CITY OF Polokwane

NATURALLY PROGRESSIVE

# ASSET MANAGEMENT POLICY

# 2023/2024

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## 1. OBJECTIVE

1.1. To ensure the effective and efficient control of the municipality's assets through:

1.1.1 proper recording of assets from authorisation to acquisition and to subsequent disposal;

1.1.2 providing for safeguarding procedures, and

1.1.3 setting proper guidelines as to authorised utilisation and prescribing for proper maintenance.

1.2. To assist officials in understanding their legal and managerial responsibilities with regard to assets.

## 2. BACKGROUND

2.1. The proper utilisation and management of its assets is one of the prime mechanisms by which a municipality can fulfill the constitutional objects for:

- Delivery of sustainable services;
- Promotion of social and economic development;
- Promoting a safe and healthy environment and,
- Providing for the basic needs to the community.

2.2. The municipality has a legal and moral obligation to ensure it implements policies to provide for the effective and efficient usage of its assets over the useful life thereof.

2.3. The asset management policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of assets.

2.4. Stewardship has three components being the:

2.4.1. Management, utilisation and control by municipal officials;

2.4.2. Financial administration by the Chief Financial Officer, and

2.4.3. Physical administration by the Manager: Assets Management.

2.5. Statutory provisions exist to protect public property against arbitrary and inappropriate management or disposal by a municipality.

2.6. Accounting standards are set to ensure the appropriate financial treatment for assets. The requirements of these accounting standards include:

2.6.1. The compilation of asset registers recording all assets controlled by the municipality;

2.6.2. Accounting treatment for the acquisition, disposal, recording, impairment, valuation and depreciation of assets, and

2.6.3. The standards to which these financial records must be maintained

## 3. DEFINITIONS

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| **"Accounting Standards Board"** | was established by the Public Finance Management Act to set standards of Generally Recognized Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa. |
| **"Assets"** | are resources controlled by the municipality as the result of past events and from which future economic benefits or future service potential are expected to flow to the municipality |
| **"Living resources** | Living resources are those resources that undergo biological transformation. |
| **Non-living resources** | are those resources, other than living resources, that occur naturally and have not been extracted. |
| **"Asset categories"** | are the asset categories as per the Polokwane Asset Register. |
| **"Amortisation"** | is the systematic allocation of the depreciable amount of an intangible asset over its useful life. |
| **"Basic Municipal Services"** | 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. |
| **"Biological Assets"** | Living assets such as plants and animals |
| **"Capitalisation"** | is the recognition of expenditure as an Asset in the Financial Asset Register. |
| **"Carrying amount"** | is the amount at which an asset is included in the Statement of Financial Position after deducting any accumulated depreciation and accumulated impairment thereon. |
| **"Control items"** | are items of assets that are not significant enough for financial recognition but are valuable enough to warrant special safe-guarding. |
| **"Cost"** | is the amount of cash or cash equivalents paid or the fair value of the other consideration given or received to acquire an asset at the time of its acquisition or construction. |
| **"Cost of acquisition"** | is all the costs incurred in bringing an asset item to the required |

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| | condition and location for its intended use. |
| **Current replacement cost** | The amount that the municipality would incur to replace an asset at the current time |
| **“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. |
| **“Director”** | is the “head of each Directorate” that has the functional accountability for and control of the physical management of a particular set of assets in order to achieve the municipality’s strategic objectives relevant to that directorate. The execution of this responsibility will require the relevant asset manager to control the acquisition, utilisation, management and disposal of this set of assets to optimise the achievement of these objectives. |
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| **“Fair value”** | is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm’s length transaction. |
| **“Financial asset register”** | is the control register recording the financial and other key details for all municipal assets recognized in accordance with this policy. |
| **Finance lease** | Rental agreement that transfers substantially all the risks and rewards incidental to ownership of an asset. Legal ownership may or may not eventually be transferred. |
| **“Heritage Assets”** | are assets defined as culturally significant resources. Examples are works of art, historical buildings and statues. |
| **“Impairment loss” of a cash-generating asset** | is the amount by which the carrying amount of an asset exceeds its recoverable amount. |
| **“Impairment loss” of a 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 assets that are part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage |

