AMAJUBA DISTRICT MUNICIPALITY

ASSET MANAGEMENT POLICY

Approved and adopted by Council on: __________

TABLE OF CONTENTS

Page

ABBREVIATIONS

AFS	Annual Financial Statements
AM	Asset Management
AMS	Asset Management System
CFO	Chief Financial Officer
GIS	Geographical Information System
GRAP	Generally Recognised Accounting Practice
FAR	Fixed Asset Register
MFMA	Municipal Finance Management Act
OHSA	Occupational Health and Safety Act
O&M	Operation and Maintenance
R	Rand
SDBIP	Service Delivery and Budget Implementation Plan
SCM	Supply Chain Management
TOR	Terms of Reference
VAT	Value Added Tax

1 BACKGROUND

1.1 CONSTITUTIONAL AND LEGAL FRAMEWORK

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

- ensuring the provision of services to communities in a sustainable manner;
- promoting social and economic development;
- promoting a safe and healthy environment;

The manner in which a municipality manages its fixed assets is central to meeting the above challenges. Accordingly, the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal assets with the Municipal Manager.

The Occupational Health and Safety Act (OHSA) requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its assets safe.

1.2 ACCOUNTING STANDARDS

The MFMA requires municipalities to comply with the Standards of Generally Recognised Accounting Practice (GRAP), in line with international practice. The Accounting Standards Board (ASB) has approved a number of Standards of Generally Recognised Accounting Practice (GRAP). When compiling a Fixed Asset Register in accordance with the accounting standards, the requirements of GRAP 17 cannot be seen in isolation. Various other accounting standards impact on the recognition and measurement of assets within the municipal environment and should be taken into account during the compilation of a GRAP compliant asset register. The following Standards of GRAP significantly impacts on the recognition and measurement of assets within the municipal environment:-

GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases (deemed finance leases);
GRAP 16	Identification of items to be treated as Investment Properties
GRAP 17	Property Plant and Equipment
GRAP 21	Impairment of non-cash generating assets
GRAP 26	Impairment of cash generating assets
GRAP 27	Agriculture
GRAP 31	Intangible assets
GRAP 100	Discontinued Operations
GRAP 103	Heritage assets

2 OBJECTIVES

The objective of this policy is to:

- implement accrual accounting in terms of prevailing accounting standards; and
- applying asset management practice in a consistent manner and in accordance with legal requirements and recognised good practice.

3 APPROVAL AND EFFECTIVE DATE

The Municipal Manager is responsible for the submission of this document to Council to consider its adoption. Although Council shall indicate the effective date for implementation of the policy compliance with legal requirements and effective accounting standards are not postponed till implementation date of this policy.

4 KEY RESPONSIBILITIES

Municipal Manager

The Municipal Manager is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

The Municipal Manager shall ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The municipality's assets are valued in accordance with the standards of generally recognised accounting practice (GRAP);
- The municipality has and maintains a system of internal control of assets, including an asset register; and
- The Senior Managers and their teams comply with this policy.

As Accounting Officer of the municipality, the Municipal Manager shall be the principal custodian of all the municipality's fixed assets, and shall be responsible for ensuring that this policy is effectively applied upon adoption by Council. To this end, the Municipal Manager shall be responsible for the preparation, in consultation with the CFO and Senior Managers, of procedures to effectively and efficiently apply this policy.

Chief Accounting Officer

The Chief Financial Officer (CFO) is responsible to the Municipal Manager to ensure that the financial investment made in the municipal assets is safeguarded and maintained.

The CFO, as one of the Senior Managers of the municipality, shall also ensure, in exercising his/her financial responsibilities, that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- All revenue due to the municipality is collected, for example rental income relating to assets;

- The systems, procedures and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of the Auditor-General;
- Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- The Senior Managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- This policy and support procedures are established, maintained and effectively communicated.

The CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed. The CFO shall be the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained. No amendments, deletions or additions to the fixed asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

Senior Manager

Senior Managers (the managers directly accountable to the Municipal Manager) shall ensure that:

- Appropriate systems of physical management and control are established and carried out for all fixed assets;
- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- Procedures are adopted and implemented in conformity with this policy to produce reliable data to be captured into the municipal asset register;
- Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
- The asset management system, processes and controls can provide an accurate, reliable and up to date account of assets under their control;
- They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives;
- Manage the asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.

The Senior Managers may delegate or otherwise assign responsibility for performing these functions but they shall remain accountable for ensuring these activities are performed.

5 POLICY AMENDMENT

Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the Municipal Manager in consultation with the CFO and respective Senior Managers. These recommendations shall be considered for adoption by Council.

6 RELATIONSHIP WITH OTHER POLICIES

This policy, once effective, will replace the pre-existing Asset Management Policy.

This policy needs to be read in conjunction with other relevant policies of the municipality, including the following adopted documents:

- Delegations Register
  Identifying the processes surrounding the establishment of delegated authority.
- SCM policy
  Regulating all processes and procedures relating to acquisitions.
- Budget policy
  The processes to be followed during the budget process as well as pre-determined prioritisation methodology,
- Accounting Policy
  Governed by the Accounting standards, the accounting policy determines the basis recognition, measurement and recording of all transactions.
- Risk Management Policy
  The policy promotes effective and efficient asset utilisation.

7 POLICY FOR FIXED ASSET ACCOUNTING

7.1 FIXED ASSET RECOGNITION

(a) Definitions and rules

Asset
An asset is defined as a resource controlled by an entity as a result of past events and from which future economic benefits or service potential associated with the item will flow to the entity.

Fixed Asset
A fixed asset is an asset with an expected useful life greater than 12 months.

Useful Life
Useful life is defined as the period over which an 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 asset by an entity.

