

CAPE AGULHAS

Munisipaliteit / Municipality



KAAP AGULHAS MUNISIPALITEIT
CAPE AGULHAS MUNICIPALITY
U MASIPALA WASECAPE AGULHAS

Beleid / Policy

Asset Management Policy

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1. INTRODUCTION

This Policy for the management of assets has been designed to assist management and officials of the Cape Agulhas Municipality with the description of management procedures for Property, Plant and Equipment, Investment Property, Heritage 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.

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

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

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

Non-compliance with this policy will result in the following of disciplinary procedures in terms of the Human Resource policy 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: -

- The accurate recording of essential asset information;
- The accurate recording of asset movements;
- Exercising strict physical controls over all assets;
- Treating the assets correctly in the Municipality's financial statements;
- Providing accurate and meaningful management information;
- Compliance with the Council's accounting policies and Generally Recognised Accounting Practices;
- Adequate insuring of assets;
- Sufficient maintenance of Council's assets;
- Ensuring that managers are aware of their responsibilities with regard to the assets; and
- 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 of this policy is:

- The Constitution of the Republic of South Africa; 1996;
- Local Government: Municipal Systems Act; 2000;
- Local Government: Municipal Finance Management Act; 2003;
- Regulation No. 878 of 2008;
- Generally Recognised Accounting Practice (GRAP); and
- Supply Chain Management Regulations No. 868 of 2005;

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 21 – Impairment of Non-Cash Generating Assets;
- GRAP 26 - Impairment of Cash Generating Assets;
- GRAP 27 - Agriculture
- GRAP 31 - Intangible Assets;
- GRAP 100 - Discontinued Operations; and
- GRAP 103 – Heritage Assets.

Other relevant accounting standards:

- GRAP 12 - Inventory; and
- GRAP 11 – Construction Contracts.

5. DEFINITIONS

An attempt has been made to use definitions in terms of legislation, accounting standards and other guidance on asset management. Should any uncertainty occur regarding a certain definition, the definition must be referred to in terms of the original relevant legislation or accounting standard.

“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 in charge of the administration and accounting responsibilities in terms of Section 60 of the Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003).

“Active market” is a market where all the following circumstances must be present:

- The assets which are traded in the market are homogenous;
- A willing buyer and willing seller normally exists at any given time; and
- Prices are available to the public.

“Agricultural activity” is the management by a municipality of the biological transformation of biological assets for sale, into agricultural produce, or into additional biological assets.

“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 Manager” is any official to whom the responsibility has been delegated and who needs to account for the control, use, physical and financial management of the Municipality’s assets, in terms of the municipality’s standards, policies and procedures and relevant guidelines.

“Asset register” is the recording of the information on each asset which supports the effective financial and technical management of the assets and which complies with 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 included in the financial statements after deducting any accumulated depreciation and accumulated impairment thereon from the recorded value thereof.

“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 that 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) Provided by a private sector party or organ of state to or for a municipality or municipal entity on a commercial basis; and
- (b) Purchased by a municipality or municipal entity through the 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” for the calculation of depreciation is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

“Disposal” in relation to capital assets, includes-

- (a) The deconstruction, demolition or destruction, of the capital assets; or
- (b) Any other process that leads to a loss of ownership of capital assets, excluding transfer of ownership

“Disposal Management System” means the system envisioned in regulation 40 of the Municipal Supply Chain Management Regulations, published in General Notice Nr. 868 of 2005.

“Fair value” is the amount for which an asset 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 the cost of acquisition of capital assets at the time of acquiring the asset.

“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.

“Improvement / Rehabilitation” is an improvement or change to an existing asset to increase its original service potential, for example useful lifetime, capacity, quality and/or functionality.

“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.

“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.

“Intangible assets” are identifiable assets without physical substance.

“Manager” means each senior manager and each municipal official exercising financial management responsibilities.

“Municipal valuation” means the official valuation of an immovable property as reflected in the Municipality’s valuation roll.

“Municipality” means the Cape Agulhas Municipality.

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

“Property, plant and equipment” (PPE) means 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 have a useful life extending for more than one financial year.

“Realisable Value” means the amount of cash or cash equivalents that currently can be obtained by transferring the capital assets, less the estimated costs of completion and the estimated costs of transferring the assets.

