

# PRINCE ALBERT MUNICIPALITY



## ASSET DISPOSAL POLICY

**Draft Policy**

**2025 / 2026**

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## **1. INTRODUCTION**

- 1.1) The purpose of the Asset Disposal Policy is to provide a framework for the disposal of the municipality's assets that are not needed to provide the minimum level of basic municipal services and that are surplus to the municipality's requirements.
- 1.2) Section 14 of the Municipal Finance Management Act (Act No. 56, 2003) states:  
*"A municipality may not transfer ownership as a result of a sale or other transaction, or otherwise permanently dispose of any capital asset needed to provide a minimum level of basic municipal services."*
- 1.3) A municipality may transfer ownership or otherwise dispose of a capital asset, other than an asset mentioned above, only after the disposal committee meeting:
  - 1.3.1) has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
  - 1.3.2) has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

## **2. OBJECTIVE OF POLICY**

- 2.1) The objectives of the Asset Disposal Policy are to:
  - 2.1.1) Ensure that only assets that do not provide the minimum level of basic municipal services are disposed of.
  - 2.1.2) Ensure that assets are not disposed when the disposal of the asset or the terms of the disposal of the asset could disadvantage the municipality or community financially or otherwise.
  - 2.1.3) Ensure that all disposals are, in terms of section 14(5) of the Municipal Finance Management Act (Act No. 56, 2003), fair, equitable transparent, competitive and consistent with the Supply Chain Management Policy of the municipality.

## **3. SCOPE**

- 3.1) The Asset Disposal Policy is applicable to all directorates of the municipality and all assets owned by the municipality (immovable and movable assets).

#### **4. DEFINITIONS**

**4.1) Asset**

An asset shall mean any resource controlled by the municipality, from which the municipality expects to derive economic benefits or use for service delivery to the general public over a period extending beyond one financial year.

**4.2) Basic municipal service**

Basic municipal service means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment.

**4.3) Carrying amount**

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

**4.4) Council**

Council means the Municipal Council of the Prince Albert Municipality.

**4.5) Disposal**

Disposal means a process of preparing, negotiating and concluding a written contract where necessary which involve the alienation of an asset no longer needed by the municipality by means of a sale, a lease or a donation.

**4.6) Fair value**

The fair value of an asset is the amount obtainable from the sale of the asset in an arm's length transaction between willing parties less the selling costs.

#### **5. DISPOSAL COMMITTEE**

The Council shall establish a Disposal Committee. The Chairperson of the Disposal Committee must be a senior official.

#### **6. PLANNING FOR DISPOSALS**

- 6.1) Each directorate within the organisation is responsible for the strategic planning for the disposal of assets that cause the municipality not to perform service delivery efficiently and effectively.

- 6.2) Planning for disposals must be conducted by directorates on an annual basis and revised on quarterly basis and must be submitted to the Disposal Committee for approval. The planning should involve a detailed assessment of assets identified as surplus, redundant or obsolete by the directorate.
- 6.3) Surplus, obsolete or redundant assets include the following:
  - 6.3.1) Assets not required for the delivery of services, either currently, or over the longer planning period.
  - 6.3.2) Assets that have become uneconomical to maintain or to operate.
  - 6.3.3) Assets that are not suitable for service delivery.
  - 6.3.4) Assets that have a negative impact on the service delivery of the municipality, the environment or the community.
  - 6.3.5) Assets that no longer support the municipality's service objective due to a change in type of service being delivered or the delivery method.
  - 6.3.6) Assets where the use has become uneconomical to continue due to the limited availability of spares or the cost of replacement parts exceed the reasonable value of the asset.
  - 6.3.7) Assets where the technology has been outdated.
  - 6.3.8) Assets which can no longer be used for the purpose originally intended.
- 6.4) Planning for disposals offers directorates the means of disposal of surplus assets timed to minimize disruption to their service delivery and maximize returns by selecting appropriate time in the assets' life cycle.

## **7. ASSESSING DISPOSALS**

- 7.1) The Disposal Committee is responsible for assessing the disposals proposed by the directorates of the municipality. The Disposal Committee shall also consider the following factors:
  - 7.1.1) Whether there are net disposal benefits, either in financial or other forms.
  - 7.1.2) Whether there is secondary service obligations associated with the asset that dictates its retention.
  - 7.1.3) Whether a disposal can be carried out without adverse impacts on the physical environment.
- 7.2) In assessing the benefits of disposal, the advantages and disadvantages for the whole municipality, not just the controlling directorate, must be considered. Assets

that have been identified as surplus may need to be retained due to heritage, social, environmental considerations or requirements of other Directorates.

- 7.3) The symbolic importance and the cultural significance of assets should also be considered when assessing the disposal of the asset.
- 7.4) The Disposal Committee should consider the advantages of engaging experts if their experience in disposal activities is infrequent or not core business to assist with the activities in the disposal cycle.
- 7.5) Not all assets identified as surplus will be able to be sold at a value greater than its carrying amount. In such circumstances, the advantages of disposing the asset must be weighed against the costs of continued ownership.
- 7.6) Examples of cost of ownership include:
  - 7.6.1) Insurance
  - 7.6.2) Maintenance
  - 7.6.3) Storage costs
  - 7.6.4) Operating costs
  - 7.6.5) Staffing costs
- 7.7) Retaining such assets in service when they no longer effectively support service delivery will expend resources that could otherwise be used elsewhere and could effectively constrain investment in more suitable and economic assets.
- 7.8) Disposals need not always be for a financial gain. Other opportunities and gains should also be taken into consideration, for example:
  - 7.8.1) Swapping one asset for another
  - 7.8.2) Construction of a facility for the municipality in return for the asset.

## **8. APPROVAL OF DISPOSALS**

- 8.1) The Asset Management Unit shall prepare an item based on applications received from directorates requesting assets to be disposed of, or request for free donations from the non-profit organisations and educational institutions to Disposal Committee for approval.

- 8.2) The Disposal Committee shall be responsible for the approval of the disposal of any assets after:
- 8.2.1) deciding on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
  - 8.2.2) consideration of the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- 8.3) The Disposal Committee shall be responsible to meet regularly to assess and approve disposals submitted by the Supply Chain Management Unit, on behalf of the directorates.