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| | purification and trunk mains. |
| **“Investment properties”** | are defined as properties that are held for rental and/or capital gains. |
| **“Other assets”** | are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture. |
| **“Prescribe”** | means as prescribed by the Minister of Finance by regulation. |
| **“Property, plant or equipment” (PPE)** | Means tangible assets that:<br>(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<br>(b are expected to have a useful life extending for more than one financial year. |
| **“Recoverable amount”** | is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal. |
| **“Remaining useful life”** | The future economic benefits or service potential that remains after the municipality has consumed some of the total economic benefits or service potential of the asset |
| **“Residual value”** | is the net amount that the municipality expects to obtain for an asset at the end of it’s useful life after deducting the expected costs of disposal. |
| **“Useful life”** | is either:<br>(a) the estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the municipality, ***or***<br>(b) the estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the municipality. |

## 4. *STATUTORY AND REGULATORY FRAMEWORK*

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

- The Constitution of the Republic of South Africa, 1996
- Municipal Structures Act, 1998
- Municipal Systems Act, 2000
- Division of Revenue Act (enacted annually)
- Municipal Finance Management Act No 56 of 2003
- Local Government: Municipal Asset Transfer Regulations, 2008

4.2. This policy must also comply with the standards specified by the Accounting Standards Board.

The relevant currently recognized accounting standards include:

- GRAP 12 Inventory
- GRAP 13 Leases
- GRAP 16 Investment property
- GRAP 17 Property, plant and equipment
- GRAP 21 Impairment of non - cash generating assets
- GRAP 26 Impairment of cash generating assets
- GRAP 31 Intangible assets
- GRAP 100 Discontinued operations
- GRAP 103 Heritage assets
- GRAP 110 Living and non - living resources

4.3. This policy does not overrule the requirement to comply with other policies such as Supply Chain Management or Budget policies.

## 5. RESPONSIBILITIES AND ACCOUNTABILITIES

**5.1. The Municipal Manager** is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

**5.2.** **The Municipal Manager** must take all reasonable steps to ensure that:

- the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- the municipality complies with standards of GRAP;
- the municipality has and maintains a system of internal control of assets, including an asset register, and
- the CFO and Directors comply with this policy.

**5.3.** **The Chief Financial Officer** is responsible to ensure that the assets are properly recorded and safeguarded.

5.3.1. The Chief Financial Officer must take all reasonable steps to ensure that:

- appropriate systems of financial management and internal controls are established and carried out diligently;
- the financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- 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 all statutes;
- financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- the Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets, and
- the Directors are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets.

5.3.2. The Chief Financial Officer may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

**5.4.** **The Directors** must take all reasonable steps to ensure that:

- appropriate systems of physical management and controls are established and carried out for assets in their areas of responsibility;
- the municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;

- the assets under their control are appropriately safeguarded and maintained to the extent necessary and that risk management systems are in place and applied;

- any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- they are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives;

- the purchase of assets complies with all municipal policies and procedures;

- all movable and immovable assets are duly processed and identified when it is received into his/her stewardship;

- all movable and immovable assets received into his/her stewardship are appropriately safeguarded for inappropriate use or loss. This will include control over the physical access to these assets and regular asset counts to ensure any losses have not occurred. Any known losses should be immediately reported to the Chief Financial Officer, and

- assets are appropriately utilized for the purpose for which the municipality acquired them for.

The Director may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed

### 5.5 Safe-guarding of assets.

Directors shall be directly responsible for the physical safeguarding of any asset controlled or used by the directorate in question.

In exercising this responsibility, Directors shall adhere to the stipulations of this policy as well as any other written directives issued by the Municipal Manager to the directorate in question, or generally to all directorates, with regards to the control of or safeguarding of the municipality's assets.

## 6. FINANCIAL MANAGEMENT

### 6.1 Approval to acquire assets

Funds can only be spent on a capital project if:

- the funds has been appropriated in the capital budget, and the future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;

- the project, including the total cost and funding sources, has been approved by Council;

- the Chief Financial Officer confirms that funding is available for that specific project, and

- the Supply Chain Management prescripts/procedures have been adhered to.

## 6.2 Funding period of capital projects

The acquisition of assets will not be funded over a period longer than its useful life.

## 6.3 Disposal of assets

- The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of an asset needed to provide the minimum level of basic municipal services, unless such asset is obsolete or surplus to requirements or beyond a state of good repair or being replaced and provided that the delivery of the minimum level of basic municipal services must not be compromised as a result of the disposal of the asset.

- The decision that a specific asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset had been sold, transferred or otherwise disposed of.

- The disposal of an asset must be fair, equitable, transparent, competitive and cost effective and comply with municipal supply chain management regulation and policy.

- The transfer of assets to another municipality, municipal entity, national directorate or provincial directorate is excluded from these provisions, provided such transfer is being done in accordance with a prescribed regulatory framework.