“Recoverable amount” is the higher of a cash-generating asset’s net selling price and its future value in use.

“Recoverable service amount” is the higher of a non-cash-generating asset’s net fair value minus the cost to sell and its future value in use.

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

“Right to utilise, control and manage” means the right to use, control and manage the capital asset for a period of longer than one calendar month, without giving up ownership of the asset. In other words, where the granting of such a right does not lead to the transfer or permanent disposal of the asset, for example when a right is obtained through a rental contract, rental or rental agreement.

“Senior Manager” is a manager as referred to in Section 57 of the Municipal Systems Act (MSA) who is somebody that reports directly to the Municipal Manager.

“Service Provider” –

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

“Supply Chain Management Policy” means the supply chain management policy of the municipality or municipal entity as required 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” means with regards to a capital assets or sub-assets the transfer of ownership as a result of sales and other transactions.

“Useful life” – is or:

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

6. BACKGROUND

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

- Delivery of sustainable services;
- Social and economic development;
- Promoting safe and healthy environments; and
- Fulfilling the basic needs to the community.

As trustees on behalf of the local community, the Municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in assets.

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:-

- Financial administration by the Chief Financial Officer; and
- Physical administration by the relevant managers.

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

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

- The compilation of asset registers covering all assets controlled by the Municipality.
- Accounting treatment for the acquisition, disposal, recording and depreciation / amortisation of assets.
- The standards to which financial records must be maintained to comply with the new accounting standards.

7. DELEGATION OF POWERS

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

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

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

8. RESPONSIBILITY

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:-

- The Municipality has and maintains a management, accounting and information system that accounts for the assets of the Municipality.
- The Municipality's assets are valued in accordance with standards of Generally Recognized Accounting Practice (GRAP).
- The Municipality has and maintains a system of internal control of assets, including an asset register.
- Senior managers and other officials comply with this policy.

Chief Financial Officer

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

- Appropriate systems of financial management and internal control are established and carried out diligently.
- The financial and other resources of the Municipality assigned to him/her 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 effective management.
- Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets.
- 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.

Senior Manager

The Senior Managers must ensure that:

- Appropriate systems of physical management and control are established and carried out for assets in their area of responsibility.
- The Municipal resources assigned to them are utilized effectively, efficiently, economically and transparently.
- The assets under their control must be properly safeguarded and maintained to the required level and that risk management systems must exist and be maintained.

- Any unauthorized, irregular or fruitless or wasteful utilization and losses resulting from criminal or negligent conduct are prevented.
- Their management systems and controls can provide an accurate, reliable and up to date account of assets under their control.
- They are able to justify that their plans, budgets, purchasing, maintenance and disposal decisions for assets optimally achieve the Municipality's strategic objectives.
- The purchase of assets complies with all municipal policies and procedures.
- All moveable property, plant and equipment is duly processed and identified and inspected as being in order before it is received into their stewardship.
- All moveable assets received into their stewardship are appropriately safeguarded against inappropriate use or loss. This will include control over the physical access to these assets and regular stock takes to ensure that no losses have occurred. Any known losses should be immediately reported to the Chief Financial Officer.
- Assets are appropriately utilized for the purpose for which the municipality acquired them.

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

9. FINANCIAL MANAGEMENT

Pre-Acquisition Planning

Before a capital project is included in the budget for approval, the Manager must demonstrate and the Council must consider:

- The projected cost over all the financial years until the project is operational;
- The future operational costs and revenue of the project, including tax and tariff implications;
- The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
- The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
- The inclusion of this capital project in the integrated development plan and future budgets: and
- Alternatives to this capital purchase.

The Chief Financial Officer is accountable to ensure the Manager receives all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

Approval to Acquire Property Plant and equipment

Expenditure can only be incurred on a capital project if:

- The funds have been appropriated in the capital 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,

- Any contract that will impose financial obligations beyond two years after the budget year is appropriately disclosed; and
- It complies with the supply chain management policy.

Approval for the acquisition of assets will occur in terms of the Municipality's delegations and powers and payment for such assets shall be made in terms of the Municipality's financial policies and regulations.

Funding of capital projects

Within the municipality's on-going financial, legislative and administrative capacity, the Chief Financial Officer will establish and maintain the funding strategies that optimise the municipality's ability to achieve its strategic objectives as stated in the integrated development plan. The acquisition of assets will not be funded over a period longer than the useful life of that asset.

