

7.4. DONATED ASSETS

General

A donated asset is an item that has been given to the municipality by a third party in government or outside government without paying or actual or implied exchange.

Policy

Donated assets should be valued at fair value, reflected in the asset register, and depreciated as normal assets.

Procedures and Rules

- All donated assets must be approved by the Municipal Manager and ratified by Council prior to acceptance.
- Management of the municipality must evaluate the future operational costs of donated assets and the effect it might have on future tariffs and taxes, before a donated asset is accepted by the municipality.
- The conditions associated with the donation must be agreed upon and signed by the Municipal Manager.
- Municipal officers must first get approval from the Municipal Manager prior to accepting any donation.

8. ASSET MAINTENANCE

8.1. USEFUL LIFE OF ASSETS

General

Useful Life of assets is defined in paragraph 2 of the Policy and is basically the period or number of production units for which an asset can be used economically by the municipality.

National Treasury (NT) published its Local Government Asset Management Guideline in August 2008 that includes directives for useful lives of assets, but municipalities must use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for the particular classes of assets. Should the municipality decide on a useful life outside the given parameters, the National Treasury (OAG) should be approached and provided with a motivation, for its agreement of the rate

utilised. The calculation of useful life is based on a particular level of planned maintenance.

Policy

The remaining useful life of assets shall be reviewed annually. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

Procedures and Rules

- Every Head of Department must determine the reasonable remaining useful lives of the assets under their control. Changes in remaining useful lives must be approved by the CFO.
- The CFO shall ensure that remaining useful lives, and changes thereof, are properly recorded and accounted for in the asset register and the general ledger.
- The CFO shall ensure that the *Remaining Useful Life* of an asset shall be reviewed at each reporting date.

8.2. RESIDUAL VALUE OF ASSETS

General

The *Residual Value* of an asset is the estimated amount that the municipality would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Policy

Residual values should be determined upon the initial recognition (capture) of assets. However, this will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. In practise, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The residual value of assets shall be reviewed annually at reporting date. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

Procedures and Rules

- Every Head of Department must determine the reasonable residual values of the assets under their control. Changes in residual values must be approved by the CFO.
- The CFO shall ensure that residual values, and changes thereof, are properly recorded and accounted for in the asset register and the general ledger.
- The CFO shall ensure that the *residual value* of an asset shall be reviewed at each reporting date.

8.3. DEPRECIATION OF ASSETS

General

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

The depreciation method used **must** reflect the pattern in which economic benefits or service potential of a Capital Asset is consumed by the municipality. The following are the allowed alternative depreciation methods that can be applied by the municipality:

1. Straight-line;
2. Diminishing Balance; and
3. Sum of the Units.

Policy

All assets, except land and heritage assets, shall be depreciated over their reasonable useful lives. The *residual value* and the *useful life* of an asset shall be reviewed at each reporting date. The depreciation method applied must be reviewed at each reporting date. Reasonable budgetary provisions shall be made annually for the depreciation of all applicable assets controlled or used by the municipality, or expected to be so controlled or used during the ensuing financial year.

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed. Depreciation of an asset should begin when the asset is ready to be used, i.e. the asset is in the location and condition necessary for it to be able to operate in the manner it is intended by management. Depreciation of an asset ceases when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under certain methods of depreciation the depreciation charge can be zero while there is no production.

In the case of intangible assets being included as assets, the procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other assets.

Procedures and Rules

- Every Head of Department must ensure that a budgetary provision is made for the depreciation of the assets under their control in the ensuing financial year.
- Every Head of Department must determine the reasonable useful life of the asset classifications under their control. Deviations from the standards of useful life must be motivated in writing to the Municipal Manager and provided to the CFO.
- In the case of an asset which is not listed in the asset classification list, the Head of Department shall determine a useful operating life, in consultation with the CFO, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.
- Alternative depreciation methods may be used in exceptional cases, if motivated by the Head of Department controlling the asset to the Municipal Manager and in consultation with the CFO. The Head of Department must then provide the CFO with sufficient statistical information to make estimates of depreciation expenses for each financial year.
- The CFO shall ensure that depreciation shall be up to date on a monthly basis and be reconciled between the asset register and the general ledger.
- The CFO shall ensure that the *residual value, useful life and depreciation method* of an asset shall be reviewed at each reporting date.

