

KZN431, KZN432 AND KZN436 MUNICIPALITY

Asset Management and Disposal Policy

KZN431, KZN432 AND KZN436 MUNICIPALITY ASSET MANAGEMENT AND DISPOSAL

POLICY

Contents

1.	KEY DEFINITIONS	3
1.	KEY DEFINITIONS (continued)	4
1.	KEY DEFINITIONS (continued)	5
2.	INTRODUCTION	6
3.	OBJECTIVES OF THE ASSET MANAGEMENT POLICY AND PROCEDURES	6
4.	STATUTORY AND REGULATORY FRAMEWORK	6
5.	EFFECTIVE ASSET MANAGEMENT	7
5.1	Definition of an asset	6
5.2	Functional Responsibilities of Departments and Individuals regarding PPE	7
5.3	Format of Asset Register	8
5.4	Classification of PPE	9
5.5	Recognition of Heritage Assets	10
5.6	Recognition of Donated Assets	10
5.7	Safekeeping of Assets	10
5.8	Identification of Assets	11
5.9	Procedure in case of Loss, Theft, Destruction, or Impairment of PPE & Staff	11
	Terminations	11
5.10	Capitalisation Criteria: Material Value	11
5.11	Capitalisation Criteria: Reinstatement, Maintenance and Other Expenses	12
5.12	Maintenance Plans	12
5.13	Deferred Maintenance	12
5.14	General Maintenance of Assets	13
5.15	Depreciation of PPE	13
5.16	Rate of Depreciation	13
5.17	Method of Depreciation	14
5.18	Amendment of Asset Lives and Diminution in the Value of Fixed Assets	14
5.19	Alternative methods of depreciation in specific instances	15
5.20	Carrying Values of Items of PPE	15
5.21	Revaluation of Items of PPE	15
5.22	Verification of PPE	16
5.23	Alienation of Assets	17
5.24	Other write-offs of fixed assets	17
5.25	DISPOSAL OF ASSET	18
5.26	Replacement norms	19
5.27	Insurance of fixed assets	19
5.28	ANNEXURE: FIXED ASSET LIVES	19 to 24
5.29	ANNEXURE:	24

Date Approved:	
Effective Date:	

1. KEY DEFINITIONS

Accounting Officer means the Municipal Manager.

Asset - resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity. (GRAP 1)

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

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

Chief Financial Officer means a person designated in terms of section 80(2) (a) of the MFMA.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP. (GRAP 17)

Current year means the financial year, which has already commenced, but not yet ended. (MFMA)

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value. (GRAP 17)

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. (GRAP 17)

Fair value is the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction. (GRAP 17)

Financial year means a twelve months period commencing on 1 July and ending on 30 June each year. (MFMA)

Generally Recognised Accounting Practice (GRAP) means an accounting practice complying in material respects with standards issued by the Accounting Standard Board.

Municipal Structures Act means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998).

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

1. KEY DEFINITIONS (continued)

Municipal council or **Council** means the council of a municipality referred to in section 18 of the Municipal Structures Act; (refer to the MSA for definition)

Municipality

- (a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
- (b) When referred to as a geographic area, means a municipal area determined terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

MFMA means The Local Government: Municipal Finance Management Act (No. 56 of 2003)

Municipal Manager “MM”

Means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act;

Municipal service has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

National Treasury “NT” means the National Treasury established by section 5 of the Public Finance Management Act;

Official

Means-

- (a) An employee of a municipality or municipal entity;
- (b) A person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- (c) A person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee

Property Plant and Equipment “PPE”

Are tangible assets that:

- (a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- (b) Are expected to be used during more than one reporting period. (GRAP 17)

“PT”, “Provincial Treasury”

Means the Provincial Treasury branch established by section 5 of the Public Finance Management Act;

Quarter

Means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or

1. KEY DEFINITIONS (continued)

- (d) 1 April to 30 June;

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

Residual value is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. (GRAP 17)

“Useful life”

- (a) The period over which an asset is expected to be available for use by an entity,
or
- (b) The number of production or similar units expected to be obtained from the asset by an entity. (GRAP 17)

"Vote"

Means-

- (a) One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality;
and
- (b) Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned. (MFMA)

2. INTRODUCTION

In terms of section 63(2) (c) of the MFMA the Accounting officer must take all reasonable steps to ensure that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register as may be prescribed. To achieve this objective the asset management policy has been designed to prescribe the accounting and administrative policies and procedures relating to Property, Plant and Equipment of the KZN 436 and Ingwe Municipality.

