



UMASIPALA  
MUNICIPALITY

# **FIXED ASSET MANAGEMENT POLICY**

**2008**

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## Section 1: Definition of a fixed asset

A fixed asset is defined in GAMAP 17 as a tangible item of property, plant or equipment held by a municipality for use in the productions or supply of goods or services, for rental to others, or for administrative purposes, and which is expected to be used during more than one reporting period (financial year).

A fixed asset is thus an asset, either movable or immovable, under the control of the municipality, and from which the municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year.

To be recognised as a fixed asset, an asset must also meet the criteria referred to in parts 13, 14 and 15 below.

### Assets held under leases

**Finance leases** are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the municipality and reflected as such in the Fixed Asset Register. It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement. The asset is then depreciated over its expected useful life (GAMAP/GRAP).

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

## Section 2: Functional Responsibilities

The purpose of this section is to prescribe the responsibilities of the Municipality regarding assets as follows:

- 2.1. The Municipal Manager
- 2.2. The Treasury Section/Finance Department.
- 2.3. The Budget Section
- 2.4. The Supply Chain Management Section
- 2.5. Human Resources Section (HR)
- 2.6. Other Departments

### **2.1. The Municipal Manager**

The Municipal Manager or his duly delegated representative is responsible to:

- a) Ensure implementation of the approved Asset Management Policy as required in terms of section 63 of the Municipal Finance Management Act (MFMA).
- b) Verify assets in possession of the Council annually, during the course of the financial year.
- c) Keep a complete and balanced record of all assets in possession of the Council.
- d) Report in writing all asset losses, where applicable, to Council.
- e) Ensure that assets are valued and accounted for in accordance with GRAP.

### **2.2 The Finance section**

The Finance section:

- a) Shall ensure that complete records of asset items are kept, verified and balanced regularly,
- b) Shall ensure that all departments are doing annual asset verification.  
The results of this verification must be reported to the Municipal Manager or Council.
- c) The asset verification report shall –
  - i. Reflect a complete list of all assets found during the verification;
  - ii. Reflect whether appropriate records have been maintained reflecting what articles should have been found during verification
  - iii. Reflect any discrepancies between the articles found during verification and the record referred to in paragraph (b);

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- iv. Be submitted to the departments for comment on variances reflected
  - d) Shall ensure that the Asset Register is balanced annually with the general ledger and the financial statements.
  - e) Shall ensure adequate bar codes and equipment to exercise the function relating to asset control are available at all times..
  - f) Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the Asset Register.
  - g) Ensure that all audit queries are resolved in a timely manner.

### **2.3. The Finance, Budget Section:**

The Budget Section:

- a) Shall ensure that a project is created for approved budgeted capital expenditure that clearly describes the item to be acquired. A clear description of the funding source is also required.
- b) Shall release capital funds only after receiving written authority and a clear and concise description of the item to be purchased.
- c) Shall ensure that any changes in the capital budget, with regards to funds transferred or project description changes are communicated to Finance, recording section.
- d) Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the departments and provided to Finance's recording section, in the prescribed format.

### **2.4. The Expenditure Section**

The Expenditure Section:

- a) Shall ensure that invoices authorized for payment are matched to the goods received note before processing such payment.
- b) Shall if any doubt exists as to whether the invoice is in accordance with policy, query the payment with the relevant department and shall not process a payment until the invoice meets the policy criteria

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## 2.5. The Supply Chain Management Section

### 2.5.1 The Supply Chain Management Section:

- a) Shall ensure that the correct material group is allocated to asset acquisitions to enable the creation of the relevant work flow message.
- b) The bid committees must comply with and be constituted in accordance with the Supply Chain Management policy.

### 2.5.2 Expenditure Section: (Storing section)

- a) Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset form and condemnation form, counter signed by Finance Officer are presented.
- b) Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from departments.
- c) Shall compile and circulate a list of unused movable assets to enable other departments to obtain items that are of use to them.
- d) Shall ensure that Budget Section is notified of any auctioning or disposing of written-off asset or asset inventory items.

## 2.6. Human Resources Section

Human Resources Section:

- a) Shall ensure that no monies are paid out on terminations of service without receiving the relevant asset resignation form signed off by the relevant department.
- b) Shall ensure that every asset resignation form is counter signed by the Finance Officer before processing the termination of service.