8.4. IMPAIRMENT LOSSES

General

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. The following serve as examples of impairment indicators:

- Significant decline in market value;
- Carrying amount of an asset far exceeds the recoverable amount or market value;
- There is evidence of obsolescence (or physical damage);
- The deterioration of economic performance of the asset concerned; and
- The loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (such as through inadequate maintenance).

The impairment amount is calculated as the difference between the *carrying value* and the *recoverable service value*. The recoverable service value is the higher of the asset's value in use or its net selling price. Where the recoverable service amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at revalued amount.

If the asset is carried at a revalued amount (in the case of investment property, infrastructure and community assets) the impairment should be recorded as a decrease in the revaluation reserve. Where immovable property, plant and equipment surveys are conducted, the recoverable service value is determined using the depreciated replacement costs method by assessing the remaining useful life.

Policy

Assets shall be reviewed annually for all assets with impairment indicators. Impairment of assets shall be recognised as an expense, unless it reverses a previous revaluation in which case it should be charged to the *Revaluation*

Surplus. The reversal of previous impairment losses recognised as an expense, is recognised as an income.

Procedures and Rules

- The CFO, in consultation with the Heads of Department must ensure that professionally qualified valuers or other professionals with appropriate qualifications must perform annual impairment surveys for all assets that show impairment indicators.
- The CFO shall ensure that impairment losses, or reversals thereof, are properly recorded and accounted for in the asset register and the general ledger.

8.5. MAINTENANCE OF ASSETS AND THE ASSET REGISTER

General

Maintenance refers to all actions necessary for retaining an asset as near as practicable to its original condition in order for it to achieve its expected useful life, but excluding rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance.

For linear infrastructure assets, such as pipes and roads, the following test is applied to differentiate between maintenance and renewal when partial sections of linear assets are renewed:

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

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

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

Policy

Maintenance actions performed on infrastructure assets shall be recorded against the individual assets that are individually identified in the asset register.

Procedures and Rules

- All Heads of Department responsible for the control and utilisation of infrastructure assets shall monitor maintenance actions and budget for the operation and maintenance needs of each asset or class of assets under their control. Operating expenses must include all labour and material costs for the repair and maintenance of the assets. This includes both contracted services and services performed by employees.
- Heads of Department shall ensure that the operating expenses are expended against the operating budget and not the capital budget.
- The Heads of Department shall report to the Council annually of the extent to which the approved maintenance plan has been complied with and the extent of deferred maintenance.
- The Heads of Department shall report to the Council annually on the likely effects that maintenance budgetary constraints may have on the useful operating life of the infrastructure asset classes;
- The Heads of Department shall ensure that maintenance plans make provision for the additional maintenance burden of future infrastructure to be acquired.

8.6. RENEWAL OF ASSETS

General

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

Policy

Assets renewal shall be accounted for against the specific asset. The renewal value shall be capitalised against the asset and the expected life of the asset adjusted to reflect the new asset life.

Procedures and Rules

- The CFO, in consultation with Heads of Department, must ensure that processes are in place to capture renewals data against specific assets and to capitalise it correctly.
- Heads of Department shall ensure that renewals expenditure are correctly budgeted for in the capital budget and expensed against this budget.
- Heads of Department must ensure that renewals expenditure data are correctly captured against the assets and the expected lives adjusted.

8.7. REPLACEMENT OF ASSETS

General

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

Policy

Assets that are replaced shall be written off at their carrying value. The replacement asset shall be accounted for as a separate new asset. All costs incurred to replace the asset shall be capitalised against the new asset.

Procedures and Rules

- The CFO, in consultation with Heads of Department, must ensure that processes are in place to capture replacement data against specific assets and to capitalise it correctly.
- Heads of Department shall ensure that replacement expenditure are correctly budgeted for in the capital budget and expensed against this budget.

9. ASSET DISPOSAL

9.1. TRANSFER OF ASSETS

General

The processes and rules for the transfer of a capital asset to another municipality, municipal entity or national/provincial organ of state are governed by an MFMA regulation namely "the Local Government: Municipal Asset Transfer Regulations".

