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ASSET MANAGEMENT POLICY

## 1 Background

The utilization and management of property, plant and equipment is the prime mechanism by which a municipality can fulfill its constitutional mandates for:

- Delivery of sustainable services,
- Social and economic development,
- Promoting safe and health environments and,
- Providing the basic needs to the community

As trustees on behalf of the local community, the municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in property, plant and equipment.

The asset management policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of property, plant and equipment.

Statutory provisions are being implemented to protect public property against arbitrary and inappropriate management or disposal by a local government.

Accounting standards are being promulgated by the Accounting Standards Board to ensure the appropriate financial treatment for property, plant and equipment. The requirements of these new accounting standards include:

The compilation of asset registers covering all property, plant and equipment controlled by the municipality.

Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant and equipment.

The standards to which these financial records must be maintained.

## 2 Objectives

- To ensure the effective and efficient control, utilization, safeguarding and management of Port St Johns Local Municipality's property, plant and equipment.
- To ensure Senior managers are aware of their responsibilities in regards of all the assets assigned to them.
- To set out the standards of physical management, recording and internal controls to ensure property, plant and equipment are safeguarded against inappropriate loss or utilisation.
- To specify the process required before expenditure on property, plant and equipment occurs.
- To prescribe the accounting treatment for property, plant and equipment in Port St Johns Local Municipality including:
  - The criteria to be met before expenditure can be capitalised as an item of property, plant and equipment,
  - The criteria for determining the initial cost of the different items of property, plant and equipment,
  - The method of calculating depreciation for different items of property, plant and equipment,
  - The criteria for capitalising subsequent expenditure on property, plant and equipment,
  - The policy for scrapping and disposal of property, plant and equipment,
  - The classification of property, plant and equipment.
- To ensure that municipal assets are managed in a way that responds to the climate change impacts that may:

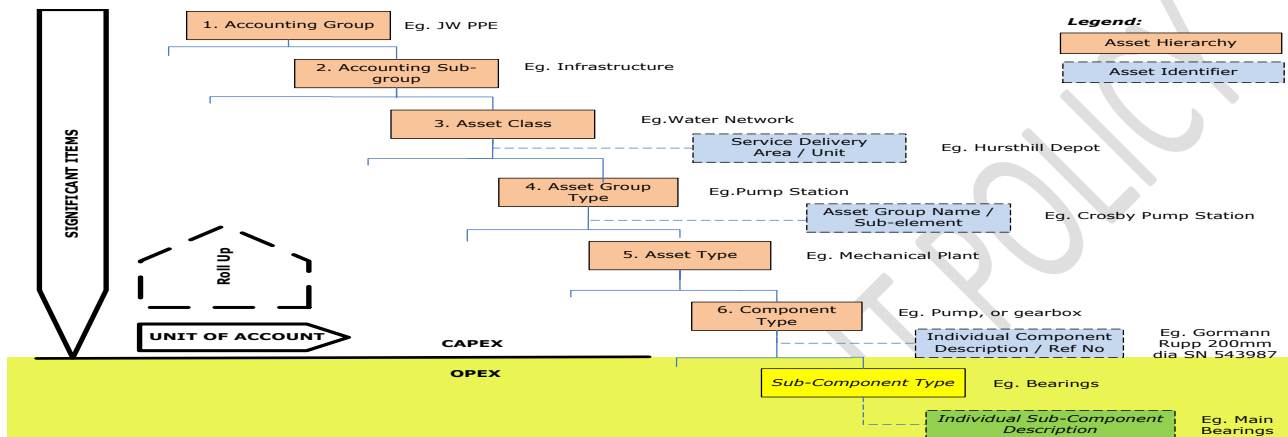
- ✓ Amplify the risk of asset failure and reduce the asset service life through added or compounding stress on existing infrastructure or cascading impacts on other infrastructure system.
- ✓ Reduce the level of service existing infrastructure system can provide
- ✓ Increase the cost of managing risk and delivering the same level of service.

- **Definitions**

- **“Accounting Standards Board”** means the board established in terms of section 87 of the Public Finance Management Act (PFMA). The section refers to the function of the board, which is to establish standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.
- **“Assets”** are resources controlled by an entity as the result of past events and from which future economic benefits or future service potential are expected to flow to the entity.
- **“Asset Manager”** is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality’s assets in accordance with the council’s standards, policies, procedures and guidelines.
- **“Infrastructure”** means assets that usually display some or all of the following characteristics
  - they are part of a system or network;
  - they are specialised in nature and do not have alternative uses;
  - they are immovable; and
  - they may be subject to constraints on disposal: Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks

- **“Community assets”**-are defined as any asset that contributes to the community’s well-being. Examples are parks, libraries and fire stations.
- **“Community Facilities”**: Discrete assets that provide a service directly to the community (such as parks, sports facilities, cemeteries, landfill sites etc
- **“Heritage assets”**-are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- **“Investment properties”**-are defined as properties that are acquired for economic and capital gains. Examples are leased office buildings and underdeveloped land acquired for the purpose of resale in future years.
- **“Attractive items”** are items of property, plant or equipment that are not significant enough for financial recognition but are attractive enough to warrant special safeguarding.
- **“Capitalization”** is the recognition of expenditure as an Asset in the Financial Asset Register.
- **“Carrying amount”** is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation thereon. is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses
- **“Cost”** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
- **“Cost of acquisition”** is all the costs incurred in bring an item of plant, property or equipment to the required condition and location for its intended use.
- **“Component”** is a part of an asset with a significantly different useful life and significant cost in relation to the rest of the main asset. Component accounting requires that each such part should be separately accounted for and is treated separately for depreciation, recognition and derecognition purposes. It is also referred to as separately depreciable parts

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



- “**Depreciation**” is the systematic allocation of the depreciable amount of an asset over its useful life.
- “**Depreciable amount**” is the cost of an asset, or other amount of an asset, or other amount substituted for cost in the financial statements, less its residual value.
- “**Economic Life**” is either: the period over which an asset is expected to yield economic benefits or service potential to one or more users, or the number of production or similar units expected to be obtained from the asset by one or more users.
- “**Enhancement/Rehabilitation**” is an improvement or augmentation of an existing asset (including Separately depreciable parts) beyond its originally recognized service potential for example, remaining useful life, capacity, quality, and functionality

- **“Fair value”** is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm’s length transaction.
- **“Fixed asset register”** is the controlled register recording the financial and other key details for all municipal assets recognized in accordance with this policy is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements.
- **“Financially Sustainable”**, in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants and subsidies for the service, is sufficient to cover the costs of— the initial capital expenditure required for the service; operating the service; and maintaining, repairing and replacing the physical assets used in the provision of the service.
- **“Property, plant and equipment”** are tangible assets that: Are held by a municipality for use in the production of goods or supply of goods or services, for rental to others, for administrative purpose, and are expected to be used during more than one period.
- **“Recoverable amount”** is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal. is the higher of a cash-generating asset’s or units net selling price and its value in use.
- **“Recognition”** is the process of incorporating in the statement of financial position or statement of financial performance an item that meets the definition of an element (of financial statements) and satisfies the criteria for recognition, namely:
  - It is probable that any future economic benefit or service potential associated with the item will flow to or from the entity and
  - The item has a cost or value that can be measured reliably

- **“Refurbishment/Maintenance”** to an asset will restore or maintain the originally assessed future economic benefits or service potential that an entity can expect from an asset and is necessary for the planned life to be achieved.
- **“Residual value”** is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal. is the estimated amount that an entity 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.
- **“Remaining Useful Life”** is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness.
- **“senior manager”** is a manager referred to in section 56 of the municipal systems act being someone reporting directly to the municipal manager.
- **“senior management teams”** are the incumbent of post level 1, 2 and 3 in each directorate being the “senior manager” and everyone up to two levels below them.
- **“Service Potential”** is a tangible capital asset’s output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life
- **“Stewardship”** is the act of taking care of and managing property, plant or equipment on behalf of another.
- **“Useful life”** is either: The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the municipality, Or the estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the municipality.
- Statutory and regulatory framework Key principles contained in the following legislation and regulations were applied to develop this policy:



- ✓ The constitution of the republic of south Africa, 1996
  - ✓ Municipal systems act, 2000
  - ✓ Municipal Finance Management Act
  - ✓ National Treasury Regulations, March 2005;
  - ✓ National Treasury Local Government Capital Asset Management Guideline, 2008
  - ✓ Generally Recognised Accounting Practice (GRAP).
  - ✓ Division of Revenue Act (enacted annually)
- This policy will be updated whenever legislative or accounting standard amendments significantly change the requirements pertaining to asset management in general and the administration of council's Assets.
  - This policy does not over rule the requirement to comply with other policies like procurement, tendering or budget policies. The Chief Financial Officer will provide guidance or adjust this policy where an apparent conflict exists between this policy and other policies, legislation or regulations.

### 3 Responsibilities and accountabilities

#### 3.1 The 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 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 recognized accounting practice

- That the municipality has and maintains a system of internal control of assets, including an asset register; and
- That senior managers and their teams comply with this policy

### 3.2 The Chief Financial Officer.

- The CFO shall be the custodian of the fixed asset register of the Municipality;
- Appropriate systems system 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;
- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- Provide the Auditor-General or his personnel, on request, with the financial records relating to assets belonging to Council as recorded in the Fixed Asset Register.
- Financial processes are established and maintained ensure the municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- The municipal manager is appropriated 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 any supporting procedures or guidelines are established, maintained and effectively communicated

### 3.3 Manager: Assets & Insurance

- Shall ensure that complete asset registers kept, verified and balanced regularly.
- Shall ensure that all movable assets are properly bar coded and accounted for.
- Shall conduct an annual audit inventory by scanning selected movable assets and compare this inventory with the Departments asset sign offs.
- Shall ensure that the Fixed Asset Register is balanced annually with the general ledger and the financial statements.
- Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the departments and provided to the treasury department in the prescribed format.
- Shall ensure that asset acquisitions are allocated to the correct asset code.
- Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, counter signed by the Asset management Section, is presented.
- Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from the departments.
- Shall compile a list of the items to be disposed in accordance with the MFMA (Section 14&90) and Supply Chain Management regulations.
- Shall compile and circulate a list of unused movable assets to enable other departments to obtain items that are of use to them.
- Shall ensure that the SCM unit is notified of any auctioning or disposing of written-off asset or asset inventory item
- Shall develop an infrastructure assets management plan for their department such as Roads and storm water, Water supply, Sanitation, Solid waste, electricity supply, Properties and community facilities.

- Shall unbundle or componentized and assign estimated useful life to each component of all completed projects during the financial year and submit the componentized list to the office of the CFO for updating the asset register.
- Shall sign and date declarations stating that the list of componentized assets for his/her department is complete & accurate except for the discrepancies as reported to the office of the CFO.

