municipal Finance Management Act.

Obsolete assets will be sold at a public auction or by tender.

Any alienation of assets shall be undertaken within the framework of the municipality's Supply Chain Management policy.

### **9.3 Redundant Assets**

An asset is redundant when it can still be used, but is no longer utilized in the ordinary running of the municipality. The assets might be redundant because they were utilized temporarily, for example a road construction contract or a building project that has been completed.

The redundant asset might also be immovable property that has become redundant as a result of the integration of services, e.g. when a new clinic, library or multipurpose centre is built, it might happen that existing buildings and land are no longer utilized.

The same principles as those in 9.2 above shall be followed with regard to redundant assets.

### **9.4 Conditions of Sale**

- (a) All costs pertaining to a transaction shall be borne by the buyer, e.g. survey, advertisements, relocation or provision of services where necessary, etc. The municipality may, however, waive its right to claim the costs should it be to its advantage to bear the costs. Where necessary, a deposit to cover the costs may be required.
- (b) Where applicable, existing services shall be secured by means of the registration of servitude and costs shall be for the account of the buyer.
- (c) Immovable property, which can not be utilised as a separate erf, sold to an adjacent owner must be consolidated with the existing property of the adjacent owner.
- (d) Where immovable property is sold for development, conditions in terms of which development must commence and be completed within the period as may be agreed, must be included. A condition dissolution must be included in the agreement to provide for forfeiture in the event that the development has not been commenced within the required time period. The municipality must also reserve the right to impose such conditions as deemed necessary, without limiting its rights to liquidated damage and reversionary clauses.
- (e) A reversionary clause shall be applicable to immovable property transactions sold below market value or in such instances where the conditions of sale are not met.
- (f) The property may only be used for the purpose as approved by the municipality and purposes required by town planning scheme regulations.
- (g) The agreement of sale shall be finalised and concluded within 60 days from the date of approval by the Adjudication Committee; failure to comply shall cause the approval to lapse.
- (h) The agreement must contain a suspensive condition in respect of property which is subject to approval in terms of the Land Use Ordinance, 1985, or Town Planning Scheme Regulations.

### **9.5 Conditions of Lease**

- (a) As in the case of sale, all costs pertaining to a transaction shall be borne by the lessee, and a deposit shall be considered and determined by the Municipal Manager where necessary.
- (b) No immovable property shall be sub-let without the prior approval of the municipality.
- (c) An owner of immovable property who leases adjoining municipal property may be substituted by his successor in title for the duration of the remainder of the lease term.
- (d) Rental shall escalate annually at a percentage as determined by the municipality from time to time.
- (e) The lessee shall be liable for the payment of rates and service charges in respect of the property.
- (f) The lessee will be responsible for closing off/securing the property where necessary, as well as for the securing of servitudes.
- (g) The lessee shall indemnify the municipality against any possible claims arising from the lease or use of the immovable property.
- (h) The conditions in clause (d) to (g) above shall, with the necessary adjustments, apply as conditions to the lease of property for development.
- (i) Officials from the municipality shall at all reasonable times be entitled to enter and inspect the immovable property.
- (j) The lessee shall be responsible for maintaining the leased property.
- (k) Improvements provided by the lessee shall revert, free of charge, to the municipality once the lease period has terminated and/or in the event the agreement, due to breach of conditions, has been cancelled.

### **9.6 Lease Period not Exceeding Twelve (12) Months**

- (a) The conditions contained in 9.5 (a) to (k) above shall also apply to the letting of immovable property for periods not exceeding twelve months.
- (b) Immovable property let for short term periods, i.e. 14 days for entertainment, circuses, etc, shall be subject to the following:
  - (i) the lessee shall be responsible for all costs regarding services, ablution facilities, etc.;
  - (ii) rental shall be determined by the municipality;
  - (iii) the lessee shall compensate the municipality for damages to the property for whatever reason.