## **9. METHOD OF DISPOSAL**

- 9.1) Disposal of an asset should be performed in a manner which satisfies the following objectives:
- 9.1.1) The disposal should take place on an equitable basis. There should be an equal opportunity for all to purchase the asset.
  - 9.1.2) The best possible return for the municipality must be achieved.
  - 9.1.3) Any adverse environmental impacts should be avoided.
- 9.2) The municipality should document a clear stipulation of the basis on the decision taken to dispose of an asset.
- 9.3) The following methods of disposal could be used to achieve the objectives mentioned above:

### **9.3.1) Auction**

- 9.3.1.1) Benefits of an auction are as follows:

- a) Process is more straightforward.
- b) Process is open to public scrutiny.
- c) In some circumstances an auction may generate a higher price.

### **9.3.2) Tender**

- 9.3.2.1) This method of disposal is preferred where more control over the actual disposal of the asset is required or where the credentials of the purchaser need to be assessed in detail.

- 9.3.2.2) This method is preferable if an objective of the disposal is to achieve black economic empowerment by the transfer of the asset.

## **10. PROCEDURES TO BE FOLLOWED WHEN DISPOSING AN ASSET.**

When an asset of the municipality is no longer in use, the following procedures must be followed:

- 10.1) Asset(s) that are uneconomical to maintain or operate must be identified.
- 10.2) An Asset Disposal Form must be completed and signed by the Head of Department
- 10.3) The Disposal form must clearly motivate the reasons for the disposal of such asset(s).
- 10.4) The application to dispose of an asset form must be completed and sent to Asset Management Unit for assessment.
- 10.5) If the item is of a technical nature e.g. computer equipment, a request must be forwarded to IT division to check the status of the equipment and submit a report to Asset Unit
- 10.6) Based on the reports and motivation submitted by the departmental heads, a motivation will then be submitted to the Disposal Committee for approval to dispose of an asset.
- 10.7) The disposal committee members will authorise the disposal of an asset by signing the (Authority to dispose of an asset form)
- 10.8) The approved forms (Authority to dispose an asset forms) shall be forwarded to Supply Chain Management Unit for disposal
- 10.9) In a case of disposing a uniform, the relevant disposing department dealing with free donation of uniforms should adhere to the procedure below
- 10.10) Disposal of immovable assets shall be dealt with in terms of the directives as detailed in the immovable asset disposal document approved by council.
- 10.11) In the event of the disposal of computer equipment:
  - a) In the case of desktop computers, only on the recommendation of the IT-department will the item be disposed of.



- b) Preference shall be given to educational institutions, welfare and charitable organisations.
- c) Councillors and officials on termination of service with Council, may purchase the notebook computers allocated to them at the written- down value thereof (this value to be determined on a straight-line depreciation basis over the asset's useful life.
- d) Due to the advancement in computers and inherent depreciation of the value of computers, obsolete laptops, notebooks and desktops PC's officials shall be granted the opportunity to purchase such equipment at the depreciated value.

## **11. FREE DISPOSALS OF ASSETS**

11.1) The following criteria is to be used in a case of a free disposal of an asset:

11.1.1) The following types of organisations shall be considered for a free disposal of municipality assets:

- a) Registered welfare or Charitable Organisations except for Community Chest Organisations.
- b) Schools catering for handicapped and disabled,
- c) Schools for special learners
- d) Educational institutions initiating programmes for the benefit of the community of the Prince Albert Municipality.

11.1.2) Free disposal of municipality assets shall be applicable to the following assets:

- a) Obsolete furniture and redundant equipment
- b) Computer equipment
- c) Computer notebooks (in a case where the user of the notebook did not exercise the purchase option)
- d) Used uniforms that are old but could be donated to needy organisations.

11.2) The following procedures shall apply on consideration of an application for a free disposal of assets except for uniforms and computer equipment that will be dealt with under clause 11.3:

11.2.1) Applications shall be directed to Prince Albert Municipality for the attention of the Municipal Manager.

11.2.2) The application shall be accompanied by the following:

- a) Motivation with reasons for requesting a free disposal of such a particular asset of the municipality, or existence in the community
- b) Proof of registration of the organisation/ institution

### **11.3) Free Donation in respect of computer equipment**

11.3.1) Where computer equipment is to be disposed of, the relevant Provincial Department of Education should be approached to make arrangements for free transfer of such items to educational institutions. Note that no computer equipment may be disposed of unless the matter was referred to the IT Steering Committee, for its written recommendations.

11.3.2) The following criteria must apply when donating assets to outside organizations in respect of: Computer equipment:

11.3.2.1) Reference shall be given to educational institutions, welfare and charitable organisations as described below.

11.3.2.2) Applications shall be directed to Prince Albert Municipality for the attention of the Municipal Manager.

11.3.2.3) The application shall be accompanied by the following:

- a) Motivation with reasons for requesting a free disposal of such a particular asset of the municipality, or existence in the community.
- b) Proof of registration of the organisation/ institution.

### **11.4) Free donation of Used Uniforms**

11.4.1) The relevant head of department dealing with uniforms shall identify needy organisations where the used and old uniform will be donated.

11.4.2) Departments must adhere to the following:

- a) All badges shall be removed before any donation takes place.

### **11.5) Other method**

11.5.1) Any other proposed method of disposal shall be communicated to the Asset Management Unit for submission to the disposal committee for approval. It is preferable that the method of disposal be included in the disposal plan for each department.

## **12. LACK OF OTHER POSSIBLE PURCHASERS**

- 12.1) Disposal of assets by direct negotiations with one possible interested party should be the exception rather than the rule.
- 12.2) When sale by auction or tender has failed due to lack of demand or unacceptable offers were received and established further efforts indicate that efforts to dispose of the asset by auction or tender is unlikely to succeed, direct possible negotiations with one possible interested party shall be allowed.

## **13. FINAL AUTHORISATION OF DISPOSAL**

- 13.1) Before any asset is disposed of, the department under whose control the relevant asset is will be responsible to prepare a disposal authorisation document that will detail the following information:
  - 13.1.1) Fixed asset register information of the asset to be disposed of.
  - 13.1.2) Results of the asset disposal method.
  - 13.1.3) Proposed terms and conditions of the purchase agreement.
  - 13.1.4) The recommended purchase price.
  - 13.1.5) The carrying value of the asset.
- 13.2) Assets may not be disposed of at a value that is less than its carrying value unless the Disposal Committee determines that there is a mitigating reason to dispose the asset at the lesser value.
- 13.3) The final approval of the disposal shall be conducted at a meeting in terms of the Municipal Finance Management Act (Act No. 56, 2003) and decisions taken shall be documented for future reference by the municipality.

