

LEKWA LOCAL MUNICIPALITY BUDGET RELATED POLICY



ASSET MANAGEMENT POLICY

1. Introduction

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

- a) Delivery of sustainable services,
- b) Social and economic development,
- c) Promoting safe and healthy environments; and
- d) 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.

Stewardship has two components being the:

- a) Financial administration by the Chief Financial Officer; and
- b) Physical administration by the individual asset managers.

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

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

- a) The compilation of asset registers covering all property, plant and equipment controlled by the municipality.
- b) Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant and equipment.
- c) The standards to which these financial records must be maintained.

2. Objective

- To ensure the effective and efficient control, utilization, safeguarding and management of a municipality's property, plant and equipment.
- To ensure asset managers are aware of their responsibilities with regard to property, plant and equipment.
- 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 emphasize a culture of accountability over assets.
- To ensure compliance with all legal and accounting prescriptions and requirements.

3. Statement

The LEKWA Local Municipality believes that an asset management policy is essential to ensure effective and efficient utilization of public monies and accountability thereof is heavily dependent on accurate recoding and accounting.

4. Definitions

"Accounting Standards Board" was established by the Public Finance Management Act to set standards of Generally Recognized 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 potential service provision are expected to flow to the entity.

"Asset Manager" is the "senior manager" who has the functional accountability for and control of the physical management of a particular set of assets in order to achieve the municipality's strategic objectives relevant to his/her directorate. The execution of this responsibility will require the asset manager to control the acquisition, utilization, management and disposal of this set of assets to optimize the achievement of these objectives.

“Asset categories” are the five main asset categories defined by GAMAP 17 and GRAP 17. These are:

Infrastructure assets – are defined as any asset that is part of a network of similar assets. It is specialized in nature and do not have an alternative use. It is immovable and may be subject to constraints on disposal.

Examples are roads, water reticulation schemes, sewerage purification and trunk main, transport terminals and car parks.

Community assets – are defined as any asset that contributes to the community’s wellbeing. Examples are parks, libraries and fire stations.

Heritage assets – are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

Land and buildings – are defined as owner-occupied property held by the owner, or by the lessee under a finance lease, for use in the production or supply of goods and services or for administration purposes.

Other assets – are defined as asset utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

“Asset Champion” is a senior official appointed by the Asset Manager in his/her Department or Section to assist the Asset Manager in performing his/her functions and duties.

“Capitalization” is the recognition of expenditure as an Asset or Attractive Item in the Financial Asset Register.

“Carrying amount” is the amount at which an is asset included in the Statement of Financial Position after deducting any accumulated depreciation thereon.

“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 plus costs incidental to the acquisition or acquirement. Also known as historical cost/value.

“Cost of acquisition” is all the costs incurred in bring an item of plant, property and equipment to the required condition and location for its intended use.

“Deferred maintenance” is the extent of preventative maintenance that has not been performed

“Depreciation” is the systematic allocation of the depreciable amount of 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.

“Fair value” is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm’s length transaction.

“Financial asset register” is the controlled register recording the financial and other key details for all municipal assets recognized in accordance with this policy (FAR).

“GAMAP” stands for “generally accepted municipal accounting practice”.

“GRAP” stands for “generally recognized accounting practice”.

“Impairment” is when the recoverable amount of an asset is less than the carrying value of such an asset.

“Preventative maintenance” is the maintenance which is required on a systematic basis to ensure that the originally assessed future economic benefits or potential service position of the relevant asset is realised hence that the fixed asset reaches it estimated useful life.

“Property, plant and equipment” are tangible assets that :

- a) *Are held by a municipality for use in the production of goods of supply of goods or services, for rental to others, for administrative*

purposes; and

b) 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.

“Recognition” is the process by which expenditure is included in the Financial Asset Register as an asset or attractive item.

“Replacement Value” is the amount which is needed in current terms to replace an asset.

“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 for disposal.

“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 incumbents of post level 1,2 and 3 in each directorate being the “senior manager” and everyone up to two levels below them.

