

# RAYMOND MHLABA LOCAL MUNICIPALITY

# Asset Management Policy, Procedure and Implementation Guide

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# 1

# GENERAL INFORMATION

## **1.1 PREAMBLE**

**Whereas** Section 63 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) states that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safe-guarding and the maintenance of these assets.

**And whereas** Section 14 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services.

**And whereas** the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) regulates the transfer and disposal of capital assets by Municipalities and the granting by Municipalities of rights to use, control or manage capital assets.

**And whereas** the municipal manager as the accounting officer and the custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets.

**And whereas** these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes.

**And whereas** all assets must, over their useful life, be maintained and used in the production or supply of goods and services or for administrative purposes.

**And whereas** the municipal council of the Raymond Mhlaba Local Municipality wishes to adopt a policy to guide the municipal manager in the management and maintenance of the municipality's assets.

**Now therefore** the municipal council of the Raymond Mhlaba Local Municipality adopts the following Asset Management Policy:

## **1.2 GLOSSARY OF TERMS**

<b>AC:</b>	Standard reference for South African Generally Recognised Accounting Statement
<b>RMLM:</b>	Raymond Mhlaba Local Municipality
<b>AMP:</b>	Asset Management Policy
<b>AO:</b>	Accounting Officer (i.e. Municipal Manager)
<b>CFO:</b>	Chief Financial Officer
<b>GRAP:</b>	Generally Recognised Accounting Practice
<b>HOD:</b>	Head of Department
<b>IAS:</b>	International Accounting Standard
<b>MFMA:</b>	Municipal Finance Management Act (No. 56 of 2003)
<b>MM:</b>	Municipal Manager (i.e. Accounting Officer)
<b>MSA:</b>	Municipal Systems Act (No. 32 of 2000)
<b>PPE:</b>	Property, Plant and Equipment
<b>SAPS:</b>	South African Police Service

## 1.3 DEFINITIONS

**Accounting Officer** means the Municipal Manager appointed in terms of Section 82 of The Local Government: Municipal Structures Act, 1998 (Act no. 117 of 1998) and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act 2000 (Act no. 32 of 2000).

**Agricultural Produce** is the harvested product of the municipality's biological assets.

**An Asset is** defined in terms of GRAP as follows:

"Assets are 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."

The Framework for the Preparation and Presentation of Financial Statements provides the following explanations.

- **Future economic benefits:** The potential to contribute, directly or indirectly, to the flow of 'cash and cash equivalents' of the operating activities.
- **Control:** The ability to control the benefits which are expected to flow. This is not limited to legal title.

**Asset Management** encompasses planning/demand management, acquisitions, use, maintenance, and disposal of assets.

**Biological Assets** are defined as living animals or plants.

**Borrowing Costs** are interest and other costs incurred by an entity in connection with the borrowing of funds.

**Capital Assets (assets)** are items of Biological Assets, Intangible Assets, and Investment Property or Property, Plant or Equipment defined in this Policy.

**Carrying Amount** is the amount at which an asset is included in the statement of financial position after deducting any accumulated depreciation (or amortisation) and accumulated impairment losses thereon.

**Chief Financial Officer (CFO)** means an officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.

**Community Assets** are defined as any asset that contributes to the community's wellbeing. 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 recognised in accordance with the specific requirements of other Standards of GRAP.

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

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

**Fair Value** is the amount for which an asset could be exchanged or a liability between knowledgeable, willing parties in an arm's length transaction.

**GAAP** are standards of Generally Accepted Accounting Practice.

**GRAP** are standards of Generally Recognised Accounting Practice.

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

**Head of Department** defines all incumbents of the previous post level 1 [section 57 employees who report to the municipal manager and are responsible for the management of the different directorates.

**Infrastructure Assets** - While there is no universally accepted definition of infrastructure assets, these usually display some or all of the following characteristics:

- They are part of a system or network;
- They are specialised in nature and do not have alternative uses;
- They are immovable; and
- They may be subjected to constraints on disposal

Examples are roads, water reticulation schemes, sewerage purification and trunk mains transport terminals and car parks.

**Intangible Assets** are defined as identifiable non-monetary assets without physical Substance.

**Inventory** is described as assets held or developed for sale or distribution in the ordinary course of business or in the form of supplies or consumables to be consumed during the service delivery process. Examples of these in the public sector would be:

- ammunition,
- consumable stores,
- maintenance materials,
- spare parts for plant and equipment other than those dealt with under the Standard of GRAP on *Property, Plant and Equipment*,
- strategic stockpiles,
- work in progress, and
- Land/property held for sale or distribution.

**Investment Properties** are defined as properties (land or buildings) that are acquired for economic and capital gains rather than for:

- (a) Use in the production or supply of goods or services or for RMLM initiative purposes; or

(b) Sale in the ordinary course of business.

**Land and Buildings** are defined as a class of PPE when the land and buildings are held for purposes such as administration and provision of services. Land and Buildings therefore exclude Investment properties and Land Inventories.

**MFMA** refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003).

**Owner-occupied property** is 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.

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

**Property, Plant and Equipment (PPE)** are tangible assets that:-

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

**Qualifying Assets** is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

**Recoverable Amount** is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

**Recoverable Service Amount** is the higher of a non-cash generating asset's fair valueless cost to sell and its value in use.

**Residual Value** is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

**Senior Official** is an official directly accountable to the senior manager of the municipality.

**Senior Manager** in relation to a municipal entity, means a manager directly accountable to the chief executive officer of the entity.

**Servitudes** are rights granted by a property owner to another person or entity to use the land for certain purposes, e.g. to construct assets on or over a specific property or the right to access to a property.

**Useful Life** is:-

- a) The period of time over which an asset is expected to be used by the municipality;
- Or
- b) The number of production or similar units expected to be obtained from the asset by the municipality's accounting officer

## **1.4 OBJECTIVES**

The MFMA was introduced with the objective of secure sound and sustainable management of the fiscal and financial affairs of Municipalities and their entities. Consistent with the regulatory framework in which the Municipality operates, it is important that An Asset Management Policy should promote efficient and effective management, monitoring and control of assets and the objectives of having an Asset Management Policy are:

- To ensure accurate recording of asset information.
- To ensure the accurate recording of asset movements.
- To ensure compliance with Council's Insurance Policy, Supply Chain Management Policy and Payment Procedure.
- To ensure the effective and efficient control, utilisation, optimisation of usage, safeguarding and management of RMLM's assets.
- To ensure that all responsible parties are aware of their roles and responsibilities regarding the assets of the municipality.
- To prescribe the accounting treatment of assets acquired and used in accordance with the applicable accounting standards approved by National Treasury.
- To prescribe the Administrative guidelines and internal control procedures to be followed by persons in control of assets with regard to management (including safeguarding and maintenance) of those assets.
- To comply with current legislation.
- To emphasise a culture of accountability over fixed assets.
- To ensure that fixed assets are not written off and disposed of without proper authorization.
- To ensure that preventative measures are in place to eliminate theft, loss and misuse.
- To ensure accuracy of the depreciation charge.
- To ensure a formal set of procedures that can be implemented to ensure that fixed assets and financial policies are achieved and are in compliance with the MFMA.

## **1.5 REGULATORY REQUIREMENTS**

RMLM is required to comply with the MFMA, MSA, and circulars, memorandum and guidelines issued by National Treasury.

A municipality exercises its legislative and executive authority by, among others, developing and adopting policies, plans, strategies and programmes, including setting targets for delivery (section 11(3) of the MSA).

As accounting officer of the municipality, the Municipal Manager, is responsible and accountable for, among others, all assets of the municipality (Section 55(2) of the MSA). The Municipal Manager must take all reasonable steps to ensure, among others, that the resources of the municipality are used effectively, efficiently and economically (Section 62 (1) of the MFMA).

In terms of the MFMA (Section 63), the accounting officer is responsible for managing the assets and liabilities of the municipality, including the safeguarding and maintenance of its assets.

The MFMA further requires the accounting officer to ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for its assets and liabilities. The municipality's assets are valued in accordance with standards of generally recognised accounting practice; and
- The municipality has and maintains a system of internal control of assets and liabilities.

## **1.6 RELATED POLICIES, PROCESSES AND PROCEDURES**

The following policies, processes and procedures should be in place to ensure an effective and efficient asset management system:

- Supply Chain Management Policy
- Delegations of authority
- Payment Policy
- Fleet Management Policy
- Insurance Policy
- Security Policy
- Property portfolio management

## **1.7 UPDATING THE POLICY**

The Budget and Treasury Department is responsible for updating the policy on an annual basis. All departments are responsible for submitting requests to change, enhance or improve the existing policy. Requests should be submitted to the Asset Management Steering Committee throughout the year. The requests should be evaluated by the Asset Management Steering Committee on an annual basis and any changes agreed upon should be effected by the Budget and Treasury Department and presented to the Council on an annual basis. Advice on recommended internal control procedures and interpretation of this document may be obtained from the Department Asset Manager (referred to in Section 2.6). It is critical that all changes made to the policy and procedures are properly and timeously communicated.

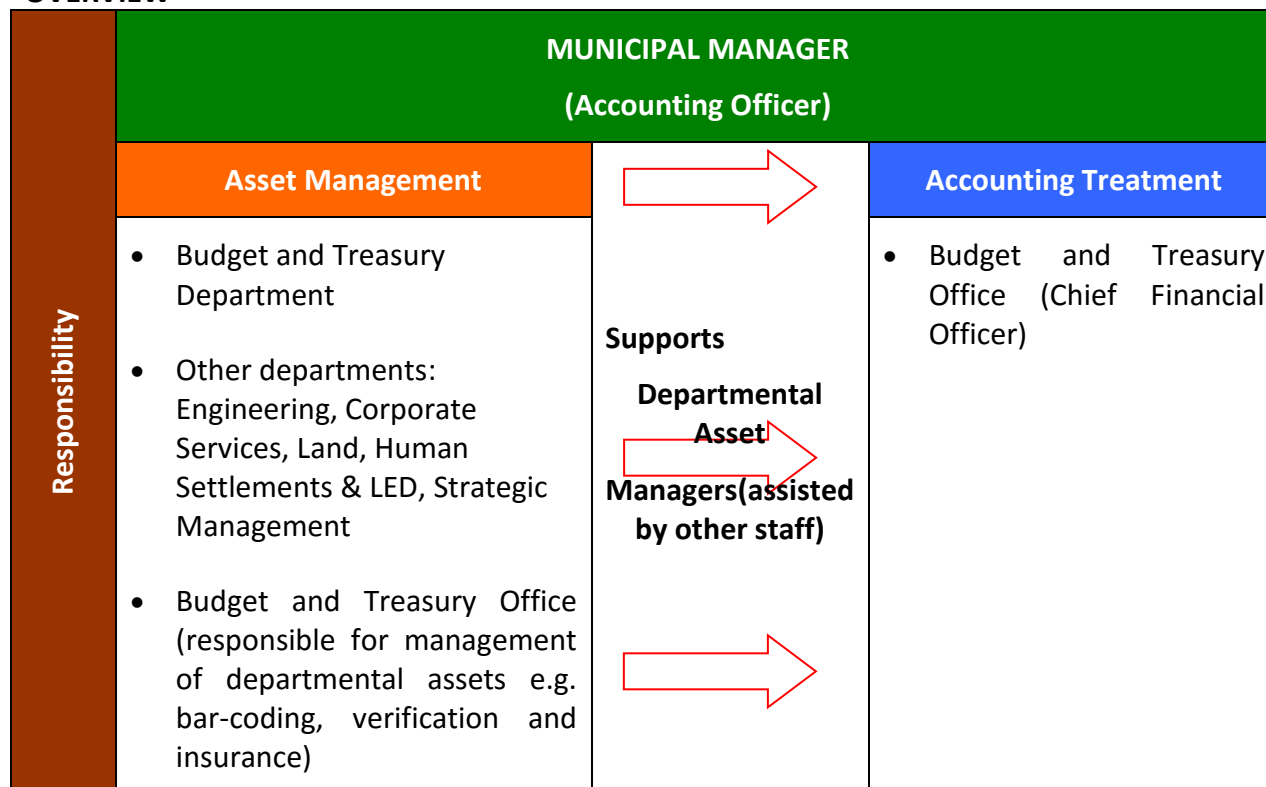
The version number on the front of the policy should be updated each time the policy is updated and approved. The “Document review and approval” section at the beginning of this policy must also be updated with each approved change to the policy.

