

MATJHABENG LOCAL MUNICIPALITY



ASSET MANAGEMENT POLICY
2026/27

MATJHABENG LOCAL MUNICIPALITY

ASSETS MANAGEMENT POLICY

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ASSETS MANAGEMENT POLICY

ABBREVIATIONS

ASB	Accounting Standards Board
A	Assets
IA	Infrastructure Assets
CA	Community Assets
HA	Heritage Assets
IP	Investment Properties
IA	Intangible Assets
OA	Other Assets
AR	Asset Register
BMS	Basic Municipal Services
C	Capitalisation
CA	Carrying Amount
CI	Control Items
C	Cost
COA	Cost Of Acquisition
D	Depreciation
DA	Depreciable Amount.
FR	Fair Value
FAR	Fixed Asset Register
GRAP	Generally Recognised Accounting Practice
IL	Impairment Loss
D	Director
P	Prescribe
PPE	Property, Plant and Equipment
RA	Recoverable Amount
RA	Residual Value

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SM **Senior Management**

UL **Useful Life**

1. OBJECTIVE

1.1. The objectives of this policy are:

1.1.1. To ensure the effective and efficient control of the municipality's capital assets through:

- a) Proper recording of capital assets from authorisation to acquisition and to subsequent disposal;
- b) Providing for safeguarding procedures;
- c) Setting proper guidelines as to authorised utilisation; and
- d) Prescribing for proper maintenance.

1.1.2. To assist officials in understanding their legal and managerial responsibilities regarding capital assets

2. BACKGROUND

2.1. The proper utilisation and management of capital assets is one of the prime mechanisms by which a municipality can fulfil its constitutional objectives for:

- a) Delivery of sustainable services;
- b) Promotion of Social and economic development;
- c) Promoting a safe and healthy environment; and
- d) Providing for the basic needs to the community.

2.2. The municipality has a legal and moral obligation to ensure it implements policies to provide for the effective and efficient usage of its capital assets over the useful life thereof.

2.3. The asset management policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of capital assets.

2.4. Stewardship has three components being the:

- a) Management, utilisation and control by the Municipal Officials;
- b) Financial administration by the Chief Financial Officer; and
- c) Physical administration by the Senior Manager Financial Administration

2.5. Statutory provisions exist to protect public property against arbitrary and inappropriate management or disposal by a local government.

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- 2.6. Accounting standards are set to ensure the appropriate financial treatment for capital assets. The requirements of these accounting standards include:
- a) The compilation of capital asset registers recording all capital assets controlled by the municipality;
 - b) Accounting treatment for the acquisition, disposal, recording and depreciation of capital assets; and
 - c) The standards to which these financial records must be maintained.
- d) The compilation of capital asset registers recording all capital assets controlled by the municipality;
- e) Accounting treatment for the acquisition, disposal, recording and depreciation of capital assets; and
- f) The standards to which these financial records must be maintained.

3. DEFINITIONS

“**Accounting Standards Board**” was established by the Public Finance Management Act to set standards of Generally Recognized Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa;

“**Accounting group**” means the GRAP required disclosures on the face of the annual statement of financial position; assets followed were in accordance with best practices.

“**Amortisation**” is the systematic allocation of the depreciable amount of an intangible capital asset over its useful life;

“**Assets**” are resources controlled by the municipality as the result of past events and from which future economic benefits or future service potential are expected to flow to the municipality;

“**Asset type**” means the grouping of assets having common characteristics that distinguish those assets as a group or class.

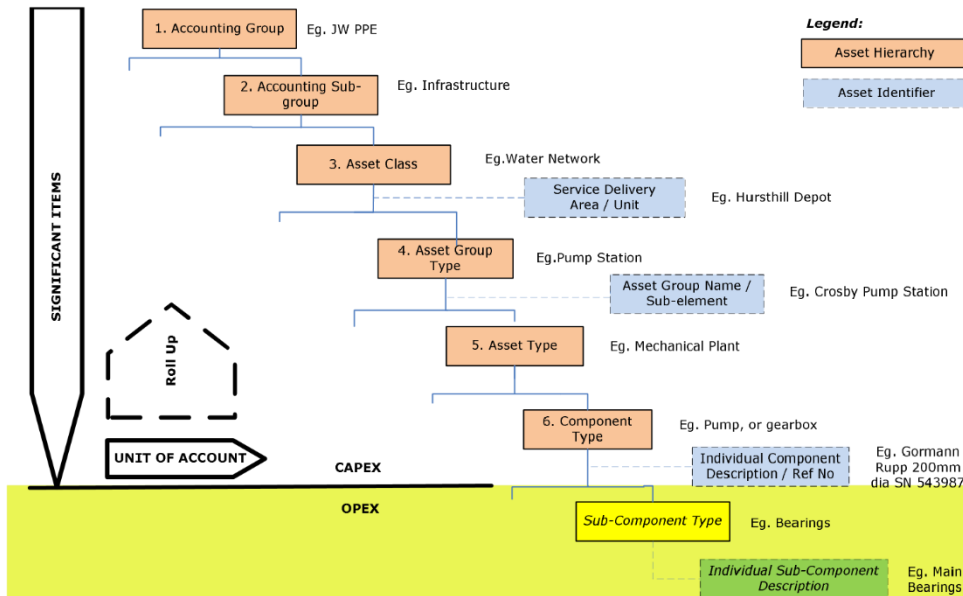
“**Capital Assets**” means tangible and intangible assets that:

- a) are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- b) are expected to have a useful life extending for more than one financial year;

“**Capital asset classification framework**” means the classification framework that complies with general recognised accounting standards, mascot and the so called CIDMS framework. The structure of this framework is as follow:

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As part of this classification framework the following means:

- “Infrastructure assets” is an accounting subgroup of Property, plant and equipment which is defined as those capital assets that form part of a network in delivering basic services to consumers, e.g., electricity transformers which form part of an electricity network. General characteristics of infrastructure assets are that they are:
 - part of a system or network;
 - specialised in nature and do not have alternative uses;
 - immovable; and
 - subject to constraints on disposal.

An easy way to determine whether an asset represents infrastructure is to determine whether more than one consumer will be affected when the service is not rendered. When more than one consumer is affected, the asset will usually qualify as infrastructure. When only one customer is affected the asset, most probably does not represent infrastructure e.g., a delivery vehicle.

- “Community assets” is an accounting subgroup of Property, plant and equipment which is defined as those assets utilized to the social well-being of the community. Examples are parks, old age homes, parks, recreational facilities, and fire stations.
- “Heritage assets” is an accounting group which is defined as assets that have a cultural, environmental, historical, natural, scientific, technological, or artistic significance and are held indefinitely for the benefit of present and future generations. Examples are works of art, historical buildings, and statues.
- “Investment properties” is an accounting group which is defined as properties (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

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- i. use in the production or supply of goods or services or for administrative purposes, or
 - ii. sale in the ordinary course of operations.
- e) “Intangible assets” is an accounting group which is an identifiable non-monetary asset without physical substance; and
- f) “Other assets” is an accounting subgroup of Property, plant and equipment which is defined as capital assets utilised in normal operations administrative function of the municipality, Examples are plant equipment, office buildings, motor vehicles, office equipment and furniture.
and computer equipment etc.

“**Capital asset register**” (CAR) is the control register recording the financial and other key details for all municipal capital assets recognised in accordance with this policy.

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

“**Capitalisation**” is the recognition of expenditure as a capital asset in the financial records and in the Capital Asset Register;

“**Carrying amount**” is the amount at which a capital asset is included in the statement of financial position;

“**Control items**” are items of a capital nature that are not significant enough for financial recognition but are valuable enough to warrant special safeguarding;

“**Component**” means a specific part of a complex item that has independent physical or functional identity and specific attributes such as different life expectancy, maintenance and renewal requirements and regimes, risk or criticality. See also the notes below:

Note 1: A component is separately recognised and measured (valued) in the organisation's asset register as a unique asset record, in accordance with the requirements of GRAP 17 to componentise assets.

Note 2: A complex item is one that can be disaggregated into significant components. Infrastructure and buildings are considered complex items.

“**Cost**” is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire a capital asset at the time of its acquisition or construction.

“**Cost of acquisition**” is all the costs incurred in bringing a capital asset item to the required condition and location for its intended use.

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“Depreciation” is the systematic allocation of the depreciable amount of a capital asset over its useful life.

“Depreciable amount” is the cost of a capital asset, or other amount substituted for cost in the financial statements, less its residual value.

“Fair value” is the amount for which a capital asset could be exchanged between knowledgeable willing parties in an arm’s length transaction.

“GRAP” is Standards of Generally Recognised Accounting Practice;

“Impairment loss” of a cash-generating asset is the amount by which the carrying amount of a capital asset exceeds its recoverable amount;

“Impairment loss” of a non-cash-generating asset is the amount by which the carrying amount of a capital asset exceeds its recoverable service amount;

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

“Prescribe” means as prescribed by the Minister of Finance by regulation; **“Property, plant and equipment”** (PPE) means tangible capital assets used for the powers and functions allocated to the Municipality in terms of the Constitution that:

- 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
- Are expected to be used during more than one reporting period;

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

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

“Senior Management” mean officials who are responsible for managing the respective votes of the municipality and to whom powers and duties for this purpose have been delegated in terms of section 79 of the MFMA;

“Senior Managers” mean officials who reports directly to the Municipal Manager and are defined in terms of section 56 of the Municipal Systems Act, Act 32 of 2000; and

“Useful life” is either:

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

4. STATUTORY AND REGULATORY FRAMEWORK

4.1. This policy must comply with all relevant legislative requirements including:

- a) The Constitution of the Republic of South Africa, 1996;
- b) Municipal Structures Act, Act 117 of 1998;
- c) Municipal Systems Act, Act 32 of 2000;
- d) Division of Revenue Act (enacted annually);
- e) Municipal Finance Management Act, Act 56 of 2003.

4.2. This policy must comply with the standards specified by the Accounting Standards Board. The relevant currently recognised accounting standards include:

- a) GRAP 13 - Leases (Specifically Finance leases);
- b) GRAP 16 - Investment Properties;
- c) GRAP 17 - Property, Plant and Equipment;
- d) GRAP 21 - Impairment of Non-cash-generating Assets;
- e) GRAP 26 - Impairment of Cash-generating Assets;
- f) GRAP 27 - Agriculture;
- g) GRAP 31 - Intangible assets; and
- h) GRAP 103- Heritage assets.

4.3. This policy does not overrule the requirement to comply with other policies such as Supply Chain Management or Budget policies.

5. RESPONSIBILITIES AND ACCOUNTABILITIES

5.1. The Accounting Officer is responsible for the management of the capital assets of the municipality, including the safeguarding and the maintenance of these capital assets.

5.2. The Accounting Officer must take all reasonable steps to ensure that:

- a) The municipality has and maintains a management, accounting and information system that records all the capital assets of the municipality;
- b) The municipality's capital assets are valued in accordance with recognised standards as prescribed by statutes and/or regulations;
- c) That the municipality has and maintains a system of internal control of capital assets, including a capital asset register; and
- d) That Senior Management complies with this policy.

5.3. The Chief Financial Officer is responsible to the Accounting Officer to ensure that the financial investment in the municipalities' capital assets is properly recorded.

5.4. The Chief Financial Officer must take all reasonable steps to ensure that:

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- a) Appropriate systems of financial management and internal controls are established and carried out diligently;
- b) The financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;
- c) Any unauthorised, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- d) The systems, processes and registers required to substantiate the financial values of the municipality's capital assets are maintained to standards sufficient to satisfy the requirements of all statutes;
- e) Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilised through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- f) The Accounting Officer is appropriately advised on the exercise of powers and duties pertaining to the financial administration of capital assets; and
- g) The Senior Managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of capital assets.

5.5. The Chief Financial Officer may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

5.6. The Senior Managers must take all reasonable steps to ensure that:

- a) Appropriate systems of physical management and controls are established and carried out for capital assets in their areas of responsibility;
- b) The municipal resources assigned to them are utilised effectively, efficiently, economically and transparently;
- c) The capital assets under their control are appropriately safeguarded and maintained to the extent necessary and that risk management systems are in place and applied;
- d) Any unauthorised, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- e) The asset management systems and controls can provide an accurate, reliable and up to date record of capital assets under their control;
- f) They can justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives;
- g) The purchase of capital assets complies with all municipal policies and procedures;
- h) All moveable capital assets are duly processed and identified and inspected as being in order before it is received into their stewardship;
- i) All moveable capital assets received into their stewardship are appropriately safeguarded against inappropriate use or loss. This will include control over the physical access to these capital assets and regular stock takes to ensure that no losses have occurred. Any known losses should be immediately reported to the Chief Financial Officer; and
- j) Capital assets are appropriately utilised for the purpose for which the municipality acquired them.

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5.7. The Senior Manager may delegate or otherwise assign responsibility for performing these functions but will remain ultimately accountable for ensuring these activities are performed.

6. FINANCIAL MANAGEMENT

6.1. PRE-ACQUISITION PLANNING

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

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

6.1.2. The Chief Financial Officer is accountable to ensure the Senior Managers receive all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

6.2. APPROVAL TO ACQUIRE CAPITAL ASSETS

6.2.1. Expenditure can only be incurred on a capital project if:

- a. The funds have been appropriated in the capital budget;
- b. The project, including the total cost and funding sources, has been approved by Council;
- c. The Chief Financial Officer confirms that funding is available for that specific project; and
- d. Any contract that will impose financial obligations beyond two years after the budget year is appropriately disclosed.