Funding source types can include the following:

- External loans;
- Government grants;
- Public contributions and donations;
- Finance leases; and
- Surplus cash.

Disposal of Assets

In terms of Section 14 of the MFMA 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 is not compromised as a result of the disposal of the asset.

The municipality may transfer ownership or otherwise dispose of an asset other than one contemplated above or moveable assets having an estimated carrying value above R50 000, 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 asset 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 reversed by the municipality after that asset had been sold, transferred or otherwise disposed of.

The disposal of an item of property, plant or equipment must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management and the Supply Chain Management Policy of the municipality and the Asset Transfer Regulations.

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

Every manager 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 manager wishes to alienate by public auction or public tender.

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.

Once assets are alienated, the Chief Financial Officer shall in terms of GRAP adjust the asset register for the current year and shall, for the ensuing year, delete the asset from the accounting records and the asset register.

If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss in the Statement of Financial Performance of the department or vote concerned.

If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the Statement of Financial Performance of the department or vote concerned.

All assets earmarked for write-off must be sold on a public auction or tender once the following steps have been followed:

- a notice was published in the local press of the municipality's intention to sell the asset;
- in the case of computer equipment the provincial department of education is first approached to determine within 30 days if any of the local schools are interested in the equipment;
- in the case where no such schools are interested in the computer equipment it must be donated to non-profit organisations who will have to motivate why the equipment must be donated to them and / or demolished in the presence of the internal auditor;
- In the case of an public auction an independent auctioneer was appointed to hold the auction; and
- In the case of a public tender the prescribed tender procedures were followed.

Loss, theft, destruction or impairment of assets

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

10. INTERNAL CONTROLS

Asset Register

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

The Asset Manager is responsible for establishing and maintaining any additional register or database required by the managers to demonstrate their physical management of their assets.

The asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of GRAP and any other accounting requirements which may be prescribed.

The details in the asset register must, as far as possible, include:

- A unique identification number;
- GIS identification number in the case of infrastructure;
- A short but meaningful description of the each asset;
- Date of acquisition of the date that the asset was ready for use;
- Location of the asset;
- The responsible manager and department(s) or vote(s) within which the asset will be used;
- The title deed number, in the case of fixed property;
- The erf number, in the case of fixed property;
- The measurement basis of the asset (Cost or Fair Value);
- The original useful life of the asset;
- The revised useful life of the asset;
- The residual value of the asset;
- The revised residual value of the asset;
- The historical cost or revalued amount or fair value, where no cost is available;
- The (last) date of revaluation of the assets which must be valued;
- The revalued value of those assets;
- Who performed the (last) valuation;
- The accumulated depreciation to date;
- Depreciation charged for the current financial year;
- The carrying value of the asset;
- The depreciation methods and rate used;
- Impairment losses incurred during the financial year (and the reversal of such losses, where applicable);
- Method of calculating recoverable amount (in the case where an impairment is required in terms of GRAP);
- Increases or decreases resulting from revaluations (if relevant);
- Source of finance;
- Condition of the asset;
- Current insurance arrangements/agreements;
- Whether the asset is required to perform basic municipal services;
- Whether the asset has been used to secure any debt, and – if so - the nature and duration of such security arrangements;
- Security arrangements;
- Date and value of disposal;
- Selling price; and
- Date on which the asset is retired from use, if not disposed of.

All managers 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.

An asset shall be recorded in the assets register as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a fixed asset. The fact that an asset has been fully depreciated shall not in itself be a reason for deleting it from the register.

Controls relating to the asset register should be sufficient to provide Senior Managers with an accurate, reliable and up-to-date account of assets under their control, in line with the standards specified by the Chief Financial Officer and as required by relevant legislative and other requirements.

These controls must include:

- Details of the physical management;
- The recording of all acquisitions, assignments, transfers, losses and disposals of assets;
- Regular stock-takes; and
- Systems audits to confirm the accuracy of the records.

The Chief Financial Officer must establish a system to ensure that each moveable asset bears a unique identification number/ barcode which shall be recorded in the asset register.

Senior managers must ensure that the asset identification system approved for use by the municipality is scrupulously applied to all assets controlled or used by the department in question.