Transfer of assets or inventory items refers to the internal transfer of assets within the municipality or from the municipality to another entity. Procedures need to be in place to ensure that the Asset Control Department can keep track of all assets and ensure that the fixed asset register is updated with all changes in asset locations. These procedures must be followed and apply to all transfers of assets from:

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

Policy

The transfer of assets shall be controlled by a transfer process and the asset register shall be updated.

Procedures and Rules

- The Head of Department must ensure that all asset transfer information is passed to the Asset Control Officer.
- The CFO must ensure that a process is in place to capture and record asset transfer data.
- Staff of the Municipality, except for duly authorised staff, shall not move rented assets, such as photocopy machines.
- No person shall transfer any IT equipment without the knowledge and written consent of the IT Department.
- The Head of a Department must immediately report to the CFO of any damages caused to an asset and will be held responsible to investigate the cause or nature of such damage.

- Municipal staff required to remove equipment from the building, i.e. computer equipment, furniture, etc. for repair or any other reason need to obtain a permit from a delegate of the CFO. Failure to produce such a permit will result in the unauthorised removing of equipment.

9.2. EXCHANGE OF ASSETS

General

According to GRAP 17.33 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

- the exchange transaction lacks commercial substance; or
- the fair value of neither the asset received nor the asset given up is reliably measurable.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Policy

The cost of assets acquired in exchange for another asset shall be measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred.

Procedures and Rules

- An item of PPE may be acquired in exchange for a similar asset that has a similar use in the same line of operations and which has a similar fair value or may be sold in exchange for an equity interest in a similar asset. No gain or loss is recognised in both cases.
- The CFO shall approve all asset exchanges in consultation with the relevant Head of Department.

9.3. ALIENATION / DISPOSAL OF ASSETS

General

Alienation / Disposal (alienation) is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality.

The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the disposal of capital assets. Specifically:

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

Policy

There are various methods of disposal. Different disposal methods will be needed for different types of assets. Before deciding on a particular disposal method, the following should be considered:

- The nature of the asset
- The potential market value
- Other intrinsic value of the asset
- Its location
- Its volume
- Its trade-in price
- Its ability to support wider Government programmes;
- Environmental considerations
- Market conditions
- The asset’s life

Appropriate means of disposal may include:

- Public auction
- Public tender
- Transfer to another institution

- Sale to another institution
- Letting to another institution
- Trade-in
- Controlled dumping (for items that have low value or are unhygienic)

Alienated assets shall be written-off in the asset register.

Procedures and Rules

- Every Head of Department shall report in writing to the CFO on 31 October and 30 April of each financial year on all assets which they wish to alienate and the proposed method of alienation.
- The CFO shall consolidate the requests received from the various departments, and shall promptly report the consolidated information to the Municipal Manager of the municipality, recommending the process of alienation to be adopted.
- The Council shall delegate to the Municipal Manager the authority to approve the alienation of any asset with a carrying value less than R5 000 (five thousand rand).
- The Council shall ensure that the alienation of any asset with a carrying value equal to or in excess of R5 000 (five thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004. The Act states that the municipality may not alienate any capital asset required to provide a minimum level of service. The municipality may alienate any other capital asset, provided the Council has considered the fair market value and the economic and community value to be received in exchange for the asset.
- Selling: Assets to be sold shall be sold in terms of paragraph 9.4 below.
- Donations: Donations may be considered as a method of alienation, but such requests must be motivated to the Municipal Manager for approval.
- Destruction: Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.
- Scrapping: Scrapping of assets that cannot be alienated otherwise may be considered as a method of alienation, but such requests must be motivated to the Municipal Manager.
- Once the assets are alienated, the CFO shall write-off the relevant assets in the asset register.

- The letting of immovable property, excluding municipal housing for officials and political office bearers, must be done at market-related tariffs, unless the relevant treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.
- The CFO must review, at least annually when finalising the budget, all fees, charges, rates, tariffs or scales of fees or other charges relating to the letting of municipal property to ensure sound financial planning and management.