#### 3.4 General Managers

- Shall ensure that employees in their departments adhere to the approved Asset Management Policy.
- Shall ensure that an assets coordinator with delegated authority has been nominated to implement and maintain physical control over assets in the department. The Asset management Section must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the general manager.
- Shall ensure that employees who contravenes the operational procedure or who use the council assets negligence and for their personal gain are disciplined accordingly.
- Ensure that any unauthorized, irregular or fruitless or wasteful utilization, and losses resulting from criminal or negligent conduct, are prevented and/or reported.

#### 3.5 Fleet Management Officer

The Duties of Municipal Fleet Officer shall include the following:

- To maintain an inventory of all transport in the ownership or under the control of the Council.
- To attend the licensing of all transport of all transport in the ownership or under the control of the Council.
- To allocate in consultation with Heads of departments sufficient transport to meet the operational requirements of departments.
- To maintain a full of all transport allocated to departments of the Municipality.

- To monitor the insurance of all transport in the ownership or under control of the Municipality.
- To monitor and make arrangements for the regular repairs and maintenance of transport of Council.
- To monitor and ensure that log book are maintained in respect of all Transport in the ownership or under the control of the Municipality.
- To procure and control the issue of fuel required by vehicles in the ownership under the control of the Municipality.
- To ensure that drivers are in possession of the required driving license.
- To take such measures as are necessary and in consultation with the Municipal Manger and Heads of Departments to ensure that transport on the Municipality is not abused;
- To institute in consultation with Heads of Departments and Personnel department or responsible Division of Municipal disciplinary action against drivers and employees of the Municipality who contravene this Policy or any instruction issued by the Municipal Manager and any Head of the department in terms of this Policy or who contravene any road traffic legislation or in any manner that causes or contribute to the loss or damage to transport owned by the Municipality or under the control of the Municipality that in any manner abuse the transport facilities of the Municipality.
- To recommend, through the Municipal Manager, that disciplinary action be taken against employees who contravene the provision of the policy.

### 3.6 Senior Managers responsible for Infrastructure Assets.

- Shall ensure that a maintenance policy is approved and properly implemented.
- Shall develop a maintenance plan for the infrastructure assets for their section.
- Shall ensure that their departments had implemented operational procedures for an example, operators and drivers must have necessary qualification and valid driver's license, only personnel for electricity department are allowed to the electricity sub stations etc.
- Shall ensure that assets are properly maintained in accordance with the maintenance policy.
- Shall ensure that the assets of the council are not used for private gain.
- Shall ensure that all their movable assets as reflected on the Fixed Asset Register and are bar coded where possible.

- Shall ensure that the Asset Management Section is notified of any changes in the status of the assets under the department's control.
- Shall ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the Asset Management Section without delay.
- Shall assist during the annual physical verification of infrastructure assets including the land and building.
- Shall develop an infrastructure assets management plan for their department such as Roads and storm water, Water supply, Sanitation, Solid waste, electricity supply, Properties and community facilities.

### 3.7 ALL Council employees

- Shall ensure that assets assigned to them are utilized effectively, efficiently, economically and transparently.
- Shall ensure that the assets of the council are not used for private gain
- Shall notify the assets coordinators and assets management section of all obsolete, damaged and stolen assets, without delay.
- Shall physical verify all assets under their possession and report to the result of the verification to the assets management unit at year end.
- Shall ensure that all assets under their possession are properly bar-coded.
- Shall ensure that on termination of service they returned the assets to their supervisors and complete a termination assets clearance form.
- Shall notify the asset coordinators and assets management unit of the movement and transfer of assets assigned to them by completing an assets transfer form.
- Shall ensure that they comply with the operational procedures.

### 3.8 Disposal Committee :

The roles of Disposal Committee shall be to:

- Make recommendations regarding the disposal of assets
- Report on surpluses, deficiencies, redundant, damaged or unserviceable assets.
- Determine the causes of the above abnormal situations.

- Determine whether loss control procedures have been followed in respect of loss, damages, error, negligence, fraud and theft.
- Determine the disposal method of the assets

## 4 Financial Management

### 4.1 Pre-Acquisition Planning

- Before a capital project is included in the budget for approval, the senior manager of the relevant department must demonstrate that they have considered:
  - The projected cost over all the financial years until the project is operational;
  - The future operational costs and revenue on the project, including tax and tariff implications;
  - The financial sustainability of the project over its life including revenue generation and subsidization requirements;
  - The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
  - The inclusion of this capital project in the integrated development plan and future budgets:
  - The chief financial officer is accountable to ensure the senior manager of the relevant department receives all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.
- Approval to Acquire Property Plant and Equipment: Money can only be spent on a capital project if:
  - The money has been appropriated in the capital budget,
  - The project, including the total cost, has been approved by the council,
  - The CFO confirms that funding is available for that specific project, and
  - Any contract that will impose financial obligations beyond two years after the budget year
  - Must be appropriately disclosed.

- Acquisition of the Assets will then follow the normal process of the Supply Chain
- Management Policy and Procedures
- Funding of capital projects
- Within the municipality's on-going financial, legislative or administrative capacity, the chief financial officer will establish and maintain the funding strategies that optimise the municipality's ability to achieve its Strategic objectives as stated in the integrated development plan.

#### 4.2 Disposal of property plant and equipment

- The Accounting Officer must appoint a Disposal Committee whose main function of disposal will be to make recommendations regarding disposal of assets.
- The Disposal Committee shall constitute of at least one member per each directorate, including the asset management section representative.
- The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a non-current asset needed to provide the minimum level of basic municipality services.
- The municipality may transfer ownership or otherwise dispose of a non-current asset other than one contemplated above, but only after the council has endorsed the disposal of such assets.
- Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services and has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- The decision that a specific non-current asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset been sold, transferred or otherwise disposed of.
- 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 an item of property, plant and equipment is stated in the Preferential Procurement Policy.



- The disposal 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.
- Transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions.

### **Procedure in case of loss, theft, destruction, or impairment of assets**

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

## **5 Internal Controls**

### **5.1 Fixed Asset registers**

#### **5.1.1 Establishment and Management of the Fixed Asset Register**

- The Chief Financial Officer will establish and maintain the Fixed Asset Register containing key financial data on each item of Property, Plant or Equipment that satisfies the criterion for recognition. Asset Managers are responsible for establishing and maintaining any additional register or database required to demonstrate their physically management of their assets.
- Each asset manager is responsible to ensure that sufficient controls exist to substantiate the quantity, value, location and condition all assets in their registers.

### **5.2 Contents of the Fixed Asset Register**

Without in any way detracting from the compliance criteria mentioned in the preceding paragraph, the fixed asset register shall reflect at least the following information:

- ✓ A brief but identifiable description of each asset
- ✓ classification of each asset
- ✓ the date on which the asset was acquired for use
- ✓ the location of the asset
- ✓ the departments within which the assets will be utilized

- ✓ the responsible person for this asset
- ✓ the title deed number, in the case of fixed property
- ✓ the stand number, in the case of fixed property
- ✓ an unique identification number
- ✓ the original cost or fair value if no costs are available
- ✓ the (last) effective date of revaluation of the fixed assets subject to revaluation
- ✓ the revalued value of such fixed assets
- ✓ the valuer who did the (last) revaluation
- ✓ accumulated depreciation to date
- ✓ the carrying value of the asset
- ✓ whether this is a cash or non-cash generating asset
- ✓ the method and, where applicable, the rate of depreciation
- ✓ impairment losses
- ✓ impairment recovery
- ✓ the source of financing
- ✓ whether the asset is required to perform basic municipal services;
- ✓ the date on which the asset is disposed of
- ✓ the disposal proceeds
- ✓ the date on which the asset is retired from active use, and held for disposal
- ✓ the residual value of each asset
- ✓ measurement model

### 5.3 Internal Controls over the Fixed Asset Registers

#### 5.3.1 Insurance

- The accounting officer shall ensure that all movable PPE are insured at least against fire and theft, and all municipal buildings are insured at least against fire and allied perils;
- The Chief Financial Officer shall determine the insured value based on recommendation of the responsible senior manager.

- The insured value to be applied by the Chief Financial Officer is current replacement cost (CRC) with the exceptions of vehicle types.
- if the municipality operates a self-insurance reserve (assuming such reserve to be allowed), the chief financial officer shall annually determine the premiums payable by the departments or votes after having received a list of the PPE and insurable values of all relevant items from the heads of departments concerned;
- the accounting officer shall recommend to the council, after consulting with the chief financial 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;
- the chief financial 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;
- It shall be the duty of a head of department to notify the Chief financial officer without delay of any new insurable risk or any alteration in an existing insurable risk which has arisen in connection with his or her department
- On occurrence of any event giving rise or likely to give rise to a claim by or against the council or against insurers, the head of department concerned shall notify the chief financial officer of the event who shall immediately inform the council's insurer thereof.
- All claims processed shall be reported to council for noting on a quarterly basis.

## 5.4 Management and Operation of Assets

### 5.4.1 Accountability to manage property plant and equipment

- The head of human resources department shall ensure that no pay-outs are done on termination of employment for any municipal official without receiving the municipal assets from the employee.
- Each Head Of Department is accountable to ensure that municipal resources assigned to them are utilized effectively, efficiently, economically and transparently. This would include;

- Developing appropriate asset management systems, procedures, processes for controlling and management of assets,
- Providing accurate, reliable and up to date account of assets under their control,
- The development and motivation of relevant strategic asset management plans and operational budgets that optimally achieve the municipality's strategic objectives.

**Every head of department shall report to the chief financial officer on 31 October and 30 April of each financial year on any item of PPE which such head of department wishes to dispose, stating in full the reason for such recommendation;**

**The chief financial officer shall consolidate all such reports, and shall promptly notify the accounting officer and council on the PPE to be disposed off.**

#### 5.5 Contents of a strategic asset management plan

Senior Managers need to manage assets under their control to provide the required level of service

**Or**

Economic benefit at the lowest possible long term cost. To achieve this, Asset Manager will need to develop strategic asset 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

## 5.6 Bar-coding and Physical Verification

- Bar coding means to place a control number on a piece of equipment or property.
- In Order for the Movable Addition to be added on the Fixed Asset Register must be R5000.00 and above.
- All movable assets must be bar code if probable.
- The primary purpose of bar coding is to maintain a positive identification of assets. Bar coding is important to:
  - Provide an accurate method of identifying individual assets
  - Aid in the annual physical inventory
  - Control the location of all physical assets
  - Aid in maintenance of fixed assets

Fixed property and plant is not bar coded; such as:

- Buildings (record legal description in asset record),
- Land (record legal description in asset record),
- Infrastructural assets.

Consistently place asset bar codes in the same location on each similar type asset. If possible, the bar codes shall be accessible for viewing. Place the tag where the number can be seen easily and identified without disturbing the operation of the item, which will aid in taking inventory.