# 2

# **ASSET MANAGEMENT POLICY**

## 2.1 ROLES AND RESPONSIBILITIES

### 2.2 OVERVIEW



The diagram above depicts an overview of the key role players involved in asset management. The other departments are accountable to Budget and Treasury. Each department is supported by a Departmental Asset Manager.

### 2.3 MUNICIPAL MANAGER

#### Responsibilities in terms of the MFMA

In terms of section 60 of the MFMA, the MM is the AO of the Municipality.

Section 60 of the MFMA further states that the AO must:

- Exercise their functions and powers assigned to them in terms of the Act, and
- Provide guidance and advice on compliance with the MFMA to:
  - Political structures, political office-bearers and officials of the municipality, and
  - Any municipal entity under the sole or shared control of the municipality.

The AO of a municipality is responsible for the management of the assets of that municipality in terms of section 63 of the MFMA which prescribes the following:

- Safeguarding and maintenance of assets.
- Implementation of an information system that accounts for the assets.
- Ensuring that assets are valued in terms of generally recognised accounting practice.
- Maintaining a system of internal control of assets (e.g. an asset register).

### **Delegations in terms of the MFMA**

The AO may delegate to a member of the municipality's top management (chief financial officer; senior managers responsible for managing votes; other senior officials) or any other official of the municipality in terms of section 79 (1) (b) of the MFMA:

- Any powers or duties assigned to an AO in terms of the Act, or
- Any powers or duties reasonably necessary to assist the AO in complying with a duty which requires the AO to take reasonable or appropriate steps to ensure the achievement of the aims of a specific provision of this Act.

The AO must regularly review the delegations issued above and, if necessary, amend or withdraw any of those delegations.

The delegations:

- Must be in writing.
- May be subject to limitations and conditions as the AO may impose in a specific case.
- May be to a specific individual or to the holder of a specific post in the municipality.
- May authorise the delegated member to sub-delegate the delegated power or duty to an official or the holder of a specific post in that member's area of responsibility.
- Do not divest the AO of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty.

The AO is therefore accountable for all transactions entered into by his/her delegates.

## **2.4 CHIEF FINANCIAL OFFICER**

The CFO shall be responsible for the asset register of the Municipality, and shall ensure that a complete, accurate and up-to-date computerised asset register is maintained.

No amendments, deletions or additions to the asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

The following duties have been delegated to the CFO:

- To ensure that Council assets are accounted for in accordance with generally recognised accounting practice.
- To ensure that the general ledger is reconciled to the asset register.
- To review the reconciliation between the general ledger and the asset register
- To provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the general ledger.

## **2.5 HEADS OF DEPARTMENT**

Section 78(1) of the MFMA prescribes the following areas of responsibility for senior managers (Section 57 employees also referred to as HOD's) relating to asset management.

“Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure –

- That the system of financial management and internal control established for the municipality is carried out diligently;
- That the financial and other resources of the municipality are utilised effectively, efficiently economically and transparently;
- That any unauthorised, irregular or fruitless and wasteful expenditure and any other losses are prevented;
- That the assets of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary;
- That all information required by the AO for compliance with the provisions of this Act is timeously submitted to the AO; and
- That the provision of this Act, to the extent applicable to that senior manager or official including any delegations in terms of section 79, are complied with.”

The provision of section 78(1) must be performed subject to the directions of the AO.

In addition to the above, the HOD's are responsible to ensure that all employees within their respective department adhere to the approved Asset Management Policy and Procedures. The HOD must nominate an employee to implement and maintain asset control (i.e. Departmental Asset Manager) in his/her directorate / department. The Budget and Treasury Department must be notified of such person.

Where limited resources are available, it is incumbent upon the HOD's, to ensure that adequate procedures for regular independent checks of fixed assets are in place.

It is the responsibility of the HOD to ensure that all assets related changes that take place within their divisions/directorates have been properly authorised and communicated to the Department Asset Manager.

## **2.6 DEPARTMENT ASSET MANAGER**

The “Departmental Asset Manager”, under the supervision and authority of the HOD, must ensure that:

- All information needed by the Budget and Treasury Office to compile and update the Asset Register, is circulated to the said Department.
- The HOD and Budget and Treasury Department (after approval of the HOD) are notified of any changes in the status of the assets under the directorates/departments control (e.g. new asset purchases, asset transfers, asset impairments and asset disposals).
- The inventory and/or assets of the RMLM are not used for private enterprise and gain by any employee/Councillor.
- Control is exercised over the respective department’s assets and shall report any enhancement/improvement, transfer or disposal of the respective department’s assets to the Budget and Treasury Department.
- Relevant reports on the writing off of scrap (in case of vehicles) and the theft/loss (in the case of other assets) are submitted to the Budget and Treasury Department.
- Any discrepancies in the asset stock take report are followed up.
- All assets within the department are recorded on the asset register and are bar coded.
- Administer cyclical counts on assets within the respective department and follow up on any discrepancies.

## **2.7 DELEGATIONS**

All delegated authority must be in writing and must comply with the Delegations of Authority Policy.

## 2.8 ACCOUNTING POLICIES

### 2.8.1 FORMAT OF THE ASSET REGISTER

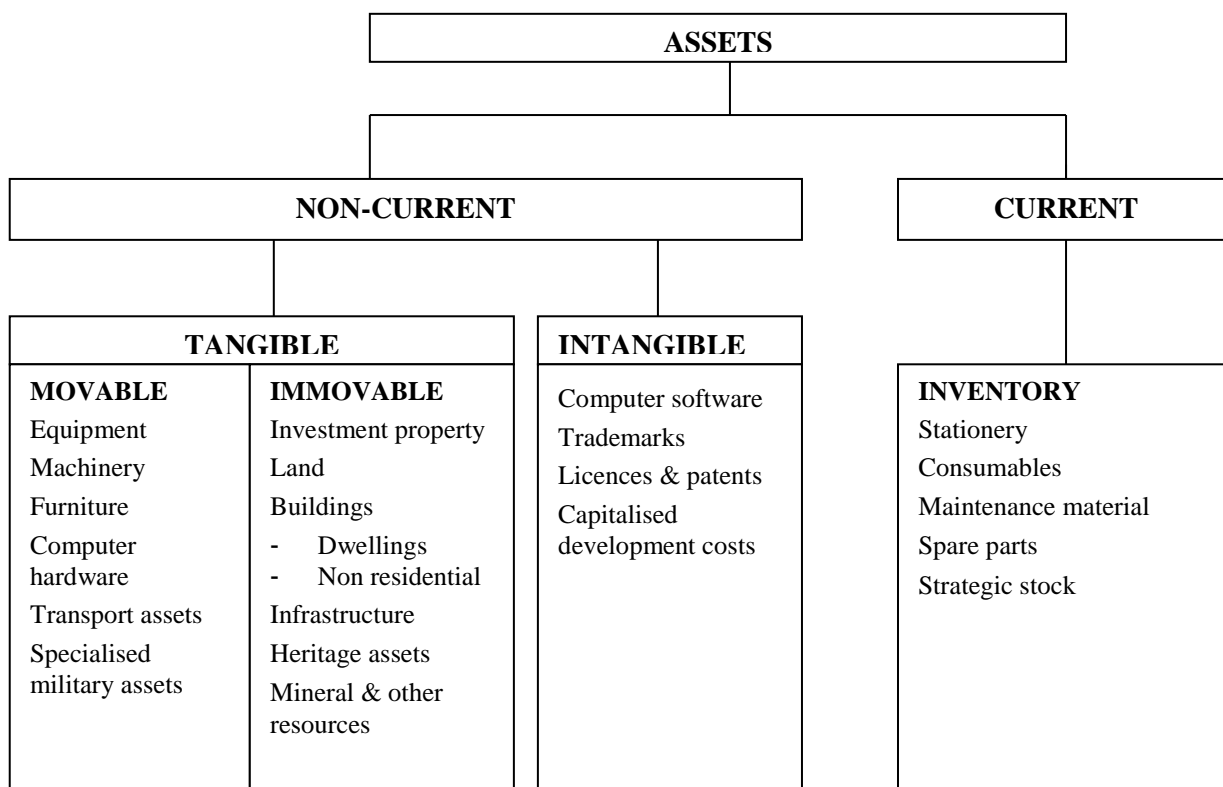
The asset register shall be maintained in the format determined by the CFO. The format must comply with the requirements of GRAP and any other applicable accounting requirements.

### 2.8.2 CLASSIFICATION OF ASSETS

For the purposes of this policy document capital assets refer to property, plant and equipment (GRAP 17), investment property (GRAP 16) and Intangible assets (GRAP 102). For an item to be classified as property, plant and equipment, investment property or intangible asset, it must first meet the definition of an asset. An asset is defined as a resource *controlled* by an entity as a result of past events and from which *future economic benefits or service potential* is expected to flow to the entity.

The CFO must ensure that all assets are, as prescribed by the current standards, classified under the following headings in the asset register and Statement of Financial Position:

- PPE (infrastructure, community, heritage and other assets)
- Investment property
- Inventory (classified as PPE)
- Intangible assets



### 2.8.3 PROPERTY, PLANT AND EQUIPMENT TREATED AS INVENTORY

Any land or buildings owned or acquired by the municipality with the intention of selling or distributing 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 or distributing it in the ordinary course of business, shall be accounted for as inventory, and not included as either PPE or investment property in the municipality's Statement of Financial Position.

### 2.8.4 PROPERTY, PLANT AND EQUIPMENT

#### 2.8.4.1 *Recognition criteria*

PPE 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 can be measured reliably.

#### 2.8.4.2 *Initial measurement*

##### **Purchased assets**

An item of PPE which qualifies for recognition as an asset shall initially be measured at its cost.

##### **Donated assets**

Where an asset is acquired at no cost, or for a nominal cost, its deemed cost is its fair value as at the date of acquisition.

#### 2.8.4.3 *Capitalisation threshold*

Council must approve the capitalisation threshold on an annual basis.

Asset (excluding computer equipment)	Treatment
Cost/fair value $\geq$ R1 000* * Or such other amount as the Council of the municipality may from time to time determine on the recommendation of the MM	Recognise as PPE Record on the asset register
Cost/fair value $<$ R1 000	Capitalise the asset on acquisition and depreciate fully in one year Record on a separate list

**N.B:- The above capitalisation threshold does not apply to computer equipment.**

#### **2.8.4.4 Components of Cost/Valuation of assets**

##### **General**

The cost of an item of PPE comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use.

Any trade discounts and rebates are deducted in arriving at the purchase price.

Examples of directly attributable costs are:

- (a) the cost of site preparation,
- (b) initial delivery and handling costs,
- (c) installation costs,
- (d) professional fees such as for architects and engineers, and
- (e) The estimated cost of dismantling the asset and restoring the site, to the extent that it is recognised as a provision. Guidance on accounting for provisions is found in GRAP 19 on Provisions, contingent liabilities and contingent assets.

