

BA-PHALABORWA LOCAL MUNICIPALITY



Asset Management Policy

Procedures and Principles on Asset Management

2016/17

GLOSSARY OF TERMS

AFS	Annual financial Statements
AP	Accounting Procedure- This is a procedure which is executed to ensure that reliable information is recorded in the annual financial statements
AR	Assets Register
ASB	Accounting standards Boards
CFO	Chief Financial Officer
FMBPR	Financial management Best Practice Requirement
FCP	Financial Control procedure
FSOP	Financial Standard Operating Procedure
FSOPM	Financial Standard Operating Procedure Manual
GAAP	General Accepted Accounting Practice
GAMAP	General Accepted Municipal Accounting Practice
GL	General Ledger
GRAP	General Recognised Accounting Practice
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IP	Investment Property
IPSAS	International Public Sector Accounting Standards
LCP	Legislation Compliance Procedure
MFMA	Municipal Finance Management Act
MM	Municipal Manager
NT	National Treasury
PPE	Property Plant and Equipment
#	Number

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ANNEXURE 1 – INVENTORY SHEET TEMPLATE

1. INTRODUCTION

- 1.1 This Process and Procedures manual for the recognition, measurement and management of Property, Plant and Equipment (PPE) has been designed to assist management and officials of Ba-Phalaborwa Local Municipality with the Recognition, Measurement, Presentation, Identification, classification, accounting and daily management of items of PPE. Through the processes and procedures identified within this manual, municipal official will be able to recognise and account for items of PPE in terms of the relevant accounting standards and be held accountable for the management and security of Municipal Owned assets.
- 1.2 The municipality currently prepares its financial statements on the Accrual Basis of Accounting in terms GRAP. This accounting basis allows for the accounting of Fixed Assets on a “Cost incurred” basis without taking into account future changes in the value of the asset. Infrastructure Assets are also recorded on a cost accrual basis, taking into account the various separable components of the infrastructure item.

2. OBJECTIVE

- 2.1 To identify the relevant applicable accounting standards.
- 2.2 To establish accounting procedures to support compliance to the accounting standards.
- 2.3 To establish responsibilities for the management and accounting of Municipal Owned assets.

3. ACCOUNTING STANDARDS

- 3.1 Introduction of new Six standards of GRAP effective for 2012/13 Financial year

Municipalities/ Entities have to use ASB Directive 5 Determining the GRAP Reporting Framework in preparing the Annual Financial Statements for the year ending 31 March (Entities) and 30 June 2013 (Municipalities). The effective dates for the adoption of Standards of GRAP by Parliament and provincial legislatures whose financial management legislation was not found unconstitutional, is

prescribed in their financial management legislation. Directive 5 should thus read in conjunction with the legislation (Gazette 33991 issued on February 2011). The effect is that if legislation requires that Parliament or Provincial legislature adopts Standards of GRAP after 1 April 2010, appendix G of Directive 5 is applied for the 2012/13 reporting period

The main difference between the version of Directive 5 that was applicable for 2011/12 and the updated version applicable to 2012/13 is that six new effective Standards of GRAP effective reporting periods commencing on or after 1 April 2012 are now included in Directive 5.

The following new standards shall be applied for financial years ending 30th June 2015.

- GRAP 21 Impairment of Non-cash generating Assets
- GRAP 26 Impairment of Cash- Generated Assets
- GRAP 103 Heritage Assets
- GRAP 104 Financial Instruments

3.2 Intangible Assets – assets recognised as Intangible assets are regulated by GRAP 102 which specifies the conditions for measurement and recognition.

3.3 Investment Property – Due to its nature, Investment Property is seen as part of the Asset sphere of the municipality. However, as from the 1st of July 2008, property qualifying under the definition of Investment Property is to be dealt with in terms of GRAP 16.

3.4 Heritage Assets – Certain Assets are classified as Heritage Assets, due to their cultural, environmental, educational or historical significance. However, in certain cases, assets which otherwise may be considered as Heritage Assets could be utilised to generate revenue, in which case they will fall outside the definition of Heritage assets.

4. DELEGATION OF POWERS

4.1 This policy should be applied with due observance of the Municipality's policy with regard to delegated powers. Such delegations refer to delegations between the Municipal Manager and other responsible officials as well as between the Council and the Executive Mayor and the Council and the Municipal Manager. All delegations in terms of this policy must be recorded in writing.

