



# SEDIBENG DISTRICT MUNICIPALITY

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## FIXED ASSET MANAGEMENT POLICY

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<b>Policy Name</b>	Fixed Asset Management Policy
<b>Policy Number</b>	
<b>Approved by: Policy Manager</b>	Director: Financial Management and Budgets
<b>Approved by: Policy Authority</b>	Chief Financial Officer
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### 1. BACKGROUND

A policy document is a key enabler in providing the framework in which processes and procedures are governed in accordance with prescribed legislative requirements.

More specifically, policy for the Sedibeng District Municipality (SDM) is guided by the legislative requirements as laid out in:

- The Municipal Finance Management Act (MFMA), Act No. 56 of 2003,
- Treasury Regulations for municipalities and municipal entities, issued in terms of the Municipal Finance Management Act No. 56 of 2003.
- Standards of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board (ASB).

A policy further serves to provide all stakeholders with the appropriate guidance as to the rules and requirements across relevant operating processes and procedures. It also ensures:

- Consistency in application and implementation;
- Procedural excellence; and
- Minimised risk exposure to non compliance issues.

### 2. OBJECTIVES

This policy establishes an overarching governance framework to assist management and employees of SDM in implementing and maintaining consistent, effective and efficient asset management principles.

The principal objectives of this policy are:-

- to safeguard fixed assets of SDM and to ensure the effective use of the existing resources;
- to emphasise a culture of accountability over fixed assets;
- to ensure that effective controls are communicated to management and staff through clear and comprehensive written documentation; and
- to provide a formal set of financial procedures that can be implemented to ensure that SDM's financial asset policies are achieved and are in compliance with the MFMA and statements of GRAP.

### 3. DEFINITIONS

Definition	Description
<b>Accumulated depreciation</b>	Accumulated depreciation refers to the total depreciation allocations to a certain point with respect to assets still in use.
<b>Asset</b>	An asset is a resource controlled by an entity as a result of



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Definition	Description
	past events and from which future economic benefits or service potential is expected to flow to the entity.
<b>Carrying amount (GRAP 17 p10)</b>	Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
<b>Cash-generating assets</b>	Cash-generating assets are assets held with the primary objective of generating a commercial return.
<b>Non-cash-generating assets</b>	Non-cash-generating assets are assets other than cash-generating assets.
<b>Construction contract</b>	A construction contract is a contract specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or inter dependent in terms of their design, technology and function or their ultimate purpose or use.
<b>Cost (GRAP 17 p10)</b>	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.
<b>Depreciable amount (GRAP 17 p10)</b>	Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.
<b>Depreciation (GRAP 17 p10)</b>	Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.
<b>Fair value (GRAP 17 p10)</b>	Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
<b>Impairment loss (GRAP 17 p10)</b>	An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount. An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.
<b>Intangible asset</b>	An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes.
<b>Leased asset</b>	A lease is an agreement whereby the lessor conveys to the lessee in return for payment or series of payments the right to use an asset for an agreed period of time. A finance lease is a lease that transfers substantially all risks and rewards incident of ownership of an asset.
<b>Property, plant and equipment</b>	Property, plant and equipment are tangible assets that: (a) are held for use in the production or supply of goods or



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<b>(PPE) (GRAP 17 p10)</b>	services, for rental to others, or for administrative purposes, and (b) are expected to be used during more than one reporting period.
<b>Recoverable amount (GRAP 17 p10)</b>	Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.
<b>Recoverable service amount (GRAP 17 p10)</b>	Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.
<b>Residual value (GRAP 17 p10)</b>	The residual value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
<b>Useful life (GRAP 17 p10)</b>	Useful life is: (a) the period over which an asset is expected to be available for use by an entity, or (b) the number of production or similar units expected to be obtained from the asset by an entity.

## 4. POLICY STATEMENTS

### 4.1 Responsibility

The responsibility of fixed asset management lies with the Municipal Manager and the Chief Financial officer. The performance of this function has to be delegated to the fixed asset controller. This however, does not alleviate the responsibility of the Municipal Manager and the Chief Financial officer. The Municipal Manager and the Chief Financial officer shall ensure that all fixed assets are effectively and efficiently managed.

### 4.2 Role of municipal manager

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

### 4.3 Role of chief financial officer

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



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

### **4.4 Acquisition of assets**

The chief financial officer in consultation with the heads of departments must align activities in the Strategic Plan and the budgetary allocations with the asset requirements of departments and develop an Asset Acquisition Plan.