11. PHYSICAL CONTROLS AND MANAGEMENT

Responsibilities of the Asset Control Section

The Asset Control Section will undertake an annual stock take of assets as part of the annual reporting process.

The date of acquisition

- The date of acquisition of assets is deemed to be the time when legal title and control passes to the municipality.
- This may vary for different categories of assets but will usually be the point of time when an asset is brought into use or when final payment for that item is approved.

Transfers between Managers

Permanent transfers to another Manager

A Manager may transfer an asset under his control provided that another Senior Manager agrees in writing to accept responsibility for that asset. Copies of such approvals must be submitted to the Financial Services Department.

The Financial Services Department must appropriately amend the Asset register by recording all approved transfers.

The Manager to whom the asset is transferred must assume accountability for the transferred asset from a date specified in the written communication referred to above.

A Manager must ensure that assets are appropriately safeguarded for loss, damage or misuse wherever they are located. Safeguarding includes ensuring reasonable physical restrictions.

Relocation or Reassignment of Assets

A Manager must advise the Chief Financial Officer, in writing, whenever an asset is relocated or reassigned from the location (or base) or cost centre as recorded in the Asset Register.

In the case of assets such as vehicles being utilized in the normal course of operations away from its base such reporting is not necessary.

Verification of Assets

Every manager shall at least annually undertake a complete physical verification of all assets under his control.

The results of such verification shall be reported to the Chief Financial Officer in the format as required by the Chief Financial Officer.

The annual verification should be conducted as close to year-end as possible with the verification report reaching the Chief Financial Officer by not later than 30th June.

Insurance of assets

The Chief Financial Officer shall ensure that all movable assets should at least be covered against fire and theft and municipal buildings and infrastructure assets should as far as possible be covered against fire and allied perils.

The Accounting Officer must, after consultation with the Chief Financial Officer recommend to the Council of the municipality, the insured value to be applied to each type of asset: either the carrying value or the replacement value of the asset concerned. Such recommendation shall take due cognizance of the budgetary resources of the municipality.

12. MANAGEMENT AND OPERATION OF ASSETS

Accountability to manage assets

Each Senior Manager is accountable to ensure that municipal resources assigned to him are utilized effectively, efficiently, economically and transparently. This will entail;

- The development of appropriate management systems, procedures, processes and controls for managing assets;
- The provision of an 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.

Strategic asset management plan

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 must develop strategic asset management plans that cover:-

- Alignment with the Integrated Development Plan;
- Operational guidelines;
- Performance monitoring including benchmarking indicators and measurement;

- Maintenance programmes;
- Renewal, refurbishment and replacements plans;
- Disposal and Rehabilitation plans;
- Operational, financial and capital support requirements; and
- Risk mitigation plans including insurance strategies.

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

Reporting on Impeding Issues

Each Functional Manager shall report to the Municipal Manager on issues that will significantly impede the assets capacity to provide the required level of service or economic benefit.

13. CLASSIFICATION, AGGREGATIONS & COMPONENTS

Classification of assets

Any asset recognized as an asset under this policy will be classified according to nationally recognized categories.

These categories have been specified by the Accounting Standards Board.

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

13.1 Property, plant and equipment

- Land and buildings, including community asset land and buildings (not held as investment assets).
- Infrastructure assets (assets which are part of a network of similar assets).
- Community assets (resources contributing to the general well-being of the community).
- Other assets (ordinary operational resources).

13.2 Investment property

13.3 Intangible assets

13.4 Agricultural assets

13.5 Heritage assets

Optional Treatment for Major Components

A Manager must, with agreement of the Chief Financial Officer, treat major components of an item of property plant or equipment as a separate asset for the purposes of this policy.

These major components may be defined by its physical parameters (e.g. a reservoir or roof) or its financial parameters.

In agreeing to these treatments the Manager must be satisfied that these components:

- Have significantly a different useful life or usage pattern to the main asset;

- Align with the asset management plans;
- Justify the costs of separate identification;
- Have probable future economic benefits or potential service delivery associated with the asset which will flow to the municipality;
- Is such that the cost of the asset to the municipality can be measured reliably,
- Is such that the municipality has control over the asset; and
- Is such that the asset is expected to be used during more than one financial year.

All such decisions and agreements must be confirmed before the beginning of the financial year and must be submitted for approval with the budget. Any amendments will only be permitted as part of a budget review (i.e. once or twice during the year).