4.2 In accordance with the Municipal Finance Management Act, the Municipal Manager is the accounting officer of the Municipality and therefore all designated officials are accountable to him/ her. The Municipal Manager is therefore accountable for all transactions entered into by his/ her designates.

4.3 The overall responsibility of asset management lies with the Municipal Manager. However, the day to day handling of PPE should be the responsibility of all officials in terms of delegated authority reduced in writing.

5. PURPOSE OF THE MANUAL

5.1 The purpose of this Procedures Manual is to assist and guide the relevant officials of the municipality in the recognition, measurement, presentation, recording and management of all items of Property, Plant and Equipment.

6. PROPERTY PLANT EQUIPMENT MANAGEMENT

6.1 Responsibilities

6.1.1 The Municipal Manager is responsible for the management of the assets of the Municipality, including the safeguarding and the maintenance of those assets. He/she must 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 standards of Generally Recognised Accounting Practice (GRAP) as indicated under section 3.
- The Municipality has and maintains a system of internal control of assets, including an asset register.
- Senior managers and their teams comply with this policy.

6.1.2 The Chief Finance Officer is responsible to the Municipal Manager to ensure that the financial investment in the Municipality's assets is safeguarded and maintained. He/she may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring that these activities are performed. He/she must ensure that:-

- ❑ Appropriate systems of financial management and internal control are established and carried out diligently.
- ❑ The financial and other resources of the Municipality are utilised effectively, efficiently, economically and transparently.
- ❑ Any unauthorised, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented.
- ❑ The systems, processes and registers required to substantiate the financial values of the Municipality's assets are maintained to standards sufficient to satisfy the requirements of effective management.
- ❑ Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilised through appropriate asset plan, 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.

6.1.3 The Functional Managers must ensure that:-

- ❑ Appropriate systems of physical management and control are established and carried out for PPE in their area of responsibility.
- ❑ The Municipal resources assigned to them are utilised effectively, efficiently, economically and transparently.

- Their management systems and controls can provide an accurate, reliable and up to date account of PPE under their control.
- They are able to justify that their plans, budgets, purchasing, maintenance and disposal decisions for PPE optimally achieve the Municipality's strategic objectives.

The functional managers may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring that these activities are performed.

6.2 Register of PPE

6.2.1 Initial Recording of Assets and Establishment of the Register of PPE

The Chief Finance Officer will establish and maintain the Register on the Asset Management System. The initial establishment of the register is based on the following principles.

- All movable assets are physically inspected, identified by means of a bar-code.
- The asset is also assessed based on its physical condition.
- All assets acquired before 01 July 2007 is valued at a fair value at the date of verification. Assets procured after 01 July 2007 is valued at invoice value.
- In the event of an asset not being supported by a valid invoice, a fair value is placed on the asset.
- All assets initially recorded in the asset register will be depreciated according to the estimated remaining lifespan of the asset.

6.2.2 GRAP Compliant Asset Register

The details included in the Fixed Assets Register will include:-

- The measurement basis (Cost or Fair Value)
- Location of the Assets
- Asset number (barcodes)
- The depreciation methods used;

- ❑ The useful lives;
- ❑ Residual Values
- ❑ Depreciation charged for the period;
- ❑ The accumulated depreciation;
- ❑ Impairment losses if applicable.
- ❑ Accumulated impairment losses if applicable
- ❑ The gross carrying amount;
- ❑ Date of acquisition;
- ❑ Source of Funding
- ❑ Date of disposal (if applicable);
- ❑ Increases or the decreases resulting from revaluations (if applicable);
- ❑ Method of calculating recoverable amount (when impairment tests are required in terms of GRAP);
- ❑ Any restrictions on title to the asset;
- ❑ Location;
- ❑ Strategic purpose and if it is required to provide minimum basic services;
and
- ❑ Responsible Functional Manager/ department/ vote.

6.2.3 The asset register is divided into two categories for control purposes, namely:-

- ❑ Property Plant and Equipment register; and
- ❑ Inventory register.

6.2.3.1 Property Plant and Equipment Register

The purpose of this register is to record and maintain all the items of Property Plant and Equipment that meet the definition of Asset and the Recognition Criteria as per GRAP.

6.2.3.2 Inventory register

An asset is recognised as an Inventory item when it meets the definition of an inventory as current asset which shall be consumed for service delivery, which normally the value is less than R1 000 (One Thousand Rand), excluding VAT. The purpose of this register is to record and maintain all these inventory purchases and movements.