6.3. FUNDING OF CAPITAL PROJECTS

6.3.1. Within the municipality's financial, legislative and administrative capacity, the Chief Financial Officer will establish and maintain the funding strategies that optimise the municipality's ability to achieve its strategic objectives as stated in the integrated development plan.

6.3.2. The acquisition of capital assets will not be funded over a period longer than the useful life of that asset.

6.4. DISPOSAL OF CAPITAL ASSETS

6.4.1. The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services, unless such capital asset is obsolete or surplus to requirements or beyond a state of good repair or being replaced and provided that the delivery of the minimum level of basic municipal services is not compromised as a result of the disposal of the capital asset.

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- 6.4.2. The municipality may transfer ownership or otherwise dispose of a capital asset other than one contemplated above or moveable capital assets having an estimated carrying value above R50 000, but only after the Council, in a meeting open to the public:
- a) Has decided on reasonable grounds that the capital asset is not needed to provide the minimum level of basic municipal services; and
 - b) Has considered the fair market value of the capital asset and the economic and community value to be received in exchange for the capital asset.
- 6.4.3. The decision that a specific capital asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that capital asset had been sold, transferred or otherwise disposed of.
- 6.4.4. The disposal of an item of capital assets must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management and the Supply Chain Management Policy of the municipality.
- 6.4.5. The transfer of capital assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions, provided such transfer is being done in accordance with a prescribed regulatory framework.
- 6.4.6. The disposal of moveable capital assets up to a carrying amount of R 50 000 may be authorised under delegated powers by the Accounting Officer after taking the above-mentioned conditions into account.
- 6.4.7. Every senior manager shall report in writing to the Chief Financial Officer or his delegated official on quarterly basis in line with the financial year period on all capital assets controlled or used by the department concerned which such manager wishes to alienate by public auction or public tender.
- 6.4.8. The Chief Financial Officer or his delegated official shall thereafter consolidate the requests received from the various departments and shall promptly report such consolidated information to the Council or the Accounting Officer of the municipality, as the case may be, recommending the process of alienation to be adopted.
- 6.4.9. Once capital assets are alienated, the Chief Financial Officer shall adjust the capital asset register for the current year and shall delete the capital asset from the accounting records and in the capital asset register once it is no longer required for the compilation of comparative figures.
- 6.4.10. All gains and losses realised on the alienation of capital assets shall be accounted for according to section 10.10 below (Accounting treatment on disposal).

6.5. DISPOSAL OF IMMOVABLE CAPITAL ASSETS

6.5.1 PURPOSE

To give effect to disposal of immovable capital assets in terms of:

- a) The Municipal Asset Transfer Regulations, subject to sections 14 and 90 of the MFMA; and

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- b) Regulation 40 of the Supply Chain Management Regulations which requires an effective system for the disposal or letting of assets including unserviceable, redundant or obsolete assets; and
- c) Paragraph 45 of the Municipality's Supply Chain Management Policy.

6.5.2. LEGAL FRAMEWORK

In terms of Section 14 of the MFMA –

- a) A Municipality may not transfer ownership resulting from a sale, or transaction or otherwise permanently dispose of an immovable capital asset needed to provide the minimum level of basic services.
- b) A municipality may transfer ownership or otherwise dispose of an immovable capital asset only after the municipal council in a meeting open to the public has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services and has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- c) A decision by a municipal council that a specific immovable capital asset is not needed to provide the minimum level of basic municipal services may not be reversed by the Municipality after that asset has been sold, transferred or otherwise disposed of.
- d) Any transfer of ownership of an immovable capital asset must be fair, equitable, transparent, competitive and consistent with the supply chain management policy.

6.5.3 In terms of the Supply Chain Management Regulations immovable property may be sold only at Market-related prices except when the public interest or plight of the poor demands otherwise;

6.5.4 In terms of the Supply Chain Management Regulations immovable property is let at market-related rates except when the public interest or plight of the poor demand otherwise and all fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of immovable property are annually reviewed.

6.5.5 The transfer and permanent disposal of non-exempted and exempted immovable capital assets and granting of rights to use, control or manage municipal immovable capital assets are guided by the Municipal Asset Transfer Regulations.

6.5.6 That in the event where any official or political office bearer applies to acquire immovable capital assets for their own private use whether by means of transfer, permanent disposal or the granting of

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rights to use, manage or control immovable capital assets a competitive bidding process will be followed.

6.5.7 TRANSFER AND PERMANENT DISPOSAL OF IMMOVABLE CAPITAL ASSETS

6.5.7.1 HIGH VALUE IMMOVABLE CAPITAL ASSETS (DISPOSAL)

- a. Pro-active disposal
(Reg 5) Committee > Mayoral Committee > Council > (Reg 6) Advertisement > (Reg 7) Committee > Mayoral Committee > Council > Competitive bidding process

6.5.7.1.1 A pro-active disposal is a disposal following the identification of an immovable capital asset by the Municipality to be disposed of by means of a competitive bidding process.

- b. Re-active disposal
(Reg 5) Committee > Mayoral Committee > Council > (Reg 6) Advertisement > (Reg 7) Committee > Mayoral Committee > Council > Competitive bidding process

6.5.7.1.2 A re-active disposal is a disposal following an application by a Prospective purchaser/investor to purchase an immovable capital asset as identified by the prospective purchaser.

6.5.7.1.3 That the market value of high value municipal capital assets be set at a threshold which is equal to the lesser of R50 million or 1% of the total value of the capital assets of the municipal council as determined from the latest available audited financial statements of the municipality

6.5.7.1.4 When a public participation process is conducted for a high value immovable capital asset it is deemed to be done in terms of Regulation 6 of the Municipal Asset Transfer Regulations and in accordance with Section 21A of the Municipal Systems Act.

6.5.7.1.5 In order for Council to provide authorisation for a public participation process the council item must include information as required in terms of Regulation 5(3) (b) of the Municipal Asset Transfer Regulations.

6.5.7.1.6 In order for Council to consider any proposed transfer or disposal of any immovable capital asset the council item must include information as required in terms of Regulation 7 of the Municipal Asset Transfer Regulations.

6.5.7.1.7 A high-value immovable capital asset disposal will be by means of competitive bidding process and a competitive bidding is deemed to be disposal by means of tender or auction.

6.5.7.2 LOWER VALUE IMMOVABLE CAPITAL ASSETS

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(DISPOSAL)

a. Pro-active disposal

(Reg 5) Committee > Mayoral Committee > Council > (Section 21 and 21A Systems Act) Advertisement > (Reg 7) Committee > Mayoral Committee > Council > Competitive bidding process

6.5.7.2.1 A pro-active disposal is a disposal following the identification of an immovable capital asset by the Municipality to be disposed of by means of a competitive bidding process.

b. Re-active disposal

(Reg 5) Committee > Mayoral Committee > Council > (Section 21 and 21A Systems Act) Advertisement > (Reg 7) Committee > Mayoral Committee > Council

6.5.7.2.2 A re-active disposal is a disposal following an application by a Prospective purchaser/investor to purchase an immovable capital asset as identified by the prospective purchaser.

6.5.7.2.3 A Lower Value Immovable Capital Asset in relation to an immovable capital asset of a municipality means that the fair market value of the capital asset is less than that determined in Paragraph 6.5.7.1.3

6.5.7.2.4 When a public participation process is conducted for a lower value immovable capital asset it is deemed to be done in terms of Section 21, and in accordance with Section 21A of the Municipal Systems Act.

6.5.7.2.5 The application and the intended terms and conditions of a reactive disposal will be made known by means of a public notice in which.

- i. interested or affected parties are invited to submit any objections, comments, or representations in respect of the proposed re-active disposal; and
- ii. Interested or affected parties are invited to submit similar or alternative proposals for the purchase and development of the disposal.

6.5.7.2.6 In order for Council to provide authorisation for a public participation process the council item must include information as required in terms of Regulation 5 of the Municipal Asset Transfer Regulations.

6.5.7.2.7 In order for Council to consider any proposed transfer or disposal of any immovable capital asset the council item must include information as required in terms of Regulation 7 of the Municipal Asset Transfer Regulations.

6.5.7.2.8 Following the process in terms of a re-active disposal as determined above and Council is satisfied that the disposal will be beneficial and will contribute to economic development, Council may resolve to dispose of the immovable capital asset directly to the prospective purchaser/investor and this will be deemed to be fair, equitable, transparent, competitive and cost effective.

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- 6.5.7.2.9 The disposal of the immovable capital asset in terms of a reactive disposal to the prospective purchaser as stated above will be construed as the framework within which direct negotiations for the transfer or disposal will take place.
- 6.5.7.2.10 Where the marked related value is R1 Million or more a competitive bidding process will be followed whether it is proactive or re-active disposal.
- 6.5.7.2.11 Competitive bidding is deemed to be disposal by means of tender or auction.

6.5.8 GRANTING OF RIGHTS TO USE, CONTROL AND MANAGE IMMOVABLE CAPITAL ASSETS

- 6.5.8.1. Immovable Capital Assets more than R10 Million with rights longer than three years (> R10 Million And > 3 Years) Right to Use, Control or Manage (Leases, Servitudes, Management Agreements.)
- a. Pro-active lease / right to use or manage
Committee > Mayoral Committee (Reg 34) > Council > Advertisement (Reg 35) > Committee > Mayoral Committee (Reg 36) > Council > Competitive bidding process
- b. Re-active lease / right to use or manage
Committee > Mayoral Committee (Reg 34) > Council > Advertisement (Reg 35) > Committee > Mayoral Committee (Reg 36) > Council > Competitive bidding process
- 6.5.8.2. A pro-active consideration of proposals to grant rights to use, control or manage immovable capital assets is the granting of a right following the identification of an immovable capital asset by the Municipality to be used, controlled or managed by means of a competitive bidding process.
- 6.5.8.3 A re-active consideration of proposals to grant rights to use, control or manage immovable capital assets following an application by a prospective lessee to use, control or manage that an immovable capital asset as identified by the prospective lessee.
- 6.5.8.4 When a public participation process is conducted it is deemed to be done in terms of Regulation 35 of the Municipal Asset Transfer Regulations and in accordance with Section 21A of the Municipal Systems Act.
- 6.5.8.5 In order for council to provide authorisation for a public participation process the council item must include information as required in terms of Regulation 34 of the Municipal Asset Transfer Regulations.
- 6.5.8.6 In order for council to consider any proposed granting of rights to use, control or manage any immovable capital asset the council item must include information as required in terms of Regulation 36 of the Municipal Asset Transfer Regulations.
- 6.5.8.7 Competitive bidding is deemed to be the granting of a right to use, control or manage and immovable capital asset by means of a tender process.
- 6.5.9 Immovable Capital Assets not more than R10 Million and rights longer than Three Years (<R10 Million And > 3 Years):
- 6.5.10 Immovable Capital Assets not more than R10 Million and rights not longer than Three Years (< R10 Million And < 3 Years):

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6.5.11 Immovable Capital Asset of more than R10 Million and rights not longer than Three Years (>R10 Million And < 3 Years):

a. Pro-active lease / right to use or manage

Committee > (Reg 34) Mayoral Committee > Council > (Section 21 and 21 A of the Systems Act) Advertisement > Committee > (Reg 36) Mayoral Committee > Council > Competitive bidding process

b. Re-active lease / right to use or manage

Committee > (Reg 34) Mayoral Committee > Council > (Section 21 and 21A Systems Act) Advertisement > Committee > (Reg 36) Mayoral Committee > Council

6.5.12 A pro-active consideration of proposals to grant rights to use, control or manage immovable capital assets are the granting of a right following the identification of an immovable capital asset by the Municipality to be used, controlled or managed by means of a competitive bidding process.

6.5.12.1 In order for council to provide authorisation for a public participation process the council item must include information as required in terms of Regulation 34 of the Municipal Asset Transfer Regulations.

6.5.12.2 When a public participation process is conducted it is deemed to be done in terms of Sections 21 and 21A of the Municipal Systems Act.

6.5.12.3 In order for council to consider any proposed granting of rights to use, control or manage any immovable capital asset the council item must include information as required in terms of Regulation 36 of the Municipal Asset Transfer Regulations.

6.5.13 A re-active consideration of proposals to grant rights to use, control or manage immovable capital assets following an application by a prospective lessee to use, control or manage that an immovable capital asset as identified by the prospective lessee.

6.5.14 Following the process in respect of re-active considerations as determined above and Council is satisfied that the granting of a right to use, control or manage will be beneficial and will contribute to economic development, Council may resolve to grant a right to use, control or manage the immovable capital asset directly to the prospective lessee and this will be deemed to be fair, equitable, transparent, competitive and cost effective.

6.5.15 The granting of a right to use, control or manage the immovable capital asset to the prospective lessee in respect of re-active considerations will be construed as the framework within which direct negotiations for the granting of rights to use, control or manage will take place.

6.5.16 Immovable Capital Assets not more than R1 Million and rights not longer than 3 Years

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- a. Pro-active lease / right to use or manage
Delegated Authority: Municipal Manager > Advertisement > Delegated Authority:
Municipal Manager > Competitive Bidding
Process > Notification to Council
 - b. Re-active lease/ right to use or manage
Delegated Authority: Municipal Manager > Advertisement > Delegated Authority:
Municipal Manager > Notification to Council
- 6.5.17 A pro-active consideration of proposals to grant rights to use, control or manage immovable capital assets is the granting of a right following the identification of an immovable capital asset by the Municipality to be used, controlled or managed by means of a competitive bidding process.
- 6.5.18 A re-active consideration of proposals to grant rights to use, control or manage immovable capital assets following an application by a prospective lessee to use, control or manage that an immovable capital asset as identified by the prospective lessee.
- 6.5.19 That in terms of Regulation 34(4) provision is made in the current system of delegations that the Municipal Manager be authorised to approve the public participation process for granting of rights to use, manage or control capital assets not exceeding R1 million and for a period not longer than 3 years.
- 6.5.20 That Council delegates to the Municipal Manager its power to approve the granting of rights to use, manage or control capital assets not exceeding R1 Million and for a period not longer than 3 years.”