## 6 MANAGEMENT AND OPERATION OF MUNICIPAL FLEET

### Who may drive a municipal vehicle?

- A Municipal vehicle may only be driven by a Municipal Employee with the requisite trip authority which must be issued in triplicate and signed by Head of Department or an official designated by the Municipal Manager;
- The aforesaid trip authority must relate to a trip necessary for the performance of a line function of a Department or in furtherance of the lawful aims and or objectives of the Municipality;
- The authorization of the Fleet Management Officer shall be recorded in writing:
- Any legible person who's an employee in the employ of Port St Johns Municipality, who has a valid driver's license may drive the municipal vehicle in case of an emergency. The Fleet Management Officer in consultation with the Municipal Manager should be informed of such an emergency.

### VEHICLES SHALL ONLY BE USED FOR OFFICIAL PURPOSES.

#### VEHICLES

- Only an employee of the Municipality may drive a Municipal vehicle only for purposes connected with his or her official duties.
- A councilor shall not use a municipal vehicle for the performance of his/ duties as a councilor as Councilors are in receipt of traveling allowances and are required to make their own transport arrangements.
- The driver of a Municipal vehicle must have an unendorsed driver's license and this license and this license must be checked for validity by the Municipal Fleet Officer on a six months basis.
- The Municipal Fleet Officer shall keep a register for employees to drive Municipal vehicles.

#### DRIVERS

- Only employees of the Municipality including Section 57 Managers and the person performing duties associated with the activities of the Municipality may be conveyed in a vehicle of the Council and then subject to the express consent of the Head of Department and upon such conditions as he/she may determine. Such approval shall be endorsed on the trip authority.

- The conveyance of casual or unauthorized passengers in a vehicle of the Municipality is not permitted under any circumstances.
- Family members of employees of the Municipality may be conveyed in official transport only with the prior written approval of the Municipal manager and upon such terms and conditions as he/she may determine and subject to such family members indemnifying the Municipality against death, injury, loss or damages they may sustain as a result of their conveyance in terms of this paragraph.

### **AUTHORITY TO USE A VEHICLE**

- No Municipality transport shall be moved from a depot without the driver being in possession of a duly authorized trip authority;
- If a vehicle is moved from a depot because of an emergency, then the driver thereof must obtain a trip authority within 24 hours of such movement. This process may only be used in a case of extreme emergency and the Head of Department must be satisfied that the Head of Department grants such a trip authority shall be endorsed on the authority.
- If a vehicle is allocated to an employee who is not based at an office of the Municipality or in closely proximity to a municipal depot i.e. an employee who operates from home, then a trip authority must be issued against a weekly work plan approved by the Head of Department. Trip authorities must not be issued for longer than one week.

### **ISSUING OF VEHICLES**

- All vehicles must be issued on the day of travel unless prior to park the vehicle at the home of the driver has been obtained. Report to the Municipal Manager and Fleet Officer or any other HOD with consultation of HOD if not available.
- The original of the trip authority must be carried in the vehicle and a copy thereof shall be retained by the Municipal Fleet Officer for accounting and reporting purposes.
- The Municipal Fleet Officer will issue a vehicle to an authorized driver after complying with the following procedures:
  - The Municipal Fleet Officer will issue a vehicle issue form and record therein the condition of the vehicle, the quantity of fuel in the tank, log book availability, petrol card number and items of equipment in the vehicles.
  - The driver will sign the vehicle issue form in the presence of the Municipal Fleet Officer.

- The driver, by signing the vehicle issue form, certifies thereby that the details contained therein are correct and that he/she assumes the responsibility for the vehicle and the issue items of equipment thereon.
- The vehicle issue form part of the trip authority.
- The Municipal Fleet Officer will take a receipt of a returned vehicle by following same procedure referred to in 6.5.5 and shall endorse on the vehicle issue form mileage traveled by the driver and condition of the vehicle. The Municipal Fleet Officer shall furthermore, require the driver to produce all petrol slips for petrol purchased during an extended trip for the purpose of verifying fuel and costs incurred in connection with the purchase of fuel by a driver who drives a vehicle on an extended trip and is not issued with petrol card.

## 6.1 PARKING OF A MUNICIPAL VEHICLE

- Under normal circumstances vehicles must be parked at the Municipal vehicle depot.
- The Fleet Officer must allocate an approved parking place for each vehicle.
- Whenever and wherever the vehicle is parked, the driver must lock or use a steering or gear lock lock or active any anti-theft device on the vehicle.
- The driver of the Municipal vehicle is responsible for ensuring that the vehicle is parked as safely as circumstances permit.
- Permission may be granted for a vehicle to be parked at home of an employee subject to the conditions contained in paragraph

### **A vehicle may be parked at home of a driver if:**

- The location has been reviewed by the Municipal Fleet Officer and security is considered safe and adequate e.g. there is a garage or lockable gates, and
- The employee will be leaving early in the morning or returning late at night.
- The actual times applicable for purposes of this clause will be the time when public transport starts/ stops and or the sun rises in the opinion of the Municipal Manager, the personal security of an employee necessities such employee to park the allocated vehicle at his/her home.
- The home of the employee is at a place between the municipal vehicle depot and the end point of the trip such that it is not economical for an employee to return the allocated vehicle to a municipal vehicle depot and collect it the following day.



**If the employee works from home:**

- The employee is on call and there is no means by which he/she can be transported in official transport in the event of a call out or in the event of the provision of official transport proving in such circumstances not to be cost effective.

**SPECIAL CONDITIONS PERTAINING TO VEHICLES PARKED AT THE HOME OF EMPLOYEES:**

- Whilst the vehicle is parked at the home of an employee, it may not be used for any non-work or private purposes.
- If an emergency arises whilst a vehicle is parked at the home of an employee necessitating the use of vehicles, then a signed trip authority for the movement of such vehicles must be obtained within 24 hours of the journey.
- The private use of a vehicle while parked at the home of an employee will lead to withdrawal of the privilege and possible disciplinary action against the officer concerned.
- Upon acceptance of this policy by the Council all previously agreed rights granted to employees to park vehicles at their homes are withdrawn and they must reapply for such permission in terms of this policy.
- Applications will be directed to the fleet officer who will pass it to the municipal Manager and relevant steps will be followed until it reaches the Council for resolution.

**LOG BOOK, PETROL CARDS, VEHICLE KEYS, AND EQUIPMENT:**

The Municipal Fleet Officer will ensure that every vehicle is provided with a log book for the recording of mileage and other information concerning a trip in the vehicle in which such log book relates. Log Book shall be suitably endorsed

- with the name of the Council and the vehicle description and the registration number to which it relates.
- The driver takes the responsibility of the log book, keys and petrol cards once the vehicle has been accepted and signed for as being received and until it has been received back in by the Municipal Fleet Officer.
- At the end of trip.
- All vehicles keys should be kept in a locked cabinet in the transport office when a vehicle has not been issued. A spare set of all vehicles should be kept in a theft and fire proof office safe.
- The petrol card is to be treated as cash and the driver will be held responsible for transactions that take place on it whilst it is in his/her possession.
- All fuel receipts must be kept and made available upon request to the Municipal Fleet Manager.

- It is the responsibility of the driver to complete the vehicle log book legibly and accurately.
- Loose vehicle equipment e.g. the spare wheel, toolkit and jack will be checked at the time of issuing of the vehicle to the driver and it is the responsibility of the driver to safeguard such equipment until the driver is returned to the Municipal Fleet Officer. The driver will be required to replace any items that have been lost whilst the vehicle is under his/her control.

ASSET MANAGEMENT POLICY

# ASSET MANAGEMENT POLICY

## **REPAIRS TO VEHICLES**

- It shall be the responsibility of the driver to report any mechanical or other defects to the Municipal Fleet Officer when a vehicle is returned to him/her at the end of a trip.
- While a vehicle is under warranty of the Manufacturer only dealers approved by the manufacturer will be used for the repair of a vehicle. All warranty work must be claimed from dealers.
- The Municipal Fleet Officer must make arrangements with the Municipal Garage/ or privately owned garages where no municipal garage exist or where a municipal garage cannot repair a vehicle for regular repairs.
- Before a vehicle is repaired by a privately owned garage, the Municipal Fleet officer shall obtain three quotations for the work required. This requirement may be waived where there is only one privately owned garage In town. Upon receipt of quotations, the Municipal Fleet Officer shall liaise with the Financial Officer of the Council to determine whether the funds are available to cover the costs of the repairs. Should funds be available, then an official order shall be issued fir the work to be carried out at the most favorable quotations.
- The Municipal Fleet Officer shall retain copies of the job cards and invoices issued in respect of vehicles maintained or repaired so that maintenance and repairs on vehicles may be monitored at regular intervals. Repairs and maintenance costs also should be reported quarterly to the Council in any report which the Municipal Fleet Officer may prepare for consideration by the Municipal Manager or Council.

ASSET MANAGEMENT

- It shall be the responsibility of the driver to report any mechanical or other defects to the Municipal Fleet Officer when a vehicle is returned to him/her at the end of a trip.

## **VEHICLE REPLACEMENT**

- The Municipal Fleet Officer shall be responsible for the identification vehicles requiring replacement according in compliance with Supply Chain Management.
- If a vehicle is considered to be beyond economic repair before its expected replacement date, all supporting information should be sent to the Municipal Manger for submission by way of report to the Council for consideration.
- In determining whether or not a vehicle should be replaced, the Municipal Fleet Officer shall take the following guidelines into account:
- Both time and distance are often used to determine the need to replace vehicles, but the most accurate factor to be used is vehicle cost. There are two elements for vehicle cost namely the capital purchase of the vehicle and the running cost per kilometer. The best time to replace a vehicle is at the point at which the cost per kilometer is at the lowest.
- The best simplest method to allocate capital cost is to split the cost of replacing the vehicle over the number of kilometers traveled. Conversely the running cost per kilometer will increase as more kilometers are traveled and more complex maintenance is required. It is possible to set an average of life span of a vehicle by using the management information to determine the point at which the cost per kilometer is at the lowest.
- The vehicle should be replaced if the running cost per kilometer of the old vehicle is higher than the full cost per kilometer of the new vehicle.
- Running cost per kilometer of the old vehicle is calculated by adding fuel cost per kilometer and the maintenance cost per kilometer. These will be both available from the vehicle's file and the monthly fleet report form and should be averaged over a three to six months period. The overall cost per kilometer of a new vehicle can be calculated by taking the capital cost per kilometer and adding this to the expected running cost per kilometer. The expected life of the vehicle can be estimated using management data for vehicle of given type and the expected running cost can also be taken from current data for vehicles of this type.

- The vehicle should be replaced if the running cost per kilometer of the old vehicle is higher than the full cost per kilometer of the new vehicle.
- Running cost per kilometer of the old vehicle is calculated by adding fuel cost per kilometer and the maintenance cost per kilometer. These will be both available from the vehicle's file and the monthly fleet report form and should be averaged over a three to six months period. The overall cost per kilometer of a new vehicle can be calculated by taking the capital cost per kilometer and adding this to the expected running cost per kilometer. The expected life of the vehicle can be estimated using management data for vehicle of given type and the expected running cost can also be taken from current data for vehicles of this type.