6.2.4 Maintenance of Register of PPE

The daily/weekly/monthly maintenance of the Asset register is as critical as the initial establishment of the register. In addition to the management procedures noted in Section 8, the following procedures will guide the relevant municipal officials on the “who, how and when” of the PPE register maintenance.

□ New Acquisitions

Movable Assets

Upon delivery of a new asset at a centralised point, the Chief Accountant Assets attaches a bar-code in accordance with the bar-code methodology as discussed in Section 8.5. This bar-code number is added to the delivery note and invoice, which are copied into a separate Asset Management file. The asset will be recorded at invoice value. Once the Chief Accountant Assets has updated the Asset Register with the relevant information of the acquisition, a printout from the Asset Register is added to the Asset Management file.

Immovable Assets (Infrastructure assets)

At the onset of a project of capital nature, a detailed schedule of the nature of the project, including timeframe, budget and source of funding, needs to be provided to the Chief Accountant Asset. In addition, monthly progress information, which needs to include the nature and value of the expenditure incurred as well as the level of completion. Once the project or phase of a project reaches a stage of completion, the various components of the project, as discussed in Section 9, should be added to the asset register. The asset will be recorded at the individual expenses incurred to create/establish the capital item, plus any additional cost incurred, directly related to the ultimate functioning of the item.

(For example – Technical cost required to install a water pump or labour cost incurred during the erection of a building). Each component should be allocated a separate Bar-code and noted on the Project Completion report.

Residual Values

The Residual Values are the amount that the assets can be recovered at end of its economic life. The reasonable estimates of the residual value of an asset are determined based on the relevant and current circumstances.

Write-offs and Disposals

In order to ensure completeness of the asset register, all write-offs and disposals, as discussed under Section 6.9 and 6.11, should be channelled through the Chief Accountant Assets. A copy of the document approving the disposal or write-off of the asset should be included in the Asset Management file, and only once such an approval has been received, can the asset register be updated.

Monthly reconciliations

Monthly reconciliations need to be performed between the Ledger, Asset Register and Asset Maintenance File. These reconciliations should be performed by an accountant who does not fulfil the function of Chief Accountant Assets. All differences needs to be resolved immediately and this reconciliation process should form part of the monthly close-off procedures. These reconciliations should include the following:-

- Opening Balance per Ledger and Asset Register System;
- Acquisitions per Ledger, Asset Register System and Asset management File;
- Disposals and Write-offs per Ledger, Asset Register System and Asset management file;
- Depreciation per ledger and Asset Register System; and
- Accumulated Cost and Book values per Ledger and Asset Register System.

6.3 Classification of PPE

In compliance with the requirements of the National Treasury, the Chief Finance Officer shall ensure that all PPE are classified under the following headings in the Fixed Assets Register, and Heads of Departments shall in writing provide the Chief Finance Officer with such information or assistance as is required to compile a proper classification:-

6.3.1 Property, Plant and Equipment

- ❑ Land (Owner Occupied).
- ❑ Building
- ❑ Infrastructure assets (assets which are part of a network of similar assets).
- ❑ Community assets (assets contributing to the general well-being of the community).
- ❑ Heritage assets (culturally significant assets).
- ❑ Other assets (ordinary operational assets).
- ❑ Land (rental stock or housing stock –Investment property).

6.3.2 Investment Property

- ❑ Investment Property (resources held for capital appreciation or to earn the rental .)

The Chief Finance Officer shall adhere to the classifications indicated in the Annexure on estimated lives of PPE, and in the case of an item of PPE not appearing in the Annexure shall use the classification applicable to the asset most closely comparable in the Annexure.

6.4 Depreciation and Impairment

6.4.1 Depreciation of PPE

All PPE, except land and heritage assets, shall be depreciated – or amortised in the case of intangible assets. Should a Heritage Asset be used to generate

income, it will be reclassified along with other assets of similar nature and will be subject to depreciation, based on the potential economic lifespan of the asset.

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

Non-Cash generating assets is defined as assets other than cash generating assets.

Cash generating assets are defined as those that are held to generate a commercial return.

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

However, depreciation shall initially be calculated from the day following the day in which an item of PPE is brought into use, proportioned on a daily basis, based on the total estimated lifespan of the item.

Each Head of Department, acting in consultation with the Chief Finance Officer, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable PPE controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.