Control
An item is not recognised as an asset unless the entity has the capacity to control the service potential or future economic benefit of the asset, is able to deny or regulate access of others to that benefit, and has the ability to secure the future economic benefit of that asset

Past transactions or events
Assets are only recognised from the point when some event or transaction transferred control to an entity.

Probability of the flow of benefits or service potential
The degree of certainty that any economic benefits or service potential associated with an item will flow to the municipality is based on the judgement. The Municipal Manager shall exercise such judgement on behalf of the municipality, in consultation with the CFO and respective Senior Manager.

Economic benefits
Economic benefits are derived from assets that generate net cash inflows.

Service Potential
Assets have service potential if they have the capacity, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality, such as the provision of services.

Tangible assets
Tangible fixed assets can be either movable or immovable. Moveable assets are assets that can be moved (such as machinery, equipment, vehicles and furniture). Immoveable assets are fixed structures such as buildings and roads. Plant that is built-in to the fixed structures and is an essential part of the functional performance of the primary asset is considered an immoveable asset (though it may be temporarily removed for repair).

Intangible assets
Intangible assets are defined as identifiable non-monetary assets without physical substance. Examples are licenses/rights, (such as water licenses), servitudes, and software. The assets must either be separable (able to be sold, transferred, or rented) or arise from contractual rights.

Leased assets

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases are categorised into finance and operating leases. A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred (substance over form). Where the risks and rewards of ownership of an asset are substantially transferred, the asset in respect of that finance lease is recognised as a fixed asset. Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an operating lease and payments are expensed in the income statement on a systematic basis (straight line basis over the lease term).

Situations that would normally lead to a lease being classified as a finance lease include the following: [GRAP 13]

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than fair value at the date the option becomes exercisable that, at the inception of the lease, it is reasonably certain that the option will be exercised;
- the lease term is for the major part of the economic life of the asset, even if title is not transferred;
- at the inception of the lease, the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;

- The lease assets are of a specialised nature such that only the lessee can use them without major modifications being made.

Asset custodian

The department that controls an asset, as well as the individual that is responsible for the operations associated with such asset in the department, is identified by the respective Senior Manager and will be responsible for the asset.

Reliable measurement

Items are recognised that possess a cost or fair value that can be reliably measured in terms of this policy.

(b) Policy: Fixed assets recognition

The municipality shall recognise all fixed assets existing at the time of adoption of this policy, and the development of new, upgraded and renewed fixed assets on an ongoing basis. Such assets shall be capitalised in compliance with prevailing accounting standards.

(c) Responsibilities regarding recognition of assets

- The CFO, in consultation with the Municipal Manager and Senior Managers, shall determine effective procedures for the recognition of existing and new fixed assets.
- Every Senior Manager shall ensure that all fixed assets under their control are correctly recognised as fixed assets.
- Every Senior Manager shall keep an inventory of items that have a useful life of greater than one year but have not been capitalised.
- The Municipal Manager shall make recommendations to the Council as to the threshold monetary value for fixed assets for which accelerated depreciation shall apply.
- The CFO shall keep a lease register with the following minimum information: name of the lessor, description of the asset, fair value of the asset at inception of the lease, lease commencement date, lease termination date, economic useful life of the asset, lease payments, and any restrictions in the lease agreement.

7.2 CLASSIFICATION OF FIXED ASSETS

(a) Definitions and rules

Fixed asset categories

Fixed assets are grouped for accounting purposes, as follows:

- Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the municipality's operations, that is shown as a single item for the purposes of disclosure in the financial statements);
- Intangible assets;
- Heritage assets
- Investment property.
- Assets of discontinued operations

Property, plant and equipment (PPE)

PPE are defined as tangible items that are held for use in the production or supply of goods or services, or for administration purposes and are expected to be used for more than one reporting period.

Reliability of measurement

In many cases the cost or value of an asset must be estimated; the use of a reasonable estimate is essential. Where a reasonable estimate cannot be made the asset should not be recognised.

Probability of the flow of benefits or service potential

The degree of certainty that any economic benefits or service potential associated with an item will flow to the municipality is based on the judgement. The Municipal Manager shall exercise such judgement on behalf of the municipality, in consultation with the CFO and respective Senior Manager. In the event that it is not probable that there will be an inflow, the asset should not be recognised.

Spares

Major spare parts are recognised as an item of PPE immediately when they are available for use (ex. in the stores). Dedicated spares (ones that can only be used for specific assets) are also recognised as PPE regardless of value.

Items used irregularly

Tangible items that are used in the production or supply of goods or services on an irregular basis (such as standby equipment) are recognised as items of PPE.

Class of PPE

A class of PPE is defined as a group of assets of a similar nature or function in the municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

PPE Asset hierarchy

An asset hierarchy is adopted for PPE which enables separate accounting of parts (or components) of an asset that are considered significant to the municipality from a financial point of view, and for other reasons determined by the municipality, including risk management (in other words, taking into account the criticality/materiality of components) and alignment with the strategy adopted by the municipality in asset renewal (for example the extent of replacement or rehabilitation at the end of life). In addition, the municipality may aggregate relatively insignificant items to be considered as one asset.

PPE: Land

Land encompasses both undeveloped and developed land owned by the municipality.

PPE: Buildings

Buildings are immovable assets and structures other than infrastructure assets and include community assets, administrative buildings, residential, and non-residential dwellings.

PPE: Infrastructure

Infrastructure assets are immovable assets which are part of a network of similar assets and are specialised in nature.

PPE: Other assets
Other assets are movable assets such as vehicles, equipment, and furniture and fittings.

PPE: Housing
Rental stock or housing not held for capital gain. This only applies to staff housing.