The Asset Acquisition Plan must be informed by the future service or economic benefits to be derived directly or indirectly from the asset in support of service delivery.

A cost-benefit analysis must be conducted when determining whether a major asset should be leased, purchased, transferred from another entity or obtained through a Public Private Partnership.

The Asset Acquisition Plan must detail all assets that will be purchased and/or leased in a particular financial year with expenditure projections for each month of that year. A capital budget must be compiled and approved for all capital acquisitions. The Municipal Manager is required to approve the Asset Acquisition Plan and the capital budget prior to the commencement of any purchases of assets.

The acquisition must adhere to the Supply Chain Management Policy and delegation of authority of the Municipality.

All heads of department acquiring fixed assets shall appoint a designated responsible official who will verify quality and correctness of the asset before taking delivery.

GRAP 17, paragraph .11 states that the cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

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

The capitalisation criteria as set out on section 4.5 below should be followed in determining whether assets must be capitalised or not.

All acquisitions must be recorded in the Fixed Asset Register and the accounting system of the municipality.

All property, plant and equipment are recognised initially at cost (GRAP 17p21).



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Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition (GRAP 17p22).

Cost includes all expenditure directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management (GRAP 17p25 (b)).

Cost includes the estimated cost of dismantling and removing the asset and restoring the site (GRAP 17p25 (c)).

PPE held under a finance lease, shall be recognised as a fixed asset, as the municipality has control over such an asset even though it does not own the asset.

### **4.5 Capitalisation criteria: material value**

Every head of department shall, however, ensure that any Item with a value in excess of R250 (two hundred and fifty rand), and with an estimated useful life of more than one year, shall be reported to the Chief Financial officer who shall decide whether the portability and attractiveness of the item by its very nature, render it to theft or misplacing and whether it is sufficiently portable to allow removal and if the need exists for the item to be controlled and therefore be included in the Fixed Asset Register as a minor asset and therefore be identified and controlled in the manner as prescribed in section 4.9.

Every head of department shall ensure that the existence of items referred to in this section and which the Chief Financial officer decided not to include in the Fixed Asset Register shall be recorded on an asset stock sheet controlled by himself or a person delegated to the task, and verified from time to time and at least once in every financial year, and any amendments which are made to such asset stock sheet pursuant to such stock verifications shall be retained for audit purposes.

### **4.6 Capitalisation criteria: intangible items**

Development costs shall be recognised as a fixed asset only if the Chief Financial officer, acting in strict compliance with the criteria set out in the accounting standards may recommend to the Council that specific development costs be recognised as fixed assets.

Intangible assets that may be recognised as fixed assets include –

- mineral exploration rights;
- computer software;



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- trademarks and other legally enforceable rights associated with copyrights and patents.

### **4.7 Capitalisation criteria: reinstatement, maintenance and other expenses**

Expenses incurred subsequent to the initial recognition shall only be capitalised if they meet the definition and recognition criteria of an asset.

Subsequent expenditure can be incurred to either maintain the asset's original capacity and ensure the continued inflow of economic benefits or service potential or to improve the capacity or output of the asset. Examples of expenditure that could meet the definition and recognition criteria of an asset and therefore may be capitalised are:

- an increase in the capacity of plant and machinery;
- the rehabilitation of a road resulting in a substantial reduction in maintenance cost;
- a modification to extend the remaining useful life; or
- the upgrading of certain parts, resulting in a substantial improvement in the quality of outputs.

Expenditure relating to the day-to-day servicing of an asset should not be capitalised. This includes repairs and maintenance as well as the replacement and renewal of immaterial components of an asset.

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

### **4.8 Recognition of assets at no cost or for nominal cost**

Where a fixed asset is acquired at no cost or at nominal cost, the asset concerned shall be recorded in the fixed asset register at its fair value, as determined by the chief financial officer.

### **4.9 Safekeeping of assets**

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





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In exercising this responsibility, every head of department shall adhere to any written directives issued by the municipal manager to the department in question, or generally to all departments, in regard to the control of or safekeeping of the municipality's fixed assets.

### **4.10 Identification of fixed assets**

The municipal manager shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register.

The identification system shall be determined by the municipal manager, acting in consultation with the chief financial officer and other heads of departments, and shall comply with any legal prescriptions, as well as any recommendations of the Auditor-General as indicated in the municipality's audit report(s), and shall be decided upon within the context of the municipality's budgetary and human resources.

Every head of department shall ensure that the asset identification system approved for the municipality is scrupulously applied in respect of all fixed assets controlled or used by the department in question.