### **REPLACEMENT REQUESTS**

- The Council shall annually budget for the replacement of vehicles.
- Requests for new or replacement vehicles should be submitted by the Municipal Fleet Officer to the Chief Financial Officer not later than the 31<sup>st</sup> October of each year.
- The Chief Financial Officer should be provided with full details pertaining the need to replace a vehicle including the running cost per kilometer of the current vehicle, utilization, availability and needs satisfaction indicators for fleet as a whole.
- The service delivery targets that any vehicle is expected to support should be highlighted.

### **FUEL MANAGEMENT**

- The Municipal Fleet Officer will be responsible for the purchase of the fuel and oil requirements of the Council and the recording, allocation and control over such requirements.
- Fuel and oil shall be purchased in accordance with the normal procurement procedures of the Council.
- Only sufficient fuels and oils to meet the short term requirements of the Council shall be purchased at a given time.
- The Municipal Fleet Officer must ensure that fuel and oil supplies received are accurate in accordance with official order instructions.
- Fuel and oil may only be issued to drivers of official vehicles and an accurate record of all supplies shall be maintained and recorded in the fleet management report.
- A fuel purchases and issue register shall also be maintained on a daily basis and the amount of fuel in tanks shall be checked against the balance in the fuel register on a weekly basis. Any discrepancy shall immediately be reported to the Chief Financial Officer of the Council.

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#### **14. MARKING OF VEHICLES**

- The Municipal Fleet Officer shall ensure that all vehicles belonging to or under the control of the Council are properly marked and identifiable as vehicles of the Council.

#### **17. TRAFFIC OFFENCES**

- The driver of the vehicle shall diligently obey all traffic laws and shall be responsible for the payment of all traffic fines which may be attributed to his/her negligence.

#### **18. PROHIBITED ACTS**

- No employee of the Council not in possession of a valid driver's license of the required code shall drive or be permitted to drive a Municipal vehicle.
- No employee shall drive or be permitted to drive an unlicensed vehicle of the Council.
- No employee shall drive a municipal vehicle under the influence of liquor. Or drugs.
- No employee shall be permitted to convey or transport the goods/ property of other persons whether for reward in a municipal vehicle.
- No employee shall be entitled to use fuel or oils supplies of the Council in his/ her private vehicle or any other person's.
- Fuel and oil supplies of the Council may only be issued to State, Provincial and other governmental bodies with the express consent of the Chief Financial Officer and on a fuel cost recovery basis and due regard to legal requirements.

#### **VIOLATION OF TRANSPORT POLICY**

- A violation of this policy may lead to disciplinary action being instituted against an employee or Political Office Bearer of the Council.
- An employee found guilty of violating this policy may also be suspended from using a Municipal vehicle.
- Members of the South Africa Police Services or Traffic Officers or law enforcement officers of the Council are hereby authorized to apprehend and charge employees and Political Office Bearers of the Council who contravene the contents of this policy in cases such as contravention amounts to a criminal offence and in particular theft, fraud, misuse of vehicle include negligent driving.

Please ensure that all concerned employees are informed about this policy and contents thereof as violation may lead to disciplinary action against an employee and suspension of municipal vehicle.

- The municipal Manger, Heads of Departments, municipal official and middle management, members of the SAPS have a right to ask for trip authority at anytime, anywhere they see municipal vehicle and submit a report to the Fleet Officer

ASSET MANAGEMENT POLICY



- Please ensure that all concerned employees are informed about this policy and contents thereof as violation may lead to disciplinary action against an employee and suspension of municipal vehicle.
- The municipal Manger, Heads of Departments, municipal official and middle management, members of the SAPS have a right to ask for trip authority at anytime, anywhere they see municipal vehicle and submit a report to the Fleet Officer

## 6.2 Physical verification of all movable assets

- The Asset Management Section will conduct a physical verification of all assets at least annually.
- They will require the cooperation of departmental personnel in accomplishing the physical verification task and will attempt to minimize the time demanded of them.
- The designated officials in the different Departments within Council must execute the functions listed below.
- Ensure that the bar code number and location number are reflected on the asset movement form by the relevant official on the receipt of the asset. Where applicable, the serial number or registration number should be included.
- Complete the asset movement form when transfers occur and forward the completed original form to Asset Management Section.
- Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained.
- Asset Management Section must be notified by the relevant Department of any of the Following possible movements:
  - Donations
  - Additions / Improvements
  - Departmentally manufactured items
  - Loss or damage
  - Transfers
  - Terminations
  - Land Sales

## 6.3 Classification, aggregations & components

### 6.3.1 Classification of Assets

- Assets that meet the definition and the recognition criteria shall be capitalized in the fixed assets register and be classified as follows:
  - Property Plant and equipment if its meet the definition of property plant and equipment as per GRAP 17,
  - Intangibles assets if its meet the definition of an intangible assets as GRAP 102,
  - Investment properties if it's the definition of the investment properties as per GRAP 16
  - Biological assets if it's the definition of biological assets as per GRAP 101.

#### Major Component

- An Asset Manager may, with agreement of the Chief Financial Officer, treat specified major components of an item of property plant or equipment as a separate asset for the purposes of this Policy.
- These major components may be defined by its physical parameters (e.g. a reservoir roof) of its financial parameters (e.g. a road surface).
- In agreeing to these treatments the CFO must be satisfied that these components:
  - Have significantly a different useful life or usage pattern to the main asset,
  - Align with the asset management plans,
  - The benefits justify the costs of separate identification,
  - It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,
  - The cost of the asset to the municipality can be measured reliably,
  - The municipality has gained control over the asset,
  - The asset is expected to be used during more than one financial year.

- All such decisions and agreements will be confirmed before the beginning of the financial year and submitted for approval with the budget. Any amendments will only be permitted as part of a budget review.
- Once a major component is recognized as a separate asset, it may be acquired, depreciated and disposed of as if it were a separate asset.

## 6.4 Accounting for Assets

### Recognition of Assets

- The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:
  - It is probable that future economic benefits or service potential associated with the item will flow to the entity, and
  - The cost or fair value of the item can be measured reliably

#### MEASUREMENT AT RECOGNITION.

- An item of assets that qualifies for recognition as an asset shall be measured at its cost.
- Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

#### Elements of cost:

- The cost of an item of property, plant and equipment comprises:
  - Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.
  - Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.
  - 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 entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

## EXAMPLES OF DIRECTLY ATTRIBUTABLE COSTS ARE

- Costs of employee benefits (as defined in the Standard of Generally Recognised Accounting Practice on Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment,
- costs of site preparation,
- initial delivery and handling costs,
- installation and assembly costs,
- costs of testing whether the asset is functioning properly, after deducting tenet proceeds from selling any items produced while bringing the asset to that location and condition
- Professional fees.

### 6.4.1 Measurement after recognition

- After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses
- Each part of an item of property, plant and equipment with a cost that insignificant in relation to the total cost of the item shall be depreciated separately
- The depreciation charge for each period shall be recognised in surplus or deficit unless it is included in the carrying amount of another asset.
- Depreciation of an asset begins when it 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 management.
- Depreciation of an asset ceases when the asset is derecognised.
- Therefore, depreciation does not cease when the asset become idle or is retired from active use held for disposal unless the asset is fully depreciated.
- The depreciable amount of an asset is determined after deducting its residual value.

- **The residual value for infrastructure assets, Heritage assets, community assets and intangible assets shall be zero at initial measurement.**

#### 6.4.2 Initial determination useful life

- Each Asset Manager needs to determine the useful life of a particular item or class property, plant and equipment through the development of a strategic asset management plan that forecasts the expected useful life that asset. This should be developed as part of the Pre-Acquisition Planning that would consider the following factors:
- The operational, maintenance, renewal and disposal program that will optimize the expect long term costs of owning that asset,
  - economic obsolescence because it is too expensive to maintain,
  - functional obsolescence because it no longer meets the municipalities needs,
  - technological obsolescence,
  - social obsolescence due to changing demographics, and
  - Legal obsolescence due to statutory constraints.

#### 6.4.3 Review of useful life, depreciation method and the residual value

- The useful life, depreciation method and the residual value applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method, useful life and residual value shall be changed to reflect the changed pattern.
- Such a change shall be accounted for as a change in an accounting estimate in accordance with Standard of GRAP 3 on Accounting Policies, Changes in Accounting Estimates and Errors.

## Review of depreciation method

- The depreciation method applied to an asset shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

### 6.4.4 Subsequent expenditure on property plant and equipment

Assets are often modified during their life. There are two main types of modification:

Enhancements / Rehabilitation:

- This is where work is carried out on the asset that increases its service potential. Enhancements normally increase the service potential of the asset, and or may extend an asset's useful life and result in an increase in value.
- These expenses are not part of the life cycle of the asset. These costs normally become necessary during the life of an asset due to a change in use of the asset or technological advances.
- Disbursements of this nature relating to an asset, which has already been recognized in the financial statements, should be added to the carrying amount of that asset. The value of the asset is thus increased when it is probable that future economic benefits or service potential will flow to the Council over the remaining life of the asset.
- To be classified as capital spending, the expenditure must lead to at least one of the following economic effects:
  - Modification of an item or plant to extend its useful life, including an increase in its capacity;
  - Upgrading machine parts to achieve a substantial improvement in the quality of output;
  - Adoption of new production processes enabling a substantial reduction in previously assessed operating costs;

- Extensions or modifications to improve functionality such as installing computer cabling or increasing the speed of a lift will Improve the performance of the asset
- Expenditure related to repairs or maintenance of property, plant and equipment are made to restore or maintain the future economic benefits or service potential that a municipality can expect from the asset.
- Refurbishment of works does not extend functionality or the life of the asset, but are necessary for the planned life to be achieved. In such cases, the value of the asset is not affected, and the costs of the refurbishment are regarded as operating expense in the statement of financial performance.

#### **MAINTENANCE / REFURBISHMENT:**

- Expenditure related to repairs or maintenance of property, plant and equipment are made to restore or maintain the future economic benefits or service potential that a municipality can expect from the asset.
- Refurbishment of works does not extend functionality or the life of the asset, but are necessary for the planned life to be achieved. In such cases, the value of the asset is not affected, and the costs of the refurbishment are regarded as operating expense in the statement of financial performance.

#### **IMPAIRMENT OF ASSETS:**

The municipality will assess at the end of each reporting date whether there is objective evidence that property, plant and equipment are impaired. Only if such evidence exists, the municipality will estimate the impairment loss.