- Directors shall report in writing to the Chief Financial Officer on all assets controlled or used by the directorate concerned, which such Director wishes to alienate by public auction or public tender. The Chief Financial Officer shall thereafter consolidate the requests received from the various directorates, 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.

- Once the assets are alienated, the Chief Financial Officer shall de-recognise the asset from the asset register.

- All gains and losses realized on the alienation of assets shall be accounted for according to GRAP requirement.

## 6.4 Loss, Theft, or destruction assets

Directors shall ensure that any incident of loss, theft, or destruction, of any asset controlled or used by the directorate in question is promptly reported in writing to the Chief Financial Officer and community safety in cases of suspected theft or malicious damage also to the South African Police Service.

Municipality reserve the right to recover carrying value of assets in case of proven negligent from the liable official.

## 7. INTERNAL CONTROLS

### 7.1 Financial asset registers

7.1.1 The Chief Financial Officer will establish and maintain the asset register containing key information on each item of asset that satisfies the recognition criteria.

7.1.2 Contents of the financial asset register:

- The asset register shall be maintained in the format determined by the Chief Financial Officer, which shall comply with the requirements of GRAP.

7.1.3 Internal Controls over the financial asset registers:

- Controls around the asset registers should be sufficient to provide Directors with complete accurate and valid information.

- These controls will include the physical management and recording of all acquisitions, transfers, losses and disposals of assets.

### 7.2 General management of assets

7.2.1 The Chief Financial Officer will undertake risk based annual asset verification .

7.2.2 Director must advise the Chief Financial Officer, in writing, of capital work-in progress (WIP) at the end of the financial year.

7.2.3 A Director must advise the Chief Financial Officer, promptly in writing whenever capital work-in-progress is completed, for inclusion in the asset register

7.2.4 A Director must notify the Chief Financial Officer about any new acquisition of asset in writing for inclusion in the asset register

7.2.5 Every Directorate must keep a maintenance record for any repairs and maintenance done.

### 7.3 Transfers of assets

- Asset transfers must be done in writing

### 7.4 Verification of assets

- The Municipality shall perform risk based asset verification at the end of each financial year.

### 7.5 Insurance of assets

- The Municipality shall ensure that insurable assets are comprehensively insured.

## 8. CLASSIFICATION & COMPONENTS

### 8.1 Classification of assets

- Any asset recognized as an asset under this policy will be classified according to categories as per the Polokwane Asset Register

- All fixed assets should be classified under the following headings in the Asset Register:

  - Property, plant and equipment (PPE) (which is broken down into groups of assets of a similar nature or function in the municipality's operations, that is shown as a single class for the purposes of disclosure in the financial statements);
  - Intangible Assets;
  - Heritage Assets;
  - Investment Properties
  - Finance Leased Assets;
  - Biological Assets
  - Living and non living resources

### 8.2 Class of assets

- *PPE asset hierarchy*

  An asset hierarchy is adopted for PPE which enables separate accounting of parts (or components) of the asset that are considered significant to the municipality from a financial point of view, and for other reasons determined by the municipality, including risk management (in other words, taking into account the criticality of components) and alignment with the strategy adopted by the municipality in asset renewal (for example the extent of replacement or rehabilitation at the end of life). In addition, the municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognises the functional relationship of assets and components.

- *Servitudes*

  Where municipalities establish servitudes as part of the registration of a township, the associated rights are granted in statute and are specifically excluded from the standard on intangible assets. Such servitudes cannot be sold, transferred, rented or exchanged freely and are not separable from the municipality. Consequently, such servitudes are not recognised in the asset register.

  However, servitudes that are created through acquisition (including by way of expropriation or agreement) are recognised as an intangible asset at cost. The municipality may include the cost of the servitude in the cost of the PPE if it is essential to the construction or operation of the asset.

- *Non-current assets held for sale*

A non-current asset (or disposal group) is considered to be “held for sale” if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. An immovable asset classified as a “non-current asset held for sale” shall be reclassified as a current asset, and will therefore be taken off the Asset Register. This provision does not apply to immovable assets that are abandoned.

To be classified as “held for sale”, the asset must be available for immediate sale (i.e. to be completed within a year) in its present condition, and it must be highly probable that the sale will take place (management must be committed to a plan to sell the asset and an active programme to locate a buyer must have been initiated). Sale transactions include exchanges of immovable assets for other non-current assets when the exchange has commercial substance. If the municipality acquires an immovable asset exclusively for the purpose of selling it, it shall be classified as a
“non-current asset held for sale” at its acquisition date only if all the above requirements are met.

An extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the municipality’s control and there is sufficient evidence that the municipality remains committed to its plan to sell the asset. However, if the municipality has classified an asset as held for sale, but the criteria are no longer met, the municipality shall cease to classify the asset as held for sale.

If the criteria are only met after the reporting date, the municipality shall not classify the immovable asset as held for sale in those financial statements when issued. However, when those criteria are met after the reporting date but before the authorisation date for the financial statements to be issued, the municipality shall disclose a description of the immovable asset; a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of disposal; and if applicable, the segment in which the asset (or disposal group) is presented.

- *Land*
- *Buildings (not held as investment assets)*
- *Biological Assets*

- *Community assets (resources contributing to the general well-being of the community)*

- *Infrastructure assets (assets which are part of a network of similar assets)*

- *Intangible assets*

- *Heritage assets (culturally significant resources)*

- *Other assets (ordinary operational resources, consisting of Furniture, Equipment and Vehicles*

- *Finance lease assets*

- *Library books*

- *Investment property*
  - investment assets (resources held for capital or operational gain or rental); or
  - Land held with undetermined use

Chief Financial Officer may agree to subdivide these classifications further as the classification complies with GRAP Standard.

## 9. UNBUNDLING OF ASSETS

- Assets will be componentized or unbundled in line with the requirement of GRAP standard

## 10. ACCOUNTING FOR ASSETS

### 10.1 Recognition of assets

- An item will be recognized as an asset when:
  - *it is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,*
  - *the cost of the asset to the municipality can be measured reliably,*
  - *the municipality has control over the asset,*
  - *the costs are above the recognition threshold, and*
  - *the asset is expected to be used for more than one financial year.*

### 10.2 Initial measurement

The municipality shall measure the assets in accordance with the requirements of GRAP standards for that class of assets. The relevant GRAP standards include the following

- GRAP 12 - Inventory
- GRAP 13 - Leases
- GRAP 16 - Investment property
- GRAP 17 - Property, plant and equipment
- GRAP 21 - Impairment of non-cash generating assets
- GRAP 26 - Impairment of cash generating assets
- GRAP 31 - Intangible assets
- GRAP 100 -Discontinued operations
- GRAP 103 -Heritage assets
- GRAP 105 -Transfer of functions between entities under common control
- GRAP 106 -Transfer of functions between entities not under common control
- GRAP 110 - Living and non-living resources

## 10.3 Subsequent Measurement

10.3.1 Definitions and rules

*Options*

Accounting standards allow measurement after recognition of assets as follows:

- Immovable PPE, heritage assets, Living and non-living resources and intangible assets: on either a cost or revaluation model; and
- Investment Property: either cost model or the fair value model.

Different models can be applied, providing the treatment is consistent per asset class.

*Cost model*

When the cost model is adopted, the asset is carried after recognition at its cost less any accumulated depreciation and any accumulated impairment losses.

*Revaluation model*

When the revaluation model is adopted an immovable asset is carried after recognition at a re-valued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. When revaluations are conducted, the entire class of assets should be re-valued. The appraisal of the fair value of assets is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualifications and/or appropriate knowledge and experience in valuation of the respective assets.

Any change to an asset's carrying amount as a result of revaluation, is credited (or deducted from any surplus from previous revaluations if the re-valued amount decreased from the previous re-valued amount) in the Revaluation Reserve.

When an immovable asset is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- Restated proportionately with the change in the gross carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to its depreciated replacement cost.
- Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus is transferred to the Accumulated Surpluses/ (Deficits) Account on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such immovable asset before the revaluation in question may be transferred from the revaluation reserve to the municipality's accumulated surplus/deficit account. An adjustment of the aggregate transfer is made at the end of each financial year.

If the carrying amount based on the revaluation is less than the carrying value of the immovable asset recorded in the fixed asset register, the carrying value of such asset is adjusted by reducing the carrying amount to the value based on the revaluation. Such reduction form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, 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 asset in question.

*Investment property*

When the fair value model is adopted, all investment property should be measured at its fair value except when the fair value cannot be determined reliably on a continuing basis. The gain or loss from the change in fair value of investment property shall be included in the surplus or deficit for the period in which it arises. The fair value of the investment property shall reflect market conditions at the reporting date. Investment property shall be valued on an annual basis. All fair value adjustments shall be included in the surplus or deficit for the financial year.