9.4. SELLING OF ASSETS

General

Selling of assets refers to the public sale of municipal assets approved for alienation.

Policy

All assets earmarked for sale must be sold by public auction or tender and the following steps shall be followed:

- A notice of the intention of the municipality to sell the asset shall be published in a local newspaper;
- The municipality shall appoint an independent appraiser to fix a minimum selling price;
- In the case of a public auction, the municipality shall appoint an independent auctioneer to conduct the auction; and
- In the case of a tender, the prescribed tender procedures of the municipality shall be followed.

Assets earmarked for sale, shall be reclassified as Assets Held-for-Sale in terms of paragraph 6.10. of this Policy and shall not attract any further depreciation.

Sold assets shall be written-off in the asset register.

Procedures

- A request for assets to be sold must be submitted to the Municipal Manager and approved by Council. The request must be accompanied by

a list of assets to be sold and the reasons for sale as described in paragraph 9.3 above.

- Assets earmarked for sale shall be reclassified as Assets Held-for-Sale.
- Auctioneers may be engaged either on a quotation basis or by tender depending on the goods to be alienated.
- Bidding: Bidders are afforded the opportunity to make an offer on identifiable items. Bids are compared and the highest bidder is awarded the bid.
- Tenders: Tenders shall be invited according to the municipality's tender procedures.
- Once the assets are sold, the CFO shall write-off the relevant assets in the asset register.
- If the proceeds of the sales are less than the carrying value recorded in the asset register, such difference shall be recognised as a loss for the department or vote concerned in the Statement of Financial Performance. If the proceeds of the sales, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain for the department or vote concerned in the statement of financial performance.
- Transfer of assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

9.5. WRITING-OFF OF ASSETS

General

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

- The useful life of the asset has expired;
- The asset has been destroyed;
- The asset is outdated;
- The asset has no further useful life;
- The asset does not exist anymore;
- The asset has been sold; and

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

Policy

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

Procedures and Rules

- Every Head of Department shall report to the CFO on 31 October and 30 April of each financial year on any assets which such Head of Department wishes to have written-off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the Municipal Manager on the assets to be written off.
- An asset, even though fully depreciated, shall be written-off only on the recommendation of the Head of Department controlling or using the asset concerned, and with the approval of the Municipal Manager.
- In every instance where a not fully depreciated asset is written off with no proceeds for the asset being obtained, the CFO shall immediately debit to such department or vote the full carrying value of the asset concerned as impairment expenses.
- Assets that are replaced should be written-off and removed from the asset register.

10. ASSET PHYSICAL CONTROL (MOVEABLE ASSETS)

10.1. PHYSICAL CONTROL / VERIFICATION

General

Movable assets require physical control and verification of existence.

Policy

All movable assets shall be actively controlled, including an annual verification process.

Procedures and Rules

- All movable assets that are supposed to be bar-coded must have a visible bar code in a universal manner as determined by the Municipal Manager.
- Annual verification of movable assets should be conducted under the direction of an individual who neither has responsibility for the custody of fixed assets nor maintains asset records. This procedure would enable the municipality to identify discrepancies and dispositions and properly investigate and record the transactions.
- Procedures should be established to adequately identify assets owned by others or subject to reclamation by donors.
- The CFO shall co-ordinate and control regular physical checks, and all discrepancies are to be reported immediately to the CFO.
- Registers must be kept for those assets allocated to staff members. The individuals are responsible and accountable for the assets under their control. These registers should be updated when the assets are moved to different locations or allocated to a different staff member in order to facilitate control and physical verification.
- Where a change in person in direct control of equipment takes place, a handing-over certificate shall be completed and a copy retained for record purposes. If surpluses or deficiencies are found, the certificates shall be dealt with as with stock-taking reports.
- If for any reason the person from whom the asset is being taken over is not available, the asset manager should assist the person taking over with the checking of the equipment and the certification of any discrepancies.
- In case of failure to comply with the requirements of a handing-over certificate, the person taking over shall be liable for any shortages, unless it can be established that the shortages existed prior to their taking over.
- Any losses of and damage to equipment, excluding discrepancies at stocktaking of losses resulting from normal handing or reasonable wear and tear, shall be reported to the CFO.
- Independent checks from asset records shall be conducted to ensure that the assets physically exist, especially those that could be disposed of without a noticeable effect on operations.
- Yearly physical inspections of assets shall be performed to identify items which are damaged, not in use or are obsolete due to changed

circumstances, to ensure that they are appropriately repaired, written off or disposed off.