## **10 PROJECTIONS, PROJECTING STRUCTURES AND ENCROACHMENTS**

The municipality may, subject to such conditions as it may deem fit, including the payment of a rental -

- (a) Permit the erection or retention of a verandah, balcony, sign, sign-board or similar structure, device or contrivance which projects or extends into or over any public place or public street (hereinafter referred to as a "projection"); provided that -
  - (i) the erection or retention of such a projection shall not be permitted on the level of more than one floor;
  - (ii) no such projection shall be fully enclosed to a height of more than one comma five metres measured from the floor level thereof; and
  - (iii) no such projection shall be partially enclosed to a height of more than one comma five metres measured from the floor level thereof except with the prior written approval of the municipality and subject to such conditions as it may impose, or
- (b) Where the erection or retention of a building or structure which projects or extends into, over or under any public place or public street (hereinafter referred to as a "projecting structure"), is not permitted in terms of paragraph (a), permit such erection or retention where the land comprised in such place or street -
  - (i) is not owned by the municipality if, in the opinion of the municipality, such projecting structure will not or does not impede, restrict or interfere with the construction, maintenance and use of such place or street, or
  - (ii) is owned by the municipality, if, in the opinion of the municipality, such projecting structure is erected as part of the development of the specific property in accordance with a provision contained in the municipality's town planning scheme which applies specifically to such property.
- (c) When immovable property under the control or management of the municipality is encroached upon, the municipality may take such steps as may, in the opinion of the municipality, be necessary to remove or regularise such encroachment.
- (d) The municipality may reduce the extent of a public place or public street which is encroached upon by the extent of the encroachment or by such greater extent as may, in its opinion, be desirable.

## **11 OUT OF HAND SALE AND LETTING**

- (a) Closed streets, lanes and public open spaces which can not be utilised as an individual erf, may be sold/let out of hand to adjoining owners, provided that -
  - (i) written notice has been served on all adjoining owners; and
  - (ii) the selling price shall be at market value; or
  - (iii) the rental shall be at market value, provided that the rental of land for garden purposes shall be determined by the municipality.
- (b) Immovable property may be sold/let out of hand to other spheres of government and other local authorities. All such immovable property transactions must be considered on a market value basis, except in the following cases:

- (i) where immovable property is acquired for the development of a formal township and such township is to be transferred to the municipality at a later stage;
  - (ii) where the property will be used for projects with a view to social and economic upliftment of a previously disadvantaged group.
- (c) The out-of-hand lease of land for outdoor seating adjoining to restaurant owners is permitted and the rental charged shall be determined by the municipality.

## **12 SELLING OF LAND TO CHURCHES**

In view of the demand for church sites, the selling of land to churches, subject to the municipality's supply chain management policy, shall be dealt with as follows:

- (a) Like any other land, sites or land shall be sold to churches at market value;
- (b) The municipality may, however, decide to sell at a price lower than market value in which case a reversionary clause shall be included in the deed of sale. The municipality's reasons for not selling at market price shall be reflected in the minutes of the relevant council meeting and be advertised for public comment;
- (c) Where more than one church apply to buy the same site or premises it shall be offered for sale by means of tender in which case the highest purchase price shall be accepted subject to the requirements in (d) (i) – (iv) below;
- (d) The following requirements will apply to all sales of church sites:
  - (i) Proof of membership of at least 100 members must be submitted;
  - (ii) A copy of the constitution of the church must be submitted;
  - (iii) Financial statements must be submitted as proof of the ability of the church to purchase the site and erect the required buildings;
  - (iv) A building clause, placing an obligation on the church to complete the required church buildings within two years from the date of purchase, shall be included in the deed of sale.

## **13 IMPLEMENTATION OF THIS POLICY**

This policy shall be implemented once approved by Council. All future asset management must be done in accordance with this policy.

This policy must be reviewed whenever it is a required in terms of operational- or legislative changes or as a result of audit requirements.