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

6.4.2 Rate of Depreciation

The Chief Finance Officer shall assign a useful lives to each depreciable item of PPE recorded on the Municipality's fixed asset register. In determining such a useful lives the Chief Finance Officer shall be guided by the useful lives set out in the annexure to this document.

In the case of an item of PPE which is not listed in this annexure, the Chief Finance Officer shall determine a useful lives, if necessary in consultation with the Head of Department who shall control or use the item in question, and shall be guided in determining such useful life by the likely pattern in which the item's economic benefits or service potential will be consumed.

6.4.3 Method of Depreciation

The Chief Finance Officer shall depreciate all depreciable PPE on the straight-line method of depreciation over the assigned useful operating life of the item, calculated on a daily depreciable portion. In the event of an asset where a reasonable estimate can be made of the residual value of the asset, the depreciation will be calculated on the total value of the assets less the estimated residual value.

6.4.4 Impairments

The Chief Finance Officer shall assess all the assets and group of assets i.e. cash and non-cash generating assets as per GRAP 21 for the impairment.

6.4.5 Methodology to be used

An item is impaired if the carrying amount is higher than the recoverable service amount. Different methods exist to determine the recoverable service amount of cash generating assets (GRAP 26/IPSAS 26) and non-cash generating assets.

6.5 Amendment of Asset Lives and Diminution in the Value of PPE

6.5.1 The residual lives of all items on the Asset Register should be reviewed on an annual basis. Should the useful lives be considered to expand beyond the lifespan attached to the item, the depreciation calculation should be amended to accommodate the extended lifespan.

- 6.5.2 Only the Chief Finance Officer may amend the useful operating life assigned to any PPE, and when any material amendment occurs the Chief Finance Officer shall inform the Council of such amendment.
- 6.5.3 The Chief Finance Officer shall amend the useful operating life assigned to any item of PPE if it becomes known that such item has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the item's economic benefits or service potential will be consumed.
- 6.5.4 Each item of PPE will be subject to an annual review in order to assess its remaining estimated useful economic lifespan. Should the results of such an assessment be different from the recorded remaining lifespan, an adjustment to the lifespan in the Asset Register should be effected by the Chief Finance Officer.
- 6.5.5 If the value of an item of PPE has been diminished to such an extent that it has no or a negligible further useful operating life or value such item shall be fully depreciated in the financial year in which such diminution in value occurs.
- 6.5.6 Similarly, if an item of PPE has been lost, stolen or damaged beyond repair, it shall be fully impaired in the financial year in which such event occurs, and if the item has physically ceased to exist, it shall be written off in the fixed asset register.
- 6.5.7 In all of the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the item of PPE in question.
- 6.5.8 If any of the foregoing events arises in the case of a normally non-depreciable item of PPE, and such item has been capitalised at a value other than a purely nominal value, such item shall be partially or fully depreciated, as the case may be, as though it were an ordinary depreciable item of PPE, and the department or vote controlling or using the item in question shall bear the full depreciation expenses concerned.

6.6 Creation of Government Grants, Public Contribution Capitalisation and Reserves

6.6.1 The Chief Finance Officer shall ensure that in respect of all PPE financed from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of fixed assets donated to the Municipality, a grants reserve or public contribution reserve for future depreciation is created equal in value to the capitalised value of each item of PPE in question.

6.6.2 The Chief Finance Officer shall thereafter ensure that in the case of depreciable PPE an amount equal to the monthly depreciation expenses of the items concerned are transferred each month from such reserve to the Municipality's accumulated surplus.

6.7 Carrying Values of PPE

6.7.1 All PPE shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation. An asset should only be fair valued if no accurate cost data is available during the initial recognition of the asset.

6.7.2 All items recorded in the fixed asset register should annually be assessed to determine any form of impairment. Should an asset be identified for partial impairment, the reduction in value will be dealt with as an accelerated depreciation. In the event of an asset deemed to be impaired to such an extent that no future benefit could be obtained from the asset, it will be treated as a write-off as discussed in Sections 6.2.4 and 6.9.

6.7.3 The only exceptions to this rule shall be revalued items of PPE (see part 6.8 below) and heritage assets in respect of which no value is recorded in the fixed asset register.

6.8 Revaluation of items of PPE

6.8.1 With the exception of Investment Property which will annually be subject to a fair-value assessment, all land and buildings recorded in the Municipality's fixed asset register shall be revalued with the adoption by the Municipality of each new valuation roll (or, if the land and buildings concerned fall within the

boundary of another Municipality, with the adoption by such Municipality of each new valuation roll). All land and buildings will also be subject to a possible revaluation, should the use or intended use of the land and building change.

