



**Zululand**  
District Municipality

ZULULAND DISTRICT MUNICIPALITY

FINAL FIXED ASSET MANAGEMENT POLICY

**"Service Delivery through Integrity"**

Tel : 035 874 5500 • 400 Ugagane Street, Ulundi, 3838 • Private Bag X76, Ulundi, 3838  
[www.zululand.org.za](http://www.zululand.org.za)



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## **PART 1 - BACKGROUND TO THE POLICY**

### **1.1. Purpose**

To provide for a structured process of decision-making, planning and control over the acquisition, use, maintenance, safeguarding and disposal of assets to maximise their service delivery potential and benefits, and to minimise their related risks and costs over their entire life.

To provide a framework for bringing together the technical operations managers and finance practitioner through an integrated and holistic approach to asset management

### **1.2. Aims and Objectives**

The aims and objectives of this policy are:

- To ensure the effective and efficient control, utilization, safeguarding and management of a municipality's assets
- To ensure senior managers are aware of their responsibilities in respect of operation and maintenance of assets
- To set out the standards of management, recording and internal controls over assets to ensure that they are safeguarded against inappropriate loss or utilisation.
- To specify the process required before expenditure on property, plant and equipment occurs.

### **1.3. Scope**

The scope of this policy covers intangible assets; tangible assets and intangible assets

### **1.4. Legal framework**

This policy must comply with all relevant legislative requirements including:

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

### **1.5. Accounting standards**

This policy is informed by the Standards of Generally Recognised Accounting Practice (GRAP), the following standards are components of the fixed assets i.e.

- a) Property, Plant and Equipment, GRAP 17
- b) Inventories, GRAP 12
- c) Investment Property, GRAP 16
- d) Leases, GRAP 13
- e) Intangible Assets, GRAP 31
- f) Heritage Assets, GRAP 103

## **PART 2 DEFINITIONS**

The following terms are used in this Policy with the meaning specified in the relevant GRAP standards mentioned above:

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

**Class of assets** means a grouping of assets of a similar nature or function in an entity's operations, that is shown as a single item for the purpose of disclosure in the financial statements.

**Cost** means 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.

Depreciable amount means the cost of an asset, or other amount substituted for cost, less its residual value;

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life;

**Entity-specific value** is the present value or service potential of the benefits an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

**Fair value** means the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction;

An **impairment loss of a cash-generating asset** means the amount by which the carrying amount of an asset exceeds its recoverable amount;

An **impairment loss of a non- cash-generating asset** means the amount by which the carrying amount of an asset exceeds its recoverable amount;

An **inventory** for the purpose of this policy means land or buildings held for sale or distribution in the ordinary course of operations;

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

(a) Use in the production or supply of goods or services or for administrative purposes, or

(b) Sale in the ordinary course of operations.

**Net realisable value** means the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution;

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

**Property, plant and equipment** mean tangible items 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;

**Recoverable amount** means the higher of a cash-generating asset's net selling price and its value in use;

**Recoverable service amount** means the higher of a non-cash-generating asset's fair value less costs to sell and its value in use; The **residual value of an asset** means the estimated amount that the Municipality 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;

**Useful life means:**

- a) the period over which an asset is expected to be available for use by the Municipality, or
- b) the number of production or similar units expected to be obtained from the asset by the Municipality;

### **PART 3 ROLE OF MUNICIPAL MANAGER**

As accounting officer of the municipality, the municipal manager shall be the principal custodian of all the municipality's fixed assets, and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to.

### **PART 4 ROLE OF CHIEF FINANCIAL OFFICER**

The chief financial officer shall be the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained.

No amendments, deletions or additions to the fixed asset register shall be made other than by the chief financial officer or by an official acting under the written authority of the chief financial officer.

### **PART 5 FORMAT OF FIXED ASSET REGISTER**

The fixed 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 by the Accounting Standards Board.