#### **14. TRANSFER OF OWNERSHIP**

- 14.1) The municipality shall be allowed to transfer ownership of the asset only after the following events have occurred:
  - 14.1.1) The department has received a notification from the Asset Management Unit that the Disposal Committee has approved the disposal of the asset in terms of Section 14 of the Municipal Finance Management Act (Act No. 56, 2003).
  - 14.1.2) Then municipality has received payment in full or partial payment in terms of the terms and conditions of the purchase agreement where necessary.
- 14.2) At transfer of ownership of the asset, the purchaser must sign an acknowledgement of receipt form as evidence that the purchaser has received the asset according to the terms and conditions of the purchase agreement and in the expected physical condition.

#### **15. ACCOUNTING FOR THE DISPOSAL OF ASSETS**

- 15.1) When an asset is disposed of the cost of the asset and the accumulated depreciation recorded in the statement of financial position need to be reversed to the statement of financial performance a profit and loss on disposal of asset account. This will result in a debit in the statement of financial performance equal to the asset's carrying value.
- 15.2) The total proceeds to be received from the disposal of the asset need to be credited to the profit and loss on disposal of asset account. The account will now reflect a debit or credit amount in the statement of financial performance equal to the profit and loss on disposal equal to the result of the calculation discussed in paragraph 11.
- 15.3) Note that depreciation will need to be calculated up to the date of disposal. If the disposal date is during a financial year, the depreciation needs to be calculated on a pro rata basis based on completed months of ownership or use. No depreciation is calculated for the asset after the disposal date.
- 15.4) At the disposal date the asset being disposed of needs to be derecognised from the fixed asset register of the municipality.
- 15.5) Other accounting and disclosure matters discussed in the Asset Management Policy of the municipality also need to be adhered to.

## **16. REVISION OF POLICY**

- 16.1) It will be the responsibility of the Asset Management Unit to consider the provisions of this policy on an annual basis. The Financial Services Department shall request all Departmental Heads to submit their proposed changes for submission to Council for approval.

## **17. SHORT TITLE AND COMMENCEMENT**

This policy shall be called the Municipal Asset Disposal Policy (Draft) of the Prince Albert Municipality, and will come into effect on 01 July 2025.

# PRINCE ALBERT MUNICIPALITY



## ASSET MANAGEMENT POLICY

**Draft Policy**

**March 2025**

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## **1. INTRODUCTION**

- 1.1) This policy for the management of assets has been designed to assist management and officials of the Prince Albert Municipality with the description of management procedures for Property, Plant and Equipment, Investment Property, Agricultural Assets and Intangible Assets. It also should 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 assets and functions of the organisation.
- 1.2) 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.
- 1.3) For the purpose of this policy, assets exclude inventory and monetary assets such as debtors.
- 1.4) This policy replaces all asset management procedures/instructions and memoranda that have been previously issued.
- 1.5) Failure to comply with this policy will result in the institution of disciplinary procedures in terms of the stipulated human resource policies and procedures of the Municipality.

## **2. OBJECTIVE**

The objective of this policy is to ensure that assets of the Municipality are properly managed and accounted for by:

- 2.1) The accurate recording of essential asset information;
- 2.2) The accurate recording of asset movements;
- 2.3) Exercising strict physical controls over all assets;
- 2.4) Treating the assets correctly in the Municipality's financial statements;
- 2.5) Providing accurate and meaningful management information;
- 2.6) Compliance with the Council's accounting policies and Generally Recognised Accounting Practices;
- 2.7) Adequate insuring of assets;
- 2.8) Maintenance of Council's assets;
- 2.9) Ensuring that managers are aware of their responsibilities with regard to the assets; and
- 2.10) Setting out the standards of management, recording and internal controls so as to safeguard the assets against inappropriate utilisation or loss.

### **3. STATUTORY FRAMEWORK**

The statutory framework for this policy consists of the following main pieces of legislation, but is not limited to:

- 3.1) The Constitution of the Republic of South Africa, Act 108 of 1996;
- 3.2) Local Government: Municipal Structures Act, No 117 of 1998;
- 3.3) Local Government: Municipal Systems Act, No 32 of 2000;
- 3.4) Local Government: Municipal Finance Management Act, No. 56 of 2003;
- 3.5) Local Government: Municipal Asset Transfer Regulations No. 31346 of 2008;
- 3.6) Local Government: Municipal Supply Chain Management Regulations No. 27636;
- 3.7) Generally Recognised Accounting Practices (GRAP)

### **4. ACCOUNTING STANDARDS**

This document constitutes a policy statement and shall not take precedence over the standards specified by the Accounting Standards Board. The relevant accounting standards include:

- GRAP 1 – Presentation of Financial Statements;
- GRAP 13 – Leases;
- GRAP 16 – Investment Property;
- GRAP 17 - Property, Plant and Equipment;
- GRAP 100 - Discontinued Operations;
- GRAP 27 - Agricultural;
- GRAP 31 – Intangible Assets; and
- IAS 36 - Impairment of Assets

### **5. DEFINITIONS**

Every effort has been made to use definitions established through legislation, standards of accounting and other guidance on asset management. Should uncertainty arise regarding a specific definition the definition as per the relevant original legislation or standard of accounting shall be referred to.

**“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).

**“Agricultural Activity”** is the management by an entity of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

**“Active market”** is a market in which all the following conditions exist:

- The assets traded within the market are homogeneous;
- Willing buyer and seller can normally be found at any time; and
- Prices are available to the public.

**“Agricultural Produce”** is the harvested product of the entity's biological assets.

**“Amortisation”** is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

**“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. However, for the purpose of this policy exclude inventory and other monetary assets.

**“Asset categories”** are the six main asset categories defined as follows:

- Infrastructure assets – are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewage purification and trunk mains, transport terminals and car parks.
- Community assets – are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.
- Heritage assets – are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- Investment properties – are defined as properties that are acquired for economic and capital gains. Examples are office parks and under-developed land acquired for the purpose of resale in future years.
- Intangible assets – are identifiable assets without physical substance.
- Other assets – are defined as assets utilized in normal operations. Examples are plant, equipment, motor vehicles and furniture and fittings.

**“Asset's Life-Cycle”** is the cycle of activities that an asset goes through – including planning, design, initial acquisition and/or construction, cycle of operation and maintenance and capital renewal and finally disposal.

**“Asset Manager”** is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the Municipality’s assets in accordance with the entity’s standards, policies, procedures and relevant guidelines.