Once a major component is recognized as a separate asset, it may be acquired, depreciated and disposed of as if it was a separate asset.

14. ACCOUNTING TREATMENT OF ASSETS

Recognition of Assets

An item of property, plant or equipment 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; and
- The asset is expected to be used during more than one financial year.

Initial Measurement

An item of property, plant or equipment that qualifies for recognition as an asset should be initially measured at its "cost of acquisition".

The "cost of acquisition" usually includes the following:

- Cost price;
- Delivery costs;
- Installation costs;
- Professional fees for architects and engineers;
- Site development costs;
- Contractor fees;
- Import duties;
- Non-refundable taxes (Ex VAT on passenger vehicles).

Donations or exchanges

Where an item of property plant or equipment 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.

Carrying amount of assets

Subsequent to initial recognition as an asset, an item of property, plant or equipment should be carried at its cost of acquisition less any accumulated depreciation and accumulated impairments.

The only exceptions to this rule shall be investment assets as well as heritage assets.

Depreciation

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

Depreciation and amortisation are defined as the monetary quantification by which PPE and Intangible Assets are used in the provision of economic benefits or service delivery.

The depreciable amount of an item of property, plant or equipment should be allocated on a systematic basis over its useful life.

The depreciable amount of an asset is determined after deducting the residual value of the asset. In practice, the residual value of an asset is often insignificant and, therefore, is immaterial in the calculation of the depreciable amount.

When the benchmark treatment is adopted and the residual value is likely to be significant, the residual value is estimated at the date of acquisition. The estimate is based on the residual value prevailing at the date of the estimate for similar property assets that have reached the end of their useful lives and have operated under conditions similar to those under which the property asset will be used.

The depreciation charge for each period will be recognized as an expense against the budget of the relevant Manager.

The depreciation method used shall reflect the pattern in which the assets' future economic benefits or service potential are expected to erode the value of the asset.

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 method of depreciation 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 preferred depreciation method will be the straight-line method unless otherwise agreed to in writing by the Chief Financial Officer.

Depreciation shall initially be calculated from the day the asset is available for use.

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

Initial determination of useful life

Each Manager needs 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 optimize 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.

A schedule of useful lives is included as an annexure. These should be used as a guide only because asset lives experienced may greatly vary from those recommended lives.

In the case of an item of PPE or Intangible Asset which is not listed in this annexure, the relevant head of department in consultation with the Chief Financial Officer shall determine a useful operating life 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.

Spares purchased specifically for a particular asset or class of assets at the time of the initial acquisition and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, must be considered to form part of the historical cost of that asset or class. The depreciable amount of such spares must be allocated over the useful life of the asset or class.

Review of useful life and residual value

Only the Chief Financial Officer in consultation with the responsible Manager may amend the useful operating life or the residual value assigned to any asset.

The Chief Financial Officer shall amend the useful operating life or the residual value assigned to any 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 consumed.

If the value of an asset item of PPE has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be written off from the date in which such diminution in value occurs.

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

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

The useful life and the residual value of an item of property, plant or equipment must be reviewed annually and if these revised expectations are significantly different from previous estimates, then the depreciation charge for the current and future periods must be adjusted and the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

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 arises close to the end of the financial year and there will not be time for Council to consider the adjustments before the end of the financial year, may be approved by the Mayor in terms of Section 29 of the MFMA, provided that any other provisions of the MFMA be complied with.

Review of depreciation method

The depreciation method applicable to a class of asset must 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 must be changed to reflect the changed pattern.

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

Subsequent expenditure on assets

Subsequent expenditure relating to an item of property, plant or equipment that has already been capitalised must 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 and resulting in financial or service delivery benefits.

All other expenditure must 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.

Impairment Losses

The carrying amount of an item or a group of identical items of Property, Plant and Equipment, Intangible Assets and Investment Property should be reviewed periodically

in order to assess whether or not the recoverable amount has declined below the carrying amount.

The recoverable amount is the amount that the municipality expects to recover from the future use of the asset including its residual value on disposal. 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 a non-distributable reserve.

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 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 recoverable amount.

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; and
- Land is purchased at market value and is to be utilized for subsidized housing developments, where the subsidy is less than the purchase price.