“Stewardship” is the act of taking care of and managing property, plant or equipment on behalf of another.

“Useful Life” is either:

a) The estimated period of time over which the future economic benefits or future service potential embodied in an asset is expected to be consumed by the municipality.

or

b) The estimated total service potential expressed in terms of production or similar units that are expected to be obtained from the asset by the municipality.

4. **Statutory and regulatory framework** this policy must comply with all relevant

legislative requirements including:

- The Constitution of the Republic of South Africa, 1996
- Municipal Structures Act 117 of 1998
- Municipal Systems Act 32 of 2000
- Division of Revenue Act (enacted annually)
- Municipal Finance Management Act, Act 56 of 2003

Also, this policy must comply with the standards specified by the Accounting Standards Board.

This policy does not over rule the requirement to comply with other policies like Supply Chain Management, tendering or budget policies.

5. Responsibilities and Accountabilities of the Municipal Manager must:

In line with section 63 of Municipal Finance Management Act, Act 56 of 2003

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

The Accounting officer must:

- Approve the temporary and/or permanent transfer of all moveable assets exceeding approved limits, as stipulated in the “Powers of Delegation” of the municipality.
- Ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The municipality’s assets are valued in accordance with standards of generally recognized accounting practice and generally accepted municipal accounting practice;
- The municipality has and maintains a system of internal control of assets, including an asset register; and
- The senior managers and their teams comply with this policy.
- Report in writing to Council the full facts in the event of an asset or attractive item being demolished, destroyed and damaged or occurrence of any other event materially affecting its value.

The Chief Financial Officer is responsible to ensure that the financial investment in the municipality’s assets is safeguarded and maintained.

The chief financial officer must ensure that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- Any unauthorized, irregular or fruitless and wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- The systems, processes and registers required to substantiate the financial values of the municipality’s assets are maintained at standards sufficient to satisfy the requirements of the Auditor-General.
- Financial processes are established and maintained to ensure that the municipality’s financial resources are optimally utilized through an appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions.
- The senior managers and asset champions are appropriately advised on their powers and duties pertaining to the financial administration of assets.
- The senior managers and asset champions are appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets.
- The chief financial officer may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring these activities are performed.
- The policy and supporting procedures or guidelines are established, maintained and effectively communicated.

- Report in writing to the Accounting Officer the full facts in the event of an asset or attractive item being demolished, destroyed and damaged or occurrence of any other event materially affecting its value.
- Approve the temporary or permanent transfers of movable assets between departments as determined in the “Powers of Delegation” of the municipality.

The **Asset Manager** must ensure that:

- Appropriate physical management and control systems are established and maintained for all assets in their area of responsibility;
- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- Any unauthorized, irregular or fruitless or wasteful utilization and losses of assets resulting from criminal or negligent conduct are prevented;
- Their asset management system and controls can provide an accurate, reliable and up to date account of assets under their control.
- They be able to justify that their asset plans, budgets and purchasing, maintenance and disposal decisions optimally achieve the municipality’s strategic objectives.
- The asset manager may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.
- Certify in writing at the end of each financial year-end, that he/she has assessed and identified impairment losses on all assets under his/her control.
- Report in writing to the Chief Financial Officer the full facts in the event of an asset or attractive item being demolished, destroyed and damaged or occurrence of any other event materially affecting its value.
- Approve the temporary or permanent transfers of a movable asset between departments as determined in the “Powers of Delegation” of the municipality.
- The **Asset Champion** must:
- Assist the Asset Manager in performing his/her functions and duties in terms of asset management.
- Ensure inventory lists are verified and kept current in collaboration with the Finance Department.
- Identify obsolete and redundant assets and attractive items once per financial year, compile a report and obtain the necessary approval from council for the writing off, disposal of obsolete or redundant assets thereof.