Intangible assets
Intangible assets are defined as identifiable non-monetary assets without physical substance. Examples are licenses/rights, (such as water licenses), servitudes, and computer software. There is no asset hierarchy for intangible assets; each functional item will be individually recorded.

Heritage assets
Heritage assets are assets of cultural, historic or environmental significance, such as monuments, nature reserves, and works of art. The accounting treatment of heritage assets is regulated by GRAP 103.

Investment property
Investment property is defined as property (land and/or a building) held (by the owner or the lessee under a finance lease) to earn rentals or for capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operations). Examples of investment property are office parks, shopping centres or housing financed and managed by a municipality (or jointly with other parties). There is no asset hierarchy for investment property; each functional item will be individually recorded. Land held for a currently undetermined use is recognised as investment property until such time as the use of the land has been determined.

Assets of Discontinued Operations
Discontinued operation is a component of an entity that has been disposed of and:
(a) represents a distinguishable activity, group of activities or geographical area of operations;
(b) is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
(c) is a controlled entity acquired exclusively with a view to resale?

In the case of a fixed asset not appearing in the adopted classification structure, a classification that is most closely comparable to the asset in question is used.

(b) Policy on classification of assets

The following categories and sub-categories shall be used at the highest level of the fixed asset classification structure:

Category	Sub category
PPE	Land
	Buildings
	Infrastructure

	Assets under construction
	Other (Movables)
	Biological or cultivated assets
Intangible assets	Computer software
	Rights and Servitudes
Heritage assets	Heritage assets
Investment Properties	Rented properties
	Land with undetermined use
Assets of Discontinued Operations	Discontinued Operations

PPE shall be disclosed in the notes of the financial statements at the sub-category level. In Appendix B to the financial statements, PPE will be disclosed at asset class level:

Sub category	Asset class
Land	Developed land
	Undeveloped land
Buildings	Residential buildings
	Non-residential buildings
Infrastructure assets	Roads and stormwater
	Sewerage
	Water
Assets under construction	Infrastructure
	Buildings
	Other
Other	Computer equipment
	Leased Assets
	Furniture and office equipment
	Machinery and equipment
	Transport assets
Intangible assets	Computer software
	Rights and servitudes
Heritage assets	Heritage assets
Biological or cultivated assets	Biological or cultivated assets

Asset hierarchies shall be adopted for each of the PPE sub-categories, separately identifying items of PPE that are significant from a financial or risk perspective, and, where applicable, grouping items that are relatively insignificant.(See Annexures A –Annexure D attached)

(c) Responsibilities regarding classification of assets

- The CFO shall ensure that the classification of fixed assets adopted by the municipality complies with the statutory requirements.
- The CFO shall consult with the Senior Managers responsible for fixed assets to determine an effective and appropriate asset hierarchy for each asset class of PPE.
- Every Senior Manager shall ensure that all fixed assets under their control are classified correctly.

7.3 IDENTIFICATION OF FIXED ASSETS

(a) Definitions and rules

Asset coding

An asset coding system is the means by which the municipality is able to uniquely identify each fixed asset (at the lowest level in the adopted asset hierarchy) in order to ensure that it can be accounted for on an individual basis.

(b) Policy regulating identification of fixed assets

A coding system shall be adopted and applied that will enable each fixed asset (at the lowest level in the adopted asset hierarchy) to be uniquely and readily identified. Each moveable fixed asset shall be marked with its respective code.

(c) Responsibilities for identification of fixed assets

- The Municipal Manager shall develop and implement a fixed asset coding system in consultation with the CFO and other Senior Managers to meet the policy objective.
- Senior Managers shall ensure that all the fixed assets under their control are correctly coded.
- Senior Managers shall ensure that the respective asset codes are fixed to all moveable assets under their control.

7.4 FIXED ASSET REGISTER

(a) Definitions and rules

Fixed asset register

A fixed asset register is a database of information relating to each fixed asset (at the lowest level in the fixed asset hierarchy). The fixed asset register is structured in line with the adopted classification structure. The scope of data in the register is sufficient to facilitate the application of the respective accounting standards for each of the asset classes, and the strategic and operational asset management needs of the municipality.

Updating data in the asset register
The fixed asset register is updated by an Asset Management Accountant only when authorised to do so by the CFO. The Asset Management Accountant is precluded from being a custodian of any assets.

(b) Policy covering fixed asset register

A fixed asset register shall be established to provide the data required to apply the applicable accounting standards, as well as other data considered by the municipality to be necessary to support strategic asset management planning and operational management needs. The fixed asset register shall be updated and reconciled to the general ledger on a monthly basis.

(c) Responsibilities related to keeping fixed asset register

- The CFO shall define the format of the fixed asset register in consultation with the Municipal Manager and the Senior Managers, and shall ensure that the format complies with the prevailing accounting standards and disclosure requirements.
- Senior Managers shall provide the CFO with the data required to establish and update the asset register in a timely fashion.
- The CFO shall establish procedures to control the completeness and integrity of the asset register data.
- The CFO shall ensure proper application of the control procedures.

7.5 MEASUREMENT OF FIXED ASSETS AT RECOGNITION

(a) Definitions and rules

Measurement at recognition of PPE
An item of PPE that qualifies for recognition is measured at cost. Where an asset is acquired at no or nominal cost (for example in the case of donated or developer-created assets), its cost is deemed to be its fair value at the date of acquisition. In cases where it is impracticable to establish the cost of an item of PPE, such as recognising fixed assets for which there are no records, or records cannot be linked to specific assets, its cost is deemed to be its fair value.

Fair value
Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market values obtained from a qualified valuer can be used where there is an active and liquid market for assets (for example land, non-specialised buildings such as offices, motor vehicles, and some types of plant and equipment). In the case of specialised buildings (such as community buildings) and infrastructure where there is no such active and liquid market, a depreciated replacement cost (DRC) approach may be used. Assessments of fair value are to be made by professionals with qualifications and appropriate knowledge and experience in valuation of the respective assets.