The fixed asset register shall reflect the following information:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use
- the location of the asset
- the department(s) or vote(s) within which the assets will be used

- the title deed number, in the case of fixed property
- the stand number, in the case of fixed property
- where applicable, the identification number, as determined in compliance with part 11 below
- the original cost, or the revalued amount determined in compliance with part 26 below, or the fair value if no costs are available
- the (last) revaluation date of the fixed assets subject to revaluation
- the revalued value of such fixed assets
- who did the (last) revaluation
- accumulated depreciation to date
- the depreciation charge for the current financial year
- the carrying value of the asset
- the method and rate of depreciation
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- the source of financing
- the current insurance arrangements
- 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
- the date on which the asset is disposed of, or transferred to a local municipality
- the disposal price
- the date on which the asset is retired from use, if not disposed of or transferred.

All heads of department under whose control any fixed asset falls shall promptly provide the chief financial officer in writing with any information required to compile the fixed asset register, and shall promptly advise the chief financial officer in writing of any material 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, whereafter 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.

## **PART 6 CLASSIFICATION OF FIXED ASSETS**

In compliance with the requirements of the National Treasury, the chief financial officer shall ensure that all fixed assets are classified under the following headings in the fixed assets register, and heads of departments shall in writing provide the chief financial officer with such information or assistance as is required to compile a proper classification:

### **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)
- other assets (ordinary operational resources)

## **PART 7 ACCOUNTING TREATMENT**

### **Recognition of property, plant and equipment**

An item of property, plant and 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 gained control over the asset,
- The costs is above the recognition threshold, and
- The asset is expected to be used during more than one financial year.

All other acquisitions of property, plant and equipment will be expensed.

### **Initial measurement**

An item of property, plant and equipment that qualifies for recognition as a non-current asset shall be initially measured at its "cost of acquisition".

This "cost of acquisition" will include all costs required to bring the asset to the proper working condition and position for its intended use. These costs shall include the following:

- Purchase costs (less any discounts given)
- Delivery costs
- Installation costs
- Professional fees for architects and engineers
- Import duties
- Non-refundable taxes
- Site development costs
- Contractor fees

### **Donations or exchanges**

Where an item of property plant and 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 non-current asset register if the fair value is greater than the recognition threshold.

### **Carrying amount on property plant and equipment**

Subsequent to initial recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation, subject to the requirement to write an asset down to its recoverable amount.

### **Depreciation (excluding land)**



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

The depreciation method used shall reflect the pattern in which economic benefits or potential service provisions are consumed by the municipality.

The depreciation charge for each period will be recognized as an expense against the budget of the relevant head of department unless it is included in the carrying amount of another asset.

The depreciation method will be straight line unless the Chief Financial Officer is convinced that another method is more appropriate.

### **Residual value**

Residual values are applicable only on buildings and vehicles. Depreciation shall be calculated on cost less residual values.

A residual value of 10% is applicable on both vehicles and buildings.

### **Initial determination useful life**

Each Head of department needs to determine the useful life of a particular item or class property, plant and equipment through the development of a strategic asset management plan that forecasts the expected useful life that asset. This shall be developed as part of the Pre-Acquisition Planning that would consider the following factors:

- The operational, maintenance, renewal and disposal 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 municipalities needs,
- Technological obsolescence,
- Social obsolescence due to changing demographics, and
- Legal obsolescence due to statutory constraints.

Spares purchased specifically for a particular asset, or class of assets, 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**

The useful life of an item property, plant and equipment shall be reviewed annually and if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods shall be adjusted.

### **Review of depreciation method**

The depreciation method applied to property, plant and equipment shall 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 shall be changed to reflect the changed pattern.

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

### **Subsequent expenditure on property plant and equipment**

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized shall be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery, in excess of the originally assessed standard of performance of the existing asset, will flow to the municipality.

All other expenditure shall 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 significantly:

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

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

Where it is desired to capitalize future component replacements, refurbishments or renewals, then please refer to the section on major components in this policy.

### **Reduction of the carrying amount**

The carrying amount of a non-current asset shall be reviewed annually to assess whether or not the recoverable amount has declined below the carrying amount.

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

The amount of the reduction shall be recognized as an expense immediately, unless it reverses a previous revaluation in which case it shall be charged to a non-distributable reserve.

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

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

### **Subsequent increase in recoverable amount**

A subsequent increase in the recoverable amount of an asset, previously written down due to a decline in the carrying amount shall 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 shall be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

Reduction of the carrying amount

The carrying amount of a non-current asset shall be reviewed annually to assess whether or not the recoverable amount has declined below the carrying amount.