6.6 RINGFENCED PROPERTY DEVELOPMENTS

- 6.6.1 Funding of ring-fenced property developments by the Municipality by funding the development of earmarked properties to be sold for business/industrial/airfield purposes by means of Capital Replacement Reserve Funds.
- 6.6.2 The full development costs of the properties be determined and that it forms the basis for the selling of the erven (no erf is to be sold at a price lower than cost of development) and that it be recovered from the selling of the erven.
- 6.6.3.1 To ensure a fair, equitable, transparent, and competitive process is followed, the development (project) will be subject to the prescribed public participation process in terms of the Asset Transfer Regulations as contained in the Supply Chain Management and Asset Management Policy.
- 6.6.3.2 That to ensure competitiveness:
- a. a public participation process be followed regarding the proposed development (project);
 - b. If Council resolves to proceed with the development (project) an opportunity be granted to all interested parties to purchase erven in the development (project) for a period of thirty (30) days.
 - c. It be made public by means of marketing as determined by Council.
 - d. in the event where more than one (1) party is interested in the same property during this period, a competitive bidding process (at a reserve price as determined in 6.6.2 above) be followed by means of auction or tender.

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- e. following this process, the remaining erven of the development (project) be sold on a first come, first serve basis.
 - f. This will be deemed to be a competitive process.
- 6.6.4 The market related price for land to be developed may be reduced in terms of criteria set for each project (development) as the promotion of economic development and the creation of job opportunities is considered to be in the public interest.
- 6.6.5 At the completion of each development, a full report with disclosure of the reconciled set of accounts for the development must be submitted to Council.
- 6.6.6 The net proceeds of each development remain in the general Capital Replacement Reserve for the purposes of further developments.
- 6.6.7 Council may resolve to allocate the net proceeds of a development to a Development Fund, which must be a fund within the Capital Replacement Reserve.
- 6.6.8 Each proposed ring-fenced development must include a full proposal regarding the provision of services.
- 6.6.9 Each proposed ring-fenced development must be referred separately to Council for consideration with specific recommendations regarding that development.

6.7 ACQUISITION OF IMMOVABLE PROPERTY FOR MUNICIPAL PURPOSES

- 6.7.1 This section of the Policy regulates the internal procedure within the Municipality for the acquisition by the Municipality of Immovable Property for municipal purposes.
- 6.7.2 The Municipality may acquire Immovable Property and rights in Immovable Property by purchase, expropriation, donation or otherwise.
- 6.7.3 The Municipal Manager undertakes the acquisition (purchase or expropriation) of Immovable Property (land) and rights in Immovable Property (servitudes) for municipal purposes on behalf of all the Municipality's service departments, except Housing, and is mandated to negotiate market related offers for such land and servitudes.
- 6.7.4 The Municipal Manager is required to confirm and obtain Council's approval that the acquisition is required for an approved municipal project and that funding has been approved on an approved budget for the payment of the purchase price and the costs that the Municipality will incur when transferring the land or registering the right in the name of the Municipality in the Deeds Registry.

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6.7.5 The Municipality will purchase or expropriate the land or servitude at the market value of the land or servitude as determined by a professional valuer or at such lesser amount as may be agreed to by the seller after final approval by the Municipal Council.

6.7.7 In the case of an expropriation the compensation payable for the land or servitude shall be determined in accordance with prescripts of the legislation in terms of which the land or servitude was expropriated.

6.7.8 Once the Immovable Property has been acquired, it will be reserved for the municipal purpose for which it was acquired and recorded on the asset register.

6.8 LOSS, THEFT, DESTRUCTION, OR IMPAIRMENT OF CAPITAL ASSETS

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

6.8 Adoption, Implementation, and Review of the Policy

Responsibilities of council regarding the adoption, amendment, and implementation of the AM policy. The responsibilities would include, but not be limited to:

- ensuring that the municipality establish a staff contingent with required skills to make the asset management unit functional, and,
- ensuring the allocation budgets based on short-to medium terms forecasts that take care of the lifecycle needs of existing and future infrastructure assets and the risks to achieving the adopted performance targets Include policy statements dealing with monitoring and reporting. This should cover, but not be limited to the following areas:
 - Monitoring of & reporting on SDBIP targets relating to the AM policy (i.e. monitoring of implementation progress);
 - Reports of the assets manager to CFO for inclusion in the formal reports to MM and management.
 - Reports of CFO to MM and portfolio committee(s) for inclusion in the formal reports to EXCO and council;
 - AM reporting in terms of the reporting requirements prescribed in sections 71 and 75 of the MFMA, and the applicable MFMA circulars.
 - Performance reporting against the asset management plans.

6.9 Annual Review

review of the AM policy should be stipulated, which should be at least annually as part of the review of the budget-related policies,

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The Policy should indicate whose responsibility it is to ensure that it is effectively communicated to those involved in its implementation, monitoring, as well as its beneficiaries and the public, and the methods and platforms that will be used to communicate the policy (e.g., website, public meetings, internal publications, etc)

7. INTERNAL CONTROLS

7.1. CAPITAL ASSET REGISTER

7.1.1. Establishment and management of the Capital Asset Register

7.1.1.1. The Chief Financial Officer will ensure the establishment and maintenance of a capital asset register containing key financial data on each item of capital assets that satisfies the criterion for recognition.

7.1.1.2. The Senior Manager Financial Administration is responsible for establishing and maintaining any additional registers or records to demonstrate to the senior managers the physical management of capital assets under their control.

7.1.2. Contents and maintenance of the Capital Asset Register

7.1.2.1. The capital 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.

7.1.2.2. The details in the capital asset register must at least include:

- a. Description of the capital asset;
- b. Capital asset identification number (Unique asset ID);
- c. Capital asset classification;
- d. GFS Vote / Sub-vote classification;
- e. Source document and dates;
- f. Purchase price or historical cost;
- g. The measurement used;
- h. The depreciation methods used;
- i. The useful life of the capital asset;
- j. The residual value of the capital asset;
- k. Depreciation charged;
- l. The gross carrying amount;
Date of acquisition;
Start date of depreciation;
Date and value of disposal (if relevant);
Date on which the capital asset is retired from use, if not disposed of;
Increases or decreases resulting from revaluations (if relevant);
Any restrictions on title to the capital asset and Deed numbers;
Location of the capital asset;
The department that controls or uses the capital asset;
Impairment losses incurred during the financial year (and the reversal of such losses, where applicable); and

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The title deed number, in the case of fixed property.

- 7.1.2.3. All managers under whose control any capital asset falls shall promptly provide the Chief Financial Officer in writing with any information required to compile the capital asset register and shall promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.
- 7.1.2.4. A capital asset shall be recorded in the capital assets register as soon as it is acquired. If the capital asset is constructed over a period, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately recognised as a capital asset.
- 7.1.2.5. A capital asset shall remain in the capital asset register for as long as it is in physical existence. The fact that a capital asset has been fully depreciated shall not in itself be a reason for deleting it from the capital register.

7.1.3. Internal Controls over the Capital Asset Register

- 7.1.3.1. Controls relating to the capital asset register should be enough to provide Managers with an accurate, reliable and up-to-date account of capital assets under their control, in line with the standards specified by the Chief Financial Officer and as required by relevant statutes.
- 7.1.3.2. These controls will include:
- a. Details of the physical management;
 - b. The recording of all acquisitions, assignments, transfers, losses and disposals of capital assets;
 - c. Regular asset counts; and
 - d. System audits to confirm the accuracy of the records.
- 7.1.3.3. Identification of capital assets:
- a. The Chief Financial Officer will establish a system to ensure that each capital asset bears a unique identification number and/or barcode and/or GIS ID which shall be recorded in the capital asset register.
 - b. Every manager shall ensure that the capital asset identification system approved for use by the municipality is scrupulously applied to all capital assets controlled or used by the department in question.
 - c.

7.2. PHYSICAL CONTROLS AND MANAGEMENT

7.2.1. Responsibilities of the Senior Manager Financial Administration

The Senior Manager Financial Administration will undertake an annual asset count of capital assets as part of the annual reporting process.

7.2.2. Acquisition Date

The date of acquisition of capital assets is deemed to be the time when legal title and control passes to the municipality or when final payment for that item is approved. The receiving department should then inform the assets unit within three days upon receiving an asset.

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7.2.3. Depreciation Start Date

This date is the point of time when the capital asset has been received or when the capital asset is ready for use whichever the latest date is and will be the date when the capital asset starts to depreciate. The user department should inform the department on of the removal and disposal of asset. The impairment of assets should be in line with impairment methodology.

7.3. TRANSFERS BETWEEN MANAGERS

7.3.1. Permanent transfers to another Manager

7.3.1.1. A Senior Manager or his/her delegated official may transfer a capital asset under his control provided that the receiving Senior Manager or his/her delegated official agrees to accept responsibility for that capital asset. All transfers are performed on the document management system via the workflows developed for this purpose.

7.3.1.2. The Finance Directorate must appropriately amend the Capital asset register by recording all approved transfers.

7.3.1.3. The Senior Manager or his/her delegated official to whom the capital asset is transferred must assume accountability for the transferred capital asset from the date the transfer is accepted on the document management system the user department to inform the asset division in writing.

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

7.3.2. Relocation or Reassignment of Capital assets

7.3.2.1. A Senior Manager must advise the Chief Financial Officer, via the document management system, whenever a capital asset is relocated or reassigned from one location (or base) to another or if cost centre, as recorded in the Capital asset Register, must be changed.

7.3.2.2. In the case of capital assets such as vehicles being utilised in the normal course of operations away from its base such reporting is not necessary if the cost centre and/or the responsible person do not change.

7.4. VERIFICATION OF CAPITAL ASSETS

7.4.1. The Chief Financial officer shall ensure that at least annually a complete physical verification of all capital assets is undertaken. 7.4.2. The results of such verification shall be reported to the Chief Financial Officer in the format as required by the Chief Financial Officer.

7.4.3. The annual verification should be conducted between the periods February to April with the verification report (which is on quarter basis) reaching the Chief Financial Officer by not later than 31st of August.

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7.5. INSURANCE OF CAPITAL ASSETS

7.5.1. The Chief Financial Officer shall ensure that all capital assets are insured as per the council's short-term insurance policy.

If the insurance of any capital assets must be transferred to an outside authority. The Chief Financial Officer shall determine the insured value based on recommendation of the responsible senior manager for each and every individual registered asset. When doing so

The insured value to be applied by the Chief Financial Officer are current-replacement cost (CRC) with the exceptions of vehicle types. Vehicles, if required to

8. MANAGEMENT AND OPERATION OF CAPITAL ASSETS

8.1. ACCOUNTABILITY TO MANAGE CAPITAL ASSETS

8.1.1. Each Senior Manager is accountable to ensure that municipal resources assigned to him/her are utilised effectively, efficiently, economically and transparently.

8.1.2. This will entail:

- a. Developing appropriate capital asset management systems, providing, inter alia, for:
- b. Recording of usage of the capital asset such as logbooks;
- c. Recording of preventative and maintenance programmes.
- d. Annual assessment of usefulness, condition of capital asset and remaining useful life; and
- e. Planning for replacement of capital asset.

8.1.3. When performing the condition assessment, the senior manager must use the descriptions in table below:

Rating	Description	Detail Description	Indicative of RUL
1	Very good	Sound structure well maintained. Only normal maintenance required.	71-100% EUL
2	Good	Services needs but minor deterioration (< 5%). Minor maintenance required.	46-70% EUL
3	Fair	Marginal, clear deterioration (10-20%). Significant maintenance required.	26-45% EUL
4	Poor	Significant deterioration of structure and/or appearance. Significant impairment of functionality (20-40%).	11-25% EUL
Rating	Description	Detail Description	Indicative of RUL
5	Very poor	Significant renewal/upgrade required. Unsound, failed needs reconstruction/replacement	0-10% EUL
		(> 50% needs replacement)	
EUL' is Expected Useful Life 'RUL' is Remaining Useful Life			

8.1.4. Senior Managers need to manage capital assets under their control to provide the required level of service or economic benefit at the lowest possible cost over the full asset cycle.

8.2. CAPITAL ASSET MANAGEMENT PLANS.

8.2.1. Each Senior Manager and Managers of each Section needs to develop a capital asset management plan for immovable capital assets that meets the definition of the undermentioned capital asset categories:

- a. Infrastructure Assets;
 - b. Community Assets;
 - c. Investment Property; and
 - d. Any other Immoveable assets.
-

8.2.2. The capital asset management plan must at least cover the following aspects:

a) Purpose of the plan

Demonstrate the roles and responsibilities of management; Communicate and justify funding requirements and Legislative framework.

b) Asset Description

Summary of all the capital assets cover by the plan.

c) Levels of Service

Summarise the levels of service and performance measures and how they are set for each level.

d) Future Demand

Factors influencing future demand and impact of changing demand on capital assets.

e) Lifecycle Management plan

Summary of all the management strategies (operations, maintenance, disposal, etc.)

a. Financial Summary

Long-term income and expenditure (cash flow projections) for each significant group of capital assets and sources of funding.

b. Asset Management Practices

Summary of AM data, Information systems, processes (decision making) and implementation tactics.

h) Monitoring and Improvement Programs

This section must deal with the physical condition assessments, measurement of functional effectiveness and effective utilisation. It also must also address the economical financial viability by monitoring operational expenses and include the timetable for review of the asset management plans.