**“Asset Register”** is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements.

**“Biological Asset”** is a living animal or plant.

**“Biological Transformation”** comprises the processes of growth, degeneration, production and procreation that cause qualitative or quantitative changes to a biological asset.

**“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.

**“Commercial service”** means a service other than a municipal service:

- (a) rendered by a private sector party or organ of state to or for a municipality or municipal entity on a commercial basis; and
- (b) which is procured by the municipality or municipal entity through its supply chain management policy.

**“Community Assets”** – are defined as any asset that contributes 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.

**“Depreciation”** – is the systematic allocation of the depreciable amount of an asset over its useful life.

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

**“Depreciated replacement cost”**, in relation to capital assets, means an amount equivalent to the cost to replace the capital assets on the date of transfer adjusted by a deemed depreciated cost at the date of the transfer taking into account the age and condition of the assets.

**“Disposal”**, in relation to capital assets, includes –

- (a) the demolition, dismantling or destruction of the capital assets; or
- (b) any other process applied to capital assets which results in loss of ownership of the capital assets otherwise than by way of transfer of ownership.

**“Disposal management system”** means the system contemplated in regulation 40 of the Municipal Supply Chain Management Regulations, published by General Notice No. 868 of 2005.

**“Enhancements / Rehabilitation”** is an improvement or augmentation of an existing asset beyond its original recognized service potential for example useful life, capacity, quality and functionality.

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

**“GRAP”** is Standards of Generally Recognised Accounting Practice

**“Head of department / senior manager”** – means a manager referred to in section 56 of the Municipal Systems Act.

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

**“Historical cost”** - means the original purchase price or cost of acquisition of the capital assets at the time the assets were acquired

An **“impairment loss of cash generating assets”** is the amount by which the carrying amount of assets exceeds its recoverable amount.

An “**impairment loss of non-cash generating assets**” is the amount by which the carrying amount of assets 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.

“**Municipality**” means the Prince Albert Municipality.

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

“**Property, Plant and Equipment**” (**PPE**) – 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.

“**Realisable value**” means the amount of cash or cash equivalents that could currently be obtained by transferring the capital assets, less the estimated cost of completion and the estimated costs necessary to make the transfer.

“**Recoverable Amount**” – is the amount that the Municipality expects to recover from the future use of assets, including its residual value on disposal.

“**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 assets is the estimated amount that an entity would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, if the assets were already of the age and condition expected at the end of its useful life.

**“Right to use, control or manage”** means a right to use, control or manage the capital assets for a period exceeding one calendar month without ceding legal ownership in the assets. In other words, where the granting of such rights does not amount to the transfer or permanent disposal of the assets, for example when a right is acquired through a leasing, letting or hiring out arrangement.

**“Senior Manager”** is a manager referred to Section 57 of the Municipal Systems Act (MSA) being someone reporting directly to the municipal manager.

**“Service provider”** –

- (a) in relation to a municipal service, means a private sector party or organ of state appointed by a municipality in terms of Chapter 8 of the Municipal Systems Act to perform a municipal service in accordance with that Act; or
- (b) in relation to a commercial service, means a private sector party or organ of state appointed in terms of the supply chain management policy of a municipality or municipal entity to render a commercial service to or for the municipality or entity as an independent contractor.

**“Supply chain management policy”** means the supply chain management policy which a municipality or municipal entity is required to have in terms of Chapter 11 of the Act.

**“The Act”** means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

**“Transfer”**, in relation to a capital or subsidiary asset, means transfer of ownership in the asset as a result of a sale or other transaction.

**“Useful Life”** – is either:

- a) the period of the 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.

## **6. BACKGROUND**

- a) The utilization and management of PPE, investment property, intangible assets and agricultural assets is the prime mechanism by which the Municipality can fulfil its constitutional mandates for:
  - (i) Delivery of sustainable services

- (ii) Social and economic development;
  - (iii) Promoting safe and healthy environments; and
  - (iv) Fulfilling the basic needs to the community.
- b) 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 assets.
- c) 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 asset.
- d) The policy for the management of assets deals with the Municipal rules required to ensure the enforcement of appropriate stewardship of assets. Stewardship has two components being the:-
- (i) Financial administration by the Chief Financial Officer; and
  - (ii) Physical administration by the relevant managers.
- e) Statutory provisions are being implemented to protect public property against arbitrary and inappropriate management or disposals by local government.
- f) Accounting standards have been approved by the Accounting Standards Board to ensure the appropriate financial treatment for property, plant and equipment, investment property, intangible assets and agricultural assets. The requirements of these new accounting standards include:
- (i) The compilation of asset registers covering all assets controlled by the Municipality.
  - (ii) Accounting treatment for the acquisition, disposal, recording and depreciation / amortisation of assets.
  - (iii) The standards to which financial records must be maintained to comply with the new accounting standard

## **7. DELEGATION OF POWERS**

- a) 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.



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

## **8. RESPONSIBILITIES OF ROLEPLAYERS**

### **8.1) Municipal Manager**

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.

### **8.2) Chief Financial Officer**

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
- f) Municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- g) The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets.
- h) 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.

### **8.3) Senior Managers**

- a) The Senior Managers must ensure that:-
  - (i) Appropriate systems of physical management and control are established and carried out for assets in their area of responsibility.
  - (ii) The Municipal resources assigned to them are utilized effectively, efficiently, economically and transparently.
  - (iii) Any unauthorized, irregular or fruitless or wasteful utilization and losses resulting from criminal or negligent conduct are prevented.
  - (iv) Their management systems and controls can provide an accurate, reliable and up to date account of assets under their control.
  - (v) They are able to justify that their plans, budgets, purchasing, maintenance and disposal decisions for assets optimally achieve the Municipality's strategic objectives.
- b) The senior managers may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring that these activities are performed.
- c) Each senior manager should report to the Municipal Manager on issues that will significantly impede the item of asset capabilities to provide the required level of service or economic benefit.
- d) The responsibility for the physical control of assets rests with the relevant senior manager to whom the responsibility was delegated to in terms of section 79 of the Municipal Finance Management Act, No 56 of 2003.