Cost of an item of PPE
The capitalisation value comprises (i) the purchase price and (ii) any directly attributable costs necessary to bring the asset to its location and condition necessary for it to be operating in the manner intended by the municipality, plus (iii) an initial estimate of the costs of dismantling

and removing the item and restoring the site on which it is located. VAT is excluded (unless the municipality is not allowed to claim input VAT paid on purchase of such assets - in such an instance, the municipality should capitalise the cost of the asset together with VAT).

Directly attributable costs

Directly attributable costs are defined as:

- Employee costs arising directly from the construction or acquisition of the item of PPE
- Costs of site preparation;
- Initial delivery and handling costs;
- Installation and assembly costs;
- Commissioning; and
- Professional fees (for example associated with design fees, supervision, and environmental impact assessments).

Exchanged PPE assets

In cases where assets are exchanged, the cost is deemed to be the fair value of the acquired asset and the disposed asset is de-recognised.

PPE finance leases

Once a lease is deemed to be a finance lease, the asset is capitalised at the lower of the fair value of the asset or the present value of future lease payments, using the relevant discounting rate at the date of signing of the lease agreement.

Depreciated replacement cost

The depreciated replacement cost (DRC) approach requires information on the expected useful life (EUL), residual value (RV), current replacement cost (CRC), and remaining useful life (RUL) of each of the asset components. The CRC is the product of a unit rate and the extent of the component and represents the cost of replacing the asset, and in cases where the existing asset is obsolete, the replacement with a modern equivalent. The depreciable portion of an asset is determined by subtracting the residual value from the CRC. The depreciated replacement cost (DRC) is established by proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the expected useful life.

Accordingly, the following formula is used:

DRC = ((CRC – RV) x RUL/EUL) + RV

Replacement costs are “green field”, unless there is evidence of definite cost variance due to “brown-field” modifications. Capital unit costs vary from site to site and provision is made for site specific influencing factors (e.g. topography). Capital unit costs are also influenced by macro-economic driving forces such as “supply-and-demand”, economy of scale, financial markets and availability of contractors, and the impact of these factors are reflected in the capital unit rates where applicable. Adjustments of rates for escalation to the valuation date are applied.

Self-constructed assets

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality. All assets that can be classified as fixed assets and that are constructed by the municipality should be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Proper records are kept such that all costs associated with the construction of these assets are completely and accurately accounted for as capital under construction, and upon completion of the asset, all costs (both direct and indirect) associated with the construction of the asset are summed and capitalised as an asset.

Borrowing costs
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. Borrowing costs shall be capitalised if related to construction of a qualifying asset to get ready for its intended use or resale and external funding is sourced to fund the project.

Capitalisation of borrowing costs shall be suspended when active development on the qualifying asset is suspended. Capitalisation of borrowing costs shall cease when all of the activities necessary to prepare the affected assets for their intended use are complete. An asset is ready for its intended use when the physical construction of the asset is complete.

Investment property
Where available, initial recognition will take place on the cost model. Should relevant cost data not be available, a fair value determination will be made by using the valuation roll of the local municipality in whose area of jurisdiction the property is situated.
Subsequent measurement and disclosure will be subject to an annual fair value assessment.

Intangible assets
An item of intangible asset acquired by the municipality is recognised at cost. Where an intangible asset is acquired at no or nominal cost (for example in the case of donated or developer-created), or reliable costs data is not available, its cost is deemed to be its fair value at the date of acquisition.

(b) Policy on recognition of fixed assets

Fixed assets that qualify for recognition shall be capitalised at cost.

In cases where complete cost data is not available or cannot be reliably linked to specific assets, the fair value of fixed assets deemed to be cost shall be adopted on the following basis:

- PPE infrastructure, community assets, other assets, staff housing (moveable and immoveable);: depreciated replacement;
- PPE land: values from the valuation roll of relevant local municipality;
- Heritage assets: no value shall be indicated;
- Investment property: values from the valuation roll of relevant local municipality;
- Intangible assets: depreciated replacement cost.

Where an asset is acquired through a non-exchange transaction or where costs data is not available, its cost shall be deemed to be its fair value as at the date of acquisition. The measurement at recognition of an item of property, plant and equipment, acquired through a non-exchange transaction at its fair value does not constitute a revaluation but is deemed to be cost.

(c) Responsibilities for recognition of fixed assets

- The CFO, in consultation with the Municipal Manager and Senior Managers, shall determine effective procedures for the capitalisation of fixed assets on recognition.
- Every Senior Manager shall ensure that all fixed assets under their control are correctly capitalised.

7.6 MEASUREMENT AFTER RECOGNITION

(a) Definitions and rules

Options
Accounting standards allow measurement after recognition on either a cost or revaluation model. Different models can be applied, providing the treatment is consistent per asset class.

Cost model
After recognition, an asset is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation model
After recognition, an asset (whose value can be measured reliably) is carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. When revaluations are conducted, the entire class of assets should be revalued. Revaluation is to be executed by persons with suitable professional qualifications and experience. Any change to an asset's carrying amount as a result of revaluation, is credited (or deducted from any surplus from previous revaluations) in the Revaluation Reserve.

Once the revaluation model has been selected as the accounting model for specific classes of PPE, it applies to an entire class of PPE. Thus, if an item of PPE is revalued, the entire class of PPE to which that asset belongs has to be revalued to prevent selective revaluation. A class of PPE is defined as a grouping of assets of a similar nature and use in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

The revaluation surplus is transferred to accumulated surpluses/deficits on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred from the revaluation reserve to the municipality's appropriation account. An adjustment of the aggregate transfer is to be made at the end of each financial year.