## 2.7. All other Departments

All Departments:

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- a) Shall ensure that employees in their departments adhere to the approved Asset Management Policies and Procedures.
  - b) Shall ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in his/her department. Budget Section must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the Head of Department.
  - c) Shall ensure that assets are properly maintained in accordance with their respective asset maintenance policy.
  - d) Shall ensure that the assets and / or inventory items of the municipality are not used for private gain.
  - e) Shall ensure that they budget for adequate funds for the purchase of bar coding equipment.
  - f) Shall ensure that all their movable assets as reflected on the Asset Register are bar coded.
  - g) Shall ensure that The Budget Section is notified of any changes in the status of the assets under the departments. This must be done on the prescribed form and include the following:
    - Movements which relate to the writing-off of and transfer of assets (inter departmental transfers).
    - Changes in the estimated useful lives of assets for depreciation purposes.
    - The identification of impairment losses on assets by following the procedures as outlined in this policy document.
  - h) Shall certify in writing that they have assessed and identified impairment losses on all assets at year end.
  - i) Shall ensure that a complete asset verification of all inventory and asset items is done during the course of every financial year and that the results of the verification are reported to Budget Section.
  - j) Shall ensure that all obsolete and broken inventory and asset items, accompanied by the relevant asset form and attached condemnation forms, are handed to the Expenditure: Storing Section without delay.
  - k) Shall be responsible for maintaining and managing their own Departmental Asset Inventory Records (DIR) for items that will not be recorded the in the Asset Register. These inventory assets are acquired via the operational budget. The information to be recorded in the DIR must include the description, quantity and location of the items.

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- l) Shall ensure that the correct cost element and description are being used before authorizing any requisitions.
- m) The detailed projects as created must be categorized and clearly identified as follows:

**Immovable Assets:**

- Infrastructure assets
- Roads
- Buildings
- Land
- Pedestrian Malls
- Recreational Facilities
- Security Measures
- Asset under construction (Only an asset after completion)
- Town Development

**Movable Assets:**

- Office Equipment
- Furniture and Fittings
- Bins and Containers
- Emergency Equipment
- Motor Vehicles
- Plant and Equipment
- Vehicles
- Furniture
- Plant
  
- Small Plant

**Section 3: Format of the Fixed Asset Register**

The fixed asset register shall be maintained in the format determined by the chief financial officer, which format shall comply with the requirements of generally recognised accounting practice (GRAP) and generally accepted municipal accounting practice (GAMAP) and any other accounting requirements which may be prescribed.

The fixed asset register shall reflect the following information:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use
- the location of the asset
- the department(s) or vote(s) within which the assets will be used
- the title deed number, in the case of fixed property
- the stand number, in the case of fixed property
- where applicable, the identification number, as determined in compliance with part 11 below.
- the original cost, or the revalued amount determined in compliance with part 26 below, or the fair value if no costs are available
- the (last) revaluation date of the fixed assets subject to revaluation
- the revalued value of such fixed assets
- who did the (last) revaluation
- accumulated depreciation to date
- the depreciation charge for the current financial year
- the carrying value of the asset
- the method and rate of depreciation
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- the source of financing
- the current insurance arrangements
- whether the asset is required to perform basic municipal services
- whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
- the date on which the asset is disposed of
- the disposal price
- the date on which the asset is retired from use, if not disposed of.

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

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

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

#### **Section 4: Classification of fixed assets**

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

#### **PROPERTY, PLANT AND EQUIPMENT**

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

#### **INVENTORY**

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

#### **INVESTMENT PROPERTY**

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

The Chief Financial Officer shall adhere to the classifications indicated in the annexure on fixed asset lives (see part 33 below), and in the case of a fixed asset not appearing in the annexure shall use the classification applicable to the asset most closely comparable to the asset in question.

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**Section 5: Investment property**

Investment assets shall be accounted for in terms of IAS 40 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of position.

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

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

Investment assets shall not be depreciated, but shall be annually valued on balance sheet date to determine their fair (market) value. Investment assets shall be recorded in the balance sheet at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

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

**Section 6: Fixed assets treated as inventory**

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

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

### **Section 7: Recognition of heritage assets in the Fixed Assets Register**

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

For balance sheet purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

### **Section 8: Recognition of donated assets**

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

### **Section 9: Safekeeping of assets**

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

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

### **Section 10: Identification of fixed assets**

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

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

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

### **Section 11: Procedure in case of loss, theft, destruction of fixed assets**

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

### **Section 12: Capitalisation criteria: Material value**

No item with an initial cost or fair value of less than R5 000 (five thousand rand) – or such other amount as the council of the municipality may from time to time determine on the recommendation of the Municipal Manager – shall be recognised as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.

