

**8. FIXED ASSETS: DISPOSAL / DERECOGNITION OF ASSETS FOR THE 2018/19 FINANCIAL YEAR**

6/1/3

J Vorster

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Corporate Head Office

13 August 2019

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**1. Executive Summary**

The purpose of the report is to allow Council to consider the implications for Fixed Assets that were disposed of during the period 01 July 2018 to 30 June 2019, to be reflected in the annual financial statements for the year ended 30 June 2019.

**2. Service Delivery and Budget Implementation Plan - IGNITE**

Directorate Finance  
Department Expenditure & Asset Management

**3. Compliance with Strategic Priorities**

Provision of democratic, accountable and ethical governance  
Provision and maintenance of municipal services

**4. Delegated Authority**

None

**5. Legal Requirements**

Local Government: Municipal Systems Act, Act 32 of 2000  
Local Government: Municipal Finance Management Act, Act 56 of 2003, Section 14 (2)(a) & (b);  
Municipal Asset Transfer Regulations (2008), Regulation 5 (1), (2) & (6)

**6. Background / Discussion / Evaluation / Conclusion**

Section 14(2) of the Municipal Finance Management Act, Act 56 of 2003, states that:

*“A municipality may transfer ownership or otherwise dispose of a capital asset other than one contemplated in Subsection (1), but only after the municipal council, in a meeting open to the public –*

*(a) has 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 of the to be received in exchange for the asset.”*

Regulation 5 of the Municipal Asset Transfer Regulations, 2008, states that:

- (1) *A municipality may transfer or dispose of non-exempted capital assets only after –*
- (a) *the accounting officer has in terms of regulation 6 conducted a public participation process to facilitate the determinations a municipal council must make in terms of Section 14(2)(a) and (b) of the Act; and*
  - (b) *the municipal council –*
    - (i) *has made the determinations required by Section 14(2)(a) and (b); and*
    - (ii) *has as a consequence of those determinations approved in principle that the capital asset may be transferred or disposed of.*
- (2) *Subsection (1)(a) must be complied with only if the capital asset proposed to be transferred or disposed of is a high value capital asset. If the combined value of any capital assets a municipality intends to transfer or dispose of in any financial year exceeds five percent of the total value of its assets, as determined from its latest available audited financial statements, subregulation (1)(a) must be complied with in relation to all the capital assets proposed to be transferred or disposed of during that year.*
- (6) *A municipal council may delegate to the accounting officer its power to make the determinations referred to in subregulation (1)(b)(i) and to give the approval referred to in subregulation (1)(b)(ii) in respect of moveable capital assets below a value determined by the municipal council.”*

Subsequent to following the procedures set out in the Administration of Immovable Property Policy, a number of assets classified as Investment Property Land & Buildings and PPE: Land were tabled before Council at its meetings held on 29 November 2017 and 28 February 2018 in order to obtain Council approval for the disposal and / or transfer thereof. The cost price and net carrying value in respect of these assets are detailed in **ANNEXURE A**.

Included in the MTREF for the 2018/19 period a number of capital projects in respect of Basic Infrastructure were approved and adopted by Council. Although the individual asset items could not be identified at the time, it was implied that in the process of upgrading or refurbishing the various Infrastructure networks, a number of parts / pieces of the existing Infrastructure Assets would be abandoned as it would not be economically viable to remove and dispose of it by any other means. No fair market value can be determined in respect of these assets as there is no active market for trading in municipal infrastructure assets. The cost price, accumulated depreciation and net carrying value in respect of these assets are detailed in **ANNEXURE A**.

None of the assets identified to be disposed of / written off / replaced were required to provide the minimum level of basic services.

## 7. Financial Implications

The net effect of the abovementioned disposal / derecognition amounts to a gain of R113,421.61 and is composed of the following:

	Cost	Accumulated Depreciation and Impairment	Carrying Value
<b>Land &amp; Buildings disposed of after following the prescribed processes to obtain Council approval:</b>	<b>5,154.47</b>	<b>0.00</b>	<b>5,154.47</b>
- Investment Property: Land	0.00	0.00	0.00
- Investment Property: Buildings	0.00	0.00	0.00
- PPE: Land	5,154.47	0.00	5,154.47
Proceeds from sale of land			(118,576.08)
<b>Gain on sale of land</b>			<b>R113,421.61</b>
<b>Infrastructure- &amp; Minor Assets replaced through upgrading &amp; refurbishment or damaged and claimed from insurance:</b>	<b>3,708,072.72</b>	<b>3,708,072.72</b>	<b>0.00</b>
- Roads	2,072,648.48	2,072,648.48	0.00
- Sewerage	819,121.91	819,121.91	0.00
- Water	816,302.33	816,302.33	0.00

## 8. Staff Implications

None

## 9. Comments from other Departments, Divisions and Administrations

None

## 10. Annexures

Annexure A: Schedule of all assets disposed / derecognised during the period 01 July 2018 – 30 June 2019

## RECOMMENDATION TO THE COUNCIL

1. that it **be noted** that the assets detailed in Annexure A are not needed to provide the minimum level of basic municipal services; and

2. that the derecognition of the Infrastructure Assets as detailed in Annexure A, **be approved.**

**RESPONSIBLE OFFICIAL :**

**J VORSTER**

**TARGET DATE FOR IMPLEMENTATION :**

**31 AUGUST 2018**

		COST	ACC DEP	IMPAIRMENT	BOOK VALUE
<b>PPE LAND</b>					
COMMONAGE	1253	2 154.47	-	-	2 154.47
AFFORDABLE HOUSING	189	3 000.00	-	-	3 000.00
		5 154.47	-	-	5 154.47