Statutory inspections
The cost of a regular major statutory inspection that is required for the municipality to continue to operate an asset is recognised at the time the cost is incurred, and any previous statutory inspection cost is de-recognised.

Expenses to be capitalised
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 are capitalised. Such expenses are recognised once the municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) – prior to this, the expenses are recorded as work-in-progress. Expenses incurred in the maintenance or repair (reinstatement) of a fixed asset that ensures that the useful operating life of the asset is attained, shall be considered as operating expenses and are not capitalised, irrespective of the quantum of the expenses concerned.

Spares
The location of capital spares shall be amended once they are placed in service, and re-classified to the applicable PPE asset sub-category.

(b) Policy for measurement subsequent to initial recognition

GRAP 17 permits two accounting models:

The Cost Model: The asset is carried at cost less accumulated depreciation and impairment losses.
The Revaluation Model: The asset is carried at a revalued amount, being its fair value at the date of the revaluation, less subsequent depreciation, provided that fair value can be measured reliably.

The measurement at recognition of an item of property, plant and equipment, acquired through a non-exchange transaction or an asset without cost data, at its fair value does not constitute a revaluation but is deemed to be cost for initial recognition.

Amajuba District Municipality has chosen to adopt the cost model as its accounting policy to all classes of property, plant and equipment. Property, plant and equipment is carried at cost (including deemed cost) less accumulated depreciation and impairment losses.

The cost model has also been adopted for Intangible assets. Intangible assets are subsequent to initial recognition measured at cost less accumulated depreciation

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Subsequently a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

Assets of Discontinued Operation that are going to be sold rather than used are measured at the lower of their fair value less costs to sell and their carrying value at transfer.

Subsequent to initial measurement investment property is measured at fair value. The fair value of investment property is based on the valuation roll values of the local municipality in whose jurisdiction the investment property is situated.

Fair value is determined when a new valuation roll is implemented by the local municipality for property tax purposes. A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

(c) Responsibilities for subsequent measurement

- The CFO, in consultation with the Municipal Manager and Senior Managers, shall determine effective procedures for the ongoing capitalisation of fixed assets after recognition.
- Every Senior Manager shall ensure that all capital expenses associated with fixed assets under their control are correctly capitalised.
- Every Senior Manager shall ensure that revaluations are conducted where applicable to fixed assets under their control.

7.7 DEPRECIATION

(a) Definition and rules

Depreciation
Depreciation is the systematic allocation of the depreciable amount of an asset over its remaining useful life. (The amortisation of intangible assets is identical).

Land is considered to have unlimited life and are not depreciated.

Depreciable amount
The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Residual value
The residual value 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.

The residual values of assets are indicated in the form of a percentage. In the case of assets measured after recognition on the cost model, the percentage is of the initial cost of acquisition. In the case of assets measured after recognition on the revaluation model, the percentage is of the modern equivalent replacement value.

Depreciation method
Depreciation of PPE is applied at the component level. A range of depreciation methods exist and can be selected to model the consumption of service potential or economic benefit (for example the straight line method, diminishing amount method, fixed percentage on reducing balance method, sum of the year digits method, production unit method).

Remaining useful life
The remaining useful life of a depreciable fixed asset is the time remaining until an asset ceases to provide the required standard of performance or economic usefulness.

The useful life of all depreciable fixed assets at initial recognition is the same as the expected useful life indicated in Annexures attached to this policy. These figures have been established using available information on industry norms, experience of local influencing factors (such as climate, geotechnical conditions, and operating conditions), the life-cycle strategy of the municipality, potential technical obsolescence, and any legal limits on the use of the asset. Where such are outside the guideline figures provided by National Treasury, motivation is required.

Depreciation charge
Depreciation starts once an asset is recognised and available for use and ceases when it is de-recognised or classified as non-current assets held for sale.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 usage methods of depreciation the depreciation charge can be zero while there is no production. Depreciation is initially calculated when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by the municipality.

Carrying amount
The carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Capital spares
The depreciation of capital spares commences immediately when they are available in the stores. The depreciation continues once they are placed in service, or subsequently removed from service.

(b) Policy on depreciation of fixed assets

All fixed assets, except land and investment properties shall be depreciated over their expected useful lives.

In all cases, the straight line method of depreciation shall be used. The depreciation charge for each period shall be recognised as an expense.

It is the municipality's intention to utilise all assets, with the exception of motor vehicles, for their full economical life, as a result the residual values for all assets, except motor vehicles, are set at zero.

Residual values in respect of motor vehicles are set at a percentage of the original cost that will be determined based on the average proceed received on the sale of the assets. This percentage will be reviewed on an annual basis.

The depreciation method, remaining useful life and residual values shall be reviewed at each reporting date.

(c) Responsibilities for depreciation of fixed assets

- Every Senior Manager shall ensure that a budgetary provision is made for the depreciation of the fixed assets under their control in the ensuing financial year, in consultation with the CFO.

- Every Senior Manager shall review the expected useful life stated in the Annexures to this policy of assets that are under their control and motivate to the Municipal Manager and CFO any adjustments if, in the judgement of the Senior Manager, such are not considered appropriate.
- The CFO shall ensure that depreciation charges are debited on a monthly basis and that the fixed asset register is reconciled with the general ledger.

7.8 ANNUAL ASSESSMENTS AND VERIFICATION OF FIXED ASSETS

(a) Definitions

Impairment
Impairment is defined as 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.

Indications of impairment
The municipality must each year test assets for impairment losses if, and only if, there has been an indication of any of the following:

- external sources of information:
  - decline or cessation in demand;
  - changes in the technological, legal or government policy environment; or
- internal sources of information:
  - evidence of physical damage;
  - evidence of obsolescence;
  - construction is halted before it is usable or complete; or
  - evidence that service performance is significantly worse than expected; or
- other indications, such as loss of market value.