Every head of department shall, however, ensure that any item with a value in excess of R 250 (two hundred and fifty rand), and with an estimated useful life of more than one year, shall be recorded on a stocksheets. Every head of department shall moreover ensure that the existence of items recorded on such stocksheets is verified from time to time, and at least once in every financial year, and any amendments which are made to such stock sheets pursuant to such stock verifications shall be retained for audit purposes.

### **Section 13: Capitalisation criteria: Reinstatement, maintenance, and other expenses**

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

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

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

#### **Section 14: Maintenance plans**

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

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

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

#### **Section 15: Deferred maintenance**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see part 16 above), the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the Chief Financial Officer shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the head of department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

**Section 16: General maintenance of fixed assets**

Every head of department shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with in part 16 and part 17 above) are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

**Section 17: Depreciation of fixed assets**

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

Depreciation may be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services.

Depreciation shall generally take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed.

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

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

**Section 18: Rate of depreciation**

The Chief Financial Officer shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register. In determining such a useful life the Chief Financial Officer shall adhere to the useful lives set out in the annexure to this document (see part 33 below).

In the case of a fixed asset which is not listed in this annexure, the Chief Financial Officer shall determine a useful operating life, if necessary in consultation with the head of department who

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shall control or use the fixed asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

### **Section 19: Method of depreciation**

Except in those cases specifically identified in part 23 below, the Chief Financial Officer shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

### **Section 20: Amendment of asset lived and diminution in the value of fixed assets**

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

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

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

Similarly, if a fixed asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off the fixed asset register.

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

If any of the foregoing events arises in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalised at a value other than a purely nominal value, such fixed asset shall be partially or fully depreciated, as the case may be, as though it were an ordinary

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depreciable asset, and the department or vote controlling or using the fixed asset in question shall bear the full depreciation expenses concerned.

### **Section 21: Alternative methods of depreciation in specific instances**

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

The Chief Financial Officer shall only employ this method of depreciation if the head of department controlling or using the fixed asset in question gives a written undertaking to the Municipal Manager to provide:

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

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

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

### **Section 22: Creation of Non-Distributable Reserves for future depreciation**

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

The chief financial officer shall thereafter ensure that in the case of depreciable fixed assets an amount equal to the monthly depreciation expenses of the fixed asset concerned is transferred each month from such non-distributable reserve to the municipality's appropriation account. Where there is a difference between the budgeted monthly depreciation expenses and the actual total depreciation expenses for each financial year, the chief financial officer shall appropriately adjust the aggregate transfer from the non-distributable reserve for the year concerned.

**Section 23: Carrying values of fixed assets**

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

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

**Section 24: Revaluation of fixed assets**

All land and buildings recorded in the municipality's fixed asset register shall be revalued with the adoption by the municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another municipality, with the adoption by such municipality of each new valuation roll).

The Chief Financial Officer shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll, provided the Chief Financial Officer is satisfied that such value reflects the fair value of the fixed asset concerned.

The Chief Financial Officer shall also, where applicable, create a revaluation reserve for each such fixed asset equal to the difference between the value as recorded in the valuation roll and the carrying value of the fixed asset before the adjustment in question.

The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its revalued amount, over its remaining useful operating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the department or vote controlling or using the fixed asset in question.

The Chief Financial Officer shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the municipality's appropriation account.

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An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary (see part 24 above).

If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the fixed asset register, the Chief Financial Officer shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question.

Revalued land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation (in the case of buildings).

#### **Section 25: Verification of fixed assets**

Every head of department shall at least once during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

Every head of department shall promptly and fully report in writing to the Chief Financial Officer in the format determined by the chief financial officer, all relevant results of such fixed asset verification, provided that each such asset verification shall be undertaken and completed as closely as possible to the end of each financial year, and that the resultant report shall be submitted to the Chief Financial Officer not later than 30 June of the year in question.

#### **Section 26: Alienation of Fixed assets**

**NOTE:** The reference to the asset financing reserve below is based on the assumption that the reserve is allowed.

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

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

The council shall delegate to the Municipal Manager the authority to approve the alienation of any fixed asset with a carrying value less than R5 000 (five thousand rand). The council shall ensure that the alienation of any fixed asset with a carrying value equal to or in excess of R5 000 (five thousand rand) takes place in compliance with Section 14 of the Municipal Finance Management Act, 2003 (see part 31 below).

Once the fixed assets are alienated, the Chief Financial Officer shall delete the relevant records from the fixed asset register.

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

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

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

**Section 27: Other write-offs of fixed assets**

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

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

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

In every instance where a not fully depreciated fixed asset is written off, the Chief Financial Officer shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned (see also part 22).