3. OBJECTIVES OF THE ASSET MANAGEMENT POLICY AND PROCEDURES

- To ensure effective and efficient control, utilization, safeguarding and management of the Municipality's Property, Plant and Equipment.
- To ensure that Head of Departments, Managers and council officials are aware of their responsibilities with regards to PPE.
- To ensure compliance with all relevant standards, policies and procedures relating to PPE.

4. STATUTORY AND REGULATORY FRAMEWORK

This policy must comply with all relevant legislative requirements including;

- The Constitution of the Republic of South Africa, 1996
- The Municipal Structures Act, 1998
- The Municipal Systems Act, 2000 as amended
- The Municipal Finance Management Act, 2003

This policy must comply with the standard specified by the Accounting Standards Board. The current relevant recognized accounting standards includes;

- GRAP 11 – Construction contracts
- GRAP 12 – Inventories
- GRAP 13 – Leases
- GRAP 16 – Investment Property
- GRAP 17 – Property, Plant and Equipment
- GRAP 102 – Intangible Assets

5. EFFECTIVE ASSET MANAGEMENT

5.1 Definition of an asset

According to **GRAP 1** assets are resources controlled by the entity as a result of past event and from which future economic benefits and service potential is expected to flow to the entity.

GRAP 17 defines PPE as follows:

Property, Plant and Equipment are tangible assets that:

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

According to GRAP 17.11 an item of Property, Plant and Equipment shall be recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the asset will flow to the entity, and
- the cost or fair value of the asset to the entity can be measured reliably.

To be recognised as a fixed asset, an asset must also meet the criteria referred to in 5.4, 5.10 and 5.11 below.

Assets held under leases

Finance leases are leases, which in effect transfer all risks and rewards associated with ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalised by the Municipality and reflected as such in the Asset Register. The asset will be capitalised at its leased value at the commencement of the lease as stated in the lease agreement and depreciated over its expected useful life.

Operating leases are those leases which do not fall within the scope of the above definition. The lease rentals are expensed as they become due and are not accounted for in the asset register of the Municipality.

5.2 Functional Responsibilities of Departments and Individuals regarding PPE

Role of Municipal Manager

As accounting officer of the municipality, the Municipal Manager is responsible for the management of the assets of the municipality, including the safeguarding and 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 recognised accounting practice;
- the Municipality has and maintains a system of internal control of assets, including an asset register; and
- Senior Managers and their teams comply with this policy

Role of Chief Financial Officer

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

- appropriate systems of financial management and internal control are established and carried out diligently;
- the financial and other resources of the Municipality are utilised effectively, efficiently,

economically and transparently;

- any unauthorised, irregular, 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 that the Municipality's financial resources are optimally utilised 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;
- 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;
- this policy and any supporting procedures or guidelines are established, maintained and effectively communicated.

5.3 Format of Asset Register

The Asset Register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of generally recognised accounting practice (GRAP) and any other accounting requirements which may be prescribed.