8.2.3. The operational and capital budgets are the short to medium term financial plan for implementing the capital asset management plans.

8.2.4. Each Senior Manager shall report to the Accounting Officer on issues that will significantly impede the capital assets capacity to provide the required level of service or

economic benefit. Also refer to section 10.09 for the accounting of impairment of capital assets

8.3. REPORTING ON IMPEDING ISSUES

8.3.1. Each Senior Manager shall report to the Accounting Officer on issues that will significantly impede the capital assets capacity to provide the required level of service or economic benefit, The reporting should preferable be table as a standing item on EXCO Meeting. Refer to section 10.09 for the accounting of impairment of capital assets.

8.3.2. Any asset recognised as a capital asset under this policy will be classified according to nationally recognised categories.

9. CLASSIFICATION, AGGREGATIONS & COMPONENTS

9.1. CLASSIFICATION OF CAPITAL ASSETS

9.1.1. Any asset recognised as a capital asset under this policy will be classified according to nationally recognised categories.

9.1.2. These categories have been specified by the Accounting Standards Board.

9.1.3. All capital assets should be classified under at least the following headings in the Asset Capital Register in line with our Assets Description System:

9.1.3.1. Property, plant and equipment:

The following subheadings will be applicable for this heading:

- a. Infrastructure assets (capital assets which are part of a network of similar capital assets)
- b. Community assets (resources contributing to the general well-being of the community)
- c. Other assets (ordinary operational resources)

9.1.3.2. Investment property

9.1.3.3. Intangible capital assets

9.1.3.4. Heritage Assets

9.1.3.5. Biological Assets

9.1.3.6. Agricultural Assets

9.2. TREATMENT OF COMPONENTS

9.2.1. A Senior Manager must, with agreement of the Chief Financial Officer, treat all major components of an item as a separate capital asset for the purposes of this policy.

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

9.2.3. When agreeing to these treatments the Senior Manager must be satisfied that these components:

- a. Have significantly a different useful life or usage pattern to the main capital asset;
 - b. Align with the capital asset management plans;
 - c. Justify the costs of separate identification;
 - d. Have probable future economic benefits or potential service delivery associated with the capital asset which will flow to the municipality;
-

- e. Is such that the cost of the capital asset to the municipality can be measured reliably;
- f. Is such that the municipality has control over the capital asset; and
- g. Is such that the capital asset is expected to be used during more than one financial year?

9.2.4. All such decisions and agreements will be confirmed before the commencement of the financial year. Any amendments will only be permitted as part of a budget review. Once a major component is recognised as a separate capital asset, it may be, depreciated and disposed of as if it is a separate capital asset.

10. ACCOUNTING FOR CAPITAL ASSETS

10.1. RECOGNITION OF CAPITAL ASSETS

10.1.1. An item will be recognised as a capital asset when:

- a. It is probable that future economic benefits or potential service delivery associated with the capital asset will flow to the municipality;
- b. The cost of the capital asset to the municipality can be measured reliably;
- c. The municipality has control over the capital asset; and
- d. The capital asset is expected to be used during more than one financial year.

10.2. INITIAL MEASUREMENT

10.2.1 A capital asset that is acquired via normal supply chain processes and qualifies for recognition as a capital asset should be initially measured at cost.

10.2.2 The elements of cost include the following:

- a. Purchase costs (less any discounts given);
- b. Delivery costs;
- c. Installation costs;
- d. Professional fees for architects and engineers;
- e. Import duties;
- f. Non-refundable taxes;
- g. Site development costs; and
- h. Contractor fees.

10.2.3 Where an item has been acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the asset register.

10.2.4 All Senior Manager must advise the Chief Financial Officer in writing of any acquisition at no cost and provide at least the following details per component:

- a. Description of the capital asset;
 - b. Date of acquisition;
 - c. Fair value as at date of acquisition;
 - d. Location details;
 - e. Condition rating;
 - f. Expected initial useful life; and
 - g. Code of department to which the full life cycle costs of the asset must be allocated.
-

10.3 CARRYING AMOUNT OF CAPITAL ASSETS

10.3.1 Subsequent to initial recognition as a capital asset, a capital item should be carried at the following values for the various classifications:

- a. Property plant & Equipment – Cost less accumulated depreciation and impairments;
- b. Intangible Assets – Cost less accumulated amortisation;
- c. Investment Property – Cost less accumulated depreciation and impairments;
- d. Heritage assets – Cost less accumulated impairment;

10.4 DEPRECIATION

- 10.4.1 All capital assets, except land, capital assets under construction, investment property; biological, agricultural, and heritage assets shall be depreciated – or in the case of intangible capital assets, amortised.
- 10.4.2 The depreciable amount of an item should be allocated on a systematic basis over its useful life.
- 10.4.3 The depreciable amount of a capital asset is determined after deducting the residual value of the capital asset. In practice, the residual value of a capital asset is often insignificant and, therefore immaterial in the calculation of the depreciable amount. It is always the intention of the Municipality except in the case of vehicles to use the capital asset till it has no value.
- 10.4.4 When the benchmark treatment is adopted and the residual value is likely to be significant, the residual value is estimated at the date of acquisition. The estimate is based on the residual value prevailing at the date of the estimate for similar capital assets that have reached the end of their useful lives and have operated under conditions like those under which the capital asset will be used.
- 10.4.5 The depreciation charge for each period will be recognised as an expense against the budget of the relevant Senior Manager that controls or use the capital asset.
- 10.4.6 The depreciation method used shall reflect the pattern in which the capital assets' future economic benefits or service potential are expected to erode the value of the asset.
- 10.4.7 A variety of depreciation methods can be used to allocate the depreciable amount of a capital asset on a systematic basis over its useful life.
- 10.4.8 These methods include:
- a. The straight-line method;
 - b. The diminishing balance method; and
 - c. The units of production method.
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- 10.4.9 Straight-line depreciation results in a constant charge over the useful life if the capital asset's residual value does not change.
- 10.4.10 The diminishing balance method results in a decreasing charge over the useful life.
- 10.4.11 The units of production method result in a charge based on the expected use or output.
- 10.4.12 The method of depreciation is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.
- 10.4.13 The preferred depreciation method will be the straight-line method unless otherwise agreed to in writing by the Chief Financial Officer.
- 10.4.14 Depreciation shall initially be calculated from the day the capital asset is available or ready for use. Once a review of useful life has been performed, the depreciation will be calculated by using the carrying value less residual amount for a specific capital asset divided by the remaining estimated useful life of the capital asset.
- 10.4.15 Each Senior Manager, acting in consultation with the Chief Financial Officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable capital assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.
- 10.4.16 The procedures to be followed in accounting and budgeting for the amortisation of intangible capital assets shall be identical to those applying to the depreciation of other capital assets.

10.5 INITIAL DETERMINATION OF USEFUL LIFE

- 10.5.1 Each Senior Manager needs to determine the useful life of an item or class of capital asset through the development of a strategic capital asset management plan.
- 10.5.2 The determination of useful life should be developed as part of any preacquisition planning that would consider, inter alia, the following factors:
- a. The program that will optimise the expected long-term costs of owning that capital asset;
 - b. Economic obsolescence because it is too expensive to maintain;
 - c. Functional obsolescence because it no longer meets the municipality's needs;
 - d. Technological obsolescence;
 - e. Social obsolescence due to changing demographics; and
 - f. Legal obsolescence due to statutory constraints.
- 10.5.3 A schedule of useful initial expected lives is included as Annexure A. The indicative lives as included in the guide must be view as providing the maximum useful life only. This is because capital asset lives experienced may greatly vary.
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10.6 REVIEW OF USEFUL LIFE AND RESIDUAL VALUE

- 10.6.1 The Chief Financial Officer in consultation with the responsible senior manager may amend the useful operating life or the residual value assigned to any capital asset.
- 10.6.2 If a capital asset has been lost, stolen or damaged beyond repair, it shall be written off the capital asset register.
- 10.6.3 The remaining useful life (RUL) of an item must be reviewed based on indicators as provided in GRAP 17 and if these revised expectations are significantly different from previous estimates, then the depreciation charge for the current and future periods must be adjusted and the adjusted depreciation expenses shall be debited to the department or account controlling or using the capital asset in question. When such a change in depreciation is necessary the change must be reflected as a change in the accounting estimate.
- 10.6.4 The residual value of an item must be reviewed annually and if these revised expectations are significantly different from previous estimates, then the depreciation charge for the current and future periods must be adjusted and the adjusted depreciation expenses shall be debited to the department or account controlling or using the capital asset in question. When such a change in depreciation is necessary the change must be reflected as a change in the accounting estimate.

10.7 REVIEW OF DEPRECIATION METHOD.

- 10.7.1 The depreciation method applicable to a class of capital assets must be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those capital assets, the method must be changed to reflect the changed pattern.
- 10.7.2 When such a change in depreciation method is necessary the change must be reflected as a change in the accounting estimate and the depreciation charge for the current and future periods should be adjusted.

10.8 SUBSEQUENT EXPENDITURE ON CAPITAL ASSETS

- 10.8.1 Subsequent expenditure relating to an item that has already been capitalised must be added to the carrying amount of the asset when such expenditure will increase the remaining useful life of the asset or increase the efficiency of the asset and resulting in financial or service delivery benefits.
- 10.8.2 All other expenditure must be recognised as an expense in the period in which it occurred.
- 10.8.3 Before allowing the capitalisation of subsequent expenditure, the Chief Financial Officer must be satisfied that this expenditure will significantly:
- a. Increase the remaining useful life of that capital asset beyond that stated in the capital asset register; or
 - b. Increase the quality of service provided by that capital asset beyond the existing level of service; or
-

c. Increase the quantity of services that capital asset can provide.

10.8.4 Expenditure that is proposed to be capitalised must also conform to recognition criteria for capital assets and should also be appropriately included in the approved capital budget.

For further guidance to distinguish between Capital and Operational expenses refer to section 10.12

10.9 IMPAIRMENT LOSSES

10.9.1 The assessment and accounting treatment relating to impairment of capital assets (Prescribed in terms of GRAP 21 and 26) are outlined as follows:

- a. Each Senior Manager must assess all capital assets controlled by him/her for any indications of impairment.
- b. When assessing the capital assets for impairments the capital assets must be assessed for both external and internal indicators.

10.9.2 The external indicators are:

- a. The demand or the need for services provided by the capital asset has ceased or is about to cease. For example, the need for a service (provided by that capital asset) has ceased because the parties to whom the service was provided has obtained its own capital asset to perform the service. Another example may be where the demand for the service has decreased due to adverse economic conditions in the country.
 - b. Interest rates (such as market interest rates) have increased and those increases will most likely affect the discount rate used in calculating the capital asset's value in use and decrease the capital asset's recoverable amount significantly.
 - c. Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place soon, in the technological, legal or government policy environment in which the Municipality operates. For example, sanctions have been imposed on the importing of a significant component of the capital asset, or a vehicle that does not meet new emission standards.
 - d. The demand or the need for services (not necessarily a near cessation or cessation as indicated in first bullet point above) provided by the capital asset has taken a significant long-term decline. For example, several consumers have made use of services provided by certain capital assets of the Municipality, but during the current period, other entities also provided similar services to certain of those consumers. As a result, the Municipality will be experiencing a significant long-term decline in the demand for the services provided by its capital assets; and
 - e. Market value of the capital asset has declined significantly during the period (not because of passage or time of use).
-

10.9.3 The internal indicators are:

- a. Physical verification of the assets was conducted to confirm that the assets is damaged or obsolescence (for example, flood damage to a bridge);
- b. Significant long-term changes in the extent to which, or way, a capital asset is used or expected to be used that have an adverse effect on the Municipality, have taken place during the period or are expected to take place soon. These changes may include the capital asset becoming idle, plans to discontinue or restructure the operation to which as capital asset belongs, or plans to dispose of capital asset before the previously expected date.
- c. The Municipality has decided to halt the construction of the capital asset before it is complete or in a usable condition; and
- d. Internal reporting indicated that the economic performance of a capital asset is, or will be, significantly worse than expected. This evidence relates to the ability of the capital asset to provide services (i.e., internal source), rather than a decline in the demand or need for services provided by the capital asset (i.e., external source). Examples can include a significant increase in the cost of maintaining or operating the capital asset and significantly lower service or output levels than those originally budgeted and expected respectively.

10.9.4 All Senior Managers must inform the Chief Financial Officer when such an indicator exists. When informing the Chief Financial Officer, the manager must provide the unique asset identification number of the capital asset.

10.9.5 The Senior Accountant: Assets will perform the necessary classification between cash generating and non-cash generating assets. Based on this classification the Senior Accountant: Assets; in conjunction with the relevant manager; will determine either the recoverable service amount or recoverable amount.

10.9.6 The Senior Accountant: Assets must measure the determined recoverable (service) amount to the carry value of the capital asset according to the capital asset register.

10.9.7 The difference between the carry value and the determined recoverable or recoverable service amount must be recognised as an impairment in the statement of financial performance and the accumulated impairment account.