**Administration and other general overhead costs are not** a component of the cost of PPE unless they can be directly attributed to the acquisition of the asset or bringing the asset to its working condition. Similarly, start-up and similar costs do not form part of the cost of an asset unless they are necessary to bring the asset to its working condition. Initial operating losses incurred prior to an asset achieving planned performance are recognised as an expense.

**Recoverable indirect costs** (e.g. VAT etc.) are not a component of the cost of PPE.

##### **Self-constructed assets**

The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an entity makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of producing the assets for sale. Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour or other resources incurred in the production of a self-constructed asset is not included in the cost of the asset.

##### **Finance lease assets**

###### **Capitalisation of PPE obtained by means of a finance lease.**

Ensure the correct accounting treatment of assets obtained by means of finance leases in the financial statements of the lessee:

- Assets obtained by means of a finance lease should be capitalised.
- Annual depreciation on the leased asset should be expensed.

### **Deferred payments**

When payment for an item of PPE is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.

#### **2.8.4.5 Exchange of assets**

The accounting treatment relating to the exchange of dissimilar and similar assets as follows:

##### **Dissimilar exchange**

PPE may be acquired in exchange or part exchange for a dissimilar item of PPE or other asset. The cost is measured at the fair value of the asset received which is equivalent to the fair value of the asset given up adjusted by the amount of any cash or cash equivalents transferred.

##### **Similar exchange**

PPE may be acquired in exchange for a similar asset that has a similar use in the same line of operations and which has a similar fair value.

PPE may also be sold in exchange for an equity interest in a similar asset.

In both cases, no gain or loss is recognised on the transaction. The cost of the new asset is the carrying amount of the asset given up.

The fair value of the asset received may provide evidence of impairment in the asset given up. Therefore, the asset given up is written down and this written-down value is assigned to the new asset. Examples of exchanges of similar assets include the exchange of aircraft, hostels and other real estate properties.

If other assets such as cash are included as part of the exchange transaction this may indicate that the items exchanged do not have a similar value.

#### **2.8.4.6 Subsequent expenditure**

Subsequent expenditure relating to PPE should 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.

Otherwise, all other subsequent expenditure not meeting the definition above will be accounted for as repairs and maintenance expense.

**Major components** of some items of PPE that require replacement at regular intervals must be accounted for as separate assets as they have different useful lives. Therefore, the expenditure incurred in replacing or renewing the component should be accounted for as an acquisition of a separate asset (provided the recognition criteria is met in terms of **section 2.8.4.1**) and the replaced asset should be written off.

For example, a reservoir may require relining after a specified number of hours of usage or components of a sewerage purification works may need replacing during the lifetime of the works, or a road may need resurfacing every few years, a furnace may require relining after a specified number of hours of usage.

**2.8.4.7 Measurement subsequent to initial recognition**

Subsequent to the initial recognition as an asset, an item of PPE should be measured as follows in terms of GRAP 17.

PPE (excluding land and buildings)	Land and buildings
Carried at its cost less any accumulated depreciation and any accumulated impairment losses.	Carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs shall be revalued

**2.8.4.8 Revaluations of land and buildings**

In accordance with GRAP 17 the accounting treatment requirement relating to the revaluation of land and buildings is as follows:

**Determination of the fair value**

The fair value of land and buildings is their market value, determined by appraisal.

An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognised and relevant professional qualification.

For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be

obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment.

If no evidence is available to determine the market value in an active and liquid market of an item of property, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location.

### **Frequency of revaluations**

Land and buildings will be revalued at least every 5 years.

### **Treatment of accumulated depreciation on revaluation**

When land and buildings are revalued, any accumulated depreciation at the date of the revaluation will be eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The amount of the adjustment arising on the elimination of accumulated depreciation forms part of the increase or decrease in carrying amount.

### **Classes of property**

When land and buildings are revalued, the entire class of property to which that asset belongs shall be revalued. In other words, if land is revalued, then all land within that classification must be revalued. If land and buildings within that classification are revalued, then all land and buildings must be revalued.

### **Accounting treatment of revaluation increases and decreases**

#### ***Increase in carrying amount***

- The increase shall be credited directly to the non-distributable reserve under the heading "Revaluation surplus."
- The increase will only be recognised as revenue (credited to the Statement of Changes in Financial Performance) to the extent that it reverses a revaluation decrease of the same class of assets previously recognised as an expense.

#### ***Decrease in carrying amount***

- The decrease shall be recognised as an expense.
- The decrease will only be charged directly against any related "Revaluation surplus" to the extent that the decrease does not exceed the amount held in the "Revaluation surplus" in respect of that same class of assets.

The "Revaluation surplus" must be realised (transferred directly to the Accumulated Surplus or Deficits) in part or in whole through use, retirement or disposal of the asset.

#### **2.8.4.9 Depreciation**

All PPE, except land and heritage assets, shall be depreciated.

In accordance with GRAP the requirements and guidance relating to the accounting treatment of depreciation have been summarised below.

##### **Depreciation method**

The CFO shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item shall be depreciated separately

##### **Commencement date**

Depreciation should be calculated from the day following the day in which an asset is acquired until the end of the calendar month concerned. However, RMLM will calculate depreciation from the beginning of the month in which the asset was acquired.

##### **Useful life**

The CFO shall assign a useful life to each depreciable asset recorded on the municipality's asset register. In determining such a useful life the CFO shall adhere to the useful lives set out in the **Appendix 5.1** to this document.

In the case of a fixed asset which is not listed in **Appendix 5.1**, the CFO shall determine a useful life, if necessary in consultation with the HOD who shall control or use the 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.

Lost, stolen or damaged assets must be fully depreciated when the event occurs.

##### **Review of the useful life**

The useful life of an item of PPE shall be reviewed periodically. Where the expectations are significantly different from previous estimates, the depreciation charge for the current and future periods shall be adjusted.

The useful life must be amended where assets are materially impaired, improperly maintained or any event occurs affecting the rate at which economic benefits or service potential is consumed. The additional depreciation expense shall be debited to the department or vote controlling or using the asset in question.

##### **Review of the depreciation method**

The depreciation method applied to PPE shall be reviewed periodically and, if there has been a significant change in the expected pattern of economic benefits or service potential 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 accounting estimate and the depreciation charge for the current and future periods shall be adjusted.

### **Accounting treatment**

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.

### **Land and buildings**

Land and buildings are dealt with separately for accounting purposes even when they are acquired together. Land normally has an unlimited lifespan and will not be depreciated. Buildings have a limited life and are depreciated.

#### **2.8.4.10 Impairment losses**

Impairment is a 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. The following procedures need to be performed to determine whether a cash-generating asset and a non-cash generating asset are impaired. GRAP 26 (Impairment of assets) should be applied relating to cash-generating assets. GRAP21 should be applied to non-cash generating assets.

#### **Cash-generating assets**

GRAP 26 (Impairment of assets) should be applied to determine whether a cash generating asset is impaired.

A cash generating asset (unit) is the smallest identifiable group of assets that generates cash flows that are independent of the cash inflows from other assets or group of assets.

The cash generating asset is impaired if its carrying amount is higher than its recoverable amount.

#### ***Recoverable amount***

The recoverable amount is the higher of its fair value less costs to sell and its value in use.

- *Fair value less costs to sell*: Amount obtainable in an arm's length transaction less costs of disposal.
- *Value in use*: Discounted future net cash flows from the continuing use and ultimate disposal of the asset.

#### ***Frequency of impairment test***

An annual impairment test should be performed to determine whether the carrying amount exceeds the recoverable amount by assessing the indicators of impairment at each reporting date.

### **Reversal of impairment**

The reversal of the impairment should be recognised in the Statement of Financial Performance unless the asset is carried at the revalued amount when there are indicators that the asset may no longer be impaired.

### **Non-cash generating asset**

In accordance with GRAP21 guidance relating to instances where non-cash generating assets are impaired is as follows:

The non-cash generating asset is impaired if its carrying amount is higher than its recoverable amount.

The carrying amount shall be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.

### **Accounting treatment**

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

#### **2.8.4.11 Retirements and disposals**

In accordance with GRAP 17, PPE shall be eliminated from the Statement of Financial Position on disposal or when the asset is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Any gains or losses from the retirement or disposal of an item of PPE are calculated as follows:

$$\text{Gain/loss} = \text{Estimated net disposal proceeds} - \text{carrying amount of the asset}$$

The gain or (loss) shall be included in the statement of financial performance as an item of revenue or (expense), whichever is applicable.

PPE retired from active use and held for disposal should be recorded at its carrying amount at the date it is retired from active use. At each reporting date the asset must be tested for impairment and record any impairment loss in terms of **section 2.8.4.10**

## **2.8.5 HERITAGE ASSETS**

Some assets are described as heritage assets because of their cultural, historical or environmental significance, such as historical buildings, monuments, and works of art and conservation areas. The following characteristics are usually displayed by heritage assets –

- their intrinsic value is unlikely to be reflected in financial terms based on a market price;
- prohibitions and restrictions may be placed on the disposal thereof;

- they are often irreplaceable and their value increases over time; and
- It may be difficult to estimate their useful lives.

There are some heritage assets with a service potential other than their heritage value, for example historical buildings used as office accommodation. In such cases, the heritage assets which meet the definition and recognition criteria for PPE (GRAP 17) may be recognised, measured and disclosed on the same basis as other items of PPE. Heritage assets for which the service potential is limited to the heritage characteristics need not be recognised in the financial statements. Disclosure of its existence and physical condition is encouraged.

## 2.8.6 INVESTMENT PROPERTY

Investment property shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position.

### Recognition criteria

Investment property shall be recognised as an asset when and only when:

- (a) it is **probable** that the **future economic benefits** that are associated with the investment property will flow to the entity; and
- (b) The **cost** of the investment property **can be measured reliably**.

### Measurement at initial recognition

GRAP 16 states that:

- Investment property shall be measured initially at its cost (including transaction costs).
- Where an investment property is acquired at no cost or at a nominal cost, its cost shall be measured at its fair value at the date of its acquisition.
- The initial cost of a property interest held under a lease and classified as an investment property shall be as prescribed for a finance lease. i.e. the asset shall be recognised at the lower of the fair value of the property and the present value of the minimum lease payments. An equivalent amount shall be recognised as a liability.

### Measurement subsequent to initial recognition

All investment property shall be measured at its fair value. Investment property 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 balance sheet 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.

Investment property that has been measured at fair value, shall continue to be measured at fair value until disposal (or until the property becomes owner-occupied property or the entity begins to develop the property for subsequent sale in the ordinary course of operations) even if comparable market transactions become less frequent or market prices become less readily available.

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.

A qualified valuer, with knowledge of local conditions and experience in valuing similar types of assets, shall be engaged by the municipality to undertake such valuations.

## **2.8.7 INTANGIBLE ASSETS**

### **Recognition criteria**

The recognition of an item as an intangible asset requires an entity to demonstrate that the item meets:

- the definition of an intangible asset; and
- The recognition criteria.

This requirement applies to costs incurred initially to acquire or internally generate an intangible asset or intangible assets acquired at no or nominal cost, and those incurred subsequently to add to, replace part of, or service it.

### **Measurement**

**An intangible asset** shall be measured initially at cost.

Where an intangible asset is acquired at no cost or at a nominal cost, its cost shall be measured at its fair value at the date of its acquisition.

An intangible asset could be donated or contributed to RMLM. For example a medical research council donates a patent for the vaccine to RMLM to be used in public health care facilities. An intangible asset may be at no or nominal cost, through the exercise of powers of sequestration. Under these circumstances the cost is the fair value at the date of acquisition.

For the purpose of this standard, the measurement at initial recognition of an intangible asset acquired at no cost or nominal cost, at its fair value, does not constitute a revaluation.

### **Subsequent Measurement**

An entity shall choose either the cost model or the revaluation as its accounting policy. If an RMLM asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets.

- ***Cost model***

After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortization and any accumulated impairment losses.