The Asset Register shall reflect as a minimum the following information:

- Acquisition dates of all PPE or date brought into use
- Clear descriptions of individual items of PPE
- Expected useful lives of each item of PPE
- The method and rate of depreciation
- The physical location of the asset
- Department or Service that use or controls the item off PPE
- The stand number, in the case of fixed property
- Unique identification reference/number for physical verification and asset management purposes (bar code, serial no. etc.)
- the original cost, or the revalued amount determined in accordance with part 26 below, or the fair value if no costs are available
- Where land and buildings are revalued, the revalued amount attributable to individual items of land and buildings as well as the date and basis of such valuation
- Accumulated depreciation attributable to individual items of PPE
- The depreciation charge for the current financial year
- The carrying value of the asset
- Impairment expense for the year
- Accumulated impairment losses for each class of assets
- Funding sources of individual items of PPE
- The current insurance arrangements
- Whether the asset is pledged as security for any external loan or other obligation.
- The date on which the asset is disposed of
- The disposal price and resultant profit or loss on the disposals
- The date on which the asset is retired from use, if not disposed of.

All Heads of Department under whose control any item of PPE falls, shall promptly provide the CFO in writing with any information required to compile the Asset Register, and shall promptly advise the CFO in writing of any change which may occur in respect of such information.

A fixed asset shall be capitalised, that is, recorded in the fixed 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.

A fixed asset shall remain in the fixed assets register for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset.

5.4 Classification of PPE

In compliance with the requirements of GRAP 17.17, the Chief Financial Officer, in addition to the classifications of assets between property, plant and equipment, shall ensure that all PPE are further classified under the following headings in the Assets Register. The Heads of Departments shall in writing provide the Chief Financial Officer with such information or assistance as is required to compile a proper classification:

5.4.1 Property, plant and equipment

- Land (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)
- Heritage assets (culturally significant resources)
- Other assets (ordinary operational resources)

5.4.2 Inventory

- Housing Stock (rental stock or housing not held for capital gain), this includes:
 - Land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business
 - 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
- These assets shall be treated as inventory in accordance with GRAP 12, and not included in either PPE or investment property in the municipality's statement of financial position.

5.4.3 Investment property

- GRAP 16.05 defines Investment property 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:
 - Use in the production or supply of goods or services or for administrative purposes; or
 - Sale in the ordinary course of operations.
- The municipality shall apply fair value model to all its investment property.
- The fair value of the investment property shall reflect market conditions at the end of the

reporting date

- The fair value of investment property shall be determined by the independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and categories of investment properties.
- Transfers to and from investment property can be made only when there has a change in use of the property. **GRAP 16.18**
- A gain or loss from a change in the fair value of the investment property shall be included in the net surplus/deficit in the statement of financial performance for the period in which it arises.

5.4.4 Intangible assets

- An intangible asset is an identifiable non-monetary asset without physical substance. **GRAP 102.9**
- Intangible assets are generally recognised initially at cost. **GRAP 102.28**
- An intangible asset of the municipality shall be carried at its cost less any accumulated amortisation and accumulated impairment losses.
- Amortisation shall begin when the asset is available for use i.e when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.
- Amortisation shall cease at the earlier date that the asset is classified as held for sale or the intangible asset is derecognised.
- The municipality shall apply the straight line method of amortisation.
- The amortisation charge for each period shall be recognised in the profit or loss
- The amortisation period and amortisation method of an item intangible asset shall be reviewed at least at each financial year-end and the adjustment in the amortisation charge is accounted for as a change in accounting estimate in accordance with GRAP 3.
- Intangible assets with indefinite useful lives such as servitudes shall not be amortised but shall be tested for impairment annually.
- The municipality shall at each reporting period test whether or not there is any indication that an intangible asset may be impaired.
- The website costs of the municipality are not recognised as intangible assets as the municipality cannot demonstrate how its website will generate probable future economic benefits.

5.5 Recognition of Heritage Assets

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 purposes of compiling the statement of position, the existence of such heritage assets shall be disclosed by means of an appropriate note.

5.6 Recognition of Donated Assets

Where an item of PPE is donated to the Municipality, or acquired by means of an exchange of assets between the Municipality and one or more other parties, the asset concerned shall be recorded in the Asset Register at its fair value as at the date it is acquired, contributed or gifted as determined by

the Chief Financial Officer.

5.7 Safekeeping of Assets

Every Head of Department shall be directly responsible for the physical safekeeping of any item of PPE controlled or used by the department in question.