6. **Financial Management**

6.1 **Pre-Acquisition Planning**

Before a capital project is included in the draft municipal budget for approval, the Asset Manager must prove that they have considered:

- The projected acquisition and implementation 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 the asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
- The inclusion of the capital project in the Integrated Development Plans and future budgets; and

Alternatives to this capital purchase. The Chief Financial Officer is accountable to ensure that the Asset Managers receive all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

6.2 Approval to Acquire Property Plant and Equipment

Money can only be spent on a capital project if:

- a) The money has been approved in the capital budget;
- b) The project, including the total cost, has been approved by the Council;
- c) The Chief Financial Officer confirms that funding is available for that specific project;
- d) Any contract that will impose financial obligations more than two years after the budget year is appropriately disclosed.

6.3 Funding of Capital Projects

Within the municipality's ongoing financial, legislative or administrative capacity, the Chief Financial Officer will establish and maintain the funding strategies that will optimize the municipality's ability to achieve its strategic objectives as stated in the Integrated Development Plan.

The acquisition of assets **will** not be funded over a period longer than the useful life of that asset.

6.4 Disposal of property, plant and equipment

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 municipal services.

The municipality may transfer ownership or otherwise dispose of a non-current asset other than one contemplated above, but only after the Council, in a meeting open to the public:

- a) *Had decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and*
- b) *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 disposal of an item of property, plant and equipment must be fair, equitable, transparent, competitive and cost effective and comply with the municipality's Supply Chain Management Policy.

Transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions, but must be done in accordance with a prescribed framework.

7. Internal Controls

7.1 Financial Asset Register

7.1.1 Establishment and Management of the Financial Asset Register

- The Chief Financial Officer will establish and maintain the 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 of additional registers or databases required to demonstrate the physical management of their assets and/or attractive items.
- Each Asset Manager is responsible to ensure that sufficient controls exist to substantiate the quantity, value, and location and condition of all assets in the Fixed Asset Register as well as other additional registers.
- Asset Managers are responsible to implement and maintain additional registers or databases to substantiate the quantity, value and location of their inventory items not contained in the Fixed Asset Register.

7.1.2 Contents of the Financial Asset Register

The Asset Register will include the following information pertaining to individual assets:

- The measurement based used
- The depreciation methods used
- The useful life
- Depreciation charges (current year)
- The carrying amount
- The accumulated depreciation
- Date of acquisition
- Date and price of disposal (if relevant)
- Increase or the decrease resulting from re-valuations (if relevant)
- Physical location
- The responsible Asset user
- Cost Centre of user department
- Function code
- Brief but meaningful description
- Identification number where applicable
- Valuation
- Impairment losses
- Source of finance

7.1.3 Internal Controls over the Financial Asset Registers

- Controls around the asset register should be sufficient to provide an accurate, reliable and up to date account of assets under control to the standards specified by the Chief Financial Officer and required by the auditor-general.
- These controls will include physical management and recording of all acquisitions, assignments, transfers, losses
- and disposals of assigned asset as well as regular stock-takes and system audits to confirm the adequacy of controls.

7.2 Physical Receipting and Management

7.2.1 Responsibilities of the Asset Manager

- The Asset Manager must ensure that the purchase of property, plant and equipment complies with the municipality's Supply Chain Management Policy as well as other applicable policies.
- The Asset Manager must ensure that all moveable property, plant and equipment is duly processed and identified before it is received into their stewardship.
- The Asset Manager must ensure all moveable assets received into their stewardship are appropriately safeguarded for inappropriate use or loss. This will include appropriate control over the physical access to these assets and regular stock takes to ensure any losses have not occurred. Any known losses should be immediately reported to the Chief Financial Officer.
- The Asset Manager will do an annual stock take of property, plant and equipment as part of the annual reporting process coordinated by the Chief Financial Officer.
- The Asset Manager must ensure that property, plant and equipment is appropriately utilized and that these assets are used for the purpose that the municipality acquired them.

7.2.2 Receipt of property, plant and equipment

The municipal stores will manage the receipting of property, plant and equipment.

The process of receipting by the municipal stores will include :

- Review of the authority to purchase including compliance with all procurement policies and budgetary limits.
- Assignment of the asset to the appropriate Asset Manager.