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

## **PART 8 INVESTMENT PROPERTY**

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

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

Investment assets shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose. Investment assets shall not be depreciated but shall be annually valued on balance sheet date to determine their fair (market) value.

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

An expert valuer shall be engaged by the municipality to undertake such valuations.

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

## **PART 9 FIXED ASSETS TREATED AS INVENTORY**

Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of

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

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

## **PART 10 LEASED ASSETS**

Leases are categorized between finance and operating leases. A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. The title may or may not eventually be transferred.

Assets acquired through a finance lease are capitalised. Finance lease assets shall be included in the balance sheet.

An operating lease is any lease other than a finance lease. Generally, the risks and benefits incidental to the ownership of an asset are not substantially transferred to the lessee. The lease payments are expensed in the income statement on a systematic basis. Leased assets shall be recognized and recorded in line with GRAP 13 and other appropriate financial reporting standards.

## **PART 11 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)

A Heritage Asset will be recognized as an asset in the Fixed Asset Register of the Municipality when it meets both the definition and recognition criteria.

If the asset meets the definition and recognition criteria, the Heritage Asset will be initially measured at its cost.

If the Heritage Asset is acquired through a non-exchange transaction, it will be initially measured at its fair value.

If the Municipality has identified an asset which might be regarded as a Heritage Asset, however, the asset does not meet the

recognition criteria of a Heritage Asset mainly because the cost or fair value of the asset cannot be reliably measured, the Chief Financial Officer shall disclose information relating to this asset which is relevant and useful in the notes to the Financial Statements.

## **PART 12 RECOGNITION OF DONATED ASSETS**

Where a fixed asset is donated to the municipality, or a fixed asset is acquired by means of an exchange of assets between the municipality and one or more other parties, the asset concerned shall be recorded in the fixed asset register at its fair value, as determined by the chief financial officer.

## **PART 13 SAFEKEEPING OF ASSETS**

Every head of department shall be directly responsible for the physical safekeeping of any fixed asset 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.

## **PART 14 IDENTIFICATION OF FIXED ASSETS**

The chief financial officer shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed 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 fixed assets controlled or used by the department in question.

## **PART 15 PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION, OR IMPAIRMENT OF FIXED ASSETS**

Every head of department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed 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 Service.

An investigation will be instituted to determine if there was negligence on the part of the employee. If found guilty of negligence, the employee will be responsible for any cost incurred by the municipality or as stipulated in the approved loss control policy of the municipality.

When it is suspected that an employee abuses assets, this action should be reported to the HOD. A hearing should be held to determine if this is the case. If found guilty the employee should be subject to the procedure as described in terms of the Standard Conditions of Service.

## **PART 16 CAPITALISATION CRITERIA: MATERIAL VALUE**

An asset should be capitalised in accordance with GRAP standards when it meets the definition of property, plant and equipment, regardless of the cost price of an asset. Therefore, in accordance with relevant GRAP standards, if an asset is expected to be used for more than one reporting period, it should be capitalised.

## **PART 17 CAPITALISATION CRITERIA: INTANGIBLE ITEMS**

No intangible item shall be recognised as a fixed asset, except that the chief financial officer, acting in strict compliance with the criteria set out in GRAP 31 Intangible assets (dealing with research and development expenses) may recommend to the council that specific development costs be recognised as fixed assets.

The Municipality will recognize an asset as an Intangible Asset when it meets both the definition and recognition criteria.

An Intangible Asset shall be initially recognized at cost.

### **Subsequent measurement - Cost model**

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

### **Amortisation and impairment**

Amortisation is charged to write off the cost or valuation of intangible assets over their estimated useful lives using the straight-line method.

If an Intangible Asset is acquired through a non-exchange transaction, it shall be initially recognized at its fair value on the date of acquisition.

The Municipality may incur internal expenditure on the development and operations of its own website for internal or external use.

The stages of a website's development can be described as follows:

- a. Planning
- b. Application and infrastructure development
- c. Graphical design development; and
- d. Content development

All costs that relate to planning will be expensed.

Costs that arise only from the development of the website and is for internal or external access, shall be capitalized and classified as an Intangible Asset which has been internally generated.