In exercising this responsibility, every Head of Department shall adhere to any written directives issued by the Chief Financial Officer to the department in question, or generally to all departments, in regard to the control of or safekeeping of the Municipality's fixed assets.

5.8 Identification of Assets

The Chief Financial Officer shall ensure that the Municipality maintains an asset identification system which shall be operated in conjunction with its computerised Asset Register.

The identification system shall be determined by the Chief Financial Officer, acting in consultation with the Municipal Manager and other Heads of Departments, and shall comply with any legal prescriptions, as well as any recommendations of the Auditor-General as indicated in the Municipality's audit report(s), and shall be decided upon within the context of the Municipality's budgetary and human resources.

Every Head of Department shall ensure that the asset identification system approved for the Municipality is scrupulously applied in respect of all items of PPE controlled or used by the department in question.

5.9 Procedure in case of Loss, Theft, Destruction, or Impairment of PPE & Staff Terminations.

Every Head of Department shall ensure that any incident of loss, theft, destruction, or material impairment of any item of PPE controlled or used by the department in question is promptly reported in writing to the Chief Financial Officer within seven (7) days from the day of the incident, and, in cases of suspected theft or malicious damage, reported to the South African Police Service.

Terminations

At the termination of an employee's service, the respective Head of Department must ensure that the CFO is promptly notified in writing of such termination. A prescribed form as may be required by the CFO must be properly completed and forwarded together with the termination notification to the CFO within seven (7) days of such termination.

5.10 Capitalisation Criteria: Material Value

No item with an initial cost or fair value of less than R1000.00 (one thousand Rand) – or such other amount as the council of the municipality may from time to time determine on the recommendation of the Municipal Manager – shall be recognised as an asset. If the item has a cost or fair value lower

than this capitalisation benchmark, it shall be treated as an ordinary operating expense. Every Head of Department shall, however, ensure that any item with a value in excess of R500.00 (five hundred rand), and with an estimated useful life of more than one year. Every Head of Department shall moreover ensure that the existence of items recorded and verified from time to time, and at least once in every financial year, and any amendments which are made to such register pursuant to such stock verifications shall be retained for audit purposes.

5.11 Capitalisation Criteria: Reinstatement, Maintenance and Other Expenses

According to GRAP 17.18, subsequent expenditure relating to an item of PPE that has already been recognised shall be added to the carrying amount of the asset when it is probable that future economic benefits or service potential over the total life of the asset **in excess of the most recently assessed standard of performance of the existing asset**, will flow to the entity. All other subsequent expenditure shall be recognised as an expense in the period in which it is incurred. A clear distinction must be made between capital expenditure and repairs and maintenance. The following matrix can be used as a guide for this purpose;

MATRIX 1: 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 asset 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 purpose ▪ Maintaining an asset so that it can be used for the period for which it was initially intended.

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

5.12 Maintenance Plans

Every head of department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R50 000 (fifty thousand rand) or more is promptly prepared and submitted to the council of the municipality for approval.

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

The head of department controlling or using the infrastructure asset in question, shall annually report to the council, not later than in July, 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.

5.13 Deferred Maintenance

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see part 12 above), the chief financial officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the chief financial officer shall predetermine the useful operating life of the fixed asset in question, if necessary in consultation with the head of department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

5.14 General Maintenance of Assets

Every Head of Department shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with in part 16 and part 17 above) are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

5.15 Depreciation of PPE

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

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

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

However, depreciation shall initially be calculated from the day following the day in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the day following the day in which the fixed asset is brought into use, until the end of the calendar month concerned. Thereafter, depreciation charges shall be calculated monthly.

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

The procedures to be followed in accounting and budgeting for the amortisation of intangible assets

shall be identical to those applying to the depreciation of other fixed assets.

5.16 Rate of Depreciation

The Chief Financial Officer shall assign a useful operating life to each depreciable asset recorded on the municipality's asset register. In determining such a useful life he/she shall adhere to the useful lives set out in the annexure to this policy (see part 28 below).