### **4.11 Format of fixed asset register**

The fixed asset register shall be maintained in the format determined by the chief financial officer, which format shall comply with the requirements of GRAP and any other accounting requirements which may be prescribed.

The fixed asset register shall reflect the following information:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use
- the location of the asset
- the department(s) or vote(s) within which the assets will be used
- the title deed number, in the case of fixed property
- the stand number, in the case of fixed property
- where applicable, the identification number, as determined in compliance with section 4.10 above (Identification of fixed assets)
- the original cost, or the revalued amount determined in compliance with section 4.28 below (Revaluation of fixed assets), or the fair value if no costs are available
- the (last) revaluation date of the fixed assets subject to revaluation
- the revalued value of such fixed assets
- who did the (last) revaluation
- accumulated depreciation to date
- the depreciation charge for the current financial year



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- the carrying value of the asset
- the method and rate of depreciation
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- the source of financing
- the date on which the asset is disposed of
- the disposal price
- the date on which the asset is retired from use, if not disposed of.

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

A fixed asset shall be capitalised, that is, recorded in the fixed assets register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, whereafter it shall be appropriately capitalised as a fixed asset.

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

### **4.12 Classification of fixed assets by class**

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

#### Property, plant and equipment

- land (not held as investment assets)
- infrastructure assets (assets which are part of a network of similar assets)
- community assets (resources contributing to the general well-being of the community)
- heritage assets (culturally significant resources)
- other assets (ordinary operational resources)

#### Inventory

- housing (rental stock or housing stock not held for capital gain)

#### Investment property

- investment assets (resources held for capital or operational gain)



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The chief financial officer shall adhere to the classifications indicated in the annexure on fixed asset lives (see 9 below), and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question.

### **4.13 Classification of fixed assets by funding source**

All assets in the asset register will be classified into the various funding categories as follows:

- Internal and external loans
- Revenue
- Public contributions
- Donations
- Grants

The total cost of the asset allocated per funding source on the asset register should reconcile with the information as per the general ledger.

### **4.14 Investment property**

Investment property is property held to earn rentals or for capital appreciation or both (GRAP 16p05).

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

Property held by the municipality under an operating lease may be classified as investment property if the rest of the definition of investment property is met and the lessee measures all its investment property at fair value (GRAP 16p06).

A portion of a dual-use property shall be classified as investment property only if the portion could be sold or leased under a finance lease. Otherwise, the entire property shall be classified as property, plant and equipment, unless the portion of the property used for own use is insignificant.

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

Investment assets shall not be depreciated, but shall be annually valued on statement of financial position date to determine their fair (market) value. Investment assets shall be recorded in the statement of financial position at such fair value. Adjustments to the previous year's recorded fair value shall be



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accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

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

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

If the municipality controls land for which the intended use has not been determined. For example, the municipality has acquired land at no cost and the intended use of the land has not been determined. Until such time as the land meets the recognition criteria for property, plant and equipment as determined in paragraph .11 of GRAP 17 and stated in section 4.4 above, the land shall be recognised in accordance with the requirements of the standard of GRAP on investment property.

### **4.15 Fixed assets treated as inventory**

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

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

### **4.16 Recognition of heritage assets in the fixed asset register**

If no original costs or fair values are available in the case of one or more or all heritage assets, the chief financial officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or fair value concerned.

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

### **4.17 Procedure in case of loss, theft, destruction, or impairment of fixed assets**



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Every head of department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the chief financial officer, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service.

### **4.18 Maintenance plans**

Every head of department 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.

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

The head of department controlling or using the infrastructure asset in question, shall annually report to the council, not later than in July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

### **4.19 Deferred maintenance**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see section 4.18 above), the chief financial officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.

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

### **4.20 General maintenance of fixed assets**

Every head of department shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with in section 4.18 and section 4.19 above) are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.



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### 4.21 Depreciation of fixed assets

All fixed assets, except land and heritage assets, shall be depreciated – or amortised in the case of intangible assets over its useful life (GRAP 17p60).

Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services. Depreciation shall generally take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed.

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

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

Estimates of useful life and residual value, and the method of depreciation are reviewed at least at each annual reporting date. Any changes are accounted for prospectively as a change in estimate (GRAP 17p61, 17p71).

The residual value is the estimated proceeds from the disposal of an asset after taking into account the costs of disposal. The estimate is based on what would currently be obtained from an asset of the same age and condition expected at the end of its useful life. The residual value should be estimated at the date of acquisition and should be reviewed at each subsequent reporting date. Any revision to the residual value will result in a change in the depreciation expense, which should be treated as a change in accounting estimate and applied prospectively.