7.2.3 The date of acquisition

The date of acquisition of property, plant and equipment is deemed to be the time when legal title and control passes to the municipality.

This may vary for different categories of assets but will usually be the point of time when payment for that item of property, plant and equipment is made.

7.3 Transfer of another Asset Manager

7.3.1 Permanent transfers to another Asset Manager

An Asset Manager retains managerial accountability and control for a particular asset unless:

- Another Senior manager agrees in writing to accept responsibility for that asset in accordance with financial limits as laid down in the Delegation of Authority
- The Manager Finance appropriately amends the Financial Asset register for all approved transfers, where after such physical transfers are permitted to take place.
- The new Asset Manager assumes all the accountabilities of the previous Asset Manager.

7.3.2 Reallocation or Reassignment of Property, Plant or Equipment

- The Asset Manager must ensure that the asset is appropriately safeguarded for loss, damage or misuse wherever it is located. Safeguarding includes ensuring reasonable physical restrictions and delegated management is implemented.
- The Asset Manager must advise the Chief Financial Officer whenever an asset is permanently relocated or reassigned from one location (or base) or cost centre recorded in the Financial Asset Register.
- The Asset Manager must advise the Chief Financial Officer whenever an asset is temporarily relocated or reassigned from the location (or base) or cost centre recorded in the Financial Asset Register. In this case, the Asset Manager must also advise the Chief Financial Officer when this asset is returned.

8. Management of attractive items

8.1 Management of attractive items

Assets costing less than R10 000 but more than R1 000 are deemed to be attractive items unless that type of asset is specifically excluded by the Chief Financial Officer.

The requirements to manage attractive items include:

- a) Receipting these items through specified control points.
- b) Maintaining and updating a Fixed Asset Register with these receipts.
- c) Delivery and assignment of an attractive items to a specified position.
- d) Regular stock takes by the asset champion to ensure these attractive items are being appropriately safeguarded.
- e) Regular audits by the finance department to ensure attractive items are being appropriately managed by the assigned persons.
- f) Recording and reporting of any disposal or loss of these attractive items to the CFO and adjustment of the attractive items register.

Attractive items:

- a) Will be capitalized as an asset @ R1 value
- b) Will not be depreciated
- c) Will not be revalued
- d) Will not be impaired

- e) Will be recorded in the financial asset register
- f) Will be treated as an asset.
- g) Will be budgeted for under a specified line time in the operating budget.

9. Management of individual inventory items

9.1 Management of individual inventory items

Assets costing less than R1 000 are deemed to be individual inventory items, unless that type of asset is specifically included or excluded by the Chief Financial Officer depending on the type.

The requirements to manage individual inventory items include:

- a) Receipting these items through specified control points.
- b) Maintaining and updating an individual inventory register for these receipts.
- c) Delivery and assignment of an inventory item to a specified position.
- d) Regular stock takes by the asset champion to ensure that the individual inventory items are being appropriately safeguarded.
- e) Regular audits by the finance department to ensure individual inventory items are being appropriately managed by the assigned persons.
- f) Recording and reporting of any disposal or loss of these attractive items to the CFO and adjustment of the attractive items register.

Individual Inventory items:

- a) Will be capitalized as an assets
- b) Will not be depreciated
- c) Will not be revalued
- d) Will not be impaired
- e) Will not be recorded in the Fixed Asset Register
- f) Will not be treated as an asset.
- g) Will be budgeted for under a specified line time in the operating budget.

9.2 Accountability to manage property, plant and equipment

Each Asset Manager 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 and controls for managing 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.

9.3 Contents of a strategic asset management plan

Asset 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, the Asset Manager will need to develop strategic asset management plans that cover:

- Alignment with the Integrated Development Plan
- Operation guidelines;
- Performance monitoring;
- Maintenance programs;
- Renewal, refurbishment and replacement plans;
- Disposal and Rehabilitation plans;
- Operational, financial and capital support requirements; and
- Risk mitigation plans including insurance strategies
- The operational budgets are the short to medium term plan for implementing this strategic asset management plan.