## FINANCIAL DISCLOSURE

The financial statements shall disclose, for each class of property, plant and equipment recognised in the financial statements:

- the measurement bases used for determining the gross carrying amount,
- the depreciation methods used,
- the useful lives or the depreciation rates used,
- the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period, and
- a reconciliation of the carrying amount at the beginning and end of the period showing:
  - additions,
  - disposals,
  - acquisitions through business combinations,
  - increases or decreases resulting from revaluations and from impairment losses recognised or reversed directly in net assets under the Standard of GRAP on Impairment of Assets, impairment losses recognised in surplus or deficit in accordance with the Standard of GRAP on Impairment of Assets,
  - impairment losses reversed in surplus or deficit in accordance with the Standard of GRAP on Impairment of Assets,
  - depreciation,
  - The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity, other changes.
- The financial statements shall also disclose for each class of property, plant and equipment recognised in the financial statements:



- the existence and amounts of restrictions on title and property, plant and equipment pledged as securities for liabilities,
  - the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction,
  - the amount of contractual commitments for the acquisition of property, plant and equipment, and
  - If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.
- If items of property, plant and equipment are stated at revalue amounts, the following shall be disclosed:
- the effective date of the revaluation,
  - whether an independent valour was involved,
  - the methods and significant assumptions applied in estimating the items' fair values,
  - the extent to which the items' fair values were determined directly by
    - reference to observable prices in an active market or recent market
    - transactions on arm's length terms or were estimated using other
    - valuation techniques,
  - for each revalue class of property, plant and equipment, the carrying amount that would have been recognised had the assets been carried under the cost model, and
  - The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.

**Financial statements shall also disclose the following for each class of property, plant and equipment:**

- The carrying amount of temporarily idle property, plant and equipment,
- The gross carrying amount of any fully depreciated property, plant and equipment that is still in use, and
- The carrying amount of property, plant and equipment retired from active use and held for disposal.
- The financial statement shall disclose the following for each class of intangible assets, distinguishing between the internally generated intangible assets and other intangibles assets:
  - Whether the useful lives are indefinite or finite and, if finite, the useful
  - Lives or the amortisation rates used.
  - The amortisation methods used for intangible assets with finite useful lives.
  - The gross carrying amount and any accumulated amortisation
  - (Aggregated with accumulated impairment losses) at the beginning and end of the period.
  - The line item(s) of the statement of financial performance in which any amortisation of intangible assets is included.
  - A reconciliation of the carrying amount at the beginning and end of the period showing:
    - additions, indicating separately those from internal development and those acquired separately;
    - disposals;

- assets classified as held for sale or included in a disposal group classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations ;
- increases or decreases during the period resulting from revaluations under paragraphs .78, .88 and .89 and from impairment losses recognised or reversed directly in net assets in accordance (if any) with the Standards of GRAP on Impairment of Assets;
- impairment losses recognised in surplus or deficit during the period in accordance (if any) with the Standards of GRAP on Impairment of Assets;
- impairment losses reversed in surplus or deficit during the period in accordance (if any) with the Standards of GRAP on Impairment of Assets);
- any amortisation recognised during the period; net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity.

ASSET MANAGEMENT POLICY

## 7 ANNEXURE A: FIXED ASSET USEFUL LIVES

### INFRASTRUCTURE ASSETS

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

<b>Asset category</b>	<b>Useful lives</b>
<b>Roads</b>	
Motorways	20
Road /Traffic Signs	5
Traffic lights	15
Streetlights	25
Overhead bridges	60
Bridges Concrete	60
Bridges Steel	40
Bridges Timber	25
Access roads	10
Pedestrian footpaths	15
Gabions	25
Car parks	10
Bus terminals	25
Footways	15
Kerbing	40
Paving	10
<b>Stormwater</b>	
Culverts	25
Drains	25
<b>Water</b>	
Reservoirs and storage tanks	30
Pedestrian malls	15
<b>Airports</b>	
Runways	15
Aprons	25
Taxiways	15
Airport and radio beacons	25

## COMMUNITY ASSETS

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

<b>Asset category</b>	<b>Useful lives</b>
<b>Buildings and other assets</b>	
Ablution facilities	25
Beach developments	25
Care centres	25
Cemeteries	25
Civic theatres	25
Clinics and hospitals	25
Community halls	25
Libraries	25
Museums and art galleries	25
Parks	25
Recreation centres	25
Taxi Rank	10
Sports fields	25
Zoos	25
<b>Recreation facilities</b>	
Bowling greens	25
Tennis courts	25
Swimming pools	25
Golf courses	25
Outdoor sports facilities	25
Flood lighting	10
Fencing	10

## HERITAGE ASSETS

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

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

## INVESTMENT ASSETS

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

<b>Description</b>	<b>Useful lives</b>
Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties)	25
Housing developments (that is, developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit)	25
Shopping centres (again developed along similar lines)	25

## OTHER ASSETS

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

<b>Asset category</b>	<b>Useful lives</b>
<b>Buildings</b>	
Nurseries	25
Office buildings	25
Transport facilities	25
Workshops and depots	25
<b>Office equipment</b>	
Computer hardware	3
Projectors	5
Computer software	3
Office machines	5
Air conditioners	3
Fridge	5
Notice Board	5
Camera	3
Geyser	5
Stove	5
<b>Furniture and fittings</b>	
Chairs	5
Tables and desks	5
Cabinets and cupboards	5
Couches	5
Bins and containers	5
Household refuse bins	5
Bulk refuse containers	5
<b>Transport Assets</b>	
Fire engines	5
Trucks and light delivery vehicles	5
Ordinary motor vehicles	5
Motorcycles	5
<b>Plant and equipment</b>	
Graders	5
Tractors	5
Farm equipment	5
Lawn mowers	5

Compressors	5
Mixer	5
Radio equipment	5
Firearms	5
Roller	5
Cable cars	5
Irrigation systems	5
Cremators	5
Lathes	5
Fuel tank	5
Conveyors	5
Trailers	5
Tippers	5
Pulverising mills	5
Cutter	5
Other	5
<b>Other</b>	
Boats	15

ASSET MANAGEMENT POLICY



## 8 ANNEXURE B: METHODOLOGY- ANNUAL ASSESSMENT OF USEFUL LIVES RESIDUAL VALUES AND IMPAIRMENT

### 8.1 PURPOSE

The purpose of this document is:

- To set out a methodology for the impairment and useful lives assessment of property, plant and equipment in line with the applicable accounting standards;
- To ensure that sufficient provision is made for the impairment of property, plant and equipment in the annual financial statements; and
- Ensure that assets disclosed in the annual financial statements are stated at amounts that are in line with GRAP 17 Property, plant and equipment.

### 8.2 SCOPE

The methodology is applicable to all property, plant and equipment subsequently measured at cost. This includes the following:

- Buildings;
- Cellular equipment;
- Community assets;
- Furniture and fixtures;
- IT equipment;
- Infrastructure;
- Infrastructure – WIP;
- Land;
- Plant and machinery;
- Transport assets; and
- Investment property (Carried at Cost less Accumulated depreciation and accumulated impairment)

### 8.3 DEFINITIONS AND ABBREVIATIONS

<b>“ASB”</b>	means Accounting Standards Board;
<b>“CFO”</b>	means Chief Financial Officer;
<b>“Entity”</b>	means Port St Johns Local Municipality;
<b>“EUL”</b>	means estimated useful life, which is the period of time over which an asset is expected to be used by the municipality;
<b>“FAQ”</b>	means frequently asked questions as issued by the Accounting Standards Board;
<b>“Financial year”</b>	means the period 1 July of one year to 30 June of the following year (both days included);
<b>“GRAP”</b>	means generally recognised accounting practices;
<b>“IDP”</b>	means integrated development plan;
<b>“Impairment”</b>	is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation or amortisation;
<b>“Impairment loss of a cash-generating asset”</b>	is the amount by which the carrying amount of an asset exceeds its recoverable amount;
<b>“Impairment loss of a non-cash-generating asset”</b>	is the amount by which the carrying amount of an asset exceeds its recoverable service amount;
<b>“MFMA”</b>	means Municipal Finance Management Act, Act 56 of 2003;
<b>“Municipality”</b>	means Port St Johns Local Municipality;

“Reporting date”	means 30 June of each year;
“RUL”	means remaining useful life;
“SDBIP”	means service delivery budget implementation plan;
“DRC”	Depreciated Replacement Cost

#### 8.4 APPLICABLE ACCOUNTING STANDARDS

GRAP 17 property, plant and equipment sets out the requirements and guidelines for the assessment of useful lives.

GRAP 17.56 *“The residual value and the useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on accounting policies, changes in accounting estimates and errors.”*

GRAP 17.57 *“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.”*

GRAP 21.18 and GRAP 26.19 *“The entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable service amount of the asset.”*

GRAP 21 will be applied by the entity on impairment of non-cash-generating assets and GRAP 26 on impairment of cash-generating assets.

## 8.5 ADDITIONAL GUIDANCE

The frequently asked questions (FAQ) issued by the Accounting Standards Board (ASB) issued 5 May 2014 provided additional guidance on the treatment of fully depreciated assets still in use.

Extract out the FAQ issued 5 May 2014

*“In terms of GRAP 17 property, plant and equipment, an entity is required to assess the appropriateness of the useful lives, residual values and depreciation methods of assets at every reporting date. Where an entity has fully depreciated assets because it did not appropriately apply the principles of GRAP 17, either because it did not review the useful lives or residual values of assets at previous reporting dates, or because it did not use available information appropriately, this results in an error in accordance with GRAP 3.*

*When an entity applies the principles in GRAP 17 appropriately and uses all the information available to it in considering the useful lives, residual values and depreciation methods, then this would not result in an error but a change in estimate.*

*It may be appropriate, in rare instances, for an entity to hold fully depreciated assets which it still uses. If an entity made an appropriate estimate of the useful lives, residual values and depreciation of an asset based on the information available at the previous reporting dates, it continues to measure the assets at R1, and considers whether disclosure of the fact that it has fully depreciated assets still in use is appropriate.*

*The instances when an entity would be allowed to follow this approach (i.e. retain as fully depreciated and disclose where appropriate) would be very rare and would be limited to assets that are not significant to an entity's operations. If the assets are significant to an entity's operations and service delivery objectives, then appropriate adjustments will need to be made.*

*If the requirements of GRAP 17 were correctly applied in prior periods, but expectations changed after year end, then the adjustment will result in a change in accounting estimate (i.e. an adjustment to depreciation) and not an error. However, if the requirements of GRAP 17 were not correctly applied in prior periods, the adjustment results in an error in accordance with GRAP 3.*

*Whether adjusting for a change in an accounting estimate or an error, the disclosure requirements in GRAP 3 should be applied.”*

## 8.6 SCOPE

The assessment for impairment will not apply to the following categories:

1. Inventories;
2. Assets arising from construction contracts;
3. Financial assets that are within the scope of the Standard of GRAP on Financial Instruments;
4. Investment property that is measured at fair value;
5. Biological assets related to agricultural activities that are measured at fair value less costs to sell; and
6. Deferred acquisition costs, and intangible assets, arising from an insurers contractual rights under insurance contracts within the scope of the International Financial Reporting Standard on insurance contracts.

## 8.7 TIMING OF ASSESSMENT

The municipality will assess at the end of each reporting date whether there is objective evidence that property, plant and equipment are impaired. Only if such evidence exists, the municipality will estimate the impairment loss.

## 8.8 EVIDENCE OF IMPAIRMENT

An item of property, plant and equipment indicates the possibility of impairment if the asset is **not performing the way it is intended to perform**. The assessment of impairment is performed per asset.