When an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is depreciated separately (GRAP 17p53).

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



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An item of property, plant and equipment is depreciated even if it is idle or is retired from active use unless the asset is fully depreciated (GRAP 17p65).

### **4.22 Rate of depreciation**

The chief financial officer shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register. In determining such a useful life the chief financial officer shall adhere to the useful lives set out in the annexure to this document (see section 9 below).

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

### **4.23 Method of depreciation**

Except in those cases specifically identified in section 4.25 below, the chief financial officer shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

### **4.24 Amendment of asset lives and diminution in the value of fixed assets**

The estimated useful life shall be reviewed at least annually, taking into account changing circumstances. The effect of the change is recognised evenly over the current and future years using the spreading method or in the year in which the estimate is reviewed so that in subsequent years the depreciation cost is consistent with the revised remaining useful life of the asset. The latter is referred to as the catch-up method.

Only the chief financial officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the chief financial officer shall inform the council of the municipality of such amendment.

The chief financial officer shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.

If the value of a fixed asset has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be fully depreciated in the financial year in which such diminution in value occurs.

Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the



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

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

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

### **4.25 Alternative methods of depreciation in specific instances**

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

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

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

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

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

### **4.26 Utilisation of non-distributable reserves for future depreciation**

The chief financial officer shall ensure that in respect of all fixed assets financed from the municipality's asset financing reserve, or from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of fixed assets donated to the municipality, a non-distributable reserve for future depreciation is created equal in value to the capitalised value of each fixed asset in question.

The chief financial officer shall thereafter ensure that in the case of depreciable fixed assets an amount equal to the monthly depreciation expenses of the fixed





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asset concerned is transferred each month from such non-distributable reserve to the municipality's appropriation account. Where there is a difference between the budgeted monthly depreciation expenses and the actual total depreciation expenses for each financial year, the chief financial officer shall appropriately adjust the aggregate transfer from the non-distributable reserve for the year concerned.

### **4.27 Carrying values of fixed assets**

Initially all fixed assets shall be recognised at cost. After the asset has been brought into use, the carrying value of the asset reflected in the statement of financial position shall be adjusted to reflect the past usage of the asset. Such adjustment shall be made at each subsequent reporting date.

The municipality shall choose between any of the two measurement models of GRAP 17 to determine the carrying value of PPE, being the cost or the revaluation model. A decision should be reached and accepted by council whether to revalue any class of PPE. The selected model must be applied to an entire class of PPE.

#### **The cost model**

All items of PPE measured in accordance with the cost model, shall be carried at cost less accumulated depreciation and impairment losses. In other words, the historical cost of an asset is written-off over the expected useful life of the asset. No adjustments, other than the capitalisation of subsequent expenditure and the amendments to the decommissioning liability are made for increases in the value of the asset.

### **4.28 Revaluation of fixed assets (The revaluation model)**

Under the revaluation model the asset shall be carried at its fair value on the date of revaluation less subsequent accumulated depreciation and subsequent impairment losses.

The frequency of revaluations shall depend on the volatility of the fair value of the asset but have to be performed with such regularity that the carrying amount does not differ materially from what the fair value at the reporting date would have



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been. The municipality shall do a revaluation of land and buildings every five years.

A revaluation shall be performed by comparing the carrying value of the asset with its market value, which is determined by a professional valuer. The carrying value is adjusted upwards and the resulting increase is transferred to the revaluation reserve which forms part of the net assets of the municipality.

Any deficit on revaluation is recognised in surplus/deficit except to the extent that it reverses a previous revaluation surplus on the same asset, in which case it is taken directly to the revaluation reserve. Revaluation increases and/or decreases cannot be offset, even within a class of assets.

When PPE is revalued, a municipality should make a policy election, which should be applied consistently to all revaluations, to either:

- restate both the gross carrying amount of the asset and the related accumulated depreciation proportionately; or
- eliminate the accumulated depreciation against the gross carrying amount of the asset.

The municipality should follow the same approach when fully depreciated assets are revalued.

### **4.29 Verification of fixed assets**

The Chief Financial officer shall at least once during every financial year and as closely as possible to the end of the financial year, undertake a comprehensive physical verification of all fixed assets controlled or used by the Municipality. The physical verification must be performed by the physical scanning of the barcode attached to an asset or in the case of infrastructure assets such as roads, certification by the responsible head of department.