- e) Each senior manager shall ensure that assets entrusted to him / her are adequately maintained, properly used and insured and ensure that section 78 of the Municipal Finance Management Act, No 56 of 2003, is adhered to.
- f) No amendments, deletions or additions to the asset register shall be made other than by the Asset Manager or by an official acting as the Asset Manager and must be authorized by the Chief Financial Officer.
- g) Upon the resignation / retirement of an employee, the applicable senior manager must inform the Chief Financial Officer and Corporate Service Department in writing that the asset items entrusted to that employee to execute his / her duties are in good order and returned. When necessary, the applicable senior manager must inform the Corporate Services Department of any losses and the value of such losses. The ultimate responsibility of any losses lies with the relevant senior manager.

## **9. ASSET REGISTER**

- 9.1) The asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of generally recognised accounting practice (GRAP) and any other accounting requirements which may be prescribed.
- 9.2) The asset register shall reflect the following information:
  - a) a brief but meaningful description of each asset
  - b) the date on which the asset was acquired or brought into use
  - c) the location of the asset
  - d) the responsible senior manager and department(s) or vote(s) within which the assets will be used
  - e) the title deed number, in the case of property
  - f) the stand number, in the case of property
  - g) where applicable, the identification number
  - h) the measurement based used (Cost or Fair Value)
  - i) the original useful life
  - j) the revised useful life
  - k) the residual value
  - l) the original cost, or the revalued amount or the fair value if no costs are available
  - m) the (last) revaluation date of the assets subject to revaluation
  - n) the revalued value of such assets
  - o) who did the (last) revaluation

- p) accumulated depreciation to date
- q) the depreciation charge for the current financial year
- r) the carrying value of the asset
- s) the method and rate of depreciation
- t) impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- u) method of calculating recoverable amount (when impairment test is required in terms of GRAP)
- v) increases or the decreases resulting from revaluations (if applicable)
- w) the source of financing
- x) condition of the asset
- y) the current insurance arrangements
- z) whether the asset is required to perform basic municipal services
- aa) whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
- bb) the date on which the asset is disposed of
- cc) the disposal price
- dd) the date on which the asset is retired from use, if not disposed of.

9.3) All heads of department under whose control any asset falls shall promptly provide the Chief Financial Officer in writing with any information required to compile the asset register, and shall promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.

9.4) An asset shall be capitalised, that is, recorded in the asset register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a fixed asset. An asset shall remain in the asset register for as long as it is in physical existence.

9.5) The Asset Manager must ensure that reconciliations are performed on a monthly basis between the general ledger values and the asset values and to be submitted to the Chief Financial Officer.

9.6) The Chief Financial Officer must check and authorize the reconciliations as correct.

9.7) Depreciation methods and rates used must be approved by the Chief Financial Officer.

- 9.8) The Asset Manager should allocate depreciation rates and methods to each asset class, and ensure that depreciation calculations are correctly applied and posted in the general ledger.

## **10. CLASSIFICATION OF ASSETS**

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

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

- (a) Land (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).

Save for land and buildings other assets shall be classified under the following headings:

- (a) Computer equipment
- (b) Office equipment;
- (c) Furniture and fittings;
- (d) Radio Equipment;
- (e) Plant and machinery;
- (f) Motor Vehicles; and
- (g) Emergency Equipment

### **10.2) Investment Property**

- 10.2.1) Investment assets (resources held for capital or operational gain and which are not used by the Municipality). Properties occupied by the Municipality, Councillors or officials are classified as owner-occupied property and are therefore not classed as investment property.

10.2.2) Investment properties will be treated in accordance with GRAP 16 and will separately be classified in the Statement of Financial Position. Investment properties will not be depreciated but will annually be revalued.

### **10.3) Intangible Assets**

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

10.3.2) Intangible assets will be treated in accordance with GRAP 102 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.

### **10.4) Agricultural Assets**

10.4.1) Agricultural Assets will be treated in accordance with GRAP 101 and will separately be classified in the Statement of Financial Position,

### **10.5) Assets Treated as Inventory**

10.5.1) Any land or buildings owned or acquired by the Municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the Municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the Municipality's statement of position.

10.5.2) Such inventories shall, however, be recorded in the asset register in the same manner as other fixed assets, but a separate section of the asset register shall be maintained for this purpose.

10.5.3) The Chief Financial Officer shall use the classifications indicated in the Annexure on estimated lives of assets, as a guideline and in the case of an item of assets not appearing in the Annexure shall use the classification applicable to the asset most closely comparable in the Annexure.

## **11. CAPITALISATION CRITERIA**

### **11.1) PPE and Intangible Assets**

11.1.1) All assets may only be acquired in terms of Council's Supply Chain Management Policy and in terms of the budgetary provisions. The responsibility for the purchase of assets would be delegated in terms of Council's Delegation Framework and Supply Chain Management Policy. Depending on the cost of the asset to be purchased the following procedure for purchasing an asset must be followed:

- (a) Senior managers shall at all times ensure that there are enough funds in their departmental budgets before requesting approval to any requisition to purchase an asset;
- (b) Senior managers shall ensure that the correct vote and expenditure line item are used and recorded on the requisition requesting approval to purchase an asset;
- (c) Tenders or quotations as required in terms of Council's Supply Chain Management policy should be obtained and where required submitted to Council's tender committee for approval.
- (d) The tender committee resolution of the approved tender or recommended quotation should be attached to the requisition signed by the relevant head of department.
- (e) The order would then be generated by the Budget and Treasury department.
- (f) Once delivered the asset must be labelled / bar-coded by the Budget and Treasury department before such asset is put into use.
- (g) The senior manager should endorse receipt of the asset on the invoice and forward it for payment to the Budget and Treasury department; and
- (h) The Budget and Treasury department would then generate payment.

- 11.1.2) The completion of any immovable asset by or under control of every head of department should promptly be declared to the Chief Financial Officer in writing stating the full details required for recording in the assets register.
- 11.1.3) 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.
- 11.1.4) 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.
- 11.1.5) 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 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.
- 11.1.6) The only exceptions to this rule shall be revalued items of PPE (see part 7.9 below) and heritage assets in respect of which no depreciation is recorded in the asset register.
- 11.1.7) Subsequent expenditure relating to an asset that has already been capitalized, should only be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery, in excess of the originally assessed standard of performance of the existing asset, will flow to the Municipality.



## **11.2) Investment Property**

- 11.2.1) 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).
- 11.2.2) 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.
- 11.2.3) 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.
- 11.2.4) 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.
- 11.2.5) In terms of GRAP 16 transfers to and from investment property shall be made when there is a change in use:
- (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.
- 11.2.6) 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.
- 11.2.7) 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.