**Section 28: Replacement norms**

The Municipal Manager, in consultation with the Chief Financial Officer and other heads of departments, shall formulate norms and standards for the replacement of all normal operational fixed assets. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the council of the municipality for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such

policy shall also provide for the replacement of fixed assets which are required for service delivery but which have become uneconomical to maintain.

**Section 29: Insurance of fixed assets**

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

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If the municipality operates a self-insurance reserve (assuming such reserve to be allowed), the Chief Financial Officer shall annually determine the premiums payable by the departments or votes after having received a list of the fixed assets and insurable values of all relevant fixed assets from the heads of departments concerned.

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

The Chief Financial Officer shall annually submit a report to the council of the municipality on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve.

### **Section 30: Annexure – Fixed asset lives infrastructure assets**

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

#### **\* Electricity**

- Power stations (30)
- Cooling towers (30)
- Transformer kiosks (30)
- Meters (20)
- Load control equipment (20)
- Switchgear (20)
- Supply and reticulation networks (20)
- Mains (20)

#### **\* Roads**

- Motorways (15)
- Other roads (10)
- Traffic islands (10)
- Traffic lights (20)
- Street lights (25)

- 
- Overhead bridges (30)
  - Stormwater drains (20)
  - Bridges, subways and culverts (30)
  - Car parks (20)
  - Bus terminals (20)

**\* Water**

- Mains (20)
- Supply and reticulation networks (20)
- Reservoirs and storage tanks (20)
- Meters (15)
- Rights (that is, the right to draw water from a particular source belonging to another party) (20)

**\* Sewerage**

- Sewer mains (20)
- Outfall sewers (20)
- Sewage purification works (20)
- Sewerage pumps (15)
- Sludge machines (15)

**\* Security measures**

- Access control systems (5)
- Security systems (5)
- Security fencing (3)

**COMMUNITY ASSETS**

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

**\* Buildings and other assets**

- Cemeteries (30) #
- Community centres (30)
- Fire stations (30)

- 
- Libraries (30)
  - Museums and art galleries (30)
  - Parks (30)
  - Recreation centres (30)
  - Sports and related stadiums (30)

**\* Recreation facilities**

- Bowling greens (20)
- Tennis courts (20)
- Swimming pools (20)
- Golf courses (20)
- Jukskei pitches (20)
- Outdoor sports facilities (20)
- Organs (that is, pipe organs that are fixtures in a municipal hall or other centre) (20)
- Lakes and dams (20)
- Fountains (20)
- Flood lighting (20)
- # Sum-of-units method of depreciation may be preferred.

**HERITAGE ASSETS**

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

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

## INVESTMENT ASSETS

It is not possible to provide an exhaustive list of investment assets, as the actual list will depend very much on the local circumstances of each municipality. However, the following will be among the most frequently encountered:

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

## OTHER ASSETS

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

### \* Buildings

- Cable stations (30)
- Caravan parks (30)
- Compacting stations (30)
- Housing schemes (30)
- Office buildings (30)
- Training centres (30)
- Transport facilities (30)
- Workshops and depots (30)

### \* Office equipment

- Computer hardware (5)
- Computer software (3-5)
- Office machines (3-5)
- Air conditioners (5-7)

### \* Furniture and fittings

- Chairs(7-10)

- Tables and desks (7-10)
- Cabinets and cupboards (7-10)

**\* Bins and containers**

- Household refuse bins (5)
- Bulk refuse containers (10)

**\* Emergency equipment**

- Fire hoses (5)
- Other fire-fighting equipment (15)
- Emergency lights (5)

**\* Motor vehicles**

- Fire engines (20)
- Trucks and light delivery vehicles (5-7)
- Ordinary motor vehicles (5-7)
- Motor cycles (3)

**\* Plant and equipment**

- Graders (10-15)
- Tractors (10-15)
- Mechanical horses (10-15)
- Farm equipment (5)
- Lawn mowers (2)
- Compressors (5)
- Radio equipment (5)
- Firearms (5)
- Telecommunication equipment (5)
- Cable cars (15)
- Irrigation systems (15)
- Cremators (15)
- Lathes (15)
- Filling equipment (15)

- 
- Conveyors (15)
  - Feeders (15)
  - Tippers (15)
  - Pulverising mills (15)
  - # Sum-of-units may be preferred.

### **Section 31: Annexure – Paraphrase of Section 14 of the Municipal Finance Management Act, 2003**

A municipality may not alienate any capital asset required to provide a minimum level of basic municipal services.

A municipality may alienate any other capital asset, but provided

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