The municipality must however test all intangible assets that have indefinite useful life and those not yet available for use, annually for impairment irrespective of whether there is an indication of impairment.

The municipality must only record impairments that are significant and have an enduring adverse effect (material and long-term impact). The events and circumstances in each instance must be recorded. Where there are indications of impairment, the municipality must also consider adjustment of the remaining useful life, residual value, and method of depreciation.

Impairment loss
An impairment loss of a non-cash-generating unit or asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount is the higher of the fair value less costs to sell and its value in use.

An impairment loss of a cash-generating unit (asset or smallest group of assets that generate cash inflows) is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the net selling price and its value in use.

Non-cash-generating units

Non-cash-generating units are those assets (or group of assets) that are not held with the primary objective of generating a commercial return. This would typically apply to assets providing goods or services for community or social benefit, such as infrastructure and community facilities. Typically there will not be an active market for such assets, and in such cases the municipality may use the asset's value in use as its recoverable service amount. The value in use of a non-cash generating unit is defined as the present value of the asset's remaining service potential. This can be determined using any of the following approaches:

- the Depreciated Replacement Cost (DRC) approach (and where the asset has enduring and material over-capacity, for example in cases where there has been a decline in demand, the Optimised Depreciated Replacement Cost (ODRC) approach may be used);
- the restoration cost approach (the Depreciated Replacement Cost less cost of restoration) – usually used in cases where there has been physical damage; or
- the service units approach (which could be used for example where a production units model of depreciation is used).

Where the present value of an asset's remaining service potential (determined as indicated above) exceeds the carrying value, the asset is not impaired – this will normally be the case unless there has been a significant and enduring event as indicated above.

Cash-generating unit

Cash-generating units are those whose assets are held with the primary objective of generating a commercial return. However, when the municipality adopts the fair value model for investment property, impairment does not apply.

When the cost model is adopted, fair value is determined in accordance with the rules indicated for measurement after recognition. Costs to sell are the costs directly attributable to the disposal of the asset (for example agents fees, legal costs), excluding finance costs and income tax expenses. The value in use is determined by estimating the future cash inflows and outflows from the continuing use of the asset and at the end of its useful life, including factors to reflect risk in the respective cash-flows, and the time value of money.

Recognition of impairment

The impairment loss is recognised as an expense when incurred (unless the asset is carried at a revalued amount, in which case the impairment is carried as a decrease in the Revaluation Reserve, to the extent that such reserve exists). After the recognition of an impairment loss, the depreciation charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Once an asset has been impaired to such an extent that no future economic benefit is likely to flow from the asset, it is derecognised and the carrying amount of the asset at the time of de-recognition, less any economic benefit from the disposal of the asset, is debited to the statement of financial performance as a "Loss on Disposal of Asset".

In the event of compensation received for damages to an item of PPE and the item is not to be repaired to its original state, the compensation is considered as the asset's ability to generate income and is disclosed under Sundry Revenue; and the asset is impaired. Should repairs be performed, the compensation is offset against the repair cost.

Reversing an impairment loss

The municipality must assess each year from the sources of information indicated above whether there is any indication that an impairment loss recognised in previous years may no longer exist or may have decreased. In such cases, the carrying amount is increased to its recoverable amount (providing that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods). Any reversal of an impairment loss is recognised as a credit in the surplus/ (deficit), unless the asset is carried at a revalued amount and the impairment loss was previously treated as a revaluation decrease in the Revaluation Reserve, in which case the reversal of the impairment loss is carried to the Revaluation Reserve as a revaluation increase, to the extent that such reserve exists.

(b) Policy on assessment and verification if fixed assets

Impairment of fixed assets shall be recognised as an expense in the Statement of Financial Performance when it occurs. Ad-hoc impairment shall be identified as part of normal operational management as well as scheduled annual inspections of the assets.

(c) Responsibilities regarding verification of fixed assets

- The CFO shall indicate a fixed annual date for the review of remaining useful life of assets under the control of the respective Senior Managers.
- The Senior Managers shall review the remaining useful life of all assets under their control at the annual review date, and from time to time as a result of any events that come to their attention that may have a material effect on some or all such assets. The Senior Manager shall motivate to the CFO proposed changes to the remaining useful of such assets.
- The Senior Manager should evaluate all the assets for impairment, taking into consideration any discussions with the Senior Accountants and Operating Managers.
- The Asset register administrator should update the fixed asset register with the information received, relating to the financial management system where the impairment journals have been processed
- The CFO shall report changes made to the carrying values of these assets in the asset register to the Municipal Manager and Council.

7.9 DE-RECOGNITION

(a) Definition and rules

De-recognition

A fixed asset is derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal.

The carrying amount of an asset and the net disposal proceeds (or cost of de-commissioning and/or disposal of an asset) shall be included in the surplus or deficit when the item is derecognised.

Disposal of assets should be approved by Council and where applicable at market-related value (or auction/tender in the case of moveable assets). Section 14 of the MFMA prohibits the disposal of assets needed to provide the minimum level of basic municipal services.

A fixed asset will remain in the fixed assets register for as long as it is in physical existence or is yet to be written off.

(b) Policy covering de-recognition of assets

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

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

(c) Responsibilities for applying policy on de-recognition

- An asset shall be written off only on the recommendation of the Senior Manager of the department controlling the asset, and with the approval of the Municipal Manager.
- Assets that are replaced should be written off and removed from the asset register.
- The Municipal Manager, in consultation with the CFO and other Senior Managers shall formulate norms and standards for the replacement of all normal operational fixed assets.