9.4 Reporting on Emerging Issues

Each Asset Manager should report to the Municipal Manager on issues that will significantly impede the assets capability to provide the required level of service or economic benefit.

10. Classification, aggregation & components

10.1 Classification of property, plant and equipment

Any asset recognized as an asset under this policy will be classified according to national recognized categories.

These categories have been specified by the Accounting Standards Board and currently are included in GAMAP 17 and GRAP 17.

The Chief Financial Officer may agree to subdivide these classifications further.

10.2 Investment Property

- Investment assets shall be accounted for separately and shall not be classified as property, plant and equipment.
- Investment assets shall comprise land or buildings (or parts thereof) both held by the municipality, as owner or as lessee under a finance lease to earn rental income or for capital appreciation or both.
- Investment assets shall not depreciate but shall be annually valued balance sheet date to determine their fair (market) value.
- Adjustments to the previous year's recorded fair value shall be accounted for either gains or losses in the accounting records of the department or service controlling the asset.

10.3 Inventory Asset

Any land or building owned or occupied by the municipality with the intention of selling such property in the ordinary course of business, or any land or building owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory assets.

10.4 Optional Treatment for major component

An Asset Manager may, with agreement of the Chief Financial Officer, treat specified major components of an item of property, plant and equipment as a separate asset for the purposes of this policy. These major components may be defined by its physical parameters (e.g. reservoir roof) or its financial parameters (e.g. road surface).

In agreeing to these treatments the CFO must be satisfied that these components :

- Have a significantly 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 cost is above the recognition threshold; and
- The asset is expected to be used during more than one financial year.

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.

All other replacements, renewals or refurbishments of components will be expensed.

10.5 Recognition of network asset

A network asset is a collection of assets that work together as a whole to deliver specified service or economic benefit. E.g. computer systems, office furniture or security camera system.

A network asset should be recognized as an asset on the asset register.

The Asset Manager is accountable for the management of the registers required to financially verify the value of a network asset.

11. Accounting for Property, Plant and Equipment

11.1 Recognition of property, plant and equipment

An item of property, plant and equipment will be recognized as an asset when :

- a) It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality.
- b) The cost of the asset to the municipality can be measured reliably;
- c) The municipality has gained control over the asset;

- d) The cost is above the recognition threshold; and
- e) The asset is expected to be used during more than one financial year.

All other acquisitions of property, plant and equipment will be expensed.

If property, plant and equipment is constructed over more than one financial period it shall be recognized as work-in-progress until available for use.

11.2 Initial measurement

An item of property, plant and equipment that qualifies for recognition as a non-current asset should be initially measured at its "cost of acquisition".

This "cost of acquisition" will include all costs required to bring the asset to the proper working condition and position for its intended use. These costs usually include the following:

- a) Purchase costs (less any discount given)
- b) Cost of site preparation
- c) Delivery costs
- d) Installation costs
- e) Professional fees for architects and engineers
- f) Import duties
- g) Non-refundable taxes
- h) Site development costs
- i) Contractor fees

11.3 Donations or exchanges

Where an item of property, plant and equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the noncurrent asset register if the fair value is greater than the recognition threshold.

11.4 Recognition threshold

To ensure efficiency in the administration of this policy, the recognition of property, plant and equipment as an asset will be limited to items costing R10 000 or more. The recognition of items costing between R1 000 and R10 000 will be at a value of R1 and called "Attractive Items". The acquisition of property, plant and equipment costing less than R1 000 will be "Individual Inventory Items" and be expensed in the operating budget.

11.5 Carrying amount on property, plant and equipment

Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation, subject to the requirement to write an asset down to its recoverable amount or any subsequent revaluation.