The following are some key indicators which the municipality considers in determining if an impairment loss has incurred:

Incidents or indicator	Example
Physical damage of assets	<ul style="list-style-type: none"> <li>• Building or roads closed due to structural damage;</li> <li>• Sections of elevated roadways that have sagged, indicating it requires replacement in 5 years instead of 7 years;</li> <li>• Storm water drains and culverts that are blocked <b>and</b> the removal is not economical;</li> <li>• Moveable assets where the condition is indicated as very poor or not in use (broken) to be disposed.</li> <li>• Where the condition of asset deteriorates faster than expected</li> </ul>
Riots that caused damaged to assets	Buildings or vehicles being burned or vandalised

Incidents or indicator	Example
Excessive maintenance required on an asset.	The actual spend on maintenance is significantly higher than what was budgeted or anticipated
Intended use of an asset changed and now the assets are not being used	<ul style="list-style-type: none"> <li>• Rental buildings being used as storage facilities instead of earning rentals;</li> <li>• Car ports no longer used because its unsafe to park underneath;</li> </ul>

Performance of the asset has reduced beyond what is expected based on the age of asset or group of assets	<ul style="list-style-type: none"> <li>Printer print 200 copies a month instead of the expected 500 copies;</li> </ul>	
Acts of God	Flood damage	Buildings and road flooded resulting in structural damage
	Lightning	<ul style="list-style-type: none"> <li>Resulting in burning down of assets;</li> <li>Causing damage to electronic devices such as TV, computers, etc.</li> </ul>
Decision to halt the construction of the asset before it is complete or in a usable condition	Construction was stopped due to identification of environmental condition (for example identification of graves at construction site) and the construction will not continue, or it will take a significant time before it commences again.	
Decrease in the request for a service although the asset can still perform at the level required	Sport fields of stadia which are not being utilised by the community although they are in working order.	
Changes in technology with an adverse effect on the use of asset	Computer equipment that is not being used as the technology is old and new computers are rather purchased.	
Significant changes with an adverse effect on the municipality in the government policy environment	Introduction of mSCOA with could lead to the current financial operating system becoming obsolete.	
Decline in land's market value that is significantly greater than would be	Decline in the values as per the current valuation roll compared to that of the previous valuation roll.	

expected as a result of passage of time or normal use	
Increase in rehabilitation cost for landfill sites, borrow pits and quarries	Any debit entry to the cost of land for landfill sites, borrow pits or quarries as a result of the increase in the estimated rehabilitation cost.

A change in a parameter such as demand for the service, extent or manner of use, legal environment or government policy environment would indicate impairment only if such a change was significant and had or was anticipated to have a long-term adverse effect.

The following incidents are not considered indicators of impairment but rather an indication that maintenance is required:

- Office chair where one of more wheels are missing;
- Office desk where a drawer is not opening properly;
- Office chair where the material is dirty due to continues used however the chair is still in good functional condition;
- Office cupboard of which the door is hanging loose due to hinges being missing or broken; or
- Storm water drains and culverts that are blocked **and** the removal is economical;
- Motor vehicles with broken windscreen/window/tyre etc but the vehicle can still be used;
- Carport roofs with plastic roofing material that is damaged and can still be replaced economically; and
- Movable assets broken and no longer in use should be written off.

If there is an indication that an asset may be impaired, this may indicate that the remaining useful life, the depreciation (amortisation) method or the residual value for the asset needs to be reviewed and adjusted in accordance with the Standard of GRAP



applicable to the asset, even if no impairment loss is recognised for the asset. Refer to the section on [Methodology for reassessment of remaining useful life](#)

## 8.9 DOCUMENTARY PROOF OF IMPAIRMENT

In events where indicators are found for impairment to significant assets must be supported by documentary proof for example:

Incidents or indicator of impairment	Examples of documentary proof
<p>Physical damage of assets</p> <ul style="list-style-type: none"> <li>• Building or roads closed due to structural damage;</li> <li>• Sections of elevated roadways that have sagged, indicating it requires replacement in 5 years instead of 7 years;</li> <li>• Storm water drains and culverts that are blocked and the removal is economical;</li> <li>• Moveable assets where the condition is indicated as very poor;</li> <li>• Where the condition of asset deteriorates faster than expected</li> </ul>	<ul style="list-style-type: none"> <li>• Council resolution and pictures close to reporting date.</li> <li>• Engineer assessment report and pictures close to reporting date</li> <li>• Engineer report on capacity reduction and intake reports close to reporting date or council resolution.</li> <li>• Pictures close to reporting date or council report for disposal.</li> <li>• Condition assessment report, increased maintenance schedule or report to Council for disposal.</li> </ul>
<ul style="list-style-type: none"> <li>• Riots that caused damaged to assets</li> <li>• Buildings or vehicles being burned</li> </ul>	<p>Council resolution and pictures close to reporting date.</p>
<p>Excessive maintenance required on an asset.</p> <ul style="list-style-type: none"> <li>• The actual spend on maintenance is significantly higher that what was budgeted or anticipated.</li> </ul>	<p>Report on actual spend on maintenance on a specific asset which is significantly higher that what was budgeted.</p>

Incidents or indicator of impairment	Examples of documentary proof
<p>Intended use of an asset changed and now the assets are not being used</p> <ul style="list-style-type: none"> <li>• Rental buildings being used as storage facilities instead of earning rentals;</li> <li>• Car ports no longer used because its unsafe to park underneath;</li> </ul>	<ul style="list-style-type: none"> <li>• Council resolution and cancelation of rental agreement;</li> <li>• Pictures of unused car ports and council resolution;</li> </ul>
<p>Performance of the asset has reduced beyond what is expected for the age of asset or group of assets</p> <ul style="list-style-type: none"> <li>• Printer print 200 copies a month instead of the expected 500 copies;</li> </ul>	<p>Expert report on performance of asset with evidence of effluent report, water testing results etc.</p>
<p>Acts of God</p> <ul style="list-style-type: none"> <li>• Flood damage (Buildings and road flooded resulting in structural damage)</li> <li>• Lightning (Resulting in burning down of assets, causing damage to electricity network; or Causing damage to electronic devices such as TV, computers, etc.)</li> </ul>	<p>Report to council, pictures close to reporting date, Insurance claim etc.</p> <p>Report to council, pictures close to reporting date, insurance claim etc.</p>
<p>Decision to halt the construction of the asset before it is complete or in a usable condition</p> <ul style="list-style-type: none"> <li>• Construction was stopped due to identification of environmental condition (for example identification of graves at construction site) and the construction will not continue, or it will take a significant time before it commences again.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Environmental impact study report or photos</li> <li>▪ Council resolution to continue or not continue with construction</li> </ul>
<p>Decrease in the request for a service although the asset can still perform at the level required</p>	<p>Sport fields of stadia which are not being utilised by the community although they are in working order</p>

Changes in technology with an adverse effect on the use of asset	Computer equipment that is not being used as the technology is old and new computers are rather purchased
Significant changes with an adverse effect on the Municipality in the government policy environment	Introduction of SCOA with could lead to the current financial operating system becoming obsolete
Decline in land's market value that is significantly greater than would be expected as a result of passage of time or normal use	Decline in the values as per the current valuation roll compared to that of the previous valuation roll
Increase in rehabilitation cost for landfill sites, borrow pits and quarries	Any debit entry to the cost of land for landfill sites, borrow pits or quarries as a result of the increase in the estimated rehabilitation cost

8.10 **DISTINGUISH BETWEEN CASH AND NON-CASH GENERATING ASSETS**

In order to calculate the impairment loss, it is necessary to calculate the recoverable service amount or the recoverable amount, these calculations however is dependent on if the asset is cash generating or non-cash generating.

Cash generating assets are asset held with the **primary objective** to generate a **commercial return**, while non-cash generating assets are asset that are not cash generating. (FAQ – non-cash generating primary held for service delivery purposes.)

In order to determine if any of the municipality's assets are cash generating it looks at the objective of the asset and what return does it generate.

#### 8.10.1 Administrative / owner-occupied assets

It is accepted that all administrative assets, for example, vehicles, office equipment/furniture, plant and machinery, computer equipment and administrative land and buildings are non-cash generating assets as they do not generate any return.

#### 8.10.2 Infrastructure assets

Infrastructure assets are divided into two groups, namely, roads and solid waste assets. Roads do not generate any return and is therefore categorised as non-cash generating assets.

Waste management do generate a return in the form of a fee charged at landfill sites for the disposing of household waste when the load is of a certain size.

These landfill sites are however management to project health, well-being and the environment by providing the facility to safely dispose of household waste.

Landfill sites are treated as non-cash generating assets.

#### 8.10.3 Community assets

Community assets are all categorised as non-cash generating assets even if some of these assets, for example, swimming pool, community hall or cemeteries generate a return. The return generated by these assets is small and immaterial in relation to the cost of the assets and therefor is not considered to be a commercial return. In addition, all community assets are held with the primary objectives of service delivery in the community, to uplift the communities and to stimulate and enhance economic growth in the different communities.

#### 8.10.4 Transport assets

These are made up of vehicles used by the municipality some of which are used and refuse disposal trucks which generate some return for the municipality. Even though these ones generate a return it is so minimal that it cannot be considered

to be commercial return and therefore all the vehicles of the municipality are considered to be non-cash generating assets.

**NB: Having gone through all the categories of PSJ's assets its is noted that all its assets (property, plant and equipment as well as Investment property) are classified non-cash generating assets for impairment considerations.**

### 8.11 CALCULATION AND RECOGNITION OF IMPAIRMENT LOSS

The impairment loss is calculated as the difference between the carrying values at reporting date less the recoverable service amount (non-cash generating assets) or recoverable amount (cash generating assets).