### **11.3) Reinstatement, Maintenance and Other Expenses**

11.3.1) Only expenses incurred in 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.

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

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

### **11.4) Intangible Assets**

11.4.1) Assets that meet the criteria of GRAP 102 (Intangible Assets) shall be recognized as Intangible Assets at cost.

### **11.5) Heritage Assets**

11.5.1) If no original costs or fair values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the asset register without an indication of the costs or fair value concerned.

11.5.2) For Statement of Financial Position purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

### **11.6) Donated Assets**

11.6.1) Where an asset is donated to the Municipality, or an asset is acquired by means of an exchange of assets between the Municipality and one or more other parties, the asset concerned shall be recorded in the asset register at its fair value, as determined by the Chief Financial Officer.

## **12. DEPRECIATION**

### **12.1) Depreciation of Property, Plant and Equipment (PPE)**

- 12.1.1) All PPE, except land and heritage assets, shall be depreciated – or amortised in the case of intangible assets.
- 12.1.2) 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.
- 12.1.3) Depreciation shall generally take the form of an expense both calculated and debited on an annual basis against the appropriate line item in the department or vote in which the item of PPE is used or consumed.
- 12.1.4) 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 year concerned. Thereafter, depreciation charges shall be calculated annually.
- 12.1.5) Each Head of Department, acting in consultation with the Chief Financial Officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable PPE controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.
- 12.1.6) 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.

### **12.2) Rate of Depreciation and Amortisation**

- 12.2.1) The Chief Financial Officer shall assign a useful operating life to each depreciable item of PPE recorded on the Municipality's asset register. In determining such a useful life, the Chief Financial Officer shall use to the useful lives set out in the annexure to this document as a guideline.
- 12.2.2) 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.

12.2.3) 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.

### **12.3) Method of Depreciation**

12.3.1) The Chief Financial Officer shall allocate the depreciable amount of all depreciable PPE and intangible on a systematic basis over its useful life.

12.3.2) The residual value and 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.

## **13. AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF PPE**

- a) Only the Chief Financial Officer may amend the useful operating life assigned to any PPE, and when any material amendment occurs the Chief Financial Officer shall inform the Council of such amendment.
- b) The Chief Financial Officer shall amend the useful operating life assigned to any item of PPE 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.
- c) If the value of an item of PPE or 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.
- d) 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 asset register.
- e) 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.
- f) 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 were

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.

- g) Additional depreciation not budgeted for as a result of unforeseeable or unavoidable circumstances must be provided for in an adjustments budget and, if such circumstances arise 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.

#### **14. IMPAIRMENT OF ASSETS**

- a) The accounting treatment relating to impairment losses is outlined in IAS37.
- b) The carrying amount of an item or a group of identical items of PPE and intangible assets should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.
- c) When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to the Revaluation Reserve.
- d) The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to the recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification works is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of the recoverable amount.
- e) The following may be indicators that an asset is impaired:
  - The asset has been damaged.
  - The asset has become technologically obsolete.
  - The asset remains idle for a considerable period either prior to it being put into use or during its useful life.
  - Land is purchased at market value and is to be utilized for subsidized housing developments, where the subsidy is less than the purchase price.

- f) The following steps will have to be performed regularly during the year to account for impairment losses:
- (i) Departments will identify and inform the Chief Financial Officer of assets that:
    - Are in a state of damage at year end.
    - Are technologically obsolete at year end.
    - Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.
    - Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts.
  - (ii) The recoverable amounts of these assets need to be determined by calculating the net selling price per asset as defined above.
  - (iii) The impairment loss per asset is the difference between the net selling price and the carrying value of the asset.
  - (iv) The impairment loss needs to be accounted for by identifying the relevant funding source.

## **15. REVALUATION OF ITEMS OF PPE**

- a) All land and buildings recorded in the Municipality's asset register shall be revalued when the Council is of the opinion that economic conditions have had a substantial impact on the on the value of land and buildings within the municipal area. Under such circumstances a sworn valuer will be appointed to perform a valuation of all land and buildings.
- b) 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.
- c) 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.
- d) 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.

- e) The Chief Financial Officer shall ensure that an amount equal to the difference between the new (enhanced) annual depreciation expense and the depreciation expenses determined in respect of such buildings before the revaluation in question is transferred each year 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.
- f) If the amount recorded by the valuer is less than the carrying value of the item of land or buildings recorded in the 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 by the valuer. 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.
- g) Revalued land and buildings shall be carried in the asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation (in the case of buildings).

## **16. ACQUISITION OF ASSETS**

### **16.1) Method of Depreciation**

16.1.1) Before a capital project is included in the budget for approval, the Chief Financial Officer must demonstrate that he/she has considered the following:

- (a) The projected cost over all the financial years until the project is operational;
- (b) The future operational costs and revenue on the project, including the tax and tariff implications;
- (c) The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
- (d) The physical and financial stewardship of that asset through all stages of its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;

- (e) The inclusion of the capital project in the Integrated Development Plan and future budgets; and
- (f) Alternatives to the capital purchase.

16.1.2) The heads of department are accountable to ensure that the Chief Financial Officer receives all reasonable assistance, guidance and explanation to enable him to achieve his planning requirements.

## **16.2) Approval to Acquire Assets**

16.2.1) Money can only be spent on a project if:

- (a) The money has been appropriated in an approved capital budget;
- (b) The project, including the total cost has been approved by the Council;
- (c) The Chief Financial Officer confirms that funding is available for that specific project;
- (d) Any contract that will impose financial obligations beyond two years after the budget year is appropriately disclosed.
- (e) The Supply Chain Management Policy is adhered to.

16.2.2) Authorization for the acquisition of assets should be as per this Municipality's delegation of authority and payment for assets shall be in accordance with financial policies and regulations of this Municipality.

## **16.3) Funding of Capital Projects**

Within the Municipality's ongoing financial, legislative or administrative capacity, the Chief Financial Officer must establish and maintain the funding strategies that optimise the Municipality's ability to achieve its strategic objectives as stated in the Integrated Development Plan. The acquisition of assets may not be funded over a period longer than the useful life of that asset.

## **17. PURCHASE OR HIRE OF IMMOVABLE PROPERTY**

- (a) 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:
  - (i) The cost of the purchase or hire had been budgeted for; and
  - (ii) The intention to buy or hire the immovable property had been advertised for public comment.



(iii) After consideration of any public comments/objections the Council will:

- In the case of the following paragraph complies with the requirements of that paragraph; and
- In the case of all other immovable property, finally resolve to continue with the purchase or hire and apply the supply chain management processes.