11.6 Depreciation

- The depreciable amount of an item of property, plant and equipment should be allocated on a systematic basis over its useful life.
- The depreciation method used should reflect the pattern in which economic benefits or potential service provisions are consumed by the municipality.
- The depreciation charge for each period will be recognized as an expense against the budget of the relevant Asset Manager unless it is included in the carrying amount of another asset.
- The depreciation method will be straight line unless the Chief Financial Officer is convinced that another method is more appropriate.

11.7 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 forecast 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 expected 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. GAMAP 17 provides a schedule of useful lives (included as an annexure). These should be used as a guide to the minimum useful lives only because actual asset lives experienced greatly exceed those recommended lives.
- Spares purchased specifically for a particular asset, or class of asset, and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, must be considered to form part of the historical cost of that asset or class. The depreciable amount of such spares must be allocated over the useful life of the asset or class.

11.8 Review of useful life (Impairment)

The useful life of an item property, plant and equipment should be reviewed annually and if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.

11.9 Review of depreciation method

The depreciation method applied to property, plant and equipment should be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method should be changed to reflect the changed pattern. When such a change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current, and future periods should be adjusted.

11.10 Subsequent expenditure on property, plant and equipment

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized should be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery, in excess of the originally assessed standard of performance of the existing asset, will flow to the municipality.

All other expenditure should be recognized as an expense in the period in which it occurred.

Before allowing the capitalization of the subsequent expenditure, the Chief Financial Officer must be satisfied that this expenditure significantly:

- Increase the life of that asset beyond that stated in the asset register; or
- Increase the quality of service of that asset beyond the existing level of service; or
- Increase the quantity of services that asset can provide; or
- Reduces the future assessed costs of maintaining that asset.

Expenditure that is proposed to be capitalized must also conform to the recognition criteria for non-current assets and should also be appropriately included in the approved capital budget.

Where it is desired to capitalize future component replacements, refurbishments or renewals, refer to the section of major components in this policy.

11.11 Reduction of the carrying amount

The carrying amount of a non-current asset should be reviewed annually to assess whether or not the recoverable amount has declined below the carrying amount. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognized as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to a non-distributable reserve. For assets providing economic benefits, the recoverable amount is the net present value of future ownership. For assets providing future service delivery, the recoverable amount is the remaining proportion of its useful life, service capacity or quality of service that is not intended to be restored by normal maintenance program.

11.12 Subsequent increase in recoverable amount

A subsequent increase in the recoverable amount of an asset, previously written down due to a decline in the carrying amount should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

11.13 Reduction of the carrying amount

The carrying amount of a non-current asset should be reviewed annually to assess whether or not the recoverable amount has declined below the carrying amount.

When such a decline has occurred, the carrying amount should be reduced to the recoverable amount.

11.14 Accounting treatment on Disposal

- An item of property, plant and equipment should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its disposal.
- Gains or losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and should be recognized as revenue or expense in the statement of Financial Performance.
- The fact that a fixed asset might be fully depreciated is in itself not a reason for disposal of the asset.

12. Financial Disclosure

The financial statements should disclose, in respect of each class of property, plant and equipment classified under the categories of land and buildings, infrastructure, community, heritage and other assets :

- a) The measurement base used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed.
- b) The depreciation methods used.
- c) The useful lives or the depreciation rates used.
- d) Depreciation charged in arriving at net surplus or deficit for the period.
- e) The gross carrying amount and the accumulated depreciation at the beginning and the end of the period.
- f) A reconciliation of the carrying amount at the beginning and end of the period showing :
 - i. Additions
 - ii. Disposals
 - iii. Acquisition through business combinations
 - iv. Increases or the decreases resulting from revaluations
 - v. Deductions in carrying amount
 - vi. Amounts written back
 - vii. Depreciation
 - viii. Other movements

The financial statements should also disclose:

- Whether or not, in determining the recoverable amount of items of property, plant and equipment, expected future cash flows have been discounted to their present values.
- The existence and amounts of restriction on title and property, plant and equipment pledged as security for liabilities.
- The accounting policy for restoration costs relating to items of property, plant and equipment.
- The amount of expenditures on account of property, plant and equipment in the course of construction; and
- The amount of commitments for the acquisition of property, plant and equipment.