- All newly acquired assets shall be delivered to / received by the procurement section where the assets will be bar-coded before dispatch to the persons who will be the custodians of the assets.
- Delivery of assets by procurement staff must be to the person requiring the asset and he/she will sign a form accepting responsibility for the asset.
- Security checks of assets removed from municipal premises or brought on to premises, e.g. serial numbers, time in and out linked to access control and compulsory car inspection (if so required) accompanied by a clearance certificate should be compulsory.
- All equipment such as laptops that frequently move in and out of the building should be controlled by means of permits. Therefore, security officials should check that the item as described in the permit agrees to the physical item. Security officials should also issue permits for permanent employees and consultants who will work in the municipality for a period of more than a week. No laptops or similar equipment should leave the premises without a valid permit. For employees and consultants who will be in the municipality for less than 1 week, a daily permit should be issued.

10.2. INSURANCE OF ASSETS

General

Insurance provides selected coverage for the accidental loss of the asset value. Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury.

Policy

Assets that are material in value and substance shall be insured at least against destruction, fire and theft. All municipal buildings shall be insured at least against fire and allied perils.

Procedures and Rules

- The Heads of Department shall annually submit a list of insurable asset types to the Municipal Manager for approval by Council.
- The Municipal Manager shall recommend to the Council, after consulting with the CFO, the basis of the insurance to be applied to each type of

asset, which should be either the carrying value or the replacement value of the assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

- The CFO shall annually submit a report to the Council on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve.

10.3. SAFEKEEPING OF ASSETS

General

Asset safekeeping is the protection of assets from damage, theft, and safety risks.

Policy

Directives for the safekeeping of assets shall be developed and the safekeeping of assets shall be actively undertaken.

Procedures and Rules

- The Municipal Manager must issue directives that detail the safekeeping of assets.
- The Heads of Department must ensure that safekeeping directives are adhered to.
- Malicious damage, theft, and break-ins must be reported to the Municipal Manager or delegated person within 48 hours of its occurrence or awareness.
- The Municipal Manager must report criminal activities to the South African Police Service.
- If any biological asset is lost, stolen or destroyed, the matter shall be reported in writing by the Head of Department concerned in exactly the same manner as though the asset were an ordinary asset.

10.4. CAPITAL REPLACEMENT RESERVE (CRR)

General

The Capital Replacement Reserve is a reserve account to set aside funds for the financing of property, plant and equipment. The CRR is therefore an asset financing source that represents an alternative to the other funding sources

available to the municipality, namely external loans (interest bearing borrowings) and government grants & subsidies. The value of this reserve is not represented by any values of assets under the municipality's control and shall preferably be cash-backed.

Policy

It is the policy of Council to annually make contributions to the CRR to ensure that the CRR remains a capital funding source for the future. The municipality will determine its future capital financing requirements and transfer sufficient cash to its CRR in terms of this determination. The Integrated Development Plan, the municipality's ability to raise external finance and the amount of government grants and subsidies that will be received in future will need to be taken into account in determining the amount that must be transferred to the CRR.

Whenever an asset is sold by the municipality, the proceeds on the sale of the assets must be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets.

All proceeds on the sale of land will be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets.

Whenever an asset is purchased out of the CRR an amount equal to the cost price of the asset purchased, is transferred from the CRR into accumulated surplus on the Statement of Changes in Net Assets.

Procedures and Rules

- The CFO is responsible for creating and maintaining the CRR.
- The CFO must ensure the annual transfers to the CRR from the municipality's appropriation account.
- The CFO must ensure the transfers from the CRR to the municipality's appropriation account in respect of assets purchased.
- The balance on the CRR must always be represented by cash, which must be held in a separately identifiable bank or investment account.
- The CRR may only be utilised for the purpose of purchasing items of PPE for the municipality and may not be used for the maintenance of these items.