- 6.8.2 The revaluation discussed above excludes any buildings held for the benefit of the community, which is valued at the initial cost or replacement value of the building.
- 6.8.3 Infrastructure assets, excluded from Land and Buildings will be subject to a revaluation every 3-5 years.
- 6.8.4 The Chief Finance Officer shall adjust the carrying value of the land and buildings or infrastructure concerned to reflect in each instance the value of the items as recorded in the valuation roll, provided the Chief Finance Officer is satisfied that such value reflects the fair value of the land and buildings or infrastructure concerned.
- 6.8.5 The Chief Finance Officer shall also, where applicable, create a revaluation reserve for each such item equal to the difference between the value as recorded in the valuation roll and the carrying value of the item before the adjustment in question.
- 6.8.6 The revalued item concerned shall, thereafter be depreciated on the basis of its revalued amount, over its remaining useful operating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the department or vote controlling or using the buildings or infrastructure in question.
- 6.8.7 The Chief Finance Officer shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such buildings or infrastructure before the revaluation in question is transferred each month from the revaluation reserve to the Municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary.

6.8.8 If the amount recorded on the valuation roll is less than the carrying value of the item of land, buildings or infrastructure recorded in the fixed asset register, the Chief Finance Officer shall adjust the carrying value of such item by accelerating the depreciation to adjust the carrying value to align with the valuation of the land and building or infrastructure. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such item, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the item of land, building or infrastructure in question.

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

6.9 Write-offs of PPE

6.9.1 An item of PPE even though fully depreciated shall be impaired when it can no longer be used, in consultation with the Head of Department controlling or using the item concerned.

6.9.2 Every Head of Department shall report to the Chief Finance Officer on 31 October and 30 April of each financial year on any item of PPE which such Head of Department wishes to have written off, stating in full the reason for such recommendation.

6.9.3 The Chief Finance Officer shall consolidate all such reports, and shall promptly notify the Council on the PPE to be written off.

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

6.9.5 In every instance where a not fully depreciated item of PPE is written off, the Chief Finance Officer shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the item concerned.

6.10 Management and Operation of Property, Plant and Equipment

6.10.1 Contents of a strategic management plan

- Functional Managers need to manage PPE under their control to provide the required level of service or economic benefit at the lowest possible long-term cost. To achieve this, the Functional Manager will need to develop strategic PPE management plans that cover:-
 - Alignment with the Integrated Development Plan;
 - Operational guidelines;
 - Performance monitoring;
 - Maintenance programs;
 - Renewal, refurbishment and replacement plans;
 - Disposal and Rehabilitation plans;
 - Operational, financial and capital support requirements, and
 - Risk mitigation plans including insurance strategies
- The operational budgets are the short to medium term plan (3 years) for implementing this strategic PPE management plan.

6.10.2 Reporting on Emerging Issues

Each Functional Manager should report to the Municipal Manager on issues that will significantly impede the item of PPE capabilities to provide the required level of service or economic benefit.

6.10.3 Verification of item of PPE

Every Head of Department shall at least once during every financial year undertake a comprehensive verification of all moveable PPE controlled or used by the department concerned. Movable assets are those items of PPE that

can physically be moved between areas of operation and function as initially intended. Examples of moveable asset items are:

- Office equipment;
- Computer Hardware;
- Furniture and Fittings;
- Motor Vehicles;
- Machinery; equipment and tools;

Every Head of Department shall promptly and fully report in writing to the Chief Finance Officer, in the format determined by the Chief Finance Officer, all relevant results of such PPE verification, provided that each such item of PPE verification shall be undertaken and completed during the month of June of each financial year, and that the resultant report shall be submitted to the Chief Finance Officer not later than 30 June of the year in question.

The verification process should be aimed at determining;-

- Physical existence of item;
- Physical condition of item; and
- Estimated remaining useful life of item.

6.10.4 Movement of item of PPE

Every Head of Department shall promptly and fully report in writing to the Chief Finance Officer, in the format determined by the Chief Finance Officer, all movements of PPE (including inventory items) within 5 working days after movement of such item.

Movement of an asset occurs when the item is removed from its recorded area or department of operation to another area or department of operation.

Vehicles are only considered as “moved/removed” when the specific vehicle is utilised in a different department than the department initially recorded.