The development costs must demonstrate probable future economic benefits or service potential to be capitalised as an Intangible Asset. The income must be directly connected to the website e.g. Consumers must be able to pay accounts using the website facilities.

If the Municipality is unable to demonstrate future economic benefit, then all costs incurred relating to the website costs will be expensed.

## **PART 18 CAPITALISATION CRITERIA:REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES**

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

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

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

## **PART 19 MAINTENANCE PLANS**

Every head of department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R250 000 (two hundred and fifty thousand rand) or more is promptly prepared and submitted to the CFO in line with the budget process.

## **PART 20 GENERAL MAINTENANCE OF FIXED ASSETS**

Every head of department shall be directly responsible for ensuring that all assets assigned to his function/ responsibility

(other than infrastructure assets which are dealt with in part 16) are properly maintained according to a maintenance plan approved by the accounting officer.

## **PART 21 DEPRECIATION OF FIXED ASSETS**

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 an annualy 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 financial year concerned. Thereafter, depreciation charges shall be calculated annually.

## **PART 22 RATE OF DEPRECIATION**

The chief financial officer shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register. In determining such a useful life the chief financial officer shall adhere to the useful lives set out in the annexure to this policy (see part 32 below).

## **PART 23 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.

## **PART 24 IMPAIRMENT OF ASSETS**

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. For example:

- Significant decline in market value
- Carrying amount of an asset exceeds the recoverable amount or market value
- There is evidence of obsolescence (physical damage)
- The deterioration of economic performance of asset concerned.

Where the assessed costs of holding impaired assets exceed the benefits thereof, such assets shall be considered for



disposal. Impairment test shall be done on an annual basis. Impairment of assets will be performed in line with GRAP 21 & 23 and other appropriate financial reporting standards.

## **PART 25 AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS**

Should the need arise to revise the useful operating life of any fixed asset, due to impairment, or improvement in value, the accounting officer may in consultation with the relevant HoD and CFO amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the accounting officer shall inform the council 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 the 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.

## **PART 26 ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES**

The chief financial officer may employ the sum-of-units method of depreciation (after approval by the accounting officer) 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.

## **PART 27 CARRYING VALUES OF FIXED ASSETS**

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

The only exceptions to this rule shall be revalued assets (see part 26 below) and heritage assets in respect of which no value is recorded in the fixed asset register (see part 8 above).

## **PART 28 VERIFICATION OF FIXED ASSETS**

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.

## **PART 29 DISPOSAL OF ASSETS**

1. The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently disposed of a capital asset needed to provide the minimum level of basic municipal services, (Section 14, Act no.56 of 2003 MFMA).
2. A municipality may transfer ownership or otherwise dispose of a capital asset other than one contemplated in section 1, but only after the municipal council, in a meeting opened to the public-
  - a) Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
  - b) Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset
3. A Municipal council may delegate to the accounting officer of the municipality its power to make the determinations referred to in section 2(a) and (b) in respect of movable capital assets below a value determined by the council.

4. Any transfer of ownership of a capital asset in terms of section 2 or 3 must be fair, equitable, transparent, competitive and consistent with the supply chain management policy which the municipality must have and maintain in terms of section 111 of the MFMA.

### **PART 30 INSURANCE OF FIXED ASSETS**

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

### **PART 31 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.

### **PART 32 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	(30-60)
	Cooling towers	(25-30)
	Transformer kiosks	(25-50)
	Meters	(20-25)
	Load control equipment	(20-25)
	Switchgear	(20-30)
	Supply and reticulation networks	(15-25)
	Mains	(15-20)
*	Roads	
	Motorways	(15-20)
	Other roads	(10-20)
	Traffic islands	(40-50)
	Traffic lights	(15-20)
	Street lights	(25-40)
	Overhead bridges	(60-80)
	Stormwater drains	(80-100)
	Bridges, subways and culverts	(30-50)
	Car parks	(20-40)
	Bus terminals	(20-30)
	Water	
	Mains	(20-100)
	Supply and reticulation networks	(20-100)
	Reservoirs and storage tanks	(20-100)
	Meters	(15-20)
	Rights (that is, the right to draw water from a particular source belonging to another party)	(20-30)