- Interest earned on the CRR investments is recorded as interest earned in the Statement of Financial Performance and must then be transferred to the CRR in the Statement of Changes in Net Assets.

10.5. BORROWING COST (GRAP 5)

General

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of premiums or discounts associated with such borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance charges in respect of finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as an adjustment to interest costs.

The capitalisation of borrowing costs should take place when borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirement of a municipality directly to the nature of the expenditure to be funded i.e. capital or current.

Where the Municipality borrows funds generally (example bank overdraft) and uses them for the purpose of obtaining a qualifying asset, the municipality shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset, being the weighted average of the borrowing costs applicable to the borrowings of the entity that are outstanding during the period.

During extended periods in which development of an asset is interrupted, the borrowing costs incurred over that time period should be recognised as an expense when incurred. Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

Policy

Borrowing costs shall be capitalised, if related to the construction of an asset, when the construction of an asset is expected to take a substantial period of time to get ready for its intended use or resale and an outside agency is used to finance the project.

Procedures and Rules

- The CFO should reconcile the borrowing cost to be capitalised with the amount that has been capitalised on a monthly basis.

10.6. FUNDING SOURCES

General

The Municipal Finance Management Act (MFMA) provides guidelines on how to utilise funds in financing assets (Section 19 of MFMA). The municipality shall utilise any of the following sources to acquire and / or purchase assets:

- Grants, Subsidies and Public Contributions;
- Revenue Contributions;
- Capital Replacement Reserve;
- Cash Surplus; and / or
- External / Donor Funds.

Policy

The annual capital budget must be funded and the sources of finance must be disclosed as part of the Council's budget.

Procedures and Rules

- The CFO will ensure that the capital budget is financed and that the finance sources have been identified and confirmed in writing.
- The CFO will ensure that all legislation and prescripts regarding the various funding sources be adhered too.

10.7. DISASTER

General

In terms of the Disaster Management Act, 2002, Disaster means a progressive or sudden, widespread or localised, natural or human – caused occurrence which causes or threatens to cause:

- death, injury or disease;
- damage to property, infrastructure or the environment; or
- disruption of life of community; and
- is of a magnitude that exceeds the ability of those affected by the disaster to cope with its effects using only their own resources.

In terms Section 56 (b) of the Disaster Management Act, 2002 the cost of repairing or replacing public sector infrastructure should be borne by the organ of state responsible for the maintenance of such infrastructure. The National, Provincial and Local organs of state may contribute financially to response efforts and post – disaster recovery and rehabilitation.

Policy

The Municipality will correspond with the West Coast District Municipality to gain funds for repairing assets damaged in disaster events.

Procedures and Rules

- The municipality must adhere to the disaster management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster.

11. MANAGEMENT OF IMMOVABLE ASSETS

11.1. LEGAL FRAMEWORK

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

Participation by the local community in the affairs of the municipality must take place through, among others, generally applying the provisions for participation as provided for in the MSA (section 17(1) of the MSA).

A municipality must communicate to its community information concerning, among others, municipal governance, management and development (section 18(1) of the MSA).

As head of administration the Municipal Manager is, subject to the policy directions of the municipal council, responsible and accountable for, among others, the following:

- The management of the provision of services to the local community in a sustainable and equitable manner;
- Advising the political structures and political office bearers of the municipality (section 55(1) of the MSA); and
- Providing guidance and advice on compliance with the MFMA to the political structures, political office-bearers and officials of the municipality (section 60 of the MFMA).

As accounting officer of the municipality the Municipal Manager is responsible and accountable for, among others, all assets of the municipality (section 55(2) of the MSA).

The Municipal Manager must take all reasonable steps to ensure, among others, that the resources of the municipality are used effectively, efficiently and economically (section 62(1) of the MFMA).

11.2. RATIONALE FOR MANAGEMENT OF ASSETS

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objectives:

- Providing democratic and accountable government for local communities;
- Ensuring the provision of services to communities in a sustainable manner;
- Promoting social and economic development;
- Promoting a safe and healthy environment; and
- Encouraging the involvement of communities and community organisations in matters of local government.