In the case of a fixed asset which is not listed in this annexure, the chief financial officer shall determine a useful operating life, if necessary in consultation with the head of department who shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

5.17 Method of Depreciation

Except in those cases specifically identified in part 23 below, the Chief Financial Officer shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question. In terms of GRAP 17.71, the depreciation method shall be reviewed at least each reporting date, and if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in accounting estimate in accordance with Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

5.18 Amendment of Asset Lives and Diminution in the Value of Fixed Assets

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 consumed.

If the value of a fixed asset 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 fully depreciated in the financial year in which such diminution in value occurs.

Similarly, if a fixed asset 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 fixed asset has physically ceased to exist, it shall be written off the fixed asset register.

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

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

5.19 Alternative methods of depreciation in specific instances

The chief financial officer may employ the sum-of-units method of depreciation in the case of fixed assets which are physically wasted in providing economic benefits or delivering services.

The chief financial officer shall only employ this method of depreciation if the head of department controlling or using the fixed asset in question gives a written undertaking to the municipal manager to provide:

- Estimates of statistical information required by the chief financial officer to prepare estimates of depreciation expenses for each financial year; and
- Actual statistical information, for each financial year.

The head of department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the chief financial officer.

Where the chief financial officer decides to employ the sum-of-units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the chief financial officer shall inform the council of the municipality of the decision in question.

5.20 Carrying Values of Items of PPE

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

The only exceptions to this rule shall be revalued assets and heritage assets in respect of which no value is recorded in the fixed asset register (see 5.8 above).

5.21 Revaluation of Items of PPE

All the recorded in the municipality's Asset Register shall be revalued with the adoption by the municipality of each new valuation roll (or, if the Investment Property concerned fall within the boundary of another municipality, with the adoption by such municipality of each new valuation roll).

The Chief Financial Officer shall adjust the carrying value of the Investment Property concerned to

reflect in each instance the value of the items as recorded in the valuation roll, provided the Chief Financial Officer is satisfied that such value reflects the fair value of the Investment Property concerned.

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

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

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

If the amount recorded on the valuation roll is less than the carrying value of the item of land or building recorded in the asset register, the Chief Financial Officer shall adjust the carrying value of such asset by increasing the accumulated depreciation of the in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such 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.

Revalued land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation (in the case of buildings). The municipality is using cost model, but on the Investment Property we are using revaluation model.

5.22 Verification of PPE

Every Head of Department shall at least once during every financial year, and in compliance with the relevant written directives issued by the chief financial officer, undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

The directives issued by the chief financial officer shall stipulate the date(s) when such verification shall be undertaken and completed and such date(s) shall be as close as possible to the end of each financial year.

Every head of department shall promptly and fully report in writing to the chief financial officer in the format determined by the chief financial officer, all relevant results of such fixed asset verification, and the resultant report shall be submitted to the chief financial officer not later than 30 June of the year in question.

5.23 Alienation of Assets

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the Municipality's Supply Chain Management Policy.

Every head of department shall report in writing to the chief financial officer on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to alienate. The chief financial officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the municipal manager, indicating the process of alienation to be adopted in accordance with Section 20 of the municipality's supply chain management policy.

The chief financial officer shall ensure that the alienation of any fixed asset with a carrying value equal to or in excess of R25 000 (twenty five thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004 (see 5.34 below).

Once the fixed assets are alienated, the chief financial officer shall delete the relevant records from the fixed 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 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 performance of the department or vote concerned.

All gains realised on the alienation of fixed assets shall be appropriated annually to the municipality's asset financing reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the income statement of the department 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 department or vote, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.

Transfer of fixed assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty in accordance with Section 20 of the municipality's supply chain management policy.

The chief financial officer shall in July of every year report to the council of the municipality details of all fixed assets disposed of during the immediately preceding financial year.