- ***Revaluation model***

After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses. For the purpose of revaluations under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the reporting date the carrying amount of the asset does not differ materially from its fair value.

If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortization and impairment losses.

If the fair value of a revalued intangible asset can no longer be determined by reference to an active market, the carrying amount of the asset shall be its revalued amount at the date of the last revaluation by reference to the active market less any subsequent accumulated amortization and any subsequent accumulated impairment losses.

### **Amortisation**

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortization 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. Amortization shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations and the date that the asset is de-recognized. The amortization method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the entity. If that pattern cannot be determined reliably, the straight line method shall be used. The amortization charge for each period shall be recognized in surplus or deficit unless this or another Standard permits or requires it to be included in the carrying amount of another asset.

## **2.8.8 INVENTORY**

### **Recognition of spare parts and servicing equipment**

GRAP 17 states that most spare parts and servicing equipment are usually carried as inventory and recognised as an expense as consumed. However, major spare parts and stand-by equipment qualify as PPE when the entity expects to use them during more than one period or when their use is expected to be irregular.

Spare parts and land/property held for sale are accounted for as inventory in terms of GRAP 12 unless the spare parts meet the requirements to be recognised as PPE in terms of GRAP 17.

### **Depreciation of spare parts and stand-by equipment qualifying as PPE**

Depreciation will be over the time period not exceeding the useful life of the related asset.

### **Recognition of Housing Developments**

**Housing developments**, where RMLM acts as developers on behalf of Provincial Government and have completed housing that has not been transferred to beneficiaries, are recognised as inventory by the Municipality until transferred.

If the housing is not complete at year end, it is recognised as capital work in progress. Work in progress must be accumulated on a project basis and included in the asset register as work in progress.

No depreciation will be calculated on the work in progress as it is not, as yet, an asset ready for use.

### **Recognition of Biological Assets**

As the Municipality does not own Biological Assets but purchases Biological Assets only for the purposes of donating as assistance to Agricultural communities, such Biological assets will be classified as inventory until they are distributed

## **2.8.9 DISCLOSURE**

### **2.8.9.1 *Property, plant and equipment***

GRAP 17 details the disclosure requirements for accounting purposes relating to PPE. The following aspects need to be disclosed:

- The measurement bases.
- Depreciation method/(s) used.
- Useful lives or depreciation rates.
- Gross carrying amount and accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period.
- Reconciliation of the carrying amount at the beginning and end of the period showing:
  - additions,
  - disposals,
  - acquisitions through business combinations,
  - increases or decreases during the period resulting from revaluations,
  - reductions in the carrying amount (impairment losses),
  - impairment losses (if any) reversed,
  - depreciation, and
  - Other movements.
- Existence and amounts of restrictions on the title for PPE pledged as security for liabilities. The amount of commitments for the acquisition of PPE.
- The accounting policy for estimated costs of restoring the site of PPE.
- When property is stated at revalued amount, the following shall be disclosed:
  - the basis used to revalue property,
  - the effective date of the revaluation,
  - whether an independent valuer was involved,
  - the nature of any indices used to determine replacement cost, and
  - The revaluation surplus, indicating the movement for the period.

### **2.8.9.2 *Heritage Assets***

Entities that recognize heritage assets are required to disclose in respect of those assets the following:

- The measurement basis used;
- The depreciation method used, if any;
- The gross carrying amount;
- The accumulated depreciation at the end of the period, if any; and
- A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

### 2.8.9.3 Investment property

GRAP 16 details the disclosure requirements for accounting purposes relating to investment property.

The municipality elected to reflect all of its investment properties **at fair value** subsequent to initial recognition,

Disclosure in the AFS must include the following information:

- Whether and in what circumstances, property interests held under operating leases are classified and accounted for as investment property.
- The criteria developed by the municipality to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations
- The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the municipality should disclose) because of the nature of the property and lack of comparable market data (Example: The fair value of the municipality's investment property at 30 June 2008 has been arrived at on the basis of a valuation carried out at that date by XY Valuer, independent value's that are not related to the municipality. XY Valuer are members of the South African Institute of Valuer, and they have appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The valuation, which conforms to South Africa's Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties);
- The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and who as recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact should be disclosed (Example as above, or: The municipality did not make use of an independent valuer who holds a recognised and relevant professional qualification, but utilized its own valuer to determine the fair value of investment property.);
- The amounts included in the statement of financial performance for:
  - (i) Rental revenue from investment property;
  - (ii) Direct operating expenses (including repairs and maintenance) arising from investment property that **generated rental revenue** during the period; and
  - (iii) Direct operating expenses (including repairs and maintenance) arising from investment property that **did not generate rental revenue** during the period;
  - (iv) The cumulative change in fair value recognised in surplus or deficit on a sale of investment property.
- The existence and amounts of restrictions on the reliability of investment property or the remittance of revenue and proceeds of disposal;
- Material contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements;
- A reconciliation of the carrying amount of investment property at the beginning and end of the period showing the following (comparative information is not required):
  - (a) Additions, disclosing separately those additions resulting from acquisitions and those resulting from capitalized subsequent expenditure;

- (b) Additions resulting from acquisitions through municipality combinations;
- (c) Disposals;
- (d) Net gains or losses from fair value adjustments;
- (e) Transfers to and from inventories and owner-occupied property; and
- (f) Other movements.

In the exceptional cases, when the municipality cannot determine the fair value of the investment property reliably, the municipality should disclose:

- (i) A description of the investment property;
- (ii) An explanation of why fair value cannot be determined reliably; and
- (iii) If possible, the range of estimates within which fair value is highly likely to lie.

The rights of the municipality over the assets shall also be determined. Where the right is contained in a title deed, the number and holder of the title deed will be disclosed. Where there is no title deed, the documents in terms of which the municipality holds the right shall be disclosed e.g. agreement of sale, donation and the official responsible

# 3

# ACCOUNTING POLICY IMPLEMENTATION GUIDE

### 3.1 FORMAT OF THE ASSET REGISTER

The asset register shall reflect the following information:

- Description of each asset
- Date of acquisition/brought into use
- Unique asset number (barcode)
- Title deed number (for property)
- Erf and portion number (for property)
- Location of asset (e.g. physical address, GPRS co-ordinates and description, unique location number)
- Original cost
- Revalued amount
- Fair value (if no costs are available)
- Last revaluation date of assets subject to revaluation
- Who performed the last valuation
- Accumulated depreciation to the beginning of the current year
- Depreciation charge for the current year
- Accumulated depreciation at year end
- Carrying value of the asset
- Method and rate of depreciation.
- Impairment losses incurred during the financial year (and reversal of such losses, where applicable)
- Department(s) or vote(s) within which the assets will be used
- Source of financing
- Current insurance arrangements
- Use of the asset e.g. to perform basic municipal services
- Nature and duration of assets secured for debt and other encumbrances
- Disposal date/date of retirement from use
- Disposal price (proceeds)
- Responsible official

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

**PPE treated as inventories** shall be recorded in the asset register in the same manner as other assets, but a separate section of the asset register shall be maintained for this purpose.

**Major spare parts and stand-by equipment** should be bar-coded and recorded in the asset register.

An asset shall be capitalised, that is, recorded in the asset register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately classified as an asset.

An asset shall remain in the asset register for as long as it is in physical existence.

Fixed assets register must **be reconciled to the general ledger** at least monthly and any reconciling items followed up and resolved.

### 3.2 CLASSIFICATION OF ASSETS

The CFO must ensure that all assets are, as prescribed by the current standards, classified under the following headings in the asset register.

#### Property, plant and equipment

PPE are classified as follows in terms of GRAP 17:

Classification	Description	Example
<b>Infrastructure assets</b>	<p>Infrastructure Assets comprise assets used for the delivery of infrastructure-based services. These assets are any assets that are part of a network of similar assets.</p> <p>Some assets are commonly described as infrastructure assets. While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:</p> <ul style="list-style-type: none"> <li>(a) They are part of a system or network,</li> <li>(b) They are specialised in nature and do not have alternative uses,</li> <li>(c) They are immovable, and/or</li> <li>(d) They may be subject to constraints on disposal.</li> </ul>	Roads, water and reticulation schemes, sewerage purification, electricity assets and trunk mains.
<b>Community assets</b>	<p>Community assets are any assets that are used to provide services to the Community and contribute to the community's well-being.</p>	Parks, libraries and fire stations.
<b>Heritage assets</b>	<p>Heritage assets are culturally significant resources.</p>	Works of art, historical buildings and statues.
<b>Other assets</b>	<p>Other assets are assets utilised in operations <b>except</b> for assets referred to in <b>section 2.8.3</b>.</p>	Plant, equipment, motor vehicles, furniture and fittings and Land and Buildings

**Housing and township developments**, where RMLM acts as developers on behalf of Provincial Government, are not under the control of RMLM (unless accredited by the provincial department of housing). Therefore, development costs are expensed.

The cost of the land for **landfill sites** will be capitalised. However, any future costs required to decommission, restore or rehabilitate will be accounted for in terms of AC 438 Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation funds.

### **Investment property**

Investment Property comprise of 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 property does not include property used in the production or supply of service or for administration.

Investment property shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position. Refer to **section2.8.6**.

**Where a property is acquired at no cost (for example donated assets), or for a nominal cost, its cost is its fair value as at the date of acquisition**

### **Intangible assets**

Identify and classify Intangible Assets (IA) and align the values of the IA to the selected accounting policies for IA, i.e. IA should be carried at fair value or cost minus accumulated depreciation. Intangible Assets should be listed in a separate section for Intangible Assets in the Asset Register.

### **Inventory**

Inventory shall be accounted for in terms of GRAP 12. Major spare parts and stand-by equipment shall not be classified as inventory but qualify as PPE when the entity expects to use them during more than one period or when their use is expected to be irregular in terms of GRAP 17. Refer to **section2.8.8**.

### 3.3 PROPERTY, PLANT AND EQUIPMENT

#### 3.3.1 COMPONENTS OF COST/VALUATION OF ASSETS

##### Deferred payments

**Example**

RMLM purchases an asset costing R100 000 on 1.7.0x which is to be repaid in equal instalments over a 36 month period from 1.8.0x. Assume the following:

- The market related interest rate is 15% per annum, compounded monthly.
- There is no residual value

**Answer**

Cost of the asset and corresponding liability on 1.7.0x is R80 131

[Using a financial calculator: PMT=100 000/36; i=15/12; n=36; PV=??]

Interest will accrue monthly and the monthly payment will be split between the liability and interest expense e.g. for 31.8.0x

Dr Lease Liability (balancing figure)	1 776	
Dr Interest expense (80 131 x 1.25%)	1 002	
Cr      Bank (100 000/36)		2 778

#### 3.3.2 SUBSEQUENT EXPENDITURE

In accordance with GRAP 17 the requirements relating to subsequent expenditure are as follows:

***Recognising subsequent expenditure as an asset***

- Subsequent expenditure on PPE is only recognised as an asset when the expenditure improves the condition of the asset, measured over its total life, beyond its most recently assessed standard of performance.
- Examples of improvements that result in increased future economic benefits or service potential include the following:
  - (a) Modification of an item of plant to extend its useful life, including an increase in its capacity,
  - (b) Upgrading machine parts to achieve a substantial improvement in the quality of output, and
  - (c) Rehabilitation of a road enabling a substantial reduction in previously assessed maintenance costs.

### **Recognising subsequent expenditure as an expense**

- Expenditure related to repairs or maintenance of PPE are made to restore or maintain the future economic benefits or service potential that an entity can expect from the most recently assessed standard of performance of the asset.
- Therefore, they are usually recognised as an expense when incurred.
- The cost of servicing or overhauling plant and equipment is usually an expense since it restores, rather than increases, the most recently assessed standard of performance.