		COST	ACC DEP	IMPAIRMENT	BOOK VALUE
<b>ROADS</b>					
Road Structure_Kerbing_Hani_From_Thandabuntu_To_Slovo		8 883.08	3 197.91	5 685.17	-
Road Structure_Road Base Structure_Hani_From_Thandabuntu_To_Slovo		268 744.93	163 934.41	104 810.52	-
Road Structure_Road Surface_Hani_From_Thandabuntu_To_Slovo		177 389.33	172 954.60	4 434.73	-
Road Structure_Kerbing_Nissen_From_Mandela_To_Thanda		1 741.78	627.04	1 114.74	-
Road Structure_Road Base Structure_Nissen_From_Mandela_To_Thanda		124 431.64	75 903.30	48 528.34	-
Road Structure_Road Surface_Nissen_From_Mandela_To_Thanda		82 133.07	80 079.74	2 053.33	-
Road Structure_Kerbing_Tambo_From_Mandela_To_Thanda		2 090.14	752.45	1 337.69	-
Road Structure_Road Base Structure_Tambo_From_Mandela_To_Thanda		249 563.54	152 233.76	97 329.78	-
Road Structure_Road Surface_Tambo_From_Mandela_To_Thanda		78 739.14	76 770.66	1 968.48	-
Road Structure_Kerbing_Hani_From_Slovo_To_Thandabuntu		2 264.31	815.15	1 449.16	-
Road Structure_Road Base Structure_Hani_From_Slovo_To_Thandabuntu		250 748.62	90 269.50	160 479.12	-
Road Structure_Road Surface_Hani_From_Slovo_To_Thandabuntu		165 510.58	161 372.82	4 137.76	-
Road Structure_Kerbing_Walter Sisulu_From_Mandela_To_Thanda		12 889.18	4 640.10	8 249.08	-
Road Structure_Road Base Structure_Walter Sisulu_From_Mandela_To_Thanda		249 805.95	89 930.14	159 875.81	-
Road Structure_Road Surface_Walter Sisulu_From_Mandela_To_Thanda		164 888.36	160 766.15	4 122.21	-
Road Structure_Kerbing_Walter Sisulu_From_Ekupheleni_To_Thanda		2 786.85	1 003.27	1 783.58	-
Road Structure_Road Base Structure_Walter Sisulu_From_Ekupheleni_To_Thanda		138 571.60	49 885.78	88 685.82	-
Road Structure_Road Surface_Walter Sisulu_From_Ekupheleni_To_Thanda		91 466.37	89 179.71	2 286.66	-
		2 072 648.48	1 374 316.49	698 331.99	-

		COST	ACC DEP	IMPAIRMENT	BOOK VALUE
<b>SEWERAGE</b>					
Pump Station_Distribution / Pillar Boxes		2 975.49	1 934.07	1 041.42	-
Waste Water Treatment Works_Perimeter Protection		209 637.20	114 754.83	94 882.37	-
Pump Station_Perimeter Protection		23 575.01	16 470.22	7 104.79	-
Pump Station_Sewer Pumps		142 377.71	106 783.28	35 594.43	-
Pump Station_Sewer Pumps		206 162.92	125 759.38	80 403.54	-
Pump Station_Sewer Pumps		142 377.71	106 783.28	35 594.43	-
Pump Station_Telemetry		92 015.87	69 011.90	23 003.97	-
		819 121.91	541 496.96	277 624.95	-

		COST	ACC DEP	IMPAIRMENT	BOOK VALUE
<b>WATER</b>					
Borehole_Perimeter Protection_Diamond Mesh and Timber Fencing		6 595.93	3 048.58	3 547.35	-
Pump Station_Perimeter Protection_Diamond Mesh and Steel Fencing		6 254.60	2 370.84	3 883.76	-
Borehole_Perimeter Protection_Diamond Mesh and Timber Fencing		8 904.50	4 115.59	4 788.91	-
Borehole_Perimeter Protection_Diamond Mesh and Timber Fencing		7 255.52	3 353.44	3 902.08	-
Storage_Water Pumps_Pump - Mechanical		162 994.00	122 245.50	40 748.50	-
Storage_Water Pumps_Pump - Mechanical		162 994.00	122 245.50	40 748.50	-
Storage_Water Pumps_Motor - Electrical		162 880.10	122 160.07	40 720.03	-
Storage_Water Pumps_Motor - Electrical		162 880.10	122 160.07	40 720.03	-
Storage_Water Pumps_Civil & Pipes - Reservoir		135 543.58	82 681.58	52 862.00	-
		816 302.33	584 381.19	231 921.14	-

		COST	PROCEEDS	PROFIT
<b>PPE LAND</b>				
COMMONAGE	1253	2 154.47	38 541.30	36 386.83
AFFORDABLE HOUSING	189	3 000.00	80 034.78	77 034.78
		5 154.47	118 576.08	113 421.61

		COST	ACC DEP	IMPAIRMENT	BOOK VALUE
<b>ABANDONED / REPLACED</b>					
Roads		2 072 648.48	1 374 316.49	698 331.99	-
Sewerage		819 121.91	541 496.96	277 624.95	-
Water		816 302.33	584 381.19	231 921.14	-
		3 708 072.72	2 500 194.64	1 207 878.08	-

PROCEEDS 118 576.08

PROFIT ON DERECOGNITION 113 421.61