(iv) The Council will not continue with the purchase or hire of any immovable property where:

- The price is in excess of the market value thereof as assessed by an appraiser; or
- 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.

(b) 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.

(c) 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.

## **18. GUIDELINE PROCEDURES FOR ADDITIONS TO ASSETS**

The Asset Manager must ensure all additions to assets are in accordance with an approved capital budget. Additions must be updated on a monthly basis in the Municipality's Asset register. All additions must be approved by the Chief Financial Officer.

## **19. FUNDING OF ASSETS AND RESERVES**

(a) The purchase of assets may be funded from the raising of external loans, leases, government- and public contributions, the Capital Replacement Reserve and surplus cash.

- (b) The Chief Financial Officer shall ensure that in respect of all assets 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 asset in question.
- (c) The Chief Financial Officer shall thereafter ensure that in the case of depreciable PPE an amount equal to the annual depreciation expenses of the items concerned are transferred each year from such reserve to the Municipality's accumulated surplus.

## **20. ALIENATION OF ASSETS**

- a) In compliance with the principles and prescriptions of the Municipal Finance Management Act, the transfer of ownership of any item of PPE shall be fair, equitable, transparent, competitive and consistent with the Municipality's supply chain management policy and the Municipal Asset Transfer Regulations
- b) Every head of department shall report in writing to the Chief Financial Officer on 30 April of each financial year on all assets controlled or used by the department concerned which such head of department wishes to alienate by public auction or public tender.
- c) The Chief Financial Officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Council or the Municipal Manager of the Municipality, as the case may be, recommending the process of alienation to be adopted.
- d) The Council shall delegate to the Municipal Manager the authority to approve the alienation of any moveable asset with a carrying value less than R50 000 (fifty thousand rand). The Council shall ensure that the alienation of any asset with a carrying value equal to or in excess of R50 000 (fifty thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004.
- e) In terms of Section 14 of the Municipal Finance Management Act, 2004 the Municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of assets needed to provide the minimum level of basic municipal services.
- f) The Municipality may transfer ownership or otherwise dispose of assets other than one contemplated above, but only after the Council, in a meeting open to the public:

- has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
  - 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 asset 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.
- g) Once the assets are alienated, the Chief Financial Officer shall treat the disposal of the items in terms of GRAP and amend the relevant records of the asset register. If the proceeds of the alienation are less than the carrying value recorded in the asset register, such difference shall be recognised as a loss in the Statement of Financial Performance of the department or vote concerned.
- h) If the proceeds of the alienation, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain in the Statement of Financial Performance of the department or vote concerned.
- i) All gains realised on the alienation of assets shall be appropriated annually to the Municipality's Capital Replacement Reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the Statement of Financial Performance of the department or vote concerned.
- j) If, however, both gains and losses arise in any one financial year in respect of the alienation of the assets of any department or vote, only the net gain (if any) on the alienation of such assets shall be appropriated to the Capital Replacement Reserve.
- k) 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 Municipal Asset Transfer Regulations.

## **21. GUIDELINE PROCEDURES FOR THE DISPOSAL OF ASSETS**

- (a) All asset disposals shall be dealt with under the Asset Disposal Policy of the municipality.

## **22. OTHER WRITE-OFFS OF PPE**

- a) 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.
- b) 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.
- c) The Chief Financial Officer shall consolidate all such reports, and shall promptly notify the Council on the PPE to be written off.
- d) 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.
- e) 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 who might have been involved in such incident.
- f) 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.

## **23. MANAGEMENT AND OPERATION OF ASSETS**

### **23.1) Accountability to manage assets**

23.1.1) Each Senior Manager is accountable to ensure that Municipal resources assigned to them are utilized effectively, efficiently, economically and transparently. This will include:

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

### **23.2) Contents of a strategic management plan**

23.2.1) Senior Managers need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost. To achieve this, the Senior Manager will need to develop strategic asset management plans that cover:-

- Alignment with the Integrated Development Plan;
- Operational guidelines;
- Performance monitoring;
- Maintenance programs;
- Renewal, refurbishment and replacement plans;
- Disposal and Rehabilitation plans;
- Operational, financial and capital support requirements, and
- Risk mitigation plans including insurance strategies

23.2.2) The operational budgets are the short to medium term plan for implementing this strategic asset management plan.

### **23.3) Reporting of Emerging Issues**

23.3.1) Each Functional Manager should report to the Municipal Manager on issues that will significantly impede the item of asset capabilities to provide the required level of service or economic benefit.

### **23.4) Verification of Assets**

23.4.1) The Municipality shall at least once during every financial year undertake on a date as determined by the Chief Financial Officer a comprehensive verification of all moveable assets controlled or used by all the departments of the Municipality.

23.4.2) 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 verification, provided that each such item of asset verification shall be undertaken and completed during 30 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.

### **23.5) Movement of Assets**

23.5.1) 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 assets (including minor assets items) within 5 working days after transfer of such item.

## **24. MAINTENANCE**

### **24.1) Maintenance Plans**

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

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

24.1.3) 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.

### **24.2) Deferred Maintenance**

24.2.1) If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset, the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the 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.

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

### **24.3) General Maintenance of Assets**

24.3.1) Every Head of Department shall be directly responsible for ensuring that all assets are properly maintained and in a manner which will ensure that such item attain their useful operating lives.

## **25. 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 assets. 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 assets which are required for service delivery but which have become uneconomical to maintain.

## **26. TRANSFER OF ASSETS**

- a) When assets are transferred to other Government Departments or municipalities, a document with specific authorization should be tied to the asset to ensure the validity of the transfer. The document should also include:
- Asset description;
  - Cost of the asset;
  - Date of acquisition;
  - Unique asset number;
  - Effective date of transfer;
  - Quantity; and
  - Authorization by both transferor and transferee.
- b) The asset manager must then effect the transactions in the book of accounts of the Municipality on the day the asset is transferred to the transferee.

## **27. PHYSICAL SECURITY OF ASSETS**

- a) Every Senior Manager shall be directly responsible for the physical safekeeping of any asset controlled or used by their department.