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

The MFMA further requires the accounting officer to ensure that:

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

The OHSA requires the municipality to provide and maintain a safe and healthy working environment, and in particular, to keep its infrastructure assets safe.

11.3. PRINCIPLES OF ASSET MANAGEMENT

According to the International Infrastructure Management Manual (IIMM), the goal of infrastructure asset management is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers. The core principles of infrastructure asset management are:

- Taking a life-cycle approach;
- Developing cost-effective management strategies for the long-term;
- Providing a defined level of service and monitoring performance;
- Understanding and meeting the impact of growth through demand management and infrastructure investment;
- Managing risks associated with asset failures;
- Sustainable use of physical resources; and

11.4. POLICY OBJECTIVE

The municipality is committed to providing municipal services for which the municipality is responsible, in a transparent, accountable and sustainable manner and in accordance with sound infrastructure management principles.

11.5. POLICY PRINCIPLES

The following policy principles serve as a framework for the achievement of the policy objective stated above:

Effective Governance

The municipality strives to apply effective governance systems to provide for consistent asset management and maintenance planning in adherence to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected. To this end, the municipality will:

- Adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- Regularly review and update amendments to the above legislation;
- Review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- Effectively apply legislation for the benefit of the community.

Sustainable Service Delivery

The municipality strives to provide to its customers services that are technically, environmentally and financially sustainable. To this end, the municipality will:

- Identify levels and standards of service that conform with statutory requirements and rules for their application based on the long-term affordability to the municipality;
- Identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- Identify current and future demand for services, and demand management strategies;
- Set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose assets, where applicable in line with national targets;

- Apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- Prepare and adopt an immovable (infrastructure) asset management strategy and immovable (infrastructure) asset management plans to support the achievement of the required performance;
- Prepare and adopt an immovable (infrastructure) asset maintenance strategy and immovable (infrastructure) asset maintenance plans to execute maintenance timeously;
- Allocate budgets based on long-term (20 year) financial forecasts that take cognisance of the full life-cycle needs of existing and future assets and the risks to achieving the adopted performance targets; and
- Implement its Tariff and Credit Control and Debt Collection Policies to sustain and protect the affordability of services by the community.

Social and Economic Development

The municipality strives to promote social and economic development in its municipal area by means of delivering municipal services in a manner that meet the needs of the various customer user-groups in the community. To this end, the municipality will:

- Regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- Implement changes to services in response to changing customer needs and expectations where appropriate;
- Foster the appropriate use of services through the provision of clear and appropriate information;
- Ensure services are managed to deliver the agreed levels and standards; and
- Create job opportunities and promote skills development in support of the national EPWP.

Custodianship

The municipality strives to be a responsible custodian and guardian of the community's assets for current and future generations. To this end, the municipality will:

- Establish a spatial development framework that takes cognisance of the affordability to the municipality of various development scenarios;

- Establish appropriate development control measures including community information;
- Cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- Ensure that heritage resources are identified and protected; and
- Ensure a long-term view and life-cycle costs are taken into account in immovable asset management decisions.

Transparency

The municipality strives to manage its immovable assets in a manner that is transparent to all its customers, both now and in the future. To this end, the municipality will:

- Develop and maintain a culture of regular consultation with the community with regard to its management of immovable assets in support of service delivery;
- Clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);
- Avail asset management information on a ward basis; and
- Continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

Cost-effectiveness and Efficiency

The municipality strives to manage its immovable assets in an efficient and effective manner. To this end, the municipality will:

- Assess life-cycle options for proposed new immovable assets;
- Regularly review the actual extent, nature, utilisation, criticality, performance and condition of immovable assets to optimise planning and implementation works;
- Assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of immovable assets;
- Ensure the proper utilisation and maintenance of existing assets;
- Establish and implement demand management plans;
- Timeously renew immovable assets based on capacity, performance, risk exposure, and cost;

- Timeously dispose of immovable assets that are no longer in use;
- Establish documented processes, systems and data to support effective life-cycle immovable asset management;
- Strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and
- Conduct annual assessments to support continuous improvement of immovable asset management practice.