*Statutory inspections*

The cost of a statutory inspection that is required for the municipality to continue to operate immovable PPE is recognised at the time the cost is incurred, and any previous statutory inspection cost is de-recognised.

*Expenses to be capitalised*

Expenses incurred in the enhancement of PPE (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 immovable assets are capitalised. Such expenses are recognised once the municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) – prior to this, the expenses are recorded as work-in-progress. Expenses incurred in the maintenance or repair (reinstatement) of PPE that ensures that the useful operating life of the asset is attained, are considered as operating expenses and are not capitalised, irrespective of the quantum of the expenses concerned.

*Spares*

The location of capital spares shall be amended once they are placed in service, and reclassified to the applicable PPE asset sub-category.

10.3.2 Adopted accounting models

Measurement after recognition shall be on the following basis:-

- Immoveable PPE: revaluation model.
- Heritage assets: cost model.
- Investment property: fair value model.
- Intangible assets: cost model.
- Movable Assets: Cost Model
- Biological assets: Fair value model
- Living and non-living resources: Revaluation model

10.3.3 Frequency of Revaluation

Where the valuation model is adopted, an official revaluation will be every three(3) financial years. This is closely aligned with the timeframe associated with the frequency at which Municipal Valuation Roll which is currently determined, through legislation, which is four (4) financial years.

During the financial years between valuation periods, annual assessments of the relevance of asset values will be performed, and where necessitated, valuation adjustments will be made to ensure compliance with the principles of the valuation model.

10.4 Donations or exchanges

Where an asset is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the asset register.

10.5 Depreciation

- All PPE, except land and heritage assets, shall be depreciated.
- The depreciable amount of an item of property, plant or equipment should be allocated on a systematic basis over its useful life.
- The depreciation method used should reflect the pattern in which economic benefits or potential service provisions are consumed by the municipality.
- The depreciation charge for each period will be recognized as an expense against the budget of the relevant Director unless it is included in the carrying amount of another asset.
- The depreciation method used shall reflect the pattern in which the assets future economic benefits or service potential are expected to be consumed by the municipality.
- A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset’s residual value does not change. The diminishing balance method

results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The municipality selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

- The depreciation method adopted by the municipality will be the straight-line method.

- Depreciation shall be calculated from the day the fixed asset is available for use (GRAP 17).

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

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

10.6 Initial determination of useful life

- Directors need to determine the useful life of a particular item or class of asset through the development of a strategic asset management plan. The determination of useful life should be developed as part of any pre-acquisition planning that would consider, inter alia, the following factors:

    - The program that will optimise the expected long-term costs of owning that asset,

    - Economic obsolescence because it is too expensive to maintain,

    - Functional obsolescence because it no longer meets the municipality’s needs,

    - Technological obsolescence,

    - Social obsolescence due to changing demographics, and

    - Legal obsolescence due to statutory constraints.

- The useful lives adopted by the Municipality, which serves as a guide to the minimum useful lives of an asset at initial recognition, is included in the Asset Hierarchy, attached as Annexure A to this policy.

10.7 Review of useful life

- Only the Chief Financial Officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs, the Chief Financial Officer shall inform the council of the municipality of such amendment.
- The Chief Financial Officer shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset 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 asset's economic benefits or service potential will be consume
- The useful life of an item of property, plant or equipment should be reviewed when there are indicators of change in expected pattern of consumption and if these revised expectations are significantly different from previous estimates, then the depreciation charge for the current and future periods should be adjusted in accordance with requirements of GRAP and the additional depreciation expenses shall be debited to the directorate or vote controlling or using the fixed asset in question.

10.8 Review of depreciation method

- The depreciation method applicable to property, plant or equipment should be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method should be changed to reflect the changed pattern.

- When such a change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current and future periods should be adjusted.

10.9 Subsequent expenditure on property plant or equipment

- Subsequent expenditure relating to an item of property, plant or equipment that meets the definition of an asset should be added to the carrying amount of the asset when such expenditure will increase the useful life of the asset or increase the efficiency of the asset or reduce the cost of operating the asset, resulting in financial or service delivery benefits.

- All other expenditure should be recognized as an expense in the period in which it occurred.

- Before allowing the capitalization of subsequent expenditure, the Chief Financial Officer must be satisfied that this expenditure will significantly:

  - increase the life of that asset beyond that stated in the asset register, or
  - increase the quality of service provided by that asset beyond the existing level of service, or
  - increase the quantity of services that asset can provide, or
  - reduce the future assessed costs of maintaining that asset.