10.9.8 Subsequent increase in recoverable (service) amount:

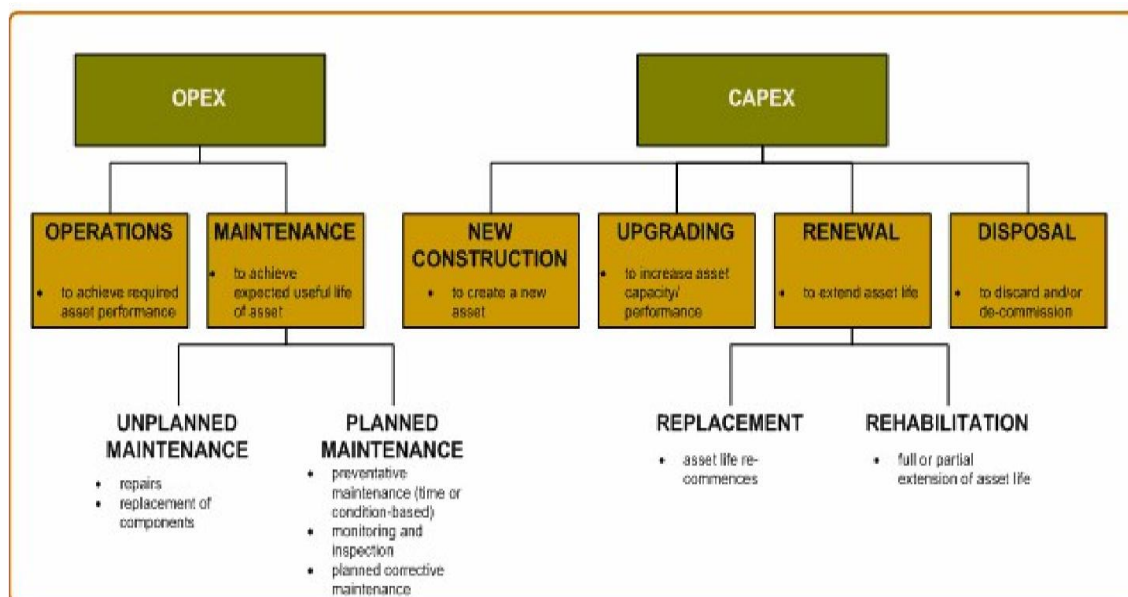
- a. A subsequent increase in the recoverable amount of a capital asset previously impaired, should be written back when the circumstances and events that led to the write-down cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
 - b. The amount written back should be debited to the accumulated impairment account and debited to the Statement of Financial Performance as a revenue item.
-

10.10 ACCOUNTING TREATMENT ON DISPOSAL

- 10.10.1 A capital asset should be derecognised from the financial records and capital asset register on disposal when no future economic benefits or potential service delivery is expected from its existence.
- 10.10.2 Gains or losses arising from the disposal of a capital asset should be determined as the difference between the actual net disposal proceeds and the carrying amount of the capital asset and should be recognised as revenue (gain) or expense (loss) (against the relevant department) in the Statement of Financial Performance.
- 10.10.3 All proceeds realised on the alienation of capital assets shall only be appropriated annually to the municipality's Capital Replacement Reserve in terms of the approved funding and reserves policy of the Council.

10.11 REINSTATEMENT, MAINTENANCE AND OTHER EXPENSES

- 10.11.1 Only expenses incurred in the enhancement of a capital asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the remaining useful life of a capital asset shall be capitalised. This will not include expenditure to achieve the initial expected performance or useful life of the capital asset.
- 10.11.2 Expenses incurred in the maintenance or reinstatement of a capital asset shall be considered as operating expenses incurred in ensuring that the initial useful life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.
- 10.11.3 Expenses which are reasonably ancillary to the bringing into operation of a capital asset may be capitalised.
- 10.11.4 Expenses that is viewed as elements of cost include:
- a. Purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
 - b. any costs 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; and
 - c. the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
- 10.11.5 The diagram below will assist in distinguishing capital expenditure from maintenance expenditure:
-



10.12 CAPITAL ASSETS HELD UNDER LEASES

10.12.1 Finance leases are leases that transfers substantially all risks and rewards incidental to the ownership of a capital asset from the lessor to the lessee. Title may or may not eventually be transferred.

10.12.2 Capital assets held under finance leases are capitalised by the municipality and reflected as such in the Capital Asset Register. It must be recognised at the amount equal to the lower of the fair value of the capital assets at date of inception of the lease or the present value of the minimum lease payments.

10.12.3 The asset is then depreciated over its expected useful life.

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

10.13 INVESTMENT PROPERTY

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

10.13.2 Investment properties shall be measured at cost and subsequently measured at fair value basis. In the instance whereby investment property item(s) fair values cannot be measured reliably that asset will be measured at cost .

- 10.13.3 Investment assets comprise of land or 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 where no decision regarding future use has been taken.
- 10.13.4 Investment assets shall be recorded in a separate section of the capital assets register in the same manner as other capital assets.
- 10.13.5 Fair values will be determined annually, and any losses or gains shall be recorded in the in the financial statements as gains or loss in fair value adjustments.

10.14 CAPITAL ASSETS TREATED AS INVENTORY

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

10.15 HERITAGE ASSETS

- 10.15.1 Heritage assets is defined as capital assets that have a cultural, environmental, historical, natural, scientific, technological, or artistic significance and are held indefinitely for the benefit of present and future generations.
- 10.15.2 Heritage assets will be accounted for on the cost model basis. Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.
- 10.15.3 Heritage assets will not be depreciated.
- 10.15.4 Senior Managers must assess at each reporting date whether there is an indication of impairment present.
- 10.15.5 In assessing for an indication that an asset may be impaired, the Senior Manager must consider, as a minimum, the following indications:
- 10.15.5.1 External sources of information:
- a. During the period, a heritage asset's market value has declined significantly more than would be expected because of the passage of time or normal use; and
 - b. The absence of an active market for a revalue heritage asset.
- 10.15.5.2 Internal sources of information:
- a. Evidence is available of physical damage or deterioration of a heritage asset; and
 - b. A decision to halt the construction of the heritage asset before it is complete or in a usable form. For financial statements purposes, the existence of such heritage assets shall be disclosed by means of an appropriate discloser note.
-

10.16 WRITE-OFFS OF CAPITAL ASSETS

- 10.16.1 A capital asset item shall be written off only on the recommendation of the Senior Manager controlling or using the capital asset concerned, provided it has been submitted to the Chief Financial Officer.
- 10.16.2 In instances where the physical existence is non-existent, or the ownership has been transferred as a result of an insurance claim to the insurer or the infrastructure has been replaced without the possibility of any proceeds or similar instances the Chief Financial Officer must prepare a report to the accounting officer for disposal in terms of Sect 14 of the MFMA.
- 10.16.3 Every Senior Manager or his /her delegated official shall at least report to the Chief Financial Officer or his/her delegated official no later than the 31 October of each financial year any capital asset which such manager wishes to have written off, stating in full the reason for such recommendation.
- 10.16.4 The Chief Financial Officer or hi/her delegated official shall consolidate all such reports and shall submit a recommendation to the Accounting Officer of the municipality on the capital assets to be written off.
- 10.16.5 The only reasons for writing off capital assets, other than the alienation of such capital assets, shall be the loss, theft or destruction of the item/s in question.

10. MAINTENANCE OF CAPITAL ASSETS

10.1. GENERAL MAINTENANCE OF CAPITAL ASSETS

- 10.1.1. Every Senior Manager shall be directly responsible for ensuring that all capital assets are properly maintained in a manner, which will ensure that such capital assets attain their maximum useful live.

11. FINANCIAL DISCLOSURE

The Chief Financial Officer must prepare the annual financial statements in such a manner that it discloses all compulsory disclosures as required by the relevant standards of GRAP.

12. IMPLEMENTATION AND REVIEW OF THE POLICY

- 12.1. The Council approves that the revised policy must be reviewed on or before the 31st of May and be implemented yearly on the 1st July.
- 12.2. This Asset Management Policy is the sole policy governing capital assets in the municipality. The Municipal Council must approve any reviews to this policy.
- 12.3. The Executive Mayor must submit any proposed changes to this policy to the Council as part of the annual review of policies submitted with the budget documentation.
-

- 12.4. Whenever the Minister of Finance or the National Treasury or the Auditor General requires changes to the policy by means of legislation or requests it should be reviewed promptly in accordance with such requirements, giving full details of the reasons for the revision.

13. MONITORING AND REPORTING

13.1 Monitoring of & reporting on SDBIP targets relating to the AM policy (i.e., monitoring of implementation progress);

13.2 Reports of assets management to CFO for inclusion in the formal reports to MM and management.

13.3 Reports of CFO to MM and portfolio committee(s) for inclusion in the formal reports to EXCO and council.

13.4 AM reporting in terms of the reporting requirements prescribed in sections 71 and 75 of the MFMA, and the applicable MFMA circulars.

13.5 Performance reporting against the asset management plans.

ANNEXURE A

INDICATIVE INITIAL USEFUL LIFE OF CAPITAL ASSETS

Accounting Group	Accounting Subgroup	Asset Class	Asset Group	Initial Expected Use full life (EUL)
Heritage Assets	Heritage Assets	Conservation areas	Conservation areas	Indefinite
Heritage Assets	Heritage Assets	Historic buildings	Historic buildings	Indefinite
Heritage Assets	Heritage Assets	Monuments	Monuments	Indefinite
Heritage Assets	Heritage Assets	Other heritage	Other heritage	Indefinite
Intangible Assets	Intangible Assets	Computer Software	Computer Software	4 - 5
Intangible Assets	Intangible Assets	Servitudes	Servitudes	20
Investment Property	Investment Property	Investment property	Improved property	3 - 100
Investment Property	Investment Property	Investment property	Improved Land	Indefinite
Investment Property	Investment Property	Investment property	Unimproved Land	30
Property, plant and equipment	Community assets	Community facilities	Abattoirs	8 - 100
Property, plant and equipment	Community assets	Community facilities	Airports	8 - 100
Property, plant and equipment	Community assets	Community facilities	Cemeteries Land	Indefinite
Property, plant and equipment	Community assets	Community facilities	Cemeteries crematoria	/ 8 - 100
Property, plant and equipment	Community assets	Community facilities	Centres Land	Indefinite
Property, plant and equipment	Community assets	Community facilities	Centres	15 - 100

Property, plant and equipment	Community assets	Community facilities	Clinics / care centres	8 - 100
Property, plant and equipment	Community assets	Community facilities	Crèches Land	Indefinite
Property, plant and equipment	Community assets	Community facilities	Crèches	8 - 100
Property, plant and equipment	Community assets	Community facilities	Fire stations Land	Indefinite
Property, plant and equipment	Community assets	Community facilities	Fire / ambulance stations	8 - 100
Property, plant and equipment	Community assets	Community facilities	Galleries	8 - 100
Property, plant and equipment	Community assets	Community facilities	Halls Land	Indefinite
Property, plant and equipment	Community assets	Community facilities	Halls	8 - 100
Property, plant and equipment	Community assets	Community facilities	Libraries Land	Indefinite
Property, plant and equipment	Community assets	Community facilities	Libraries	8 - 100
Property, plant and equipment	Community assets	Community facilities	Markets	8 - 100
Property, plant and equipment	Community assets	Community facilities	Museums Land	Indefinite
Property, plant and equipment	Community assets	Community facilities	Museums	8 - 100
Property, plant and equipment	Community assets	Community facilities	Nature reserves	8 - 100
Property, plant and equipment	Community assets	Community facilities	Parks Land	Indefinite
Property, plant and equipment	Community assets	Community facilities	Parks	8 - 100
Property, plant and equipment	Community assets	Community facilities	Police	45 - 60
Property, plant and equipment	Community assets	Community facilities	Public ablution facilities Land	Indefinite
Property, plant and equipment	Community assets	Community facilities	Public ablution facilities	8 - 100

Property, plant and equipment	Community assets	Community facilities	Public open space	
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Accounting Group	Accounting Subgroup	Asset Class	Asset Group	Initial Expected Use full life (EUL)
Property, plant and equipment	Community assets	Community facilities	Stalls Land	Indefinite
Property, plant and equipment	Community assets	Community facilities	Stalls	8 - 100
Property, plant and equipment	Community assets	Community facilities	Taxi ranks / bus terminals Land	Indefinite
Property, plant and equipment	Community assets	Community facilities	Taxi ranks / bus terminals	8-100
Property, plant and equipment	Community assets	Community facilities	Testing stations	8-100
Property, plant and equipment	Community assets	Community facilities	Theatres	8 - 100
Property, plant and equipment	Community assets	Community facilities	Zoo and Marine facilities Land	Indefinite
Property, plant and equipment	Community assets	Community facilities	Zoo and Marine facilities	5 - 100
Property, plant and equipment	Community assets	Sport and recreation facilities	Indoor facilities Land	Indefinite
Property, plant and equipment	Community assets	Sport and recreation facilities	Indoor facilities	8 - 100
Property, plant and equipment	Community assets	Sport and recreation facilities	Leisure/resort facilities Land	Indefinite
Property, plant and equipment	Community assets	Sport and recreation facilities	Leisure/resort facilities	8 - 100
Property, plant and equipment	Community assets	Sport and recreation facilities	Outdoor facilities Land	Indefinite