The results of such verification will be reported to every head of department who shall promptly and fully report in writing to the Chief Financial officer in the format determined by the Chief Financial officer, on all the fixed assets not verified or other discrepancies found during such fixed asset verification. The Chief Financial officer must submit a comprehensive report to the Municipal Manager by not later than 31 July of the year in question and recommend corrective measures that will address the identified variances.



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### 4.30 Alienation of fixed assets

The Supply Chain Management Policy of the Municipality governs the disposal of assets.

All officials are responsible for reporting any loss of or damage to an asset to the Asset Controller within 1 working day. The Asset Controller must report the loss or damage to the head of the department who must determine the degree of negligence and/or improper conduct leading to such loss or damage and make a recommendation to the Chief Financial officer who will decide upon the matter and refer it appropriately.

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

Every head of department shall report in writing to the chief financial officer on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to alienate by public auction or public tender. The chief financial officer shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the council or the municipal manager of the municipality, as the case may be, recommending the process of alienation to be adopted.

The Municipal Manager will decide on the alienation of any fixed asset with a carrying value less than R5 000.00 (five thousand rand) and will inform the appropriate head of department of any alienation of any fixed assets that have not been approved clearly stating the reasons for such disapproval. A report shall be submitted to Council annually.

The council shall ensure that the alienation of any fixed asset with a carrying value equal to or in excess of R5 000 (five thousand rand) takes place in compliance with Section 14 of the MFMA.

Section 14 of the MFMA states that a municipality may not alienate any capital asset required to provide a minimum level of basic municipal services.

Section 14 of the MFMA further states that a municipality may alienate any other capital asset, but provided that:

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



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Once the fixed assets are alienated, the chief financial officer shall delete the relevant records from the fixed asset register.

If the proceeds of the alienation are less than the carrying value recorded in the fixed asset register, such difference (deficit) shall be recognised as a loss in the statement of financial performance of the department or vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the fixed asset concerned, the difference (surplus) shall be recognised as a gain in the statement of financial performance of the department or vote concerned.

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

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

### **4.31 Other write-offs of fixed assets**

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

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

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

In every instance where a not fully depreciated fixed asset is written off, the chief financial officer shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned (see also section 4.24).



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Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable (GRAP 17p74).

### **4.32 Replacement norms**

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

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

This section provides for the replacement of motor vehicles, furniture and fittings, computer equipment and any other appropriate operational items as well as for the replacement of fixed assets which are required for service delivery but which has become uneconomical to maintain or have become outdated in terms of available technology.

### **4.33 Insurance of fixed assets**

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

The chief financial officer shall annually determine the premiums payable by the departments or votes after having received a list of the fixed assets and insurable values of all relevant fixed assets from the heads of departments concerned.

The municipal manager shall recommend to the council of the municipality, after consulting with the chief financial officer, the basis of the insurance to be applied to each type of fixed asset: either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

### **4.34 Disclosure in the annual financial statements (AFS)**

The municipality shall ensure that the following is disclosed in the AFS:

- the measurement bases used for determining the gross carrying amount of PPE;
- the depreciation methods used;



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- the useful lives or the depreciation rates used;
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- a reconciliation of the carrying amount at the beginning and end of the period showing:
  - additions;
  - assets classified as held for sale or included in a disposal group classified as held for sale in accordance with IFRS 5 and other disposals;
  - increases or decreases resulting from revaluations and from impairment losses recognised or reversed directly in equity in accordance with International Accounting Standard (IAS) 36;
  - impairment losses recognised in profit or loss in accordance with IAS 36;
  - impairment losses reversed in profit or loss in accordance with IAS 36;
  - depreciation; and
  - other changes.
- the existence and amounts of restrictions on title, and PPE pledged as security for liabilities;
- the amount of expenditures recognised in the carrying amount of an item of PPE in the course of its construction;
- the amount of contractual commitments for the acquisition of PPE; and
- if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of PPE that were impaired, lost or given up that is included in profit or loss.

The amount of contractual commitments for PPE at each year-end shall be identified. The orders placed and contracts entered into by the municipality that was not delivered and provided for at year end shall be identified and quantified and disclosed in a note to the financial statements.