7.10 INSURANCE OF FIXED ASSETS

(a) Definition and rules

Insurance provides selected coverage for the accidental loss of asset value.

Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury. The municipality can however elect to insure certain infrastructure risks, though approval must be obtained from the Council.

The municipality may elect to operate a self-insurance reserve, in which case the CFO 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 Senior Managers concerned.

(b) Policy on insurance of fixed assets

The Municipal Manager shall ensure that material movable assets in value and substance are insured at least against destruction, fire and theft, and that all municipal buildings are insured at least against fire and allied perils. 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.

(c) Responsibilities for insurance of fixed assets

- 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 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, and where applicable asset classes shall be prioritised in terms of their risk exposure and value.
- In the event that the CFO is directed by Council to establish a self-insurance reserve, 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.

8 POLICY FOR SAFEGUARDING FIXED ASSETS

(a) Definitions and rules

The municipality applies controls and safeguards to ensure that fixed assets are protected against improper use, loss, theft, malicious damage or accidental damage.

The existence of assets is physically verified from time–to-time, and measures adopted to control their use and movement.

(b) Policy for safeguarding of fixed assets

An asset safeguarding plan shall be prepared for all assets indicating measures that are considered effective to ensure that all fixed assets under control of the municipality are appropriately safeguarded from inappropriate use or loss. The impact of budgetary constraints on such measures shall be reported to Council. The existence, condition and location of assets shall be verified bi-annually (in line with the assessment of impairment). No asset may be moved without the prior consent of the respective Senior Manager and notification of the CFO.

(c) Responsibilities to ensure safeguarding of fixed assets

- Each Senior Manager shall prepare and submit to the CFO, upon request, an annual asset safeguarding plan for the assets under the control of their respective departments, indicating the budget required. The CFO shall confirm the available budget, and in consultation with the respective Senior Managers, determine the impact of any budget shortfall. The CFO shall report the impacts to the Municipal Manager for review, and advise Council. Each Senior Manager shall implement the safeguarding plan within the resources made available.
- Each Senior Manager shall report, within the time frame indicated by the CFO, the existence, condition, location and appropriate use of fixed assets under the control of their respective departments at the review date.
- The CFO shall establish procedures for the effective management of movement of assets from one location to another (both internal and external), transfers of assets

from one custodian to another, and reporting damage, in consultation with the Senior Managers.

- Senior Managers shall enforce the application of the procedures for controlling the movement of assets as prescribed by the CFO.
- Senior Managers shall ensure that rented assets, such as photocopy machines, shall not be moved, unless by duly authorised staff.
- Malicious damage, theft, and break-ins must be reported to the Municipal Manager or delegated person within 48 hours of its occurrence or awareness by the respective Senior Manager.
- The Municipal Manager must report criminal activities to the South African Police Service.

9 POLICY FOR LIFE-CYCLE MANAGEMENT OF PPE ASSETS

(a) Definitions and rules

Service delivery
PPE assets (such as infrastructure and community facilities) are the means by which the municipality delivers a range of essential municipal services. Consequently the management of such assets is critical to meeting the strategic objectives of the municipality and in measuring its performance.

Asset management
The goal of asset management of PPE 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 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
- continuous improvement in asset management practices.

(b) Policy for life-cycle management of fixed assets

The municipality shall provide municipal services for which the municipality is responsible, at an appropriate level, and in a transparent, accountable and sustainable manner, in pursuit of legislative requirements and in support of its strategic objectives, according to the following core principles:

i. Effective governance

The municipality shall strive 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.

The municipality shall:

- continue to 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.

ii. Sustainable service delivery

The municipality shall strive to provide to its customers services that are technically, environmentally and financially sustainable.

The municipality shall:

- set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose infrastructure 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 a maintenance strategy and plan to support the achievement of the required performance;
- allocate budgets based on long-term financial forecasts that take cognisance of the full life-cycle needs of existing and future infrastructure assets and the risks to achieving the adopted performance targets.

iii. Social and economic development

The municipality shall strive 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.

iv. Custodianship

The municipality shall strive to be a responsible custodian and guardian of the community's assets for current and future generations.

The municipality shall:

- 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 a long-term view is taken into account in infrastructure asset management decisions.

v. Transparency

The municipality shall strive to manage its infrastructure assets in a manner that is transparent to all its customers, both now and in the future.

The municipality shall:

- 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.

vi. Cost-effectiveness and efficiency

The municipality shall strive to manage its infrastructure assets in an efficient and effective manner.

The municipality shall:

- assess life-cycle options for proposed new infrastructure in line with the Supply Chain Management Policy;
- regularly review the actual extent, nature, utilisation, criticality, performance and condition of infrastructure 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 infrastructure assets;
- continue to secure and optimally utilise governmental grants in support of the provision of free basic services;
- implement new and upgrading construction projects to maximise the utilisation of budgeted funds;
- ensure the proper utilisation and maintenance of existing assets subject to availability of resources;
- timeously renew infrastructure assets based on capacity, performance, risk exposure, and cost;
- establish documented processes, systems and data to support effective life-cycle infrastructure asset management;

(c) Responsibilities for life-cycle management

- Asset Management Committee should convene regularly and take measures to effectively implement this policy, and report to Council on progress made at a frequency indicated by Council.

- Senior Managers shall develop, and update at least every 3 years thereafter, an Asset Management Plan (AMP) for each service involving fixed assets that shall assess levels and standards of service, future demand, risk, determine a lifecycle plan for a minimum 10 year planning horizon, and identify management practice improvement needs. The AMPs will be submitted through the Municipal Manager to Council for adoption. AMPs shall be used to inform the preparation of a Comprehensive Municipal Infrastructure Plan and budgets through the IDP process.