Property, plant and equipment	Community assets	Sport and recreation facilities	Outdoor facilities	5 - 100
Property, plant and equipment	Infrastructure assets	Coastal infrastructure	Piers	8 - 100
Property, plant and equipment	Infrastructure assets	Coastal infrastructure	Promenades	8 - 100
Property, plant and equipment	Infrastructure assets	Coastal infrastructure	Revetments	10-60
Property, plant and equipment	Infrastructure assets	Coastal infrastructure	Sand pumps	8 - 100
Property, plant and equipment	Infrastructure assets	Electrical infrastructure	Capital spares	10 - 20
Property, plant and equipment	Infrastructure assets	Electrical infrastructure	HV substations	5 - 100
Property, plant and equipment	Infrastructure assets	Electrical infrastructure	HV switching stations	5 - 50
Property, plant and equipment	Infrastructure assets	Electrical infrastructure	HV transmission conductors	20 - 100
Property, plant and equipment	Infrastructure assets	Electrical infrastructure	LV networks	2 - 100
Property, plant and equipment	Infrastructure assets	Electrical infrastructure	MV networks	8 - 100
Property, plant and equipment	Infrastructure assets	Electrical infrastructure	MV substations Land	Indefinite
Property, plant and equipment	Infrastructure assets	Electrical infrastructure	MV substations	5 - 100
Property, plant and equipment	Infrastructure assets	Electrical infrastructure	MV switching stations	5 - 100
Property, plant and equipment	Infrastructure assets	Electrical infrastructure	Power plants	5 - 100
Property, plant and equipment	Infrastructure assets	Information and communications infrastructure	Core layers	5- 60
Property, plant and equipment	Infrastructure assets	Information and communications infrastructure	Data centres	8 - 100
Property, plant and equipment	Infrastructure assets	Information and communications infrastructure	Distribution layers Land	Indefinite
Property, plant and equipment	Infrastructure assets	Information and communications infrastructure	Distribution layers	2 - 50

Property, plant and equipment	Infrastructure assets	Road's infrastructure	Road furniture	5 - 50
Property, plant and equipment	Infrastructure assets	Road's infrastructure	Road structures	5 - 50
Property, plant and equipment	Infrastructure assets	Road's infrastructure	Roads Land	Indefinite
Property, plant and equipment	Infrastructure assets	Road's infrastructure	Roads	5 - 30
Property, plant and equipment	Infrastructure assets	Road's infrastructure	Capital Spares	7

Accounting Group	Accounting Subgroup	Asset Class	Asset Group	Initial Expected Use full life (EUL)
Property, plant and equipment	Infrastructure assets	Sanitation infrastructure	Capital Spares	60
Property, plant and equipment	Infrastructure assets	Sanitation infrastructure	Outfall sewers	7 - 40
Property, plant and equipment	Infrastructure assets	Sanitation infrastructure	Pump stations	5 - 50
Property, plant and equipment	Infrastructure assets	Sanitation infrastructure	Reticulation	7 - 50
Property, plant and equipment	Infrastructure assets	Sanitation infrastructure	Toilet facilities	10 - 40
Property, plant and equipment	Infrastructure assets	Sanitation infrastructure	Wastewater treatment works Land	Indefinite
Property, plant and equipment	Infrastructure assets	Sanitation infrastructure	Wastewater treatment works	5 - 100
Property, plant and equipment	Infrastructure assets	Solid waste infrastructure	Electricity generation facilities	8 - 100
Property, plant and equipment	Infrastructure assets	Solid waste infrastructure	Landfill sites	5 - 100
Property, plant and equipment	Infrastructure assets	Solid waste infrastructure	Waste drop-off points	8 - 100
Property, plant and equipment	Infrastructure assets	Solid waste infrastructure	Waste processing facilities	8 - 100
Property, plant and equipment	Infrastructure assets	Solid waste infrastructure	Waste separation facilities	8 - 100
Property, plant and equipment	Infrastructure assets	Solid waste infrastructure	Waste transfer stations Land	Indefinite

Property, plant and equipment	Infrastructure assets	Solid waste infrastructure	Waste transfer stations	8 - 100
Property, plant and equipment	Infrastructure assets	Storm-water infrastructure	Drainage collection Land	Indefinite
Property, plant and equipment	Infrastructure assets	Storm-water infrastructure	Drainage collection	5 - 50
Property, plant and equipment	Infrastructure assets	Storm-water infrastructure	Storm-water conveyance	5 - 50
Property, plant and equipment	Infrastructure assets	Storm-water infrastructure	Attenuation	5 - 50
Property, plant and equipment	Infrastructure assets	Water supply infrastructure	Boreholes	5 - 50
Property, plant and equipment	Infrastructure assets	Water supply infrastructure	Bulk mains	7 - 50
Property, plant and equipment	Infrastructure assets	Water supply infrastructure	Capital spares	20 - 60
Property, plant and equipment	Infrastructure assets	Water supply infrastructure	Dams & weirs Land	Indefinite
Property, plant and equipment	Infrastructure assets	Water supply infrastructure	Dams & weirs	5 - 100
Property, plant and equipment	Infrastructure assets	Water supply infrastructure	Distribution points	10 - 100
Property, plant and equipment	Infrastructure assets	Water supply infrastructure	Distribution Land	Indefinite
Property, plant and equipment	Infrastructure assets	Water supply infrastructure	Distribution	7 - 50
Property, plant and equipment	Infrastructure assets	Water supply infrastructure	Pump stations Land	Indefinite
Property, plant and equipment	Infrastructure assets	Water supply infrastructure	Pump stations	5 - 50
Property, plant and equipment	Infrastructure assets	Water supply infrastructure	PRV stations	5 - 50
Property, plant and equipment	Infrastructure assets	Water supply infrastructure	Reservoirs	5 - 50
Property, plant and equipment	Infrastructure assets	Water supply infrastructure	Water treatment works Land	Indefinite
Property, plant and equipment	Infrastructure assets	Water supply infrastructure	Water treatment works	3 - 100
Property, plant and equipment	Other assets	Computer Equipment	Desk top computer	4 - 5
Property, plant and equipment	Other assets	Computer Equipment	Lap top computer	3-5

Property, plant and equipment	Other assets	Computer Equipment	Another computer equipment	5
Property, plant and equipment	Other assets	Computer Equipment	Printers	4 - 5
Property, plant and equipment	Other assets	Computer Equipment	Servers	3-20
Property, plant and equipment	Other assets	Computer Equipment	Tablets	3-5

Property, plant and equipment	Other assets	Furniture and Office Equipment	Furniture and Office Equipment	8-20
Property, plant and equipment	Other assets	Housing	Social housing Land	Indefinite
Property, plant and equipment	Other assets	Housing	Social housing	15 - 100
Property, plant and equipment	Other assets	Machinery and Equipment	Machinery and Equipment	5 - 30
Property, plant and equipment	Other assets	Operational buildings	Building plan offices	2-50
Property, plant and equipment	Other assets	Operational buildings	Depots	2-50
Property, plant and equipment	Other assets	Operational buildings	Laboratories	2-50
Property, plant and equipment	Other assets	Operational buildings	Manufacturing plant	2-50
Property, plant and equipment	Other assets	Operational buildings	Municipal offices Land	Indefinite
Property, plant and equipment	Other assets	Operational buildings	Municipal offices	2-50
Property, plant and equipment	Other assets	Operational buildings	Pay / enquiry points	2-50
Property, plant and equipment	Other assets	Operational buildings	Stores Land	Indefinite
Property, plant and equipment	Other assets	Operational buildings	Stores	2-50
Property, plant and equipment	Other assets	Operational buildings	Training centres	2-50

Property, plant and equipment	Other assets	Operational buildings	Workshops	2-50
Property, plant and equipment	Other assets	Operational buildings	Yards Lands	Indefinite
Property, plant and equipment	Other assets	Operational buildings	Yards	2-50
Property, plant and equipment	Other assets	Transport Assets	Transport Assets	5-15

**ANNEXURE B
ADDENDUM ON LAND MANAGEMENT
AND ACCOUNTING**

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1. Introduction.

The policy addendum on land neither replaces nor supersedes any provisions of the asset management policy and should therefore be read in conjunction with the latest approved asset management policy of the municipality.

The management and accounting of land and land assets in municipalities is regulated by legislation, guidelines, and accounting standards with the objective to ensure there is uniformity and, where appropriate, differentiation of the application of principles in accordance with the fiscal powers and functions of municipalities and the respective complexity of their operations.

This policy addendum provides an overview of legislation, accounting standards and practical guidelines in so far as they impact on the accounting of land and land assets.

2. Policy objectives.

- 1.1.To provide guidance on how to classify, recognise and measure land after the definition and the recognition criteria have been met.
- 1.2.To explain what the municipality should consider when assessing whether it can conclude that it controls land or not.
- 1.3.To provide guidance on how to consider the accounting impact of land invasions, to account for land which is under illegal occupation and put in place effective control measures that can minimise land invasions.

3. Policy authority and responsibility.

Any departures from the provisions stated in this policy addendum will require prior written approval in compliance with the table of authority responsibilities below:

APPROVAL:	Matjhabeng Local Municipality: Council
MAINTAINED BY:	Finance Department, Asset Management Unit
EXECUTION:	Matjhabeng Local Municipality: Departmental Heads and Officials.
SUPPORTED BY:	Finance Department, Asset Management Unit

4. Legislation.

The following legislation pieces have been applied in the formulation of the policy addendum:

The Municipal Finance Management Act, Act 56 of 2003

The National Environmental Management Waste Act, Act No. 59 of 2008,
 The Environmental Conservation Act, Act No. 73 of 1989

5. Accounting standards.

The following accounting standards and interpretations have been issued to provide detailed guidance and direction on the accounting issues associated with land and land assets.

GRAP 12: Inventories

GRAP 16: Investment property

GRAP 17: Property, Plant and Equipment

GRAP 21: Impairment of non-cash-generating assets

GRAP 26: Impairment of cash-generating assets.

GRAP 18: Recognition and Derecognition of Land

Guideline on accounting for landfill sites (April 2019)

6. Definitions and abbreviations.

Cost	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.
Current replacement cost	The cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition.
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
End-use plan	The purpose for which the area of the rehabilitated and closed landfill is used. This may be as a park, playing fields, or other suitable land use.
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.
GRAP	standards of Generally Recognised Accounting Practice.
Impairment	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.
Inventory	In this document Inventories encompass land purchased and/or held for resale or redistribution.
Investment property	Property (land or buildings) that is acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.
Landfill	The waste body created by landfilling. This may be above or below grade, or both.

Landfill site	This comprises the landfill site asset and the land on which the landfill site asset is developed.
licensing authority	The Minister of Environmental Affairs, or at provincial level, the Member of the Executive Committee (MEC) responsible for environmental management in the province, who grants a licence to the municipality to undertake waste activities in terms of the Waste Act.
Property, plant, and equipment	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
Useful life	(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.
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.
SOPs	Standard operating procedures.
Waste	An undesirable or superfluous by-product, emission, or residue of any process or activity which has been discarded, accumulated, or stored for the purpose of discarding or processing. It may be gaseous, liquid, or solid or any combination of these, and may originate from a residential, commercial, or industrial area. This definition excludes industrial wastewater, sewage, radioactive substances, mining, metallurgical and power generation waste.
Waste disposal	The act of disposing of waste. In the context of this document, only waste disposal on land is addressed.
Value in use	Value in use of a non-cash-generating asset as the present value of the asset's remaining service potential. Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.
ASB	Accounting Standards Board
CA	Carrying amount
CRC	Current replacement cost
EUL	Refers to the expected use life of an asset
FV	Fair value
FV-CTS	Fair value less cost to sell
MFMA	Refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003).
PPE	Property, plant, and equipment
RSA	Recoverable service amount
RUL	Refers to the remaining use life of an asset
VIU	Value in use

7. CLASSIFICATION AND TREATMENT OF LAND

7.1 CLASSIFICATION OF LAND.

7.1.1 Use of municipal land by third parties.

Use of municipal land by a third party includes:

- Land leased to third parties at market and non-market related rates;
- Land of which the right to use has been provided to third parties at no charge;
- Land donated to the municipality for the purpose of providing the use of the land to the community at no charge; and
- Land leased to employees for housing purposes (*refer to the section on Land occupied by employees*).

In determining if land leased to third parties should be classified as investment property the municipality determines if the purpose of the land is to earn rentals rather than for sale in ordinary course of business or for use in supply of services or for admin purposes. Therefore, the municipality has to determine the *main purpose* is and the *most significant* use.

The main purpose is determined by looking at what the property is used for if not rented out. In determining the most significant use the municipality may assesses what portion, in square meters, of the land is leased out. Land of which more of the area is rented out and there is currently no other use for the land is classified as investment property.

Land held for the purpose of resale, which is leased to third parties in the meantime, even if more of the area is leased, is classified as inventory as the main purpose of the property is for resale in the ordinary course of business.

Land held for administrative purposes or for use in the production of goods or supply of services of which a portion, significant or not, is leased to a third party is classified as PPE as the main purpose of obtaining the land was for administrative purposes or for use in production of goods or the supply of services. This will include for example:

- The town hall which is leased to third parties on an ad hoc basis; or
- Community assets such as sport facilities being leased to third parties at a nominal value.

When land is donated to the municipality and a condition is attached to the land, the municipality assesses the condition attached to the land to determine the main purpose of the land and subsequently the classification of the land. An example includes:

- Land donated by provincial government with the instruction that the land has to be provided to a specific community, at no charge, for grazing. In this example the main purpose of the land is for economic growth in the community and to uplift the community, the land will be classified as PPE.

7.1.2 Owner-occupied land

Owner-occupied land includes all land used for administrative purposes, in the production of goods or services or for rental to others. This includes, but is not limited to:

- For administrative purposes:
 - (a) Land on which municipal administrative buildings are situated.
 - (b) Ervens used by the municipality as car parks, for example, where municipal construction vehicles are stored.
- In the production of goods and services:
 - (a) Land on/in which infrastructure and community assets are situated.
- For rent to others:
 - (a) Land on which properties occupied by employees is situated. Refer to the section on Land occupied by employees.

All owner-occupied land is classified as PPE.

7.1.3 Land occupied by employees.

All properties occupied by employees which are required as part of their employment to be in a specific area are classified as PPE in terms of GRAP 16.17(iii), (whether or not the employees pay rent at market rates).

7.1.4 Landfill sites.

A landfill site (also known as a tip, dump, rubbish dump or dumping ground) is a site for the disposal of waste materials by burial.