### **Other considerations**

GRAP 17 states that:

The **appropriate accounting treatment** for **expenditure incurred subsequent to the acquisition** of an item of property, plant and equipment **depends on the circumstances**, which were **taken into account** on the **initial measurement and recognition** of the related item of property, plant and equipment **and whether** the subsequent **expenditure is recoverable**. For instance, **when** the **carrying amount** of the item of property, plant and equipment already **takes into account a loss in economic benefits or service potential**, the **subsequent expenditure to restore** the future economic benefits or service potential expected from the asset **is capitalised, provided** that the **carrying amount does not exceed the total economic benefits or service potential** that the entity expects to recover from the continued use and ultimate disposal of the item. This is also the case when the purchase price of an asset already reflects the entity's obligation to incur expenditure in the future, which is necessary to bring the asset to its working condition. An example of this might be the acquisition of a building requiring renovation. In such circumstances, the subsequent expenditure is added to the carrying amount of the asset to the extent that it can be recovered from future use of the asset.

### **3.3.3 REVALUATIONS OF LAND AND BUILDINGS**

#### **Determination of the fair value**

The fair value of land and buildings is usually determined from market based evidence by appraisal. The fair value of items of plant and equipment is usually their market value determined by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification.

If no evidence is available to determine the market value in an active and liquid market of an item of property, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location.

If there is no market-based evidence of fair value, because of the specialised nature of the item of plant and equipment, an entity may need to estimate fair value using, for example, either reproduction cost or depreciated replacement cost. The depreciated replacement cost of items

of property, plant and equipment may be established by reference to the market buying price of components used to produce the asset or the index price for the same or similar asset based on a price for the previous period.

### Frequency of revaluations

The frequency of revaluations depends upon the movements in the fair values of land and buildings being revalued. When the fair value of a revalued asset differs materially from its carrying amount, a further revaluation is necessary. Some land and buildings may experience significant and volatile movements in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for land and buildings with only insignificant movements in fair value. Instead, revaluation every five years may be sufficient.

### Treatment of accumulated depreciation on revaluation

**Example**

RMLM purchases an asset costing R100 000 on 1.7.06.

The asset is:

- Depreciated on a straight line basis over 10 years
- Revalued every 4 years

The gross replacement cost on the first date of revaluation (1.7.10) is R250 000.

**Answer**

1.7.10

Dr	Asset – revaluation	150 000	
	Accumulated depreciation	40 000	
Cr	Asset-cost		100 000
	Revaluation surplus		90 000

**Calculations**

Carrying amount prior to revaluation

Cost	100 000
Accumulated depreciation (100 000 x 10% x 4 years)	<u>(40 000)</u>
Carrying amount	60 000

Carrying amount after revaluation

Replacement cost	250 000
Accumulated depreciation (250 000 x 10% x 4 years)	<u>(100 000)</u>
Carrying amount	150 000

Therefore, the revaluation surplus is 90 000 (150 000 – 60 000)

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

A class is a grouping of assets of a similar nature or function in an entity's operations. The following are examples of separate classes:

- (a) Land,
- (b) Operational buildings,
- (c) Office buildings,
- (d) Roads,
- (e) Machinery,
- (f) Electricity transmission networks,
- (g) Motor vehicles,
- (h) Furniture and fixtures, and
- (i) Office equipment.

### **3.3.4 DEPRECIATION**

In addition to the definition of depreciation explained in **section 1.3**, depreciation is also understood to be the monetary quantification of the extent to which Pepsi used or consumed in the provision of economic benefits or the delivery of services.

#### **Useful life**

In accordance with Graphtec following guidance should be referred to when considering the useful life of an asset.

The economic benefits or service potential embodied in an item of property, plant and equipment is consumed by the entity principally through the use of the asset. However, other factors such as technical obsolescence and wear and tear while an asset remains idle often result in the diminution of the economic benefits or service potential that might have been expected to be available from the asset. Consequently, all the following factors need to be considered in determining the useful life of an asset:

- (a) The expected usage of the asset by the entity. Usage is assessed by reference to the asset's expected capacity or physical output,
- (b) The expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance program of the entity, and the care and maintenance of the asset while idle,
- (c) Technical obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, and
- (d) Legal or similar limits on the use of the asset, such as the expiry dates of related leases.

The useful life of an asset is defined in terms of the asset's expected utility to the entity. The asset management policy of an entity may involve the disposal of assets after a specified time or after consumption of a certain proportion of the economic benefits or service potential

embodied in the asset. Therefore, the useful life of an asset may be shorter than its economic life. The estimation of the useful life of an item of property, plant and equipment is a matter of judgement based on the experience of the entity with similar assets.

### 3.3.5 IMPAIRMENT

#### Indicators of impairment for cash-generating assets

Internal indicators	External indicators
<ul style="list-style-type: none"> <li>Evidence of obsolescence or physical damage</li> <li>Discontinuance, disposal or restructuring plans</li> <li>Declining asset performance</li> </ul>	<ul style="list-style-type: none"> <li>Significant decline in the market value</li> <li>Changes in technological, market, economic or legal environment</li> <li>Changes in interest rates</li> <li>Low market capitalisation</li> </ul>

#### *Indicators of a reversal of the impairment for cash-generating assets*

The reversal of impairment may occur due to the following:

Internal indicators	External indicators
<ul style="list-style-type: none"> <li>Changes in the way the asset is used or expected to be used</li> <li>Evidence from internal reporting indicates that economic performance of the asset will be better than expected</li> </ul>	<ul style="list-style-type: none"> <li>Significant increase in market value</li> <li>Changes in technological, market, economic or legal environment</li> <li>Changes in interest rates</li> <li>Market interest rates have decreased</li> </ul>

#### Indicators of impairment for non-cash-generating assets

Internal indicators	External indicators
<ul style="list-style-type: none"> <li>Evidence is available of physical damage of an asset</li> <li>significant long-term changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or</li> </ul>	<ul style="list-style-type: none"> <li>cessation, or near cessation, of the demand or need for services provided by the asset</li> <li>significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the municipality operates</li> </ul>

<p>plans to dispose of an asset</p> <ul style="list-style-type: none"> <li>• a decision to halt the construction of the asset before it is complete or in a usable condition;</li> <li>• Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be significantly worse than expected.</li> </ul>	
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### 3.4 HERITAGE ASSETS

#### ***Examples of heritage assets***

Include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

**Certain characteristics**, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

- (a) Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in a financial value based purely on a market price,
- (b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale,
- (c) They are often irreplaceable and their value may increase over time even if their physical condition deteriorates, and
- (d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

#### **Heritage assets with service potential**

GRAP 17 states that some heritage assets have service potential other than their heritage value (e.g. a historic building being used for office accommodation). In such instances, they may be recognised and measured on the same basis as other items of PPE. For other heritage assets, their service potential is limited to their heritage characteristics, for example, monuments and ruins. The existence of alternative service potential can affect the choice of measurement base.

GRAP 17 disclosure requirements require entities to make disclosures about recognised assets. Therefore, entities that recognise heritage assets are required to disclose in respect of those assets such matters as:

- (a) the measurement basis used,
- (b) the gross carrying amount,
- (c) the accumulated depreciation at the end of the period, if any, and
- (d) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

### **Heritage assets without service potential**

Entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.

# 4

# **ASSET MANAGEMENT PROCEDURES**

#### 4.1 SUMMARY OF ASSET MANAGEMENT RESPONSIBILITIES

The table below summarises the departments, specific employee designations and structure's referred to (explicitly or implied) in the various sections.

<b>Department</b>	<b>Corporate Services</b>	<b>Budget &amp; Treasury</b>	<b>All departments</b>	<b>MM</b>	<b>Council</b>
4.2 Budget process	✓	✓	✓	✓	✓
4.3 Acquisition of assets	✓	✓	✓	✓	
4.4 Maintenance			✓	✓	
4.4 Disposal of assets	✓	✓	✓	✓	✓
4.5 Departmental transfers of assets	✓	✓	✓		
4.6 Resignations	✓		✓		
4.7 Identification of assets	✓	✓	✓	✓	
4.8 Verification of assets	✓	✓	✓		
4.9 Safekeeping of assets			✓		
4.10 Alienation of assets	✓	✓	✓	✓	✓
4.11 Reporting write-offs of assets		✓	✓		
4.13 Private use of municipal assets			✓		
4.14 Replacement norms		✓	✓	✓	
4.15 Insurance of assets		✓	✓	✓	

## **4.2 BUDGET PROCESS**

Each HOD, acting in consultation with the CFO, shall:

- Prepare an annual budget for the acquisition of assets and the maintenance of assets.
- 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.

## **4.3 ACQUISITION OF ASSETS**

The process to be followed when assets are acquired shall be in accordance with the Council's Supply Chain Management Policy and Manual, Delegation of Authority Policies and Payment Procedures. This shall apply to all the types of Council's assets as contained in this Policy.

All assets to be purchased should be in terms of the approved budget.

Depending on the amount of the asset to be purchased and after the necessary authorisation has been obtained the following procedure for purchasing an asset must be followed:

- Requisition to be completed and signed by person requesting the asset.
- Quotations must be obtained in terms of the Supply Chain Management Policy.
- Authority in terms of Delegated Powers to Officials must be reflected on the requisition.
  - The bidding process procedures will apply in terms of the MFMA Municipal SCM Regulations and the RMLM SCM Policy.
  - The HOD/MM should sign the requisition as authorisation where the asset is acquired within their delegated authority.
- Quotations must be attached to the relevant requisition and submitted to Budget and Treasury Office.
- Budget and Treasury Office: Creditors Section must generate and issue the order.
- For all assets acquired, the HOD should notify the Insurance Claims Clerk on delivery to provide immediate cover. It is the responsibility of the HOD to ensure that the purchased capital asset has been covered for insurance purposes.
- On receipt of the purchased asset, the recipient should inspect the asset and once satisfied endorse the delivery note or invoice and forward it to Budget and Treasury Office.
- The recipient should immediately inform the Accountant: Budget and Treasury Office that the asset has been delivered for the purpose of bar coding.
- The recipient's inventory list should be updated and a signed copy be kept by Budget and Treasury Office.
- The invoice should be endorsed with the bar code number before payment can be made to the supplier.

The Budget and Treasury Office will provide a monthly report on asset movements. The reporting must also apply to the following:

- Donations.
- Additions / Improvements (refers to immovable assets).
- Auctions.
- Loss or damage.
- Transfers.
- Write-offs
- Land sales.

### ***Heads of Departments***

HOD's shall ensure:

- At all times that there are enough funds in the budget before approval of any requisitions.
- That the correct vote and descriptions are being used before authorising any requisitions.

## **4.4 MAINTENANCE**

### **General maintenance**

Every HOD shall be directly responsible for ensuring that ***all assets (other than infrastructure assets which are dealt with below)*** are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

Maintenance refers to all actions necessary for retaining an asset as near as practicable to its original condition in order for it to achieve its expected useful life, but excluding rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance. For linear infrastructure assets, such as pipes and roads, the following test is applied to differentiate between maintenance and renewal when partial sections of linear assets are renewed:

- If a future renewal of the entire pipe will include the renewal of the partial section that is now renewed, then the renewal of the partial section is treated as maintenance.
- If a future renewal of the entire pipe will retain the partial section that is now renewed, then the renewal of the partial section is treated as renewal and the pipe is split into two separate assets.

The splitting of linear infrastructure has a data management implication, but it is the easiest method that maintains the data integrity over time.

Maintenance analysis is an essential function of infrastructure management to ensure cost-effective and sustainable service delivery. In order to analyse maintenance data, maintenance actions undertaken against individual infrastructure assets should be recorded against such assets.