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

- Departments will identify and inform CFO – Asset Control 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. An example of this is land that is purchased at market value and is to be utilized for subsidized housing developments.
- The recoverable amounts of these assets need to be determined by calculating the net selling price per asset as defined above.
- The impairment loss per asset is the difference between the net selling price and the carrying value of the asset.

Subsequent increase in recoverable amount

A subsequent increase in the recoverable amount of an asset, previously impaired 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.

Accounting treatment on Disposal

An asset should be eliminated from the Asset Register on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its existence.

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 financial records.

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. Such expenses may include but need not be limited to import duties, forward cover costs, transportation, installation, assembly and communication costs.

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

CAPITAL EXPENDITURE	MAINTENANCE
<ul style="list-style-type: none"> • Acquiring a new asset • Replacing an existing asset • Enhancing an existing asset so that its use is expanded • Further developing an existing assets so that its original useful life is extended 	<ul style="list-style-type: none"> • Restoring an asset so that it can continue to be used for its intended purposes • Maintaining an asset so that it can be used for the period for which it was initially intended

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 Asset Register. It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement, or a price calculated after taking into account reasonable interest on the payments over the period of the lease. The asset is then depreciated over its expected useful life.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due. Assets held under operating leases are not accounted for in the asset register.

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 financial statements.

Investment assets 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 a separate section of the assets register in the same manner as other assets.

Investment assets shall not be depreciated, but shall be valued annually at financial statements date to determine their fair market value. Investment assets shall be recorded in the financial statements 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.

An expert valuer shall be engaged by the municipality to undertake such valuations unless such expertise is available in-house.

Assets treated as inventory

Any land or buildings owned or acquired by the municipality with the intention of reselling 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 reselling 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 financial statements.

Such inventories must be recorded in a separate section of the assets register in the same manner as assets.

Heritage Assets

Heritage assets shall be accounted for in terms of GRAP 103 and shall not be classified separately for purposes of preparing the municipality's financial statements.

Heritage assets shall be recorded in a separate section of the assets register in the same manner as other assets.

Heritage assets shall not be depreciated.

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.

For financial statements purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

Other write-offs of assets

An asset item, even though fully depreciated, shall be written off only on the recommendation of the manager controlling or using the asset concerned, provided it has been submitted to the Chief Financial Officer for approval.

Every manager shall report to the Chief Financial Officer on 30 April of each financial year on any asset which such manager wishes to have written off, stating in full the reason for such recommendation. The Chief Financial Officer shall consolidate all such reports, and shall submit a recommendation to the Municipal Manager of the municipality on the assets to be written off.

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

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

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

15. MAINTENANCE

Maintenance Plans

Every manager shall ensure that a maintenance plan in respect of new infrastructure assets with a value of R100 000 or more is prepared as part of the annual budget preparation process.

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

The manager controlling or using the infrastructure asset in question, shall annually report to Council, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

General maintenance of Assets

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 assets attain their maximum useful operating lives

16. SHORT TITLE

This policy will be named the Asset Management Policy of the **Cape Agulhas Municipality**.

APPENDIX A

SCHEDULE OF EXPECTED USEFUL LIVES OF ASSETS

	Years		Years
<u>Infrastructure</u>		<u>Other</u>	
Streets and Stormwater	8 – 99	Buildings	100
Solid Waste	10 – 64	Specialist vehicles	12-30
Electricity	10-64	Other vehicles	10-15
Water	12-48	Office equipment	2-30
Sewerage and sanitation	13 - 89	Furniture and fittings	10-30
		Tools and equipment	5 - 30
		Equipment	5-50
		Tables	10 - 30
		Chairs	10-30
		Computer equipment	10
		Landfill Sites	9 – 68
<u>Community</u>			
Recreational Facilities	5-50		
Clinics	100		
Halls	10 – 100		
Libraries	10-100		
Parks and gardens	30		
Sport Facilities	10-100		
<u>Finance lease assets</u>			
Office equipment	3 – 5		
Vehicles	5		

APPROVAL

Updated and approved in terms of Council resolution _____
dated _____ that states, "That the Accounting Officer
be delegated to adjust the Accounting- and Asset Management Policies in
accordance with the requirements of GRAP standards, legislative requirements
or requirements of the Auditor General whenever necessary, and that such
changes be incorporated into the next report of reviewed budget related
policies."

Approved:

Date:

Municipal Manager (Accounting Officer)