5.24 Other write-offs of fixed assets

A fixed asset other than when disposed of in accordance with part 28 below, and even though fully depreciated, shall be written off by the chief financial officer only on the recommendation of the head of department controlling or using the asset concerned, and with the approval of the municipal manager.

Every head of department shall report to the chief financial officer on 31 October and 30 April of each financial year on any fixed assets which such head of department wishes to have written off, stating in full the reason for such recommendation. The chief financial officer shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off.

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 department or vote, as additional depreciation expenses, the full carrying value of the asset concerned (see also 5.22).

5.25 DISPOSAL OF ASSET

Assets must be disposed of in such a way that:

in financial terms, such disposal is of benefit to the municipality and authorisation for disposal must be as per the municipality's delegation of authority. Proof of payment must be obtained before the asset is transferred to the new owner as per the relevant form.

Every head of department shall report in writing to the chief financial officer in June and December of each financial year on all fixed assets controlled or used by the department that such head of department is proposing to dispose of. The chief financial officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the Accounting Officer, recommending the process of disposal to be adopted. All disposals will therefore be done when there is a need for and any disposals will require the expressed approval of the Accounting Officer.

If the proceeds on disposal are less than the carrying value recorded in the fixed asset register, such difference shall be recognised as a loss on disposal in the income statement of the department concerned. If the proceeds of the disposal are more than the carrying value of the fixed asset concerned, the difference shall be recognised as profit/gain on disposal in the income statement of the department concerned.

All gains realised on the disposal of fixed assets shall be appropriated annually to the municipality's asset financing fund. All losses on the disposal of fixed assets shall remain as expenses on the income statement of the department concerned. If, however, both gains and losses arise in any one financial year in respect of the disposal of the fixed assets of any department, only the net gain (if any) on the disposal of such fixed assets shall be appropriated.

5.26 Replacement norms

The municipal manager, in consultation with the chief financial officer and other heads of departments, shall formulate norms and standards for the replacement of all normal operational fixed assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the council of the municipality for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain.

5.27 Insurance of fixed assets

The chief financial officer shall ensure that all movable fixed assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

The chief financial officer shall determine the basis of the insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

The chief financial officer shall annually submit a report to the council of the municipality for approval on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve.

5.28 ANNEXURE: FIXED ASSET LIVES

INFRASTRUCTURE ASSETS

The following is the list of infrastructure assets, with the estimated useful life in years indicated in brackets in each case.

*	Electricity	
	Power stations	(30)
	Cooling towers	(30)
	Transformer kiosks	(30)
	Meters	(20)

Load control equipment	(20)
Mains	(20)
Switchgear	(20)
Supply and reticulation networks	(20)
Roads Motorways	(15)
Other roads	(10)
Traffic islands	(10)
Traffic lights	(20)
Street lights	(25)
Overhead bridges	(30)
Storm water drains	(20)
Bridges, subways and culverts	(30)
Car parks	(20)
Bus terminals	(20)
Water Mains	(20)
Supply and reticulation networks	(20)
Reservoirs and storage tanks	(20)
Meters	(15)
Rights (that is, the right to draw water from a particular source belonging to another party)	(20)
Gas Supply and reticulation networks	(20)
Storage tanks	(20)
Mains	(20)
Meters	(20)
Sewerage Sewer mains	(20)
Outfall sewers	(20)
Sewage purification works	(20)
Sewerage pumps	(15)
Sludge machines	(15)
Pedestrian malls Footways	(20)
Kerbing	(20)
Paving	(20)
Airports Runways	(20)
Aprons	(20)
Taxiways	(20)
Airport and radio beacons	(20)

Security measures	(5)
Access control systems	(5)
Security systems	(5-7)
Security fencing	

COMMUNITY ASSETS

The following is a list of community assets, showing again the assigned or estimated useful lives in years in brackets:

Buildings and other assets	
Ambulance stations	(30)
Aquariums	(30)
Beach developments	(30)
Care centres	(30)
Cemeteries	(30)
Civic theatres	(30)
Clinics and hospitals	(30)
Community centres	(30)
Fire stations	(30)
Game reserves and rest camps	(30)
Indoor sports	(30)
Libraries	(30)
Museums and art galleries	(30)
Parks	(30)
Public conveniences and bath houses	(30)
Recreation centres	(30)
Sports and related stadiums	(30)
Zoos	(30)
Recreation facilities	
Bowling greens	(20)
Tennis courts	(20)
Swimming pools	(20)
Golf courses	(20)
Jukskei pitches	(20)
Outdoor sports facilities	(20)
Fountains	(20)
Flood lighting	(15)
Park homes	(10)
Car wash	(30)
Shed	

Sum-of-units method of depreciation may be preferred.

HERITAGE ASSETS

The following is a list of at least some typical heritage assets encountered in the municipal environment (no asset lives are given, of course, as no ordinary depreciation will be charged against such assets):

- Museum exhibits
- Works of art (which will include paintings and sculptures)
- Public statues
- Historical buildings or other historical structures (such as war memorials)
- Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement)

INVESTMENT ASSETS

It is not possible to provide an exhaustive list of investment assets, as the actual list will depend very much on the local circumstances of each municipality. However, the following will be among the most frequently encountered:

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties)
- Shopping centres (again developed along similar lines)

OTHER ASSETS

The following is a list of other assets, again showing the estimated useful life in years in brackets:

*

Abattoirs	(30)
Asphalt plant	(30)
Cable stations	(30)
Caravan parks	(30)
Compacting stations	(30)
Hostels used to accommodate the public or tourists	(30)
Office buildings	(30)
Hostels for municipal employees	(30)
Housing schemes	(30)
Nurseries	(30)
Old age homes	(30)

	Quarries	(30)
	# Tip sites	(30)
	# Training centres	(30)
	Workshops and depots	(30)
	Transport facilities	(30)
	Office equipment and Computer hardware	(5)
	Computer software	(5)
	Computer Equipment	(5)
	Office machines	(5)
	Air conditioners	(7)
	Furniture and fittings	(5- 10)
	Tables and desks	(7)
	Cabinets and cupboards	(5)
	Bins and containers	(5)
	Household refuse bins	(5)
	Bulk refuse containers	(10)
	Emergency equipment	(5)
	Fire Extinguishers	(5)
	Other fire-fighting equipment	(15)
	Emergency lights	(5)
	Firearms Gun	(5)
*	Motor vehicles	
	Ambulances	(10)
	Fire engines	(20)
	Buses	(15)
	Trucks and light delivery vehicles	(7)
	Ordinary motor vehicles	(7)
	Tractors	(15)
	Motor cycles	(3)
*	Plant and equipment	
	Graders	(15)
	Mechanical horses	(15)
	Farm equipment	(5)
	Lawn mowers	(2)
	Compressors	(5)
	Laboratory equipment	(5)
	Radio equipment	(5)
	Firearms	(5)

Telecommunication equipment	(5)
Cable cars	(15)
Irrigation systems	(15)
Cremators	(15)
Lathes	(15)
Filling equipment	(15)
Conveyors	(15)
Feeders	(15)
Tippers	(15)
Pulverising mills	(15)

*	Other	
	Aircraft	(15)
	Train	(30)
	Engines	(10)
	Generator	(10)
	Boiler	(10)
	Watercraft	(15)
	Loud hailer/ Public Address System	(5)

Sum -of-units may be preferred.

5.29 ANNEXURE:

PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2003

A municipality may not alienate any capital asset required to provide a minimum level of basic municipal services.

A municipality may alienate any other capital asset, but provided:

- the council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services, and
- the council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

5.30 ADOPTION AND APPROVAL OF POLICY BY COUNCIL

This policy is adopted and approved by the full Council of KZN 436 and Ingwe Municipality for implementation.

ADOPTED BY COUNCIL ON THIS _____ DAY OF _____ 2016

MUNICIPAL MANAGER

DATE