## **Renewal of assets**

Asset Renewal is restoration of the service potential of the asset. Asset renewal is required to sustain service provision from infrastructure beyond the initial or original life of the asset. If the service provided by the asset is still required at the end of its useful life, the asset must be renewed. However if the service is no longer required, the asset should not be renewed. Asset renewal projections are generally based on forecast renewal by replacement, refurbishment, rehabilitation or reconstruction of assets to maintain desired service levels.

## **Replacement of assets**

It is the complete replacement of an asset that has reached the end of its useful life so as to provide a similar or agreed alternative level of service.

## **Approaches to the maintenance of infrastructural assets**

The RMLM has a variety of infrastructural assets in its area of jurisdiction. It has, however, only authority for the assets linked to the provision of water services and waste management. The following broad tangible infrastructure asset categories are found in the RMLM area.

- **Roads**

The District Municipality does not have jurisdictional responsibilities for the provision of roads in its area. The Municipality has in the past financed road related projects, but does not have roads authority for district or lesser roads. These are under the auspices of the local municipalities and the provincial roads administration. The Local Municipality will, however, have jurisdiction over specific roads that service installations like water and wastewater treatment works and waste sites. These will include access roads to these facilities and the internal roads.

- **Waste Management**

The RMLM provides waste collection and disposal services in its area of jurisdiction. The waste management sites comprise the following fixed components:

- Containers
- Landfill sites
- Transfer stations

These assets have typical minimum life spans of 25 years, except for electrical/mechanical equipment that has life spans of 10 to 15 years.

- **Electricity Supply**

While the RMLM area is well covered in electrical supply network assets, the RMLM is not a licensed provider of electrical services. The limited exposure the Municipality has to this service comprises electrical assets for the operation of services that depend on electricity, namely water, sanitation and waste management.

## **Maintenance Approaches**

Fixed infrastructure assets can only underpin the provision of services where they are maintained adequately. There is a constant trade-off in the demand for and provision of services between the creation of new assets and the maintenance of existing assets. As maintenance of existing assets often does not lead to any noticeable change to the physical state of the asset, in cases of political trade-offs, it is often more desirable to create new assets as that appears more like progress compared to the maintenance of existing assets which does not denote noticeable “progress”.

The RMLM authority therefore has a delicate balancing act to perform between the demand for new assets and the maintenance of existing assets.

Maintenance entails repairing, preserving and undertaking modifications (generally minor) to assets in order to ensure that they continue to perform according to specification, or conform to changes in legislation/regulation. As funding is generally a constraint, the maintenance management approach should incorporate the following processes:

- Existing maintenance programmes should be reviewed regularly
- Maintenance needs should be prioritised
- A maintenance schedule needs to be produced annually
- Maintenance should incorporate risk management approaches and principles
- Available funding resources need to be clarified
- Agreed levels of deferred maintenance must be agreed on

From a financial point of view, expenditure on the maintenance of assets can be categorised as annual recurring expenditure, generally financed from the operating budget, and capital funding.

## **Annual Recurrent Maintenance**

This is funded from a recurring operating budget, financed from user charges of national appropriations, specifically geared for this (e.g. equitable share). This covers the following maintenance requirements:

- Breakdown Repairs
- Preventative maintenance

Breakdown repairs occur when components fail and the service cannot be delayed or deferred. These can normally not be predicted, but with adequate funding provisions or financing, can be implemented with success.

Preventative maintenance is ideal and implemented to reduce the risk of regular and excessive costly breakdowns. There are two categories of preventative maintenance, namely

- Routine maintenance – regular servicing
- Restorative maintenance – planned repair and/or replacement of deteriorated components

## **Capital Requirements**

All asset classes have for various reasons a requirement, at various stages of the asset lives, for substantial refurbishment or improvements, requiring substantial investment. These are typically funded from capital resources and comprise the following categories:

- Lifecycle restorative maintenance
- Minor Improvements/Refurbishments
- Special maintenance and component replacement

## **Asset Performance**

Asset management and maintenance plans and schedules must be based on a regular review and analysis of the asset base. Information collection on the status of assets need to be undertaken on a regular basis, ideally on an annual basis by experienced personnel with a good recording system.

## **Maintenance plans**

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

The MM may direct that the maintenance plan be submitted to the Council prior to any approval for the acquisition or construction of infrastructure asset concerned.

Annual reports should be submitted by the HOD's (controlling or using infrastructure assets) to the Council by July each year on the progress in complying with the maintenance plan. The effect of any non-compliance on the useful operating life of the asset should also be reported.

## **Deferred maintenance**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan, the CFO shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements.

If no such plans have been formulated or are likely to be implemented, the CFO shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the HOD controlling or using the asset, and shall recalculate the annual depreciation expense accordingly. Where maintenance is deferred and results in a change in the useful operating life of the asset, then the statement on Accounting policies, changes in accounting estimates and errors (GRAP 3) should be applied.

## **Evaluation Framework**

The following are key criteria that must form part of an asset evaluation framework and approach:

- Strategic relevance – are the assets still appropriate in terms of form or location for the original, current or future need?
- Financial performance – where the financial income/expenditure aspects of an asset is reviewed
- Service performance- is it still fit for purpose, based on user response or legislative factors.
- Technical performance- does the performance of the asset still fall in the scope and range of the original specifications

## **Assessment of Asset Base**

In order to be able to manage and plan the asset base for the present and the future mandate for service delivery, some tried and tested assessment approaches need to be followed:

## **Condition Assessment**

This approach has various levels of complexity and sophistication, but it is sufficient to derive asset conditions along the following descriptions

- As new
- Good
- Fair
- Poor
- Failed

As stated, for some asset types, there are higher, quantitative condition assessment approaches, but the above are generally deemed as adequate.

## **Historical data tracking**

It is critical that annual financial data on the expenditure on various assets be kept and utilised as a means of assessing the feasibility of a specific expenditure pattern on specific asset categories of specific assets

## Benchmarking

There is a wealth of asset management and maintenance experience and know how in the world that can be utilised as an aid to developing and maintain asset management and maintenance systems. A sensible starting point would be to benchmark oneself with recognised leaders and performers in the area of one’s business operations.

## 4.5 DISPOSAL OF ASSETS

All assets are to be disposed of in one of 4 ways, for example:

Asset Management Policy	Link to Supply Chain Management Policy (Disposal Management)
<ul style="list-style-type: none"> <li>By dumping at a tip site after approval by HOD concerned if the item is damaged beyond repair</li> </ul>	destroying the asset
<ul style="list-style-type: none"> <li>Public tender for the disposal of property or letting of assets (including unserviceable, redundant or obsolete assets subject to section 14 and 90 of the MFMA)</li> </ul>	selling the asset
<ul style="list-style-type: none"> <li>Auctioning</li> </ul>	selling the asset
<ul style="list-style-type: none"> <li>Donation</li> </ul>	transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets  transferring the asset to another organ of state at market related value or, when appropriate, free of charge

The CFO in conjunction with the Supply Chain Manager should direct the disposal process.

### **Municipal Finance Management Act requirements for the disposal of capital assets**

The *disposal of capital assets*, in terms of section 14 of Municipal Finance Management Act (No. 56 of 2003), specify the following requirements:

- 1) Capital assets needed to provide the minimum level of basic municipal services may not be disposed of.
- 2) Capital assets (other than those mentioned in 1) may only be disposed of after the municipal council in a meeting open to the public:

- a. Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal service, 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) Any decision made by the municipal council that the specific capital asset is not needed to provide the minimum level of basic municipal service may not be reversed by the municipality after the asset has been disposed of.
  - 4) The municipal council may delegate its power to make the decision in 2(a) and (b) for movable capital assets to the MM subject to limits prescribed by the municipal council.
  - 5) Any transfer of ownership (disposal) must be fair, equitable, transparent, competitive and consistent with the supply chain management policy.
  - 6) The above does not apply to transfers of capital assets to another municipality, municipal entity, national or provincial organ of state provided that the transfers are in accordance with the prescribed framework.

### **Disposal procedures**

After the necessary authorisation has been obtained, the following procedure for disposing of an asset must be followed:

Disposal procedure	Type of disposal
<ul style="list-style-type: none"> <li>• A staff member identifies the asset(s) to be disposed of (obsolete, redundant, transferred, and other).</li> </ul>	All
<ul style="list-style-type: none"> <li>• HOD concerned approves the status of the item.</li> </ul>	All
<ul style="list-style-type: none"> <li>• A request to dispose of the asset and the proposed method of disposal must be sent to the Disposal Committee.</li> <li>• The Disposal Committee should inspect all redundant items and provide recommendations to Council to approve the disposal.</li> </ul>	All Disposal of unserviceable, redundant, obsolete and damaged assets
<ul style="list-style-type: none"> <li>• The Budget and Treasury Department will table the item as per the recommendations of the Disposal Committee at the HOD/Working Group meeting for consideration.</li> </ul>	All
<ul style="list-style-type: none"> <li>• A memorandum must be written by the HOD/Working Group meeting to the MM indicating the status of the item and the proposed method for disposal</li> </ul>	All
<ul style="list-style-type: none"> <li>• An asset disposal form must be filled in and properly signed by the requesting official, HOD, Disposal Committee Chairperson and the MM.</li> </ul>	All
<ul style="list-style-type: none"> <li>• The asset disposal form must be attached to the memorandum and forwarded to Budget and Treasury for processing.</li> </ul>	All

Disposal procedure	Type of disposal
<ul style="list-style-type: none"> <li>The asset(s) should be taken to the Budget and Treasury Department's safe house for storage.</li> </ul>	All
<ul style="list-style-type: none"> <li>When the items to be disposed of have been identified, a public notice in the local newspaper is made inviting applications from charity organisations and schools.</li> </ul>	Disposal of redundant and obsolete assets.  Disposal by auction or donation.
<ul style="list-style-type: none"> <li>Once the approval has been received, the asset register will be adjusted accordingly.</li> </ul>	All

Each department / directorate must take the necessary steps to ensure that all its assets to be disposed of are brought to the attention of the CFO.

The useful life of assets will be guided by the asset life as suggested by GRAP standardised set of statements. Refer to **section 5.1**

Land and Buildings shall be auctioned at the reserved prevailing market prices as indicated by the valuers at the time of disposal.

All computer equipment to be disposed of will be subject to scrutiny by the IT Manager.

### Council

The Council shall give fourteen (14) days' notice in the newspaper circulating within its area. Notice shall be both in English and Xhosa. Such notice shall also be affixed to all Notice Boards at the Council's office and website.

Council may resolve to donate any of its assets to organisations / individuals and persons within its area of jurisdiction. It may decide from within itself to establish a committee or delegate the donation function to the Human Resources and administration Standing Committee to make proposals.

### Disposal Committee

The Disposal Committee will be responsible for the following:

- To be a central point for all requests to dispose of assets.
- To evaluate all requests to dispose of assets.
- To prepare a memorandum to the MM indicating the status of the item and the proposed method for disposal.
- To ensure that the asset disposal forms are signed by relevant parties (requesting official, HOD, Chairperson of the Disposal Committee, and the MM)

## 4.6 TRANSFERS OF ASSETS

Transfer of assets or inventory items refers to the internal transfer of assets within the municipality or from the municipality to another entity. Procedures need to be in place to ensure that the Asset Control Department can keep track of all assets and ensure that the fixed

asset register is updated with all changes in asset locations. These procedures must be followed and apply to all transfers of assets from:

- One Department to another Department;
- One location to another within the same department;
- One building to another; and

The HOD's shall approve all asset movements, which relate to the transfer of assets from one department to the other.

When a directorate or department transfers an asset or an inventory item interdepartmentally or within its department, the Asset Transfer Form (**section 5.3**) must be forwarded to the department/location receiving the asset or inventory item. A copy of this form is to be forwarded to the Budget and Treasury Office for the update of the asset register.