6.11 Disposal of Property, Plant and Equipment

6.11.1 The Municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of an item of PPE needed to provide the minimum level of basic municipal services unless this removal or disposal forms part of a process whereby the item is replaced by an item which may increase the level of service.

6.11.2 The Municipality may transfer ownership or otherwise dispose of an item of PPE other than one contemplated above, but only after the Council, in a meeting open to the public:-

- has decided on reasonable grounds that the item of PPE is not needed to provide the minimum level of basic municipal services; and
- has considered the fair market value of the item and the economic and community value to be received in exchange for the asset.

6.11.3 The decision that a specific item of PPE is not needed to provide the minimum level of basic municipal services, may not be subsequently reversed by the Municipality after that asset has been sold, transferred or otherwise disposed of.

6.11.4 The Municipal Manager may approve the disposal of an item of property, plant and equipment as delegated by the Municipal Council. The delegations to approve contracts for the disposal of an item of property, plant and equipment are stated in the Supply Chain Management Policy.

6.11.5 The disposal of an item of property, plant and equipment must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for Municipal Supply Chain Management. The Supply Chain Management Policy covers these issues.

6.11.6 Transfers of PPE to another Municipality, Municipal Entity, National Department or Provincial Department are excluded from these provisions.

6.12 Capitalisation

6.12.1 Capitalisation Criteria – Material Value

- No item with an initial cost or fair value of less than R1 000 (one thousand rand) (excl. VAT)– or such other amount as the Council may from time to time determine on the recommendation of the Municipal Manager – shall be recognised as an item of PPE. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.
- Every Head of Department shall, however, ensure that any item with a value in excess of R250 (two hundred and fifty rand) (excl VAT), and with an estimated useful life of more than one year, shall be recorded on an inventory. Every Head of Department shall ensure that the existence of items recorded on such inventory is verified from time to time, and at least once in every financial year, and any amendments which are made to such inventories pursuant to such stock verifications shall be retained for audit purposes.

6.12.2 Capitalisation Criteria – Reinstatement, Maintenance and Other Expenses

- Only expenses incurred in the enhancement of an item of PPE, excluding VAT, (in the form of improved or increased services or benefits flowing from the use of such item) or in the material extension of the useful operating life of an item of PPE shall be capitalised.
- Expenses incurred in the maintenance or reinstatement of an item of PPE shall be considered as operating expenses incurred in ensuring that the useful operating life of the item concerned is attained, and shall not be capitalised, taking into account International Financial Reporting Standards (IAS 16) in respect of the expenses concerned.
- Expenses which are reasonably ancillary to the bringing into operation of an item of PPE may be capitalised as part of such item. Such expenses may include but shall not be limited to import duties, forward cover costs, transportation costs, installation, assembly cost, design fees, supervision fees, contractors fees and communication costs.

6.13 Maintenance

6.13.1 Maintenance Plans

- Every Head of Department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the Council for approval.
- If so directed by the Municipal Manager, the maintenance plan shall be submitted to the Council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.
- The Head of Department controlling or using the infrastructure asset in question, shall annually report to the Council, not later than in July, of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the item concerned.

6.13.2 Deferred Maintenance

- If there is material negative variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset (see par 6.13.1 above), the Chief Finance Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the budget. Such note shall also indicate any plans which the Council has approved in order to redress such deferral of the maintenance requirements concerned.
- If no such plans have been formulated or are likely to be implemented, the Chief Finance Officer shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the Head of Department controlling or using such item, and shall recalculate the increased annual depreciation expenses accordingly.

6.13.3 General Maintenance of PPE

Every Head of Department shall be directly responsible for ensuring that all PPE (other than infrastructure assets which are dealt with in part 6.13.1 and part 6.13.2 above) are properly maintained and in a manner which will ensure that such item attain their useful operating lives. This responsibility is limited to the extent that fund, as allocated per the annual budget, is available as and when required.

6.14 Replacement Norms

6.14.1 The Municipal Manager, in consultation with the Chief Finance Officer and other Heads of Departments, shall formulate norms and standards for the replacement of all normal operational PPE. Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the Council for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items.

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

6.15 Insurance of PPE

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

6.15.2 If the Municipality operates a self-insurance reserve (assuming such reserve to be allowed), the Chief Finance Officer shall annually determine the premiums payable by the departments or votes after having received a list of the PPE and insurable values of all relevant items from the Heads of Departments concerned.