#### Accounting entries for impairments

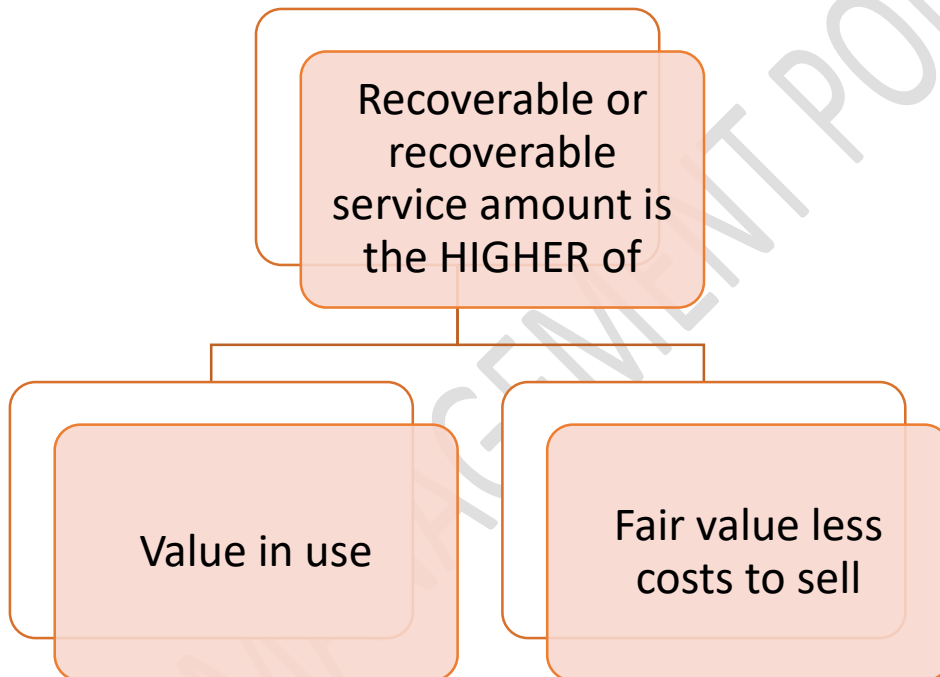
The impairment loss is recognised in the financial statements as follows:

DR	Impairment loss (Reversal of impairment)	XXXX
	CR Accumulated Impairment loss	XXXX

The Reversal of impairment loss is recognised in the financial statements as follows:

DR	Accumulated Impairment loss	XXXX
	CR Impairment loss (Reversal of impairment)	XXXX

## 8.12 RECOVERABLE SERVICE AMOUNT



The recoverable service amount of the following assets is considered to be R0. These assets are impaired to R0 and subsequently scrapped from the register.

Impairment indicator	Reason
Assets lost	The asset's remaining service potential to the municipality is R0 as the asset does not exist anymore and in addition the asset cannot be sold thus there is no value in use or fair value for the asset

Vehicles written off / scraped by insurance company	The asset's remaining service potential to the municipality is R0 as the asset is taken by the insurance company. The amount to be paid out by the insurance company is not the fair value of the vehicle in a similar condition
Assets with condition being very poor	The asset's remaining service potential to the municipality is considered minimal. The reason is because the DRC should be calculated taking the condition into account and due to the condition, the DRC will be a minimal amount. The fair value is also considered minimal as the only indication of the possible amount to be obtained from sale of these assets is auctions held. The prices obtained at auctions are minimal and although these are not the fair value it is used as an indication of fair value
Where an asset was replaced which is not yet fully depreciated	
Assets refurbished which is not yet fully depreciated	

8.12.1 Value in use

Value in use is the present value of the asset's remaining service potential and is determined using the depreciated replacement cost method. This is the only measure that is applicable to this municipality since all its items of property plant and equipment are all classified as non-cash generating assets as described in section 10 above.

8.12.2 Depreciated replacement cost

Depreciated replacement cost is the current cost that will have to be incurred to replace the asset and then this amount is depreciated to reflect the asset's current age and condition.



The current replacement cost is obtained from the following sources:

- If there was a purchase in the last 6 months of the same asset by the municipality
  - The invoice of that purchase is used to determine the current replacement cost.
- If there has been no purchase in the last 6 months of the same asset by the municipality
  - A quotation is obtained from a reputable supplier for the current purchase price.

The RUL and EUL of the asset being impaired are obtained from the current asset register.

#### 8.12.3 Fair value less cost to sell

The fair value less cost to sell is obtained from the sale of the asset in an arm's length transaction between knowledgeable, willing parties, less cost of disposal.



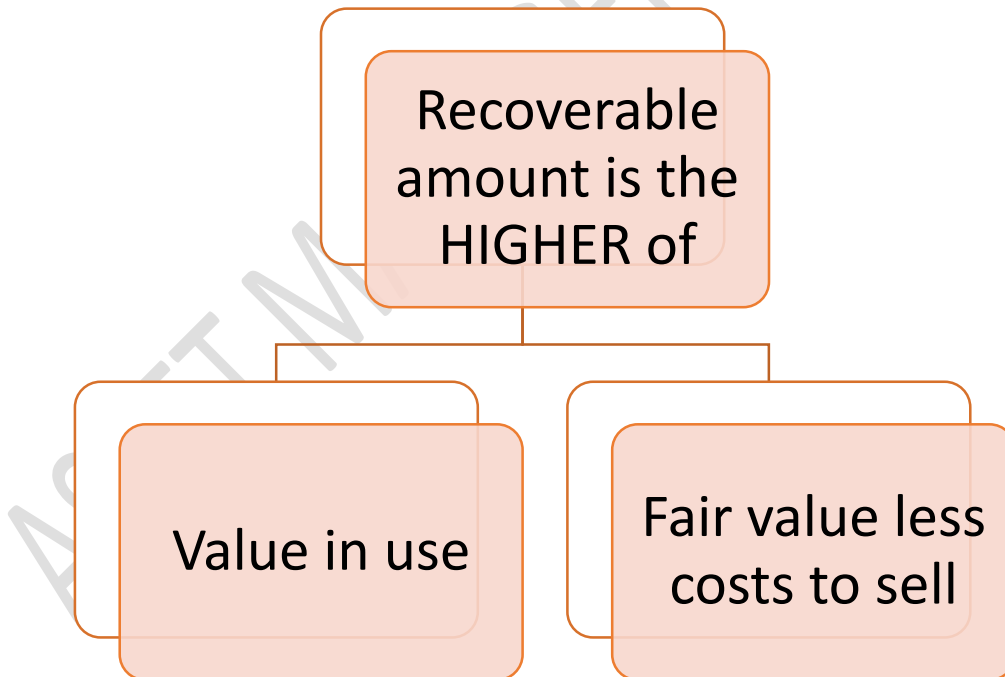
In the municipality's environment infrastructure assets are not sold and therefore a reliable estimate of infrastructure asset's fair value cannot be obtained. The recoverable service amount of infrastructure assets will be the depreciated replacement cost.

Fair value less cost to sell is obtained from the following sources:

- Selling prices in any sale agreements of the asset or of similar assets;
- If there is an active market the prices is obtained from the market.

Sources could include the internet and/or newspapers.

#### RECOVERABLE AMOUNT



#### 8.12.4 Value in use – cash generating assets (Not applicable to PSJ)

Value in use of cash-generated assets is the present value of future cash flows expected to derive from the continued use of an asset and from its disposal at the end of its useful life.

##### **Estimated future cash flows**

Prior year and current year actual cash flows as well as next year's budgeted cash flows are used as a baseline for determining the estimated future cash flows. These cash flows are then adjusted to determine estimated future cash flows. The following are examples of data taken into consideration in determining these future cash flows:

- Risks associated with the asset;
- Any contracts in place for the asset such as rental contracts;
- Consumer data such as quantity of consumers and average consumer rate;
- Growth of consumer base in the municipal area;
- Average new connections a year; and
- Financial ratios.

##### **Discount rate**

The discount rate reflects the current market assessment of time value of money and the risks associated with the asset. The accounting standards require the rate to be a pre-tax rate however as the Municipality does not pay tax this has no implication on the discount rate. The CPI inflation rate at reporting date is used as the rate that reflects current market assessment of time value of money. This rate is obtained from the Stats SA website <http://statssa.gov.za/cpi>.

All risks associated with the asset are adjusted in the estimated future cash flows and therefore the CPI rate requires no adjusted for risks associated with the asset.

#### 8.12.5 Fair value less cost to sell

The fair value less cost to sell is obtained from the sale of the asset in an arm's length transaction between knowledgeable, willing parties, less cost of disposal.

Fair value less cost to sell is obtained from the following sources:

- Selling prices in any sale agreements of the asset or of similar assets;
- If there is an active market the prices is obtained from the market.

Sources could include the internet and/or newspapers.

## 9 METHODOLOGY FOR REASSESSMENT OF REMAINING USEFUL LIFE

At each reporting date the assets are physically verified, a condition grade and utilisation grade are assigned to each asset. The remaining useful lives are reassessed based on these condition and utilisation grades.

The assessment of remaining useful life is performed on a facility level, therefore the condition and utilisation grade are on a facility level. However, if components making up at least 30% of the total cost of the facility show any of the indicators listed below then the components in the facility will be assessed individually.

### 9.1 Indicators for individual assessment

When any of the following indicators exist on components making up at least 30% of the total cost of a facility then the components of the facility will be individually assessed.

- Is there any indicators of impairment; or
- Had the components been replaced during the reporting period; or
- Had there been major repairs during the reporting period

### 9.1.1 Condition grades

Grade	Description	Detailed Description
1	Very good	New, sound structure or appearance, well maintained. Continue with planned maintenance required.
2	Good	Performance acceptable with minor deterioration. Normal planned maintenance.
3	Fair	Some evidence of deterioration. Minor maintenance maybe required.
4	Poor	Significant deterioration in structure or appearance. Significant impairment of performance. Significant maintenance/upgrade required.
5	Very poor	Unsound, does not perform. Reconstruction or replacement required, disposal

### 9.1.2 Utilisation grades

Utilisation Grade	Description	
1	Not Used	Substantially below norms
2	Underused	Moderately below norms
3	Normal Use	Within norms
4	At Capacity	Moderately exceeds norms
5	Overloaded	Substantially exceeds norms

### 9.1.3 Combined grade

The condition grade and the utilisation grade are added to obtain a combined grade. This combined grade is then used to calculate a newly assessed remaining useful life.

Combined grade	Estimated remaining useful life
1 or 2	90% of initially expected calculated remaining useful life
3	75% of initially expected calculated remaining useful life
4	70% of initially expected calculated remaining useful life
5 or 6	50% of initially expected calculated remaining useful life
7	35% of initially expected calculated remaining useful life
8	30% of initially expected calculated remaining useful life
9 and 10	0% of initially expected calculated remaining useful life

### 9.1.4 Remaining useful lives;

Remaining useful lives of assets of PSJ were assessed at year end using the methodology documented in this document. Such assessment did not result in change in useful lives of the assets on the books of the Municipality. Resultantly, there is no change in estimate disclosure made in the annual financial statements.

### 9.1.5 Residual Values

The residual values of the assets were reviewed at year end and there were no changes that resulted from the review. Resultantly, there is no change in estimate disclosure made in the annual financial statements.