Where a department no longer requires the use of an asset it should be transferred to the Budget and Treasury Department's safe house (Whelan Workshop) for storage until it is required by another department.

#### **4.7 RESIGNATIONS**

At the resignation of an employee the applicable Director or his/her duly delegated representative must complete the relevant asset form and forward it to the Human Resources Department for their further attention. This form is a statement that the inventory and asset items entrusted to the employee to execute his/her daily duties are in good order and handed in where necessary (refer to **section 5.4** Asset Clearance Form).

#### **4.8 IDENTIFICATION OF ASSETS**

The following applies relating to the identification of assets:

- The MM is responsible for ensuring that the municipality maintains an asset identification system.
- The fixed asset identification system should operate in conjunction with the asset register.
- The MM in consultation with the CFO and HOD's should prescribe the identification system.
- The identification system should comply with any legal prescriptions and recommendations of the Auditor-General.
- The CFO should ensure that the asset identification system is applied.

## **4.9 VERIFICATION OF ASSETS**

### **Departmental asset register/listing of assets**

The Budget and Treasury Office must distribute to each Department Asset Manager an asset register/listing of all assets for the respective department on a quarterly basis.

### **Departments**

The departments should:

- Perform cyclical counts on assets within their department during the year.
- Perform the annual asset verification of all assets as at 30 June each year within the last two months of the financial year. The asset verification will be facilitated by the Budget and Treasury Office.
- Ensure that the existence of items recorded on the inventory register is verified from time to time, and at least once in every financial year. Any amendments which are made to the inventory register must be retained for audit purposes.

These counts should be coordinated by the Department Asset Manager.

### **Budget and Treasury Office**

The CFO and where necessary his/her duly designated official shall:

- Receive from the relevant officials a detailed “outcome report” on the assets verification exercise.
- Ensure that the asset register of the Council is balanced at least annually.

Budget and Treasury Office will facilitate the annual verification of assets.

## **4.10 SAFEKEEPING OF ASSETS**

Every HOD shall be directly responsible for the physical safekeeping of any asset controlled or used by the department in question.

In exercising this responsibility, every HOD shall adhere to any written directives issued by the MM to the department in question, or generally to all departments, in regard to the control of or safekeeping of the municipality’s assets.

In addition, any visitors to a department should be accompanied by an employee of the department.

## **4.11 ALIENATION OF ASSETS**

Alienation / Disposal (alienation) is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality. The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the disposal of capital assets. Specifically:

- A municipality may not ...” permanently dispose of a capital asset needed to provide the minimum level of basic municipal services”
- Where a municipal council has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the municipality’s supply chain management policy.

Every HOD shall report in writing to the CFO on 31 October and 30 April of each financial year on all assets controlled or used by the department concerned which such HOD wishes to alienate by public auction or public tender. The CFO 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.

The Council shall delegate to the municipal manager the authority to approve the alienation of any asset with a carrying value less than R1 000 (one thousand rand).

The Council shall ensure that the alienation of any asset with a carrying value equal to or in excess of R1 000 (one thousand rand) takes place in compliance with Section 14 of the MFMA.

Once the assets are alienated, the CFO shall delete the relevant records from the asset register.

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

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

#### **4.12 REPORTING WRITE-OFFS OF ASSETS**

The write-off of assets is the process to permanently remove the assets from the asset register. Assets can be written-off after approval of the Municipal Manager of a report indicating that:

The useful life of the asset has expired;

The asset has been destroyed;

The asset is out-dated;

The asset has no further useful life;

The asset does not exist anymore;

The asset has been sold; and

Acceptable reasons have been furnished leading to the circumstances set out above.

All losses should be recorded on a standard Asset Write off Form (refer to **section 5.5**) which shall be used for reporting purposes.

#### **Loss, theft, destruction, or impairment**

Every HOD 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 (refer to **section 5.5**) to the CFO, and – in cases of suspected theft or malicious damage – also to the South African Police Service.

#### **Other write-offs**

A fixed asset even though fully depreciated shall be written off only on the recommendation of the HOD controlling or using the asset concerned, and with the approval of the MM of the municipality.

Each Department / Directorate must keep an accurate record of all asset losses and report (refer to **section 5.5**) such losses to the CFO.

The HOD shall report to the CFO on 31 October and 30 April of each financial year on any assets which such HOD wishes to have written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the Council 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 fixed asset in question.

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

### **4.13 PRIVATE USE OF MUNICIPAL ASSETS**

Each department should ensure that the removal of assets from municipal premises is monitored. The standard Asset Removal Form (refer to **Section 5.6**) should be completed and authorised by the HOD each time any asset is removed from municipal premises.

No municipal asset may be used for personal gain or profit.

#### **4.14 REPLACEMENT NORMS**

The MM, in consultation with the CFO and other HOD's, shall formulate norms and standards for the replacement of all normal operational 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 assets which are required for service delivery but which have become uneconomical to maintain

#### **4.15 INSURANCE OF ASSETS**

All insured assets shall be handled in terms of the Municipality's Insurance Policy as agreed with the Insurance Brokers. The MM or designee should ensure that all assets are insured. The CFO should recommend the basis of insurance to be applied to each type of fixed asset (e.g. carrying value or replacement value).

For all assets acquired, the HOD should notify the Insurance Claims clerk on delivery to provide immediate cover. It is the responsibility of the HOD to ensure that the purchased capital asset has been covered for insurance purposes before it is used by the respective department.

The CFO shall annually insure the municipality's biological assets, in consultation with the head(s) of department concerned, provided the Council of the municipality considers such insurance desirable and affordable.

#### **4.16 FLEET MANAGEMENT**

The management of Fleet Assets (Council's vehicles, plant and earth moving equipment as defined by the Fleet Management Policy) shall be in terms of the "Fleet Management Policy."

#### **4.17 DISPOSAL OF FIREARMS**

The procedures for the legal disposing of firearms shall be in terms of the Firearms Control Act of 2000.

**5**

# **APPENDICES**

DRAFT

## 5.1 ASSET USEFUL LIVES

	Asset Life Yrs.		Asset Life Yrs.
<b>INFRASTRUCTURE ASSETS</b>			
<b>ELECTRICITY</b>		<b>GAS</b>	
Power stations	30	Meters	20
Cooling towers	30	Mains	20
Transformer Kiosks	30	Storage tanks	20
Meters	20	Supply/reticulation	20
Load control equipment	20		
Switchgear equipment	20	<b>SEWERAGE</b>	
Supply/reticulation	20	Sewers	20
Mains	20	Outfall sewers	20
		Purification works	20
<b>ROADS</b>		Sewerage pumps	15
Motorways	15	Sludge machines	15
Other roads	10		
Traffic islands	10	<b>PEDESTRIAN MALLS</b>	
Traffic lights	20	Footways	20
Street lighting	25	Kerbing	20
Overhead bridges	30	Paving	20
Storm water drains	20		
Bridges, subways & culverts	30	<b>AIRPORTS</b>	
Car parks	20	Aprons	20
Bus terminals	20	Runways	20
		Taxiways	20
<b>COMMUNITY ASSETS</b>		Airports/Radio Beacons	20
<b>BUILDINGS</b>		<b>RECREATIONAL FACILITIES</b>	
Ambulance stations	30	Bowling greens	20
Aquariums	30	Tennis courts	20
Beach developments	30	Swimming pools	20
Care centres	30	Golf courses	20
Cemeteries	30	Jukskei pitches	20
Civic theatres	30	Outdoor sports facilities	20
Clinics/Hospitals	30	Organ & Case	20
Community centres	30	Lakes and dams	20
Fire stations	30	Fountains	20
Game Reserves/Rest Camps	30	Floodlighting	20
Indoor sports	30		
Libraries	30	<b>SECURITY MEASURES</b>	
Museums/Art galleries	30	Fencing	3
Parks	30	Security systems	5
Public conveniences	30	Access control	5
Recreation centres	30		
Zoos	30		
Stadiums	30		

		<b>WATER</b>	
		Meters	15
		Mains	20
		Rights	20
		Supply/reticulation	20
		Reservoirs & tanks	20
<b>OTHER ASSETS</b>			
<b>BUILDINGS</b>		<b>EMERGENCY EQUIPMENT</b>	
Abattoirs	30	Fire	15
Asphalt plant	30	Ambulances	5-10
Cable stations	30	Fire hoses	5
Caravan parks	30	Emergency lights	5
Cinemas	30		
Compacting stations	30	<b>MOTOR VEHICLES</b>	
Hostels – Public/Tourist	30	Fire engines	20
Hostels – Workers	30	Buses	15
Housing schemes	30	Motor vehicles	5-7
<b>Kilns</b>	30	Motor cycles	3
Laboratories	30	Trucks/bakkies	5-7
Markets	30		
Nurseries	30	<b>AIRCRAFT</b>	15
Office buildings	30	<b>WATERCRAFT</b>	15
Old age homes	30		
Quarries	30	<b>PLANT &amp; EQUIPMENT</b>	
Tip sites	30	Graders	10-15
Training centres	30	Tractors	10-15
Transport facilities	30	Mechanical horses	10-15
Workshops/depots	30	Farm equipment	5
		Lawnmowers	2
<b>OFFICE EQUIPMENT</b>		Compressors	5
Computer hardware	5	Laboratory equipment	5
Computer software	3-5	Radio equipment	5
Office machines	3-5	Firearms	5
Air conditioners	5-7	Telecommunication equipment	5
		General	5
<b>FURNITURE AND FITTINGS</b>		Cable cars	15
Chairs	7-10	Irrigation systems	15
Tables/desks	7-10	Cremators	15
Cabinets/cupboards	7-10	Lathes	15
Miscellaneous	7-10	Milling equipment	15
		Conveyors	15
<b>BINS AND CONTAINERS</b>		Feeders	15
Household refuse bins	5	Tipplers	15
Bulk containers	10	Pulverising mills	15

5.2 SPECIMEN ASSET DISPOSAL FORM

RAYMOND MHLABA LOCAL MUNICIPALITY  
ASSET DISPOSAL FORM

DATE REQUESTED: \_\_\_\_\_

DEPARTMENT: \_\_\_\_\_

ASSET BARCODE: \_\_\_\_\_

ASSET DESCRIPTION: \_\_\_\_\_

ASSET LOCATION: \_\_\_\_\_

CLASSIFICATION OF ASSET: \_\_\_\_\_

SUGGESTED METHOD OF DISPOSAL: \_\_\_\_\_

CONDITION OF ASSET: \_\_\_\_\_

REASON FOR REQUEST FOR DISPOSAL: \_\_\_\_\_

REQUESTING OFFICIAL:  
NAME AND SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

HOD RECOMMENDATION:  
NAME AND SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

DISPOSAL COMMITTEE APPROVAL (CHAIRPERSON):  
NAME AND SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

MM APPROVAL:  
NAME AND SURNAME: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