When items of property are stated at revalued amounts, the financial statements should disclose:

- The basis used to revalue the assets.
- The effective date of revaluation.
- Whether an independent value was involved.
- The nature of any indices used to determine replacement cost.
- The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less depreciation.
- The revaluation surplus, detailing the movement for the period.
- The portion of the depreciation charge relating to the revaluation.

13. Useful life of Assets (GAMAP 17) Infrastructure Assets	Asset Life (years)	Community Assets :	Asset Life (years)
Electricity :		Buildings (continue) :	
Power Stations	30 years	Libraries	30 years
Cooling Towers	30 years	Museums / Art galleries	30 years
Transfer Kiosks	30 years	Parks	30 years
Meters	20 years	Public	30 years
Load control equipment	20 years	Conveniences / bathhouses	30 years
Switchgear equipment	20 years	Recreation centres	30 years
Supply / reticulation	20 years	Stadiums	30 years
Mains		Zoos	30 years
Roads :		Gas :	
Motorways	15 years	Meters	20 years
Other roads	10 years	Mains	20 years
Traffic islands	10 years	Storage tanks	20 years
Traffic lights	20 years	Supply / reticulation	20 years
Street lightning	25 years		

Overhead bridges	30 years	Sewerage :	
Storm water drains	20 years	Sewers	20 years
Bridges, subway & culverts	30 years	Outfall sewers	20 years
Car parks	20 years	Purification works	20 years
Bus terminals	20 years	Sewerage pumps	15 years
		Sludge machines	15 years
Community Assets :			
		Pedestrian malls :	
Buildings :		Footways	20 years
Ambulance stations	30 years	Kerbing	20 years
Aquariums	30 years	Paving	20 years
Beach developments	30 years		
Care centres	30 years	Airports :	
Cemeteries	30 years	Aprons	20 years
Civic theatres	30 years	Runways	20 years
Clinics / Hospitals	30 years	Taxiways	20 years
Community centres	30 years	Airport / Radio beacons	20 years
Fire station	30		

	year s		
Game reserves / Rest camps	30 year s		
Indoor sports	30 year s		

Recreational Assets	Asset Life (years)	Other Assets (continue) :	Asset Life (years)
Facilities :		Buildings (continue) :	
Bowling greens	20 years	Office buildings	30 years
Tennis courts	20 years	Old age homes	30 years
Swimming pool	20 years	Quarries	30 years
Golf course	20 years	Tip sites	30 years
Jukskei pitches	20 years	Training centres	30 years
Outdoor sport facilities	20 years	Transport facilities	30 years
Organ & Case	20 years	Workshop / depots	30 years
Lakes and dams	20 years		
Fountains	20 years	Office equipment :	
Floodlighting	20 years		
		Computer hardware	3 years
Security measures :		Computer software	3 years
Fencing	3 years	Office machines	3 years
Security systems	5 years	Air conditioners	5 years
Access	5		

control	years		
		Furniture and fittings :	
Water :		Chairs	7 years
Meters	15 years	Tables / desks	7 years
Mains	20 years	Cabinets / cupboards	7 years
Rights	20 years	Miscellaneous	7 years
Supply / reticulation	20 years		
Reservoirs & Tanks	20 years	Bins and containers :	
		Household refuse bins	5 years
Other assets :		Bulk containers	10 years
Buildings :		Emergency equipment :	
Abattoirs	30 years	Ambulances	5 years
Asphalt plant	30 years	Fire hoses	5 years
Cable stations	30 years	Emergency lights	5 years
Caravan parks	30 years		
Cinemas	30 years	Motor vehicles :	
Compacting stations	30 years	Fire engines	20 years
Hotels –	30	Buses	15

Public / Tourist	years		years
Hotels – Workers	30 years	Passenger vehicles	5 years
Housing schemes	30 years	Motor cycles	3 years
Kilns	30 years	Truck / Idvs	5 years
Laboratories	30 years		
Markets	30 years		
Nurseries	30 years		