### 9.1.6 Depreciation method

The depreciation method used by the Municipality was reviewed at year end in line with the documented methodology. This did not result in change in the method. The municipality concluded that the **straight-line method** of depreciation still is the best

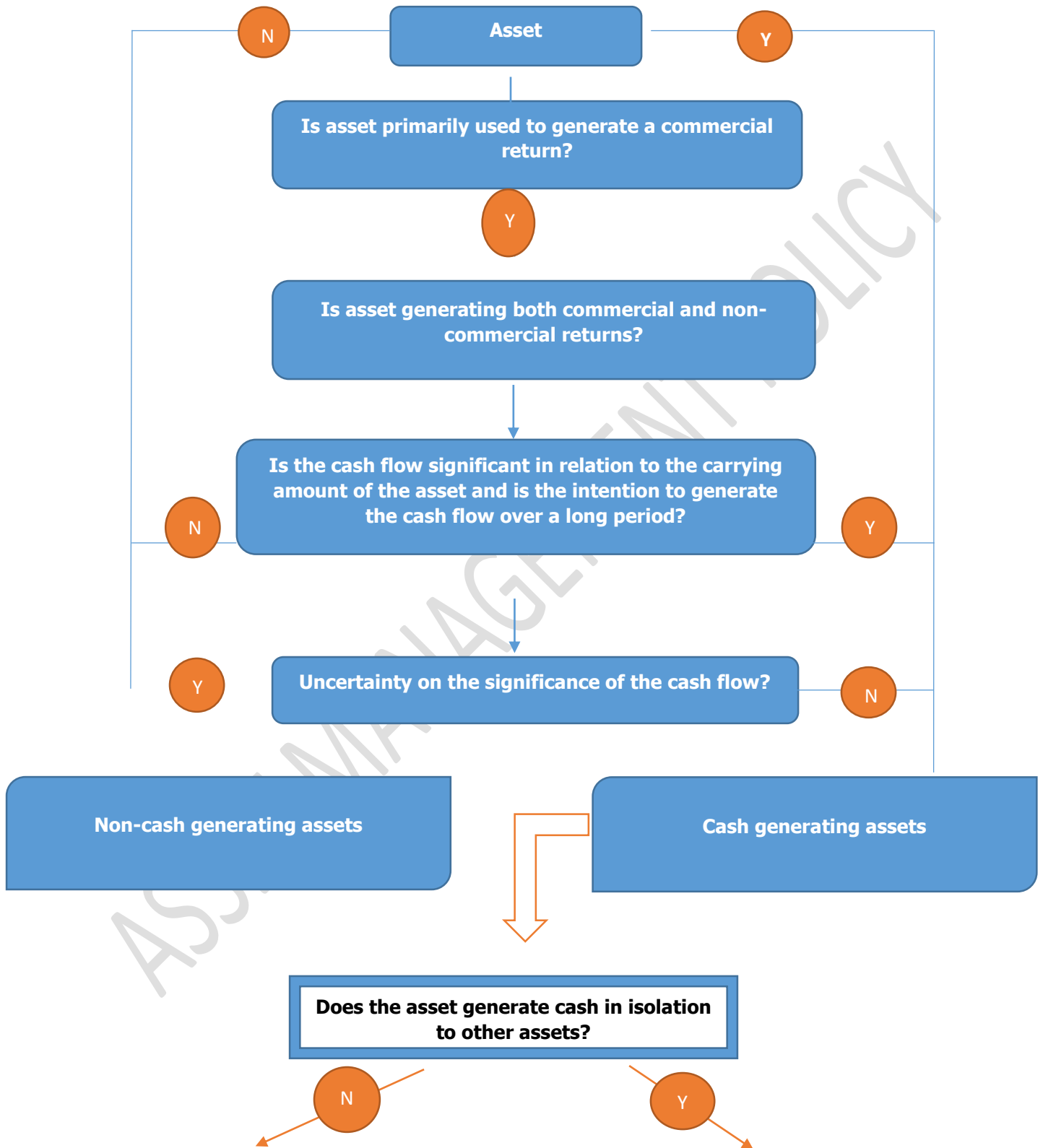
reflector of the way economic benefits derived from the use of assets are consumed and therefore depreciation is applied on such method. Resultantly, there is no change in estimate disclosure made in the annual financial statements.

## 9.2 SOURCE

- GRAP 17 property, plant and equipment issued March 2012;
- GRAP 21 impairment of non-cash generating assets issued March 2009;
- GRAP 26 impairment of cash generating assets issued March 2009;
- FAQ issued May 2014;
- National Treasury Accounting Guidelines GRAP 17 property, plant and equipment;
- National Treasury Accounting Guidelines GRAP 21 impairment of non-cash generating assets; and
- National Treasury Accounting Guidelines GRAP 26 impairment of cash generating assets.

ASSET MANAGEMENT POLICY

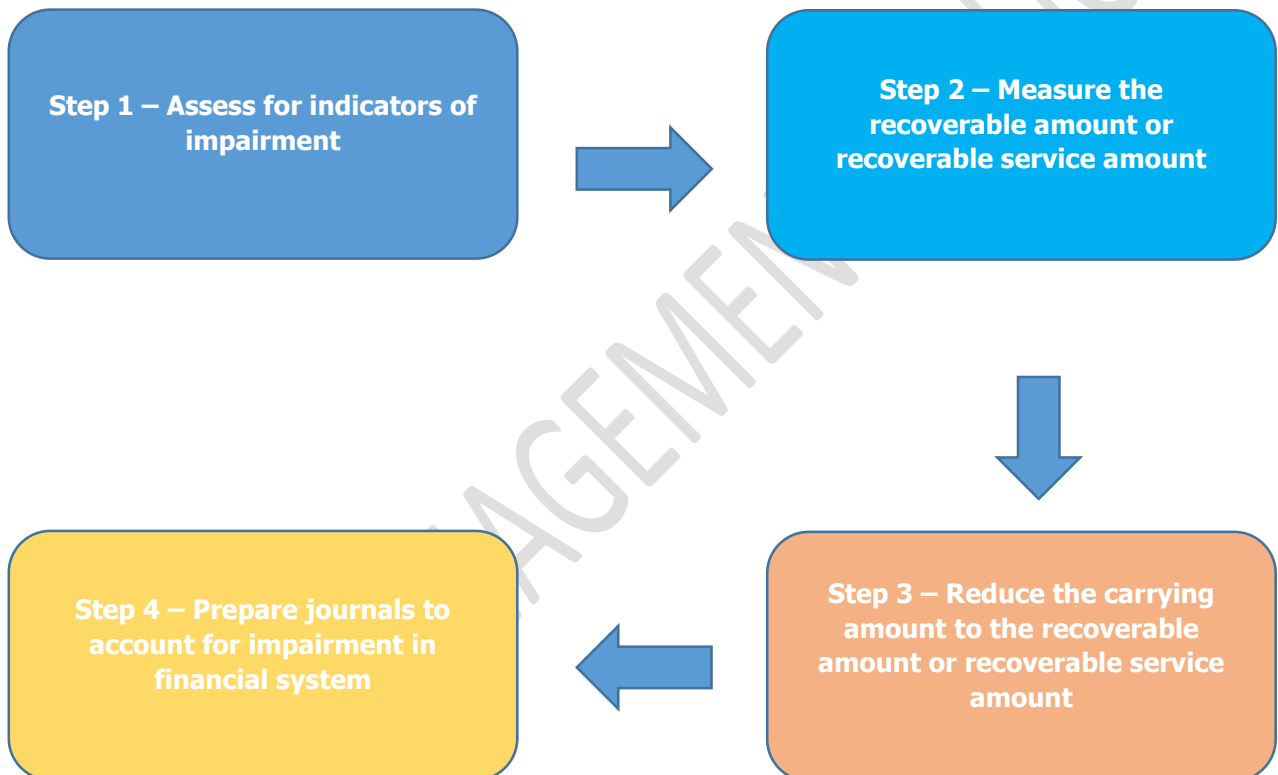
9.3 Decision tree between cash and non-cash generating assets



**Part of a cash generating unit**

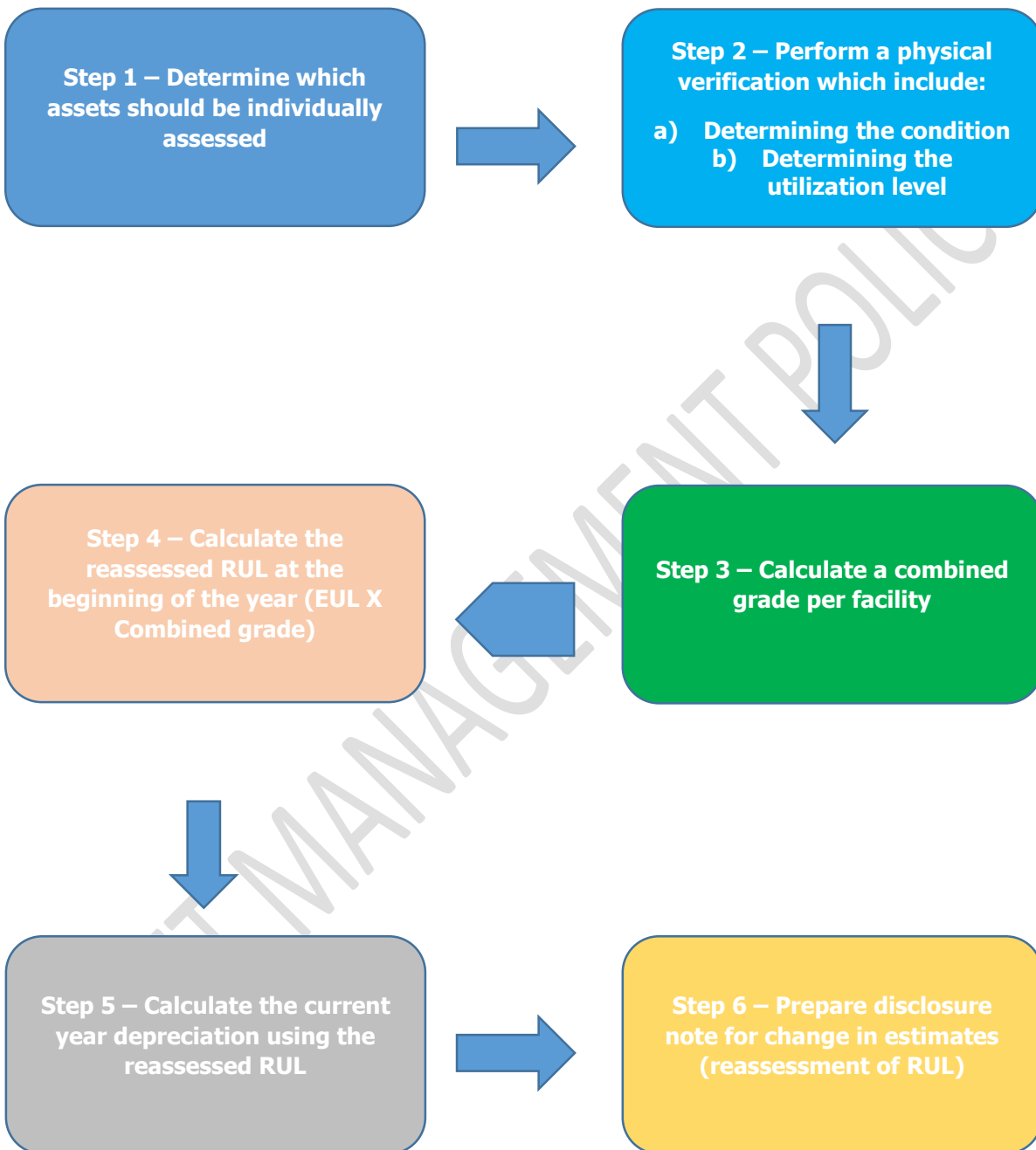
**Cash generating asset**

### 9.3.1 Work procedure – Impairment





## 9.4 Work procedure – Review of RUL



# ASSET MANAGEMENT POLICY