CHANGE UPDATED ON BAUD BY BUDGET AND TREASURY OFFICE: \_\_\_\_\_

5.3 SPECIMEN ASSET TRANSFER FORM

**RAYMOND MHLABA LOCAL MUNICIPALITY  
ASSET TRANSFER FORM**

DATE REQUESTED: \_\_\_\_\_

ASSET BARCODE: \_\_\_\_\_

ASSET DESCRIPTION: \_\_\_\_\_

CLASSIFICATION OF ASSET: \_\_\_\_\_

REASON FOR TRANSFER: \_\_\_\_\_

CONDITION OF ASSET: \_\_\_\_\_

<u>CURRENT LOCATION</u>	<u>NEW LOCATION</u>
(Approval for the transfer of the asset)	(Asset is received and the above details are verified)
<b>DEPARTMENT/LOCATION</b>	<b>DEPARTMENT/LOCATION</b>
<b>NAME OF BUILDING</b>	<b>NAME OF BUILDING</b>
<b>FLOOR NUMBER</b>	<b>FLOOR NUMBER</b>
<b>ROOM NUMBER</b>	<b>ROOM NUMBER</b>
<b>ROOM BARCODE</b>	<b>ROOM BARCODE</b>
<b>USER</b>	<b>USER</b>
<b>TRANSFERRING OFFICIAL</b>	<b>RECEIVING OFFICIAL</b>
<b>TRANSFERRING OFFICIAL SIGNATURE</b>	<b>RECEIVING OFFICIAL SIGNATURE</b>
<b>HOD NAME AND SURNAME</b>	<b>HOD NAME AND SURNAME</b>
<b>HOD SIGNATURE</b>	<b>HOD SIGNATURE</b>
<b>DATE TRANSFERRED</b>	<b>DATE RECEIVED</b>

5.4 SPECIMEN ASSET CLEARANCE FORM

RAYMOND MHLABA LOCAL MUNICIPALITY

ASSET CLEARANCE FORM

INVENTORY ITEMS:

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MOVEABLE ASSETS:

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**RESIGNING OFFICIAL:**  
**NAME AND SURNAME:**

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**SIGNATURE:**

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**DATE:**

---

**HOD:**  
**NAME AND SURNAME:**

---

**SIGNATURE:**

---

**DATE:**

---

5.5 SPECIMEN ASSET WRITE OFF FORM

RAYMOND MHLABA LOCAL MUNICIPALITY  
ASSET WRITE OFF FORM

DATE REQUESTED: \_\_\_\_\_

DEPARTMENT: \_\_\_\_\_

ASSET BARCODE: \_\_\_\_\_

ASSET DESCRIPTION: \_\_\_\_\_

FLOOR NUMBER/ROOM NUMBER: \_\_\_\_\_

ASSET LOCATION: \_\_\_\_\_

CLASSIFICATION OF ASSET: \_\_\_\_\_

SUGGESTED METHOD OF  
DISPOSAL: \_\_\_\_\_

REASON FOR WRITE OFF: \_\_\_\_\_

REQUESTED BY:  
NAME AND SURNAME: \_\_\_\_\_

POSITION: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

AUTHORISED BY:  
NAME AND SURNAME: \_\_\_\_\_

POSITION: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

CHANGE UPDATED ON BAUD BY BUDGET AND TREASURY OFFICE: \_\_\_\_\_

5.6 SPECIMEN ASSET REMOVAL FORM

RAYMOND MHLABA LOCAL MUNICIPALITY  
ASSET REMOVAL FORM

DATE REQUESTED: \_\_\_\_\_

DATE REMOVED: \_\_\_\_\_

DEPARTMENT: \_\_\_\_\_

ASSET BARCODE: \_\_\_\_\_

FLOOR NUMBER/ ROOM NUMBER: \_\_\_\_\_

ASSET DESCRIPTION: \_\_\_\_\_

ASSET LOCATION: \_\_\_\_\_

CLASSIFICATION OF ASSET: \_\_\_\_\_

REASON FOR REMOVAL: \_\_\_\_\_

RETURN DATE: \_\_\_\_\_

DATE RETURNED: \_\_\_\_\_

REQUESTED BY:  
NAME AND SURNAME: \_\_\_\_\_

POSITION: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

DATE: \_\_\_\_\_

AUTHORISED BY:  
NAME AND SURNAME: \_\_\_\_\_

POSITION: \_\_\_\_\_

SIGNATURE: \_\_\_\_\_

DATE: \_\_\_\_\_

5.7 SPECIMEN PERSONAL ASSET DECLARATION FORM

RAYMOND MHLABA LOCAL MUNICIPALITY

PERSONAL ASSET DECLARATION FORM

SERIAL NUMBER: \_\_\_\_\_

ASSET DESCRIPTION: \_\_\_\_\_

NAME OF USER: \_\_\_\_\_

ASSET LOCATION: \_\_\_\_\_

ROOM/ FLOOR NUMBER: \_\_\_\_\_

REASON FOR BRINGING THE ASSET ONTO THE PREMISES:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

ESTIMATED REMOVAL DATE:

**OWNER DETAILS:**

**NAME AND SURNAME:** \_\_\_\_\_

**SIGNATURE:** \_\_\_\_\_

**DATE:** \_\_\_\_\_

**DECLARATION:** I .....,the owner agree not to hold Raymond Mhlaba Local Municipality liable for any theft or damage incurred relating to the use of the abovementioned asset.

**DEPARTMENT ASSET MANAGER**

**NAME AND SURNAME:**

**SIGNATURE:**

**DATE:**

\_\_\_\_\_  
**DECLARATION:** I .....,the Department Asset Manager, agree that Raymond Mhlaba Local Municipality is not the owner of the abovementioned

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asset.

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**5.8 SPECIMEN ASSET ACCEPTANCE FORM**

**RAYMOND MHLABA LOCAL MUNICIPALITY**

**ASSET ACCEPTANCE FORM**

**DATE:**

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**DEPARTMENT:**

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**LOCATION:**

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**INVENTORY ITEMS:  
(description and  
barcode)**

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**MOVEABLE ASSETS:  
(description and  
barcode)**

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**ACCEPTING OFFICIAL:  
NAME AND SURNAME:**

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**DESIGNATION:**

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**SIGNATURE:**

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**DATE:**

---

**HOD:  
NAME AND SURNAME:**

---

**SIGNATURE:**

---

DATE: \_\_\_\_\_

## 5.9 MAINTENANCE PROCEDURES

Asset maintenance is critical to the sustainable provision of services. Maintenance underpins the ability of an infrastructure asset to continuously provide the service for which it is intended at the same standard and specification in a predictable fashion for the duration of the life of the asset. Various maintenance strategies exist, and the scarcity of financial resources and human skills often makes it a necessity to make tactical choices between the various maintenance strategies. The choice of maintenance strategy is often a function of budget availability, location, the complexity of the asset, the operational history of the asset (extent of use) and the availability of operational information

Maintenance is a recurring activity and essentially an expense. It is funded either from recurring income/grants of an operational nature based on user charges and some components, often substantial, are funded from capital resources. Four maintenance strategies are normally used by infrastructure operators and these are ideally used in combination, depending on the nature of the assets and variables listed above in that regard. Otherwise, the dominance of a particular strategy emerges largely as a result of some resource limitation. The four maintenance **strategies** are as follows:

- **Reactive Maintenance**

This is undertaken after an asset has functionally failed, and is also referred to as corrective maintenance or sometimes run-to-failure. This strategy may be acceptable for some types of assets, where sufficient redundancy is available (e.g. bearings on a pump sets that does not lead to collateral damage and where standby units are available) and the failure of the component will not lead to additional damages elsewhere. It is generally not regarded as ideal, but can be applied where the maintenance management has a high skill level to discern the applicability of this strategy. Under conditions of limited financial resources and skills, it becomes the default maintenance strategy.

- **Preventative Maintenance**

This type of maintenance is undertaken at regular intervals to forestall failure or breakage of equipment or components. It serves to limit catastrophic failure and attempts to extend equipment life, although it does not necessarily guarantee it, as maintenance intervals are based on statistical and historical data derived from equipment or parts manufacturers and suppliers. It has the downside of being costly as components are often replaced while they may still be operable and useful, and requires more labour resources as reactive maintenance. This maintenance strategy is particularly useful when the failure of equipment cannot be tolerated and the effects of failure are far reaching and systems are sensitive. This strategy is often touted as the strategy of choice in the public sector. The reality of limited means will

however necessitate an approach that will include all the other strategies with the necessary discernment and guidance of the applicability of each strategy.

- **Predictive Maintenance**

This strategy relies on equipment assessment and the measurement of key indicators and parameters to determine the point of component replacement or refurbishment. This strategy is also referred to as condition based maintenance, often using sophisticated measurement procedures and equipment. The intention of this approach is to conserve on resources by performing only the necessary maintenance and at a time close to possible failure. It can therefore be regarded as causing savings in time, money and effort, as regular inspections (considered a necessity in most cases) are undertaken regularly and are sometimes relatively simple.

- **Reliability-centred Maintenance**

In this approach and strategy, the maintenance effort is directed to those infrastructure components where reliability is critical and the risk of failure is least tolerable. This strategy helps to focus resources and effort and can lead to reasonable savings

### **Recommended Procedures**

The application of the maintenance strategies above is highly dependent on the availability of skills and finance. It is important that the range of strategies be applied as they are not mutually exclusive, but some are applied in combination dependent on the financial and human resources available to a municipality. A few requirements are essential at the start to lay the foundation of a rational approach to maintenance

- A comprehensive asset register is essential and must be compiled
- Asset register is to be used as a basis for structuring of maintenance budgets and these are to be reconciled with available resources
- Maintenance teams (either in-house or external) need to be established and structured and the necessary contractual relations formalized.
- The maintenance strategy or sets of strategies need to be selected per asset class and operational area to use budgetary resources optimally

The following asset classes are under the jurisdiction of the Raymond Mhlaba Local Municipality, by virtue of powers and functions that have been determined by the constitution and specified by ministerial determination:

- **Water and Sanitation Works**

The Department of Water Affairs has recently introduced a regulatory framework and system to improve the quality of service provision in the water sector. This regulatory system covers requirements for the effective maintenance and operation of water services (water and sanitation) and regulates the maintenance personnel and budgets that must be availed by water services providers. The service provider is expected to have:

- Qualified personnel with proof of trade competencies (trade tests), either in-house or contracted
- Provide documented operations and maintenance manuals
- Documented maintenance records and logbooks

This regulatory system is in place and all water services authorities are assessed, currently on an annual basis for each scheme under their jurisdiction, covering a structured and holistic approach to each water supply scheme or sanitation drainage scheme. Specifically, the municipality must therefore compile comprehensive maintenance manuals, containing specific information on assets and their components, with manufacturer recommended maintenance and replacement schedules, set up a system of recording maintenance conducted and the associated costs and record failure incidences.

The following is envisaged for water, wastewater and solid waste sites in the municipal area:

- **Civil / Structural Works**

The maintenance will largely be **reactive** as these facilities are designed with long service lives and wear and tear rates are generally low. These include buildings at the works and civil structures to house processes. A measure of preventative maintenance also expected to be performed.

- **Mechanical Works**

These assets contain moving components and they generally have short useful lives compared to civil and structural components. We would expect a mix of reactive maintenance strategies, preventative maintenance and predictive maintenance in that order of preference based on limited budget. The ideal strategy will be to implement condition based and predictive maintenance strategies, followed by preventative and finally reactive, depending on criticality

- **Electrical Works**

The maintenance strategies should be focussed on preventative and condition based strategies.

- **Pipelines**

These assets are normally long lifespan assets and they are out of sight, namely buried underground. The maintenance strategies will largely be reactive

- **General sites and premises**

The maintenance will be a mixture of reactive, condition based and preventative strategies

- **Access and facility roads**

There are sub components to this asset class:

1. Storm water systems

The maintenance approach in this case will largely be condition based, preventative and reactive, as the assets are low risk and long life, depending on the current condition.

2. Pavements

The maintenance strategy will largely be condition based and reactive

3. Verges

Maintenance of grass verges will be based on condition linked to seasonality, with elements of preventative and reactive approaches.

The strategies above are based on limited access to finance and staff, a common condition in most municipalities in the country at present. The strategies can still be effective if there is regular infrastructure assessment and feedback from users. The idealised future state is maintenance based on condition monitoring, predictive maintenance for critical systems preventative maintenance and lastly reactive maintenance for low risk systems.

### Approval

This policy was adopted by the Municipal Council on .....per

**Resolution Number:** .....

.....  
MUNICIPAL MANAGER

DATE.....