**APPENDIX A**

**SCHEDULE OF EXPECTED USEFUL LIVES OF ASSETS**

	<u>ASSET LIFE</u>		<u>ASSET LIFE</u>
<b>INFRASTRUCTURE ASSETS</b>			
<b>ELECTRICITY:</b>			
Power stations	30	<b>GAS:</b>	
Cooling towers	30	Meters	20
Transformer kiosks	30	Main supply	20
Meters	20	Storage tanks	20
		Supply and reticulation networks	20
Load control equipment	20		
Switchgear	20	<b>SEWERAGE:</b>	
Supply and reticulation networks	20	Sewer mains	20
Main supply	20	Outflow sewers	20
		Sewerage purification works	20
		Sewerage pumps	15
		Sludge machines	15
<b>ROADS:</b>		<b>PEDESTRAIN MALLS:</b>	
Motorways	15	Footways	20
Other roads	10	Kerbing	20
Traffic islands	10	Paving	20
Traffic lights	20		
Street lights	25	<b>AIRPORTS:</b>	
Overhead bridges	30	Taxiways	20
Stormwater drains	20	Runways	20
Bridges, subways and culverts	30	Aprons	20
Car parks	20	Airport and radio beacons	20
Bus terminals	20		
		<b>SECURITY</b>	
<b>WATER</b>		Fencing	3
Meters	15	Security systems	5
Mains	20	Access control systems	5
Rights	20		
Supply and reticulation networks	20		
Reservoirs and storage tanks	20		
Pumps	15		
<b>COMMUNITY ASSETS</b>		<b>COMMUNITY ASSETS</b>	
<b>RECREATIONAL FACILITIES</b>		<b>BUILDINGS</b>	
Bowling greens	20	Ambulance stations	30
Tennis courts	20	Aquariums	30
Swimming pools	20	Beach developments	30
Golf courses	20	Care centres	30
Jukskei pitches	20	Cemeteries	30
Outdoor sport facilities	20	Civic theatres and community centres	30
Organ	20	Clinics and hospitals	30
Lakes and dams	20	Game reserves and rest camps	30
Fountains	20	Stadiums and indoor sports	30
Flood lights	20	Museums and galleries	30
		Parks and public conveniences	30
		Recreational centres and zoo	30

**SCHEDULE OF EXPECTED USEFUL LIVES OF ASSETS**

**OTHER ASSETS**

**BUILDINGS**

Abattoirs	30
Asphalt plant	30
Cable stations	30
Caravan Parks	30
Bioscope	30
Compacting stations	30
Hostels for public / tourists	30
Hostels for employees	30
Housing schemes	30
Kilns	30
Laboratories	30
Markets	30
Nurseries	30
Office buildings	30
Old age homes	30
Quarries	30
Tip sites	30
Training centres	30
Transport facilities	30
Workshops and depots	30

**OFFICE EQUIPMENT**

Computer hardware	5
Computer software	3-5
Office machines	3-5
Air conditioners	5-7

**FURNITURE AND FITTINGS**

Chairs	7-10
Tables and desks	7-10
Cabinets and cupboards	7-10
Sundry	2-10

**BINS AND CONTAINERS**

Household refuse bins	5
Bulk refuse containers	10

**OTHER ASSETS**

**EMERGENCY EQUIPMENT**

Other fire fighting equipment	15
Ambulances	5-10
Fire hoses	5
Emergency lights	5

**MOTORVEHICLES**

Fire engines	20
Buses	15
Motor vehicles	5-7
Motorcycles	3
Trucks and light delivery vehicles	5-7

**AIRCRAFT**

15

**WATERCRAFT**

15

**PLANT AND EQUIPMENT**

Graders	10-15
Tractors	10-15
Mechanical horses	10-15
Farm equipment	5
Lawn mowers	2
Compressors	5
Laboratory equipment	5
Radio equipment	5
Firearms	5
Telecommunication equipment	5
General	5
Cable cars	15
Irrigation systems	15
Cremators	15
Lathes	15
Machining equipment	15
Conveyors	15
Feeders	15
Tipppers	15
Pulverising mills	15