- b) In exercising this responsibility, every Senior Manager shall adhere to directives issued by the Chief Financial Officer with regard to the control and safekeeping of the Municipality's assets.
- c) All assets should be kept in a secure location, maintained regularly, insured against theft or destruction, utilized economically and efficiently.
- d) When it is suspected that an employee is abusing assets, this fact should be reported to the Chief Financial Officer within 48 hours. Such an employee should be subject to the disciplinary procedures as described in terms of the Standard Conditions of Service.
- e) All items of PPE lost, stolen or damaged must be reported to the Chief Financial Officer within 48 hours after discovery for further investigation and reporting required by the Municipal Finance Management Act No. 56 of 2003.

## **28. INSURANCE OF ASSETS**

- a) The Accounting Officer must ensure that all movable assets are insured at least against fire and theft, and municipal buildings and infrastructure are insured at least against fire and allied perils.
- b) The Accounting Officer shall recommend, after consultation with the Chief Financial Officer, the basis of insurance cover to be applied: either the carrying value or the replacement value of the assets. Such a recommendation shall take due cognizance of the budgetary resources of the Municipality.
- c) Any theft, loss or damage to an asset should immediately be reported to Council's insurance brokers by the relevant head of department under whose responsibility the asset falls. A copy of the insurance claim submitted should be forwarded to the Chief Financial Officer. All insurance claims must be recorded in an insurance register and all outstanding insurance claims reported on a monthly basis to the Chief Financial Officer. It is the responsibility of the relevant head of department to ensure that all documents / information for the completion of the claim is forwarded to Council's insurance brokers and that copies thereof is forwarded to the Chief Financial Officer. The head of department should in writing request the replacement of the asset which can only be authorized, if sufficient provision for the replacement of the asset is on the capital budget, by the Municipal Manager after consultation with the Chief Financial Officer. If sufficient provision is not on the capital budget the asset can only be replaced if provision for the replacement is made on an Adjustments budget. In the case where an asset must be



replaced as an emergency measure, the Mayor may authorise such expenditure, subject to compliance with Section 29 of the MFMA.

- d) Third-party (insurance) pay-outs must be treated as revenue when the amount is certain and may not be offset against the cost of replacing the item. The carrying value of items lost, stolen or damaged beyond repair must be treated as impairment against the relevant department or vote. The full cost of the replacement item must then be capitalised.
- e) If the Municipality operates 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 assets and insurable values of all relevant assets from the heads of departments concerned.
- f) The municipal manager shall recommend to the Council of the Municipality, after consulting with the Chief Financial Officer, the basis of the insurance to be applied to each type of asset: either the carrying value or the replacement value of the assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the Municipality.
- g) The Chief Financial Officer shall annually submit a report to the Council of the Municipality on any reinsurance cover which it is deemed necessary to procure for the Municipality's self-insurance reserve.

## **29. SHORT TITLE AND COMMENCEMENT**

This policy shall be called the Asset Management Policy (Draft) of the Prince Albert Municipality, and will come into effect on 01 July 2025.

## **30. ANNEXURES**

Annexure 1 - Schedule of expected useful lives of assets

## ANNEXURE A

### SCHEDULE OF EXPECTED USEFUL LIVES OF ASSETS

#### Infrastructure Assets

<b>ELECTRICITY</b>	<b>ASSET LIFE</b>	<b>ROADS</b>	<b>ASSET LIFE</b>
Power stations	30	Motorways	15
Cooling towers	30	Other roads	10
Transformer kiosks	30	Traffic islands	10
Meters	20	Traffic lights	20
Load control equipment	20	Street lights	25
Switchgear	20	Overhead bridges	30
Supply and reticulation networks	20	Stormwater drains	20
Main supply	20	Bridges, subways & culverts	30
		Car parks	20
		Bus terminals	20
<b>WATER</b>	<b>ASSET LIFE</b>	<b>SEWERAGE</b>	<b>ASSET LIFE</b>
Meters	15	Sewerage mains	20
Mains	20	Outflow sewers	20
Rights	20	Sewerage purification works	20
Supply and reticulation networks	20	Sewerage pumps	15
Reservoirs and storage tanks	20	Sewerage machines	15
<b>GAS</b>	<b>ASSET LIFE</b>	<b>PEDESTRIAN MALLS</b>	<b>ASSET LIFE</b>
Meters	20	Footways	20
Main supply	20	Kerbing	20
Supply and reticulation networks	20	Paving	20
Storage tanks	20		
<b>AIRPORTS</b>	<b>ASSET LIFE</b>	<b>SECURITY</b>	<b>ASSET LIFE</b>
Taxiways	20	Fencing	3
Runways	20	Security systems	5
Aprons	20	Access control systems	5
Airport and radio beacons	20		

## Community Assets

RECREATIONAL FACILITIES	ASSET LIFE	BUILDINGS	ASSET LIFE
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 sports 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 zoos	30

## Other Assets

BUILDINGS	ASSET LIFE	PLANT AND EQUIPMENT	ASSET LIFE
Abattoirs	30	Graders	10-15
Asphalt plant	30	Tractors	10-15
Cable stations	30	Mechanical horses	10-15
Caravan Parks	30	Farm equipment	5
Bioscope	30	Lawn mowers	2
Compacting stations	30	Compressors	5
Hostels for public / tourists	30	Laboratory equipment	5
Hostels for employees	30	Radio equipment	5
Housing schemes	30	Firearms	5
Kilns	30	Telecommunication equipment	5
Laboratories	30	General	5
Markets	30	Cable cars	15
Nurseries	30	Irrigation systems	15
Office buildings	30	Cremators	15
Old age homes	30	Lathes	15
Quarries	30	Machining equipment	15
Tip sites	30	Conveyors	15
Training centres	30	Feeders	15
Transport facilities	30	Tippers	15
Workshops and depots	30	Pulverising mills	15
OFFICE EQUIPMENT	ASSET LIFE	FURNITURE AND FITTINGS	ASSET LIFE
Computer hardware	5	Chairs	7-10
Computer software	3-5	Tables and desks	7-10
Office machines	3-5	Cabinets and cupboards	7-10
Air conditioners	5-7	Sundry	7-10
EMERGENCY EQUIPMENT	ASSET LIFE	MOTOR VEHICLES	ASSET LIFE
Other firefighting equipment	15	Fire engines	20
Ambulances	5-10	Buses	15
Fire hoses	5	Motor vehicles	5-7
Emergency lights	5	Motorcycles	3
		Trucks & light delivery vehicles	5-7
CRAFT	ASSET LIFE	MOTOR VEHICLES	ASSET LIFE
Aircraft	15	Household refuse bins	5
Watercraft	15	Bulk refuse containers	10