6.15.3 The Municipal Manager shall recommend to the Council, after consulting with the Chief Finance Officer, the basis of the insurance to be applied to each type of PPE:- either the carrying value or the replacement value of the item concerned. Such recommendation shall take due cognisance of the budgetary resources of the Municipality.

6.15.4 The Chief Finance Officer 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.

7. IMPLEMENTATION OF THIS POLICY

This policy shall be implemented once approved by Council. All future asset management must be done in accordance with this procedures manual, in conjunction with the Asset Management Policy.

8. PRACTICAL MANAGMENT OF MOVEABLE ASSETS

This section deals with a number of practical issues relating to the recording and management of movable assets.

8.1. Initial Recording – Movable Assets (Excluding fleet)

The delivery of all movable assets needs to be centralised for the purpose of “tagging and flagging” on the Asset Register System. Upon delivery and approval of the specific item/s received, a pre-numbered bar-code is attached to the item. The bar-code is scanned and all the relevant input fields, as required by the Asset Register System, are entered. Only once the recording process has been finalised, can the item/s be distributed to the relevant department.

8.2. Initial Recording – Fleet and Machinery and Equipment

The delivery of all items of fleet needs to be centralised under fleet management for the purpose of tagging and flagging on the Asset Register System. Upon delivery and approval of the item/s received, a bar-code is attached to the item. The bar-code is scanned and all the relevant input fields, as required by the Asset Register System, are entered. Only once the recording process has been finalised, can the item/s be distributed to the relevant department.

8.3. Distribution of Movable Assets

Once the recording process, as per 8.1 and 8.2, have been finalised, the distribution of the item takes place in accordance with the following procedures:-

- Completion of Asset Distribution Form (ADF), in duplicate. (Annexure A);
- Approval of item by official, authorised for collection;

- Filing copy of Delivery Note, Invoice and signed copy 1 of ADF; and
- Distribution of copy 2 of ADF to Finance Department, to be reconciled with monthly acquisition reports, as per Asset Management System.

8.4. Movement of Movable Assets

An Asset Movement Form (AMF) needs to be completed and authorised before a movable asset item may be removed from its original location and:-

- Utilised at a premises which is removed from the premises where the asset has been originally assigned to (Between buildings);
- Utilised within a department which is different from the department to whom the asset has originally been assigned too.

For practical reasons, these include all the movement of items between offices, within the same building, within the same department.

AMF (Annexure B) needs to be completed in triplicate, with copies filed at the original department / location and the new department / location. The third copy is filed at the Finance Department, where it is processed on the Asset Register System.

8.5. Bar-code Methodology

In order to achieve a uniform standard whereby all bar-codes are attached to the asset, the following principles will apply:-

- General Office Furniture and Office Equipment – As far as possible, the bar-code is attached on the top left hand corner of the asset;
- Laptops – The bar-code is attached at the bottom of the laptop, without compromising its physical stability when placed on a desk;
- Vehicles – The bar-code is attached on the body of the vehicle, on the inside of the passenger door;
- The bar-code may under no circumstances be placed on the asset in such a manner which may cause the item not to be fully functional or compromise its value.

9. INFRASTRUCTURE ASSETS

The following is a list of infrastructure assets, with the assigned or estimated useful lives in years in brackets:-

* Airports			
Airport and radio beacons	(20)	Runways	(20)
Aprons	(20)	Taxiways	(20)
* Electricity			
Cooling towers	(30)	Power stations	(30)
Load control equipment	(20)	Supply and reticulation networks	(20)
Mains	(20)	Switchgear	(20)
Meters	(20)	Transformer kiosks	(30)
* Gas			
Mains	(20)	Storage tanks	(20)
Meters	(20)	Supply and reticulation networks	(20)
* Pedestrian malls			
Footways	(20)	Paving	(20)
Kerbing	(20)		
* Roads			
Bridges, subways and culverts	(30)	Overhead bridges	(30)
Bus terminals	(20)	Stormwater drains	(20)
Car parks	(20)	Street lights	(25)
Motorways	(15)	Traffic islands	(10)
Other roads	(10)	Traffic lights	(20)
* Security measures			
Access control systems	(5)	Security fencing	(3)
Security systems	(5)		
* Sewerage			
Outfall sewers	(20)	Sewerage purification works	(20)
Sewer mains	(20)	Sludge machines	(15)
Sewerage pumps	(15)		

* **Water**

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

COMMUNITY ASSETS

The following is a list of community assets with the assigned or estimated useful lives in years in brackets:-