The municipality considers the criteria in the Interpretation of the Standards of GRAP on Recognition and Derecognition of Land (IGRAP 18) to assess control of land. IGRAP 18 requires the municipality to apply the following control criteria: (a) legal ownership; and/or (b) the right to direct access to land, and to restrict or deny the access of others to the land.

The municipality applies the control criteria to assess control of the land for the landfill site. If the municipality concludes that it does not control or jointly control the land (with another entity), no land is recognised in its financial statements.

Licensed and unlicensed landfill sites are classified as PPE.

7.1.5 Held for sale land.

Land held for sale includes:

- Land purchased or obtained through non-exchange transactions for the purpose of short-term sale or distribution in the ordinary course of operations; and
 - Land previously held for undeterminable future use on which development has commenced with the view to sell or distribute.
-

This land is classified as inventory in terms of GRAP 12 inventory.

7.1.6 Land held for undetermined future use.

Land held for an undetermined future use includes the remainder of land not specifically included as:

- Use of land by a third party;
- Owner-occupied land;
- Land occupied by employees;
- Landfill sites; or
- Held for sale land.

Land held for an undetermined future use is classified as investment property in terms of GRAP 16.14(b).

7.1.7 Multi-purpose use of land.

Multi-purpose use of land consists mainly of three (3) scenarios.

Scenario 1.

On one even different asset classes are found, however within the classification of either PPE or investment property.

When the use of these individual parts is all classified as PPE then the land is classified as PPE. If the use of the individual parts is all classified as investment property, then the land is classified as investment property.

Scenario 2.

A portion of land previously held for an undeterminable future use is now being used as owner-occupied property.

If the portions of land can be sold separately then they are classified separately as investment property (for the undeterminable future use portion) and PPE (the portion now being used as a park). If the portions cannot be sold separately the land will remain investment property unless a significant portion is now being used as PPE.

Scenario 3

Land previously classified as owner-occupied is now being leased.

If the portions of land can be sold separately then they are classified separately as investment property (leased portion) and PPE (owner-occupied portion). If the portions cannot be sold separately the land will remain as PPE unless a significant portion is now being used as investment property.

7.1.8 Land specifically not investment property

The following are instances where land is not investment property:

- Owner-occupied land;
 - Owner-occupied land waiting for disposal;
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- Land held for future development in order to use it as owner-occupied property;
- Recreational, sporting, or similar facilities held by the municipality as part of their mandate;
- Land held to provide goods and services, and which also generates revenue;
- Land held for strategic purposes. This is property that, although not currently used as property, plant and equipment, is likely to be used in the production or supply of goods and services or for administrative purposes in future because of certain legislation, policies, decisions or plans adopted by the municipality;
- Property occupied by personnel which are required as part of their employment contract to be relocated;
- Land held by the municipality for transfer to beneficiaries in a housing scheme; and
- Property held for sale in the ordinary course of operations or in the process of construction or development for sale or development for housing stock.

7.2 TRANSFER OF LAND

7.2.1 From Investment property to PPE or Inventory

Land is transferred from investment property only under the following circumstances:

- Commencement of owner-occupation, for transfer to PPE
- Commencement of development with view to sale (land previously held for undeterminable use), for transfer to inventory.

Commencement date of owner-occupation is the earlier of:

- the date the premises is occupied or
- the date the premises is entitled to be occupied.

Commencement date of development with the view to sell is the township proclamation date or date of council resolution on the utilisation of land.

7.2.2 From Inventory to Investment property or PPE

Land is transferred from inventory only under the following circumstances:

- Commencement of an operating lease (lease must be on a commercial basis) to another party, for transfer to investment property; or
- Commencement of owner-occupation, for transfer to PPE.

7.2.3 From PPE to Investment property or Inventory

Land is transferred from PPE to investment property when owner-occupation ceases. Any construction and/or development cost is capitalised against investment property.

Land is transferred from PPE to inventory on commencement of development with the view to sell. The commencement date with the view to sell is the township proclamation date or date of council resolution where the utilisation of land changed.

7.3 ASSET CLASSES FOR DISCLOSURE PURPOSES

7.3.1 Inventory

GRAP 12 Inventory requires the municipality to classify inventory in groups appropriate for the municipality. The municipality classifies the land per function, thus what the land is used for. The classes shall include, but not be limited to the following:

- Land held for sale in the ordinary course of operations; and
- Land held for distribution in the ordinary course of operations.

7.3.2 Investment property

GRAP 16 [Investment property] also requires the same reconciliation however it does not have to be per asset class. The municipality classifies the land per function, thus what the land is used for. These classes include, but are not limited to, the following:

- Land, and
- Land held for undeterminable future use.

7.3.3 PPE

GRAP 17[property, plant, and equipment] requires the municipality to disclose, per asset class, a reconciliation between the opening and closing carrying amount. A class of assets is defined as a group of assets with a similar nature or function in the municipality's operations. The function, thus what the land is used for, determines the classification for disclosure purposes as landforms an integral part of infrastructure and community assets. Land is recognised as a component of the asset it relates to, however for disclosure purposes they are grouped into the same class [land] in the financial statements. The asset classes for disclosure purposes include, but not limited to, the following:

Asset class	Example
Infrastructure	
Roads, pavements and bridges	Road reserves
Dams and reservoirs	Land on which water purification plants and pump stations / buildings are situated.
Transportation	Land on which taxi terminals / bus stops are situated
Electricity reticulation Substations	Land on which electricity reticulation substations are situated.
Sewer reticulation	Land servitude (bulk sewer lines)
Sewer purification	Land on which pump stations / buildings / public toilets are situated
Housing	Land on which old age flats / hostels etc are situated

Waste management	Landfill sites
Community assets	
Parks and gardens (landscaping)	Land on which parks are developed
Sport fields and stadia Golf course / bowling / rugby stadia	Land on which sport fields and stadia Golf course / bowling / rugby stadia are situated
Swimming pools	Land on which pump station / swimming pool are situated
Community halls	Land on which community hall buildings are situated
Libraries	Land on which library buildings are situated
Recreational facilities	Land on which recreational facilities are situated
Fire, safety and emergency	Land on which emergency services buildings are situated
Clinics	Land on which clinics are situated
Cemeteries	Land on which cemeteries are developed, including roads, public toilets
Other assets	
Administrative buildings	Civic land on which administrative buildings are situated

7.4 RECOGNITION & MEASUREMENT OF LAND

Land, identified as PPE, investment property and inventory, is initially measured at its cost and where the land was obtained at no cost or for a nominal value the cost is the fair value of the land at acquisition date. The difference between the fair value and the nominal cost or no cost is recognised in surplus and deficit.

The cost is the purchase price (excluding VAT) and any cost directly attributable expenditure.

Land held as investment property will be subsequently measured at fair value.

Subsequent to the recognition of land as PPE, it will be measured using the cost model.

Subsequent to initial recognition of land held as inventory, land shall be measured at the lower of cost and net realisable value, with the exception that land inventories shall be measured at the lower of cost and current replacement cost where they are held for: (a) distribution through a non-exchange transaction; or (b) consumption in the production process of goods to be distributed at no charge or for a nominal charge.

7.4.1 Land identified not previously on the register.

Any land identified subsequent to 1 July 2007, which had to be on the Municipality's register however was not, for which the actual cost cannot be obtained will be taken onto the register at deemed cost and measurement date as per Directive 7 [deemed cost on initial adoption of Standards of GRAP].

Directive 7 can be applied to all additions prior to 1 July 2007, if the actual cost cannot be determined.

The unit rates documented and applied during the initial construction of the GRAP-based asset register will be applied as the deemed cost for any land subsequently identified which was not taken up in the

financial system and the asset register as at that date.

7.4.2 Landfill sites.

On initial recognition the cost of landfill sites [and borrow pits] include:

- The cost of the land itself; and
- The cost to rehabilitate the land.

Subsequent cost recognised in the carrying amount of landfill sites only includes the movement in the rehabilitation provision as a result of the changes in the timing and/or amount required to settle the obligation.

The annual unwinding of the discount is recognised in surplus and deficit as a finance cost, as it occurs.

7.4.3 Transfers between Investment property, PPE and Inventory

The municipality subsequently measures PPE using the cost model, investment property at fair value, and inventory at the lower of cost and or net realisable value (or net replacement value – see paragraph 4 above). Any transfers between PPE, investment property and inventory therefore change the carrying amount of the land, and a gain or loss is recognised in surplus and deficit.

7.4.4 Depreciation

Land has an unlimited useful life, therefore except for sites used for landfill [and borrow pits], land is not depreciated.

Depreciation is however calculated on the portion of the cost capitalised to rehabilitate the landfill site [and borrow pits]. This depreciation is calculated over the term of the license agreement.

7.5 RECOGNITION & MEASUREMENT OF INTANGIBLE ASSETS RELATING TO LAND

7.5.1 Servitudes

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. As servitudes are rights attached to property, the municipality considers whether the definition and recognition criteria in GRAP 31 intangible assets are met.

Servitudes may be acquired in a number of ways including through expropriation, township establishment conditions, agreement between parties, court order, statute or other means.

7.5.2 Servitudes created by way of legislation.

This would include, for example where the municipality registers servitudes over certain parts of the land that falls within the boundaries of the proclaimed township so that the municipality can install infrastructure to provide basic services. In these instances, no compensation is required to the landowner

for the servitudes granted to the municipality in terms of legislation.

Servitudes created by way of legislation do not meet the definition of intangible assets as these servitudes are not “separately identifiable” in terms of the definition of intangible assets.

The cost incurred (if any) to register these servitudes are expensed and not capitalised.

The land on which these types of servitudes are registered is in the name of the municipality. This land is recognised as PPE as it is land used in the production of goods or delivering of services. This land relates to infrastructure assets and is recognised as components of the relevant infrastructure assets in the asset register and is disclosed as part of the asset class land in the financial statements.

7.5.3 Servitudes created by way of acquisition (including an agreement).

This would include for example instances where the municipality requires a piece of land to install certain infrastructure, e.g., a pipeline for a water network. The landowner (which is not the municipality) is compensated for the rights received associated with the land.

Servitudes obtained in this manner meet the definition of “*separately identifiable*” as they arise through a contractual or other legal right. In these instances, the servitudes are recognised as intangible assets.

Once an asset is constructed on the land over which the servitude is registered, the cost of the servitude is transferred and capitalised as part of the cost of the asset. The servitude is an integral part of the asset, and the asset cannot function without the servitude, in addition the servitude and the asset cannot be sold separately as the right to use of the land is required for the asset to be operated.

The cost incurred to acquire the servitude (e.g., the compensation paid to the landowner) and any additional cost to bring the asset to the condition and location intended by management (e.g., registration cost) will be capitalised as part of the cost of the asset.

In some cases, the municipality may acquire the use of a servitude at no cost. Under these circumstances the cost to be capitalised is the fair value at the date the use of the servitude is obtained. This cost is amortised over the term of the agreement.

The municipality is not the landowner of the land on which this type of servitudes is registered, therefore no land is recognised in the accounting records, or the asset register of the municipality.

7.5.4 Servitudes created, on municipal land, by way of request from third Party.

This would include for example instances where a third party, e.g., Eskom, requires a piece of land to install certain infrastructure, e.g., power lines. The municipality is compensated for the rights transferred associated with the land.

The land is in the name of the municipality and the municipality is only selling the right to use the land. There is no transaction required with regard to the land and no intangible asset is recognised as the municipality did not purchase the right, they sold the right.

The agreement for the right to use the servitude contains a lease for the following reasons:

- The agreement conveys the right to use the servitude; and
- Fulfilment of the arrangement is dependent on the use of a specific asset.

The revenue from the right to use the servitude will be recognised and measured in terms of GRAP 13 leases and iGRAP 3 determining whether an agreement contains a lease.

7.5.5 Impairment of land for landfill site (waste disposal).

When management takes a decision to use land for waste disposal activities, management needs to assess if this decision is an indication of impairment. If management concludes that its decision will have an adverse effect on the land, a reduction in the value of land constitutes an impairment loss.

7.5.6 Disclosure requirements.

The municipality applies the disclosure requirements in GRAP 17, GRAP 21 or GRAP 26 and other applicable Standards of GRAP as outlined in the approved asset management policy of Nala Local Municipality.

7.6 ACCOUNTING FOR LANDFILL SITE.

Recognition and initial measurement of land has been dealt with under part 7.4 above.

The estimate of the costs to dismantle, remove, rehabilitate and/or restore the site (“the cost of rehabilitation”) on which the landfill site is located, is part of the cost of the landfill site.

7.6.1 Subsequent Measurement of the Landfill Site Asset *(Measurement of the landfill site asset after development & construction).*

The municipality will apply the cost model as its accounting policy for landfill site assets under GRAP 17.

The landfill site asset is measured at cost and carried at cost less accumulated depreciation and any accumulated impairment losses.

7.7 ACCOUNTING FOR ILLEGALLY OCCUPIED LAND.

7.7.1 Classification and control

The accounting treatment of illegally occupied land will depend largely on its current classification (i.e., its classification prior to land invasion). Classification will also determine the designation of land as either cash-generating or non-cash-generating, and consequently how land should be considered for impairment.

The criterion for classification of land is not based on current performance or function or state of the land but the purpose for which land is held by management. As discussed above (i.e., in the section on recognition of land), depending on management’s intention for holding the land in question, land can be classified as - (a) PPE (GRAP 17 applies; (b) Investment property (GRAP 16 applies); and (c) Inventory

(GRAP 12 applies).

Where, upon assessment, the municipality concludes that it controls the land after applying the principles in this Interpretation (IGRAP 18), it shall proceed and apply the relevant Standards of GRAP.