Gas		
	Supply and reticulation networks	(15-20)
	Storage tanks	(15-20)
	Mains	(15-20)
	Meters	(15-20)
Sewerage		
	Sewer mains	(20-100)
	Outfall sewers	(20-100)
	Sewage purification works	(20-100)
	Sewerage pumps	(15-50)
	Sludge machines	(15-50)
Pedestrian malls		
	Footways	(20-100)
	Kerbing	(20-100)
	Paving	(20-100)
*	Airports	
	Runways	(20-100)
	Aprons	(20-100)
	Taxiways	(20-100)
	Airport and radio beacons	(20-50)
Security measures		
	Access control systems	(5-10)
	Security systems	(5-10)
	Security fencing	(3-10)

### 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	(30-50)
	Aquariums	(30-50)
	Beach developments	(30-50)
	Care centres	(30-50)
	Cemeteries	(30-50)
	Civic theatres	(30-50)
	Clinics and hospitals	(30-50)
	Community centres	(30-50)
	Fire stations	(30-50)
	Game reserves and rest camps	(30-50)
	Indoor sports	(30-50)
	Libraries	(30-50)
	Museums and art galleries	(30-50)
	Parks	(30-50)
	Public conveniences and bath houses	(30-50)
	Recreation centres	(30-50)
	Sports and related stadiums	(30-50)
	Zoos	(30-50)
*	Recreation facilities	
	Bowling greens	(20-50)
	Tennis courts	(20-50)
	Swimming pools	(20-50)
	Golf courses	(20-50)

Jukskei pitches	(20-50)
Outdoor sports facilities	(20-50)
Organs (that is, pipe organs that are fixtures in a municipal hall or other centre)	(20-50)
Lakes and dams	(20-50)
Fountains	(20-50)
Flood lighting	(20-50)

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

### 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:

*	Buildings	
	Abattoirs	(5-30)
	Asphalt plant	(5-30)
	Cable stations	(5-30)
	Caravan parks	(5-30)
	Compacting stations	(5-30)
	Hostels used to accommodate the public or tourists	(5-30)
	Hostels for municipal employees	(5-30)
	Housing schemes	(5-30)
	Kilns	(5-30)
	Laboratories	(5-30)
	Fresh produce and other markets	(5-30)
	Nurseries	(5-30)
	Office buildings	(5-30)
	Old age homes	(5-30)
	Quarries	(5-30) #
	Tip sites	(5-30) #
	Training centres	(5-30)
	Transport facilities	(5-30)
	Workshops and depots	(5-30)
	Office equipment	
	Computer hardware	(3-75)
	Computer software	(3-10)
	Office machines	(3-75)
	Air conditioners	(5-75)
	Furniture and fittings	
	Chairs	(3-75)
	Tables and desks	(3-75)

	Cabinets and cupboards	(3-75)
	Bins and containers	
	Household refuse bins	(3-75)
	Bulk refuse containers	(3-75)
	Emergency equipment	
	Fire hoses	(3-75)
	Other fire-fighting equipment	(3-75)
	Emergency lights	(5)
	Motor vehicles	
	Ambulances	(5-10)
	Fire engines	(5-75)
	Buses	(5-30)
	Trucks and light delivery vehicles	(5-75)
	Ordinary motor vehicles	(5-75)
	Motor cycles	(3-60)
*	Plant and equipment	
	Graders	(10-75)
	Tractors	(10-75)
	Mechanical horses	(10-75)
	Farm equipment	(5-75)
	Lawn mowers	(3-35)
	Compressors	(3-35)
	Laboratory equipment	(3-35)
	Radio equipment	(3-35)
	Firearms	(3-40)
	Telecommunication equipment	(3-40)
	Cable cars	(3-15)
	Irrigation systems	(3-15)
	Cremators	(3-15)
	Lathes	(3-15)
	Filling equipment	(3-15)
	Conveyors	(3-15)
	Feeders	(3-15)
	Tippers	(3-15)
	Pulverising mills	(3-15)
	Other	
	Aircraft	(3-15)
	Watercraft	(3-15)
	# Sum-of-units may be preferred.	
	Intangible assets	
	Computer software *	(3-10)
	Websites	(3-10)

**PART 34 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.