- Expenditure that is proposed to be capitalized must also conform to recognition criteria for assets and should also be appropriately included in the approved capital budget.

10.10 Impairment of assets

The accounting treatment relating to impairment losses is outlined as follows in GRAP 21 &26:

- The carrying amount (Book value) of an asset should be reviewed when there are indicators of impairment in order to assess whether or not the recoverable amount has declined below the carrying amount**.**

- Recoverable amount is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal. When the recoverable amount is lower than the carrying amount, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately.

- The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification work is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.

- The following may be indicators that an item of PPE has become 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.
- 
- Net Selling price of the land which is the amount obtainable from the sale of the market in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal.

- Value in use of the land which is the present value of the estimated future net cash inflows expected from the continuing use of the asset and from its disposal at the end of its useful life.

**The following steps will have to be performed regularly during the year to account for impairment losses:**

- Directorates will identify and inform Budget & Treasury Office Directorate - Asset Control of assets that are:

  - Are in a state of damage at year end.
  - Are technologically obsolete at year end. This can be facilitated if Directorates require Finance Directorate - Asset Control, to supply them with a Fixed Asset Register print-out pertaining to major assets showing the remaining useful lives of assets. The Directorates can then assess and indicate cases where

the assessed remaining useful life is shorter than the remaining useful life on the printout.

- 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. An example of this is land that is purchased at market value and is utilized for subsidized housing developments

- The impairment loss needs to be accounted for by identifying the relevant funding source.

- The carrying amount of an asset should be reviewed when there are indicators of impairment to assess whether or not the recoverable amount has declined below the carrying amount.

- When such a decline has occurred, the carrying amount should be reduced to the recoverable amount.

- The amount of the reduction should be recognized as an Impairment expense immediately, unless it reverses a previous revaluation in which case it should be charged to the Revaluation Reserve.

- For assets providing economic benefits, the recoverable amount is the net present value of future ownership.

- For assets providing future service delivery, the recoverable amount is the remaining proportional to its useful life, service capacity or quality of service that is not intended to be restored by normal maintenance programs.

**Subsequent increase in recoverable amount**

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

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

10.11 Accounting treatment on Disposal

- An asset should be eliminated from the Statement of Financial Position, on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its disposal.

- Gains or losses arising from the retirement or disposal of an asset should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and should be recognized as revenue or expense in the Statement of Financial Performance.

- All gains realised on the alienation of fixed 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 directorate or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any directorate or vote, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.

10.12 Reinstatement, maintenance and other expenses

- Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalised.

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

- Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised as part of such fixed asset. Such expenses may include but need not be limited to ,transportation costs, installation cost etc.

- The following matrix will assist in distinguishing capital expenditure from maintenance expenditure: -

| Capital Expenditure | Maintenance |
|---|---|
| • Acquiring a new asset<br>• Replacing an existing asset<br>• Enhancing an existing asset so that its use/capacity is expanded<br>• Further developing an existing asset so that its original useful life is extended | • Restoring an asset so that it can continue to be used for its intended purpose and designed capacity<br>• Maintaining an asset so that it can be used for the period for which it was initially intended. |

10.13 Assets held under leases

**Finance leases** are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the municipality and reflected as such in the FAR. It will be capitalized at its leased value in accordance with requirements of GRAP 13. The asset is then depreciated over its expected useful life.

**Operating leases** are those leases which are not finance leases. Operating lease rentals are expensed as they become due. Assets held under operating leases are not accounted for in the asset registers of the municipality.

10.14 Investment property

Investment assets shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of position.

Investment assets shall comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.

Investment assets shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

The municipality has adopted the fair value model in respect of Investment Properties

**Fair value**

Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value. Investment assets shall be recorded in the Statement of Financial Performance at such fair value.

Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the directorate or service controlling the assets concerned.

If the council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as a fixed asset until it is ready for its intended use ;where-after it shall be re-classified as an investment asset.

10.15 Fixed assets treated as inventory

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

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

10.16 Recognition of heritage assets in the fixed asset register

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 fixed asset register without an indication of the costs or fair value concerned.

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

10.17 Other write-offs of fixed assets

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

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

10.18 General maintenance of fixed assets

Every Director shall be directly responsible for ensuring that all assets are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

## 11. FINANCIAL DISCLOSURE

Assets must be disclosed per class in accordance with Generally Recognized Accounting Practice.

## 12. DATE OF IMPLEMENTATION

This policy shall be implemented on 1st July 2023 and shall be reviewed on an annual basis to ensure that is in line with the municipality's strategic objectives and with legislation.