The provisions of IGRAP 18 should only assist the municipality to decide as to “when to” and “when not to” recognise (or derecognise) land in its asset register and financial statements; thereafter, the accounting treatment shall be guided by the relevant GRAP standards, e.g., GRAP 12 (inventory), GRAP 16 (investment property), GRAP 17 (PPE), etc.

A municipality shall determine where control of the land vests by identifying the entity which holds substantive rights over land. Control of land is only transferred by means of a legally binding arrangement, which can be a council resolution. Council resolutions which serve as “means of binding arrangement”, should be as definite and unambiguous as possible so that they leave no room for contestation or misapprehension of council’s decision and intention about the land.

In line with IGRAP 18.41-42, the municipality shall disclose by means of a note to the AFS, the key **judgements and assumptions** applied to conclude that it does not control the land so long as the legal transfer of the title to land has not been concluded. (This disclosure provides relevant information to AFS users and auditors (AG-SA), and accountability that the exclusion of land from the asset register is not just an omission, but a result of due consideration of relevant facts.

While a municipality may lose “practical” or “physical” control of land due to land invasion, it does not necessarily lose accounting control (i.e., control for accounting purposes).

The following guidance as provided by the ASB in clarification of FAQ 2.9 shall apply to the municipality:

- Accounting for land is based on the rights that a municipality is presently able to exercise in terms of its ownership of land or other rights granted in terms of a binding arrangement.
 - The invasion of land may be an illegal act.
 - Although the illegal occupants may have certain rights, these rights do not supersede or eliminate the municipality’s currently exercisable rights in terms of its legal ownership of land.
 - The fact that the municipality may not execute rights associated with land ownership (substantive rights) because of political, socio-economic or other factors, is irrelevant in establishing whether “control for accounting purposes” exists.
 - A municipality would need to assess if its ownership rights are subsequently changed through a legal action, such as the outcome of a court process/ court case/ court order, etc. Illegal occupation of land may indicate that an impairment loss should be recognised.
 - A municipality should apply the principles in either GRAP 21 or GRAP 26 when these occupations occur (and throughout their duration).
 - When a municipality controls land through other rights, it is likely that the municipality would
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need legal advice as to the rights of the various parties to understand **which party has substantive rights** to direct or restrict access to the economic benefits or service potential of the land.

7.7.2 Assessment and testing of illegally occupied land for impairment.

The municipality shall determine at each reporting date whether there are indications of impairment – (*this is impairment assessment*).

Based on the guidance from ASB, the mere fact that land has been invaded means “impairment loss **may have** occurred”. Land invasion shall therefore be presumed an indication of impairment, which should require that the municipality proceed and test for impairment loss.

Impairment testing is a step beyond just identifying an indication of impairment. It is determining whether impairment has actually taken place or not, i.e., by comparing the carrying amount (CA) to the recoverable service amount (RSA).

Where illegal occupation of land indicates that an impairment loss should be recognised, the municipality shall apply the principles in either GRAP 21 or GRAP 26 when these occupations occur (and throughout their duration) depending on whether the illegally occupied land has been designated as a cash-generating or non-cash-generating asset by management.

7.7.3 Calculation of impairment loss on illegally occupied land.

In principle, when a decline in the RSA has occurred, the CA should be reduced to the RSA. The amount of the reduction is recognised as an expense unless it reverses a previous revaluation on properties in which case it must be charged to the revaluation reserve.

The RSA is the higher of fair value less costs to sell (FV-CTS) and value in use (VIU). The VIU of a cash-generating asset is the present value (PV) of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life. The VIU of a non-cash generating asset is determined as the depreciated replacement cost (DRC) of the asset.

The DRC is summarised in this formula: $DRC = CRC \times RUL / EUL$

The current replacement cost (CRC) of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition.

7.7.4 Practical considerations when determining the value in use of illegally occupied land.

The municipality shall take the following into consideration when determining the VIU of illegally occupied land.

- (i) Land parcels classified under PPE are generally non-cash-generating. Their VIU will be based on
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their DRC.

- (ii) Land parcels classified as investment property are generally cash-generating. Their VIU will be based on their discounted future cashflows.
- (iii) Illegal occupation of land effectively prevents the municipality from deriving any future economic benefits (FEB) or service potential (SP) from land. The municipality should assess whether any future cashflows can be expected from and reliably determined for such land. If the answer is “NO” the municipality may have to consider full impairment of (only) the illegally occupied portion of the land.
- (iv) In considering the reasonability of expecting any FEB or SP to accrue to the municipality there must be due consideration of the objective factors that affect the municipalities where cases of illegally occupied land are being dealt with. It cannot be just an arbitrary conclusion that since the municipality has legal ownership of the land it should be able to derive future economic benefit from land.
- (v) It may not be ruled out when considering the FEB and SP of illegally occupied land that the present-day legal and socio-political factors make it not a forgone conclusion that illegally occupied land will ultimately revert to the practical control of the municipality.
- (vi) Where there has been failure to implement internal controls and municipal by-laws on land management, e.g., failure to stop illegal construction of dwellings within the prescribed legal timeframes, a municipality may be required to provide the occupants with alternative accommodation upon evicting them, (and the municipality may also not be in a position to provide such alternative accommodation).
- (vii) Where the municipality concludes that the VIU of illegally occupied land cannot be reliably determined because even where it is perceived to exist, it depends on factors which support the remotest or no possibility that land will revert to the practical control of the municipality, such as unpredictable outcomes of lengthy and arduous court processes/ cases, socio-political and economic circumstances, and financial as well as land availability constraints to address the legal requirement to provide alternative accommodation, the municipality shall consider “full impairment” and/or the feasibility of designating such illegally occupied land for distribution to the occupants. Once council has taken a resolution to distribute land, it must be reclassified as land inventories in terms of GRAP 12.
- (viii) Where land is fully impaired, testing of illegally occupied land should be performed annually and impairment can still be reversed if the situation subsequently changes favourably.

7.8 LAND MANAGEMENT

7.8.1 Land management practices within the municipality

The municipality considers the following to be some of the key practices which aim to ensure that there is effective integrated land management:

Management should control, coordinate, and schedule the use and development of land by means of

assets related plans, strategies and various policy instruments which are (or should be) in place within the municipality,

Land management practices that are compatible to the economic, social, and political conditions of the areas where municipal land parcels are situated should be applied. These practices should, among other things, be used to regulate intended use of land as well as to prevent or mitigate unintended use of land.

Internal stakeholders, which include officials and councillors, should all interact with land issues in terms of how their respective roles fit in the larger picture of promoting effective land management practices within the municipality. Administrative and functional boundaries should not be allowed to block integrated management of land. *See relevant sections on the roles of stakeholders.*

Emphasis is placed on the need for land planning which takes place within the broader IDP processes to respond to and develop working alternatives to lessen the impact of any regulatory and other barriers to the provision of affordable and legally sanctioned land and housing. Failure to do so has always proved to be capable of “opening up the floodgates” of unintended and illegal land use and development, the most prevalent being land invasions.

One of the key indicators of the success of land management is the prevention of unintended and illegal use and development of land.

7.8.2 Land subject to unintended use and development

Management will make recommendations to council in respect of any land where unintended or illegal use and development have occurred before or were already in progress at the adoption of this policy. In line with such recommendations, council may in the exercise of its power resolve to regularise or pursue actions to terminate any illegal occupation or use of land, and/or development thereof for unintended purposes.

It is the main objective of this policy addendum that, subsequent to its adoption, management will apply the principles and provisions outlined herein to regulate intended use of land and protect municipal land parcels and assets from any form of unintended (or illegal) use and/or development – including land invasions by members of the public.

7.8.3 The role of internal stakeholders in the management of land

7.8.3.1 Council

Council shall:

- (I) Adopt land use and management policies and by-laws.
 - (II) Exercise oversight and monitoring in respect of the implementation of the provisions of the adopted land use and management related policies.
 - (III) Require (receive) from management quarterly reports on land use and management related policy implementation outcomes - including challenges requiring council's
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consideration. Such reports shall form part of management reports to portfolio committees, executive committee, and council. The reports shall also include any recommendations regarding unlawful activities observed on municipal land or any potential risks identified, which are assessed to be capable of resulting in the municipality losing practical control of “entire” land parcels or “portions” thereof.

(IV) Process recommendations from management regarding land issues.

7.8.3.2 Portfolio committees

The portfolio committees responsible for planning (or land use management) and financial management shall:

- (I) Consider the quarterly reports on the implementation of land related policies and make recommendations where necessary. Committee recommendations may include actions that council needs to consider regarding any activities not sanctioned by the municipality taking place on municipal land as referred to below.
- (II) Require (request) from management a list of all land parcels belonging to the municipality and arrange (preferably) joint or separate sessions for in-loco inspection of municipal land parcels, in line with dates and frequencies determined by the committees, to satisfy themselves regarding any activities taking place (or the absence thereof).
- (III) Ensure that management reports on the implementation of land related policies incorporate (a) observations from their in-loco inspections and (b) recommendations from their consideration of the report from management as referred to above.

7.8.3.3 Municipal ward councillors

Ward councillors are the primary interface between council and their respective wards and can therefore be relied upon to keep council abreast with developments relating to land parcels situated within their respective ward jurisdictional areas.

Ward councillors shall:

- (I) Require (request) from management a list of all land parcels situated within their ward jurisdictional areas and conduct regular surveillance of any activities thereupon.
 - (II) In respect of any activities taking place on municipal land, confirm with management whether such activities are council sanctioned (lawful) or not.
 - (III) Report to council through the responsible portfolio committee head any unintended and unlawful activities taking place on municipal land parcels under their respective ward jurisdictional area.
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7.8.3.4 **Municipal manager**

The municipal manager shall:

- (I) Facilitate the adoption and annual review of the land policy addendum by council in tandem with the annual review of budget-related policies.
- (II) Take final accountability for the management of the assets of the municipality, including the safeguarding of land.
- (III) Delegate to the chief financial officer the responsibility to ensure that a report on the implementation of asset management related policies, including the provisions of the land policy addendum, is included the quarterly reports of the finance department to management, the portfolio committee responsible for financial management, and executive committee. (*The executive committee then reports to council*).
- (IV) Establish a “cross-functional” asset coordinating committee, through which all asset processes and procedures, including those relating to land, should be implemented.
- (V) Delegate to the chief financial officer specific asset management duties and responsibilities without abdicating his/her final accountability for such (delegated) duties and responsibilities.

7.8.3.5 **Chief financial officer**

The chief financial officer shall:

- (I) Report to the municipal manager on the management of the assets of the municipality, including the safeguarding of land.
 - (II) Assume the responsibility to ensure that a report on the implementation of asset management related policies, including the provisions of the land policy addendum, is included the quarterly reports of the finance department to management, portfolio committee and executive committee.
 - (III) Ensure that the municipality has and maintains a GRAP and M-SCOA aligned fixed asset register which shall also include all municipal land parcels.
 - (IV) Furnish municipal ward councillors and heads of portfolio committees responsible for asset management and planning (or land use management) with a comprehensive listing of municipal land parcels, extracted from the latest asset register, and both ward-based and consolidated, to facilitate the inspection and surveillance of activities taking place on municipal land.
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- (V) Delegate to the assets manager specific asset management duties and responsibilities without abdicating his/her accountability to the municipal manager for such (delegated) duties and responsibilities.

7.8.3.6 Asset management coordinating committee (AMCC)

The municipal manager, through the chief financial officer, shall designate the manager responsible for assets management as the convenor of the AMCC.

The AMCC shall:

- (I) Ensure that the asset management policy – including the land policy addendum - is reviewed on an annual basis to ensure alignment with the latest legislation and guidelines.
- (II) Meet at least monthly to discuss asset management implementation across the municipality. The committee shall include in its meeting agenda an item on land related issues to discuss implementation progress and issues in line with the respective roles of the end-user departments involved.
- (III) Ensure that a detailed action plan is developed for the annual review/verification/assessment of all assets – land parcels included - and the action plan is effectively followed.
- (IV) Report on the execution of its assigned duties and responsibilities to the chief financial officer through the convenor so that the chief financial officer can incorporate the AMCC's report in the finance department reports to management, the portfolio committee responsible for asset management, and executive committee. (The executive committee further reports to council).

7.9 CONTROL MEASURES FOR THE SAFEGUARDING OF LAND.

According to the MFMA,

63. (1) The accounting officer of a municipality is responsible for the management of (a) the assets of the municipality, including the safeguarding and the maintenance of those assets ...

63.(2) The accounting officer must ... take all reasonable to ensure (a) that the municipality has and maintains a management, accounting and information system that accounts for the assets ... of the municipality; (b) that the municipality's assets ... are valued in accordance with standards of generally recognised accounting practice: and (c) that the municipality has and maintains a system of internal control of assets ..., including an asset register ...

The following control measures shall be implemented to give effect to the above MFMA requirements:

- A GRAP-compliant land asset register which accounts for all land parcels belonging to the municipality.
 - An asset management policy that provides for the safeguarding of assets and assign responsibility
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for assets to designated custodians. The safeguarding of land should incorporate regular land, open space and servitudes surveillance programmes by ward councillors and in-loco inspections by the responsible portfolio committees.

- SOPs that incorporate comprehensive procedures for ad-hoc and periodic asset counts/verification and assessments?
 - Municipal by-laws on land use, development and management to ensure orderly activity on land, open spaces and land with servitudes.
 - Housing strategy to meet housing needs and address housing backlogs and insecure land tenure across the municipality's jurisdiction to minimise land grab mobilisation.
 - Land risk strategy that incorporates triggers for early warning of potential and/or developing land invasion tendencies and facilitate timeous response to incidents by management and council.
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