* **Buildings and other assets**

Ambulance stations	(30)	Libraries	(30)
Cemeteries	(30)	Museums and art galleries	(30)
Civic theatres	(30)	Parks	(30)
Clinics and hospitals	(30)	Public conveniences and bath houses	(30)
Community centres	(30)	Recreation centres	(30)
Fire stations	(30)	Sports and related stadiums	(30)
Game reserves and rest camps	(30)		

* **Recreation facilities**

Bowling greens	(20)	Outdoor sports facilities	(20)
Flood lighting	(20)	Organs (that is, pipe organs that are fixtures in a Municipal hall or other centre)	(20)
Fountains	(20)	Lakes and dams	(20)
Golf courses	(20)	Swimming pools	(20)
Jukskei pitches	(20)	Tennis courts	(20)

OTHER ASSETS

The following is a list of other assets with the estimated useful life in years in brackets:-

* **Buildings**

Abattoirs	(30)	Laboratories	(30)
Asphalt plant	(30)	Nurseries	(30)
Cable stations	(30)	Office buildings	(30)
Caravan parks	(30)	Old age homes	(30)
Compacting stations	(30)	Quarries	(30)

Fresh produce and other markets	(30)	Tip sites	(30)
Hostels used to accommodate the public or tourists	(30)	Training centres	(30)
Hostels for Municipal employees	(30)	Transport facilities	(30)
Housing schemes	(30)	Workshops and depots	(30)
Kilns	(30)		
* Bins and containers			
Bulk refuse containers	(10)		
* Emergency equipment			
Emergency lights	(5)	Other fire-fighting equipment	(15)
Fire hoses	(5)		
* Furniture and fittings			
Chairs	(7-10)	Tables and desks	(7-10)
Cabinets and cupboards	(7-10)		
* Motor vehicles			
Ambulances	(5-10)	Ordinary motor vehicles	(5-7)
Fire engines	(20)	Trucks and light delivery vehicles	(5-7)
Motor cycles	(3)		
* Office equipment			
Air conditioners	(5-7)	Computer hardware	(5)
Office machines	(3-5)	Computer software	(3-5)
* Plant and equipment			
Cable cars	(15)	Lawn mowers	(2)
Compressors	(5)	Mechanical horses	(10-15)
Filling equipment	(15)	Radio equipment	(5)
Firearms	(5)	Telecommunication equipment	(5)
Graders	(10-15)	Tippers	(15)
Irrigation systems	(15)	Tractors	(10-15)
Laboratory equipment	(5)		
Lathes	(15)		
* Other			

Aircraft

(15) Watercraft

(15)

* **Penalties**

NB

- A staff member of a municipality may not use, take, move, acquire or benefit from any property or assets owned, controlled or managed by the municipality to which that staff has no right.
- This will result on penalties of R200 deductible from payroll of that employee
- If a staff member of a municipality may use the assets owned by the municipality for his own benefits, this will result on penalties of R200 deductible from payroll of that employee
- If a staff member of a municipality may take the assets owned by the municipality for his own benefits, this will result on penalties of the value of that asset which is deductible from payroll of that employee.

Approval of Policy

Please note that the implementation of the policy contained in this document is subject to approval and signing off by all relevant Heads and/or Committees, including but not limited to:

- The Municipal Manager
- Municipal Council



**BA – PHALABORWA LOCAL MUNICIPALITY
ASSET DISTRIBUTION FORM (ADF)**

NO

DATE

ITEM NO	RECEIVING DEPARTMENT	SUPPLIER	SUPPLIER REFERENCE	BAR-CODE	GL NO (Finance only)
1					
2					
3					
4					
5					

DISTRIBUTION

COMPLETED BY: _____

DATE : _____

AUTHORISED : _____

COLLECTED BY: _____

FINANCE

COMPLETED BY: _____

DATE : _____

AUTHORISED : _____



**BA – PHALABORWA LOCAL MUNICIPALITY
ASSET MOVEMENT FORM (AMF)**

DATE

NO

ITEM NO	DEPARTMENT (OUT)	DEPARTMENT (IN)	COMMENTS	BAR-CODE	GL NO (Finance only)
1					
2					
3					
4					
5					

MOVEMENT

COMPLETED BY: _____

DATE : _____

AUTHORISED : _____

COLLECTED BY: _____

FINANCE

COMPLETED BY: _____

DATE : _____

AUTHORISED : _____