### 5. LEGISLATIVE AND REGULATORY POLICY REFERENCES

Document	Section	Sub
Standard of Generally Recognised Accounting Practice on property, plant and equipment (GRAP 17 / Previously GAMAP 17)	All	All
Standard of Generally Recognised Accounting Practice on intangible	All	All



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Document	Section	Sub
assets (GRAP 102)		
Standard of Generally Recognised Accounting Practice on investment property (GRAP 16)	All	All
Standard of Generally Recognised Accounting Practice on impairment of assets (drafted but not issued)	All	All
International Accounting Standard on impairment (IAS 36)	All	All
International Financial Reporting Standard on non-current assets held for sale and discontinuing operations (IFRS 5)	All	All
Generally Accepted Municipal Accounting Practice on useful lives (GAMAP 113)	Appendix	Appendix
Municipal Finance Management Act No. 56 of 2003 (Alienation of assets)	14	All

### 6. POLICY AMENDMENTS

The policy may be reviewed from time to time and amended by SDM as and when required.

### 7. POLICY BREACH

Staff that abuse or breach this policy will be subject to disciplinary action in accordance with SDM's disciplinary policies and procedures.

### 8. COPYRIGHT

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### **9. ANNEXURE: FIXED ASSET LIVES (AS PER GAMAP 113)**

#### **INFRASTRUCTURE ASSETS**

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

- \* Electricity
  - Power stations (30)
  - Cooling towers (30)





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



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* Airports	
Runways	(20)
Aprons	(20)
Taxiways	(20)
Airport and radio beacons	(20)
* Security measures	
Access control systems	(5)
Security systems	(5)
Security fencing	(3)

### COMMUNITY ASSETS

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

* Buildings and other assets	
Ambulance stations	(30)
Aquariums	(30)
Beach developments	(30)
Care centres	(30)
Cemeteries	(30) #
Civic theatres	(30)
Clinics and hospitals	(30)
Community centres	(30)
Fire stations	(30)
Game reserves and rest camps	(30)
Indoor sports	(30)
Libraries	(30)
Museums and art galleries	(30)
Parks	(30)
Public conveniences and bath houses	(30)
Recreation centres	(30)
Sports and related stadiums	(30)
Zoos	(30)
* Recreation facilities	
Bowling greens	(20)
Tennis courts	(20)
Swimming pools	(20)
Golf courses	(20)
Jukskei pitches	(20)
outdoor sports facilities	(20)
organs (that is, pipe organs that are fixtures in a municipal hall or other centre)	(20)
Lakes and dams	(20)
Fountains	(20)



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Flood lighting (20)

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

### HERITAGE ASSETS

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

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

### INVESTMENT ASSETS

It is not possible to provide an exhaustive list of investment assets, as the actual list will depend very much on the local circumstances of each municipality.

However, the following will be among the most frequently encountered:

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties) (30)
- Shopping centres (again developed along similar lines) (30)
- Housing developments (that is, developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit) (30)

### OTHER ASSETS

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

- \* Buildings
- Abattoirs (30)
- Asphalt plant (30)
- Cable stations (30)
- Caravan parks (30)
- Compacting stations (30)



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Hostels used to accommodate the public or tourists	(30)
Hostels for municipal employees	(30)
Housing schemes	(30)
Kilns	(30)
Laboratories	(30)
Fresh produce and other markets	(30)
Nurseries	(30)
Office buildings	(30)
Old age homes	(30)
Quarries	(30) #
Tip sites	(30) #
Training centres	(30)
Transport facilities	(30)
Workshops and depots	(30)
* Office equipment	
Computer hardware	(5)
Computer software	(3-5)
office machines	(3-5)
Air conditioners	(5-7)
* Furniture and fittings	
Chairs	(7-10)
Tables and desks	(7-10)
Cabinets and cupboards	(7-10)
* Bins and containers	
Household refuse bins	(5)
Bulk refuse containers	(10)
* Emergency equipment	
Fire hoses	(5)
Other fire-fighting equipment	(15)
Emergency lights	(5)
* Motor vehicles	
Ambulances	(5-10)
Fire engines	(20)
Buses	(15)
Trucks and light delivery vehicles	(5-7)
Ordinary motor vehicles	(5-7)
Motor cycles	(3)
* Plant and equipment	
Graders	(10-15)
Tractors	(10-15)



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Mechanical horses	(10-15)
Farm equipment	(5)
Lawn mowers	(2)
Compressors	(5)
Laboratory equipment	(5)
Radio equipment	(5)
Firearms	(5)
Telecommunication equipment	(5)
Cable cars	(15)
Irrigation systems	(15)
Cremators	(15)
Lathes	(15)
Filling equipment	(15)
Conveyors	(15)
Feeders	(15)
Tippers	(15)
Pulverising mills	(15)
* Other	
Aircraft	(15)
Watercraft	(15)

# Sum-of-units may be preferred.