- The CFO shall, in consultation with Senior Managers, determine grading scales for the measurement of asset condition, performance, cost-of–operation, and common utilisation and which is applicable to all services. Where necessary, the Senior Managers shall interpret the grading scales for the PPE assets under their control. Senior Managers shall determine the grading of all PPE assets under their control at a level of accuracy considered appropriate to the municipality's resources, at least every 5 years.

- Senior Managers shall prepare, and review at least every 3 years thereafter, an Operations and Maintenance Strategy and Plan, and submit such, through the Municipal Manager, to Council for adoption.

- Senior Managers shall determine detailed service performance measures (differentiated, where applicable for identified customer groups), and submit such, through the Municipal Manager, to Council for adoption. Senior Managers shall establish a monitoring regime, and report actual performance each financial year.

- The Municipal Manager shall establish procedures to ensure that legislative requirements regarding the management of capital assets, including but not limited to health and safety, and environmental protection, are documented and advised to Senior Managers. Senior Managers shall address legislative needs in their strategies and plans, and shall enforce implementation.

10 IMPLEMENTATION OF ASSET MANAGEMENT POLICY

Detailed procedures shall be prepared and adopted by the Municipal Manager, in consultation with the CFO and Senior Managers, to give effect to this policy. The processes and procedures developed for the implementation of the Asset Management Policy must ensure that the Fixed Asset Register complies with the Management Policy and the Accounting Policies that are disclosed in the Annual Financial Statements. Governed by the Accounting Standards, the Accounting Policy determines the basis, recognition, measurement and recording of all transactions.

11 ACCOUNTING POLICY IN ANNUAL FINANCIAL STATEMENTS

It should be noted that no accounting policy of the municipality or any Council resolution can override the requirements of GRAP Standards. The Asset Management Policy has to adopt the requirements of the accounting standards as part of the accounting policy of Amajuba District Municipality. The Asset Management Policy contains the choices of Amajuba District Municipality where GRAP provides for entity specific formulation of accounting policies (e.g. choice of depreciation method; application of cost or revaluation model for subsequent measurement).

Updating the requirements of the GRAP standards governing fixed assets with the adopted policy statements of the Asset Management Policy a set of Accounting Policies related to fixed assets can be developed for Amajuba District Municipality. Presented below is a pro forma of the guiding accounting policies on fixed assets that are GRAP compliant. These accounting policies must be updated annually with adjustments to the GRAP standards.

Accounting Policies: Fixed Assets

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the ***Fixed Assets Accounting Policies*** are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements on fixed assets include:

Impairment testing

The municipality reviews and tests the carrying value of fixed assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In making the above mentioned estimates and judgement, management considers the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 17 (Property, Plant and Equipment), GRAP 16 (Investment Property), GRAP 31 (Intangible Assets), GRAP 26 (impairment of cash generating assets), GRAP 21 (Impairment of Non Cash Generating Assets) and GRAP 103 (Heritage Assets). In particular, the calculation of the recoverable service amount for property, plant and equipment and intangible assets involves significant judgement by management.

Useful lives of Property, Plant and Equipment and other fixed assets

The municipality's management determines the estimated useful lives and related depreciation charges for Fixed Assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

1.2 Investment property

Investment property is property (land or a building or part of a building or both) held to earn rentals or for capital appreciation or both, rather than for:

- Use in the production or supply of goods or services or
- For administrative purposes, or
- Sale in the ordinary course of operations.

Investment property is recognised as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

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

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property is based on the valuation roll values of the local municipality in whose jurisdiction the investment property is situated. Fair value is adjusted when a new valuation roll is implemented by the local municipality for property tax purposes.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

The gain or loss arising from de-recognition of investment property is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the investment property. Such difference is recognised in surplus or deficit when the investment property is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment are initially measured at cost at acquisition date or in the case of donated assets or assets acquired by grant, the deemed cost being the fair value of the asset on initial recognition

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site in which it is located.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses. Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Expenditure incurred is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces major parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment are carried at cost less accumulated depreciation and any impairment losses.

The average useful lives of items of property, plant and equipment have been assessed as follows:

Item	**Useful life**
Land	Indefinite
Buildings	30 years
Infrastructure: Sewerage	10- 60 years
Infrastructure: Water	10–55 years
Park Facilities	15 -30 years
IT Equipment	3 years
Specialised Vehicles	5 years
Plant and Equipment	10 -15 years
Furniture and Office Equipment	7 - 10 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from de-recognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from de-recognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.4 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality 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.

If the related asset is measured using the cost model:

(a) Subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;

(b) If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and

(c) If the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.5 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

• it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and

• the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item Useful life	
Computer software	3 Years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use.

1.6 Heritage assets

Heritage assets are 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.

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Heritage assets are initially measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

Subsequently a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset. Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from de-recognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit orientated entity, it generates a commercial return.

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also test a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

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.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows. '

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset):

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Recognition and measurement (Cash-generating units):

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the assets cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the municipality does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that noncash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

Reversal of impairment loss

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the assets recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.8 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating *intangible asset* with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use of non-cash-generating asset is the present value of the non-cash-generating asset remaining service potential.

The present value of the remaining service potential of a non-cash-generating asset is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost 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. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

The municipality assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.9 Finance leases – Lessee

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. The title may or may not eventually be transferred. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

1.10 New Standards and interpretations (Fixed assets)

It is a requirement that the following aspects related to new standards and interpretations impacting inter alia on fixed assets are disclosed in the Notes to the Annual Financial Statement:

- Standards and interpretations effective and adopted in the current year (2014/2015 financial year).
- Standards and interpretations early adopted. The effective date is set for reporting periods in future.
- Standards and interpretations issued, but not effective. The effective date of the standard is not yet set by the Minister of Finance.

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