

# OVERSTRAND MUNICIPALITY



## ASSET MANAGEMENT POLICY

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## 1. OBJECTIVE

- 1.1. To ensure the effective and efficient control of the municipality's assets through:
  - 1.1.1 proper recording of assets from authorisation to acquisition and to subsequent disposal;
  - 1.1.2 providing for safeguarding procedures;
  - 1.1.3 setting proper guidelines as to authorised utilisation; and
  - 1.1.4 prescribing for proper maintenance.
- 1.2. To assist officials in understanding their legal and managerial responsibilities with regard to assets.

## 2. BACKGROUND

- 2.1. The proper utilization and management of its assets is one of the prime mechanisms by which a municipality can fulfill the constitutional objects for:
  - 2.1.1 Delivery of sustainable services;
  - 2.1.2 Promotion of Social and economic development;
  - 2.1.3 Promoting a safe and healthy environment and,
  - 2.1.4 Providing for the basic needs to the community.
- 2.2. The municipality has a legal and moral obligation to ensure it implements policies to provide for the effective and efficient usage of its assets over the useful life thereof.
- 2.3. The asset management policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of assets.
- 2.4. Stewardship has three components being the:
  - 2.4.1. Management, utilization and control by municipal officials;
  - 2.4.2. Financial administration by the Director: Finance, and
  - 2.4.3. Physical administration by the Manager: Expenditure & Asset Management.
- 2.5. Statutory provisions exist to protect public property against arbitrary and inappropriate management or disposal by a municipality.
- 2.6. Accounting standards are set to ensure the appropriate financial treatment for property, plant or equipment. The requirements of these accounting standards include:
  - 2.6.1. The compilation of asset registers recording all assets controlled by the municipality;
  - 2.6.2. Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant or equipment, and
  - 2.6.3. The standards to which these financial records must be maintained.

## OVERSTRAND MUNICIPALITY – ASSET MANAGEMENT POLICY

## 3. DEFINITIONS

<b>“Accounting Standards Board”</b>	<i>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.</i>
<b>“Amortization”</b>	<i>is the systematic allocation of the depreciable amount of an intangible asset over its useful life.</i>
<b>“Assets”</b>	<i>are resources controlled by the municipality as the result of past events and from which future economic benefits or future service potential are expected to flow to the municipality and for the purpose of this policy refers to property, plant and equipment but excludes Investment Properties.</i>
<b>“Assets below capitalization threshold”</b>	<i>are items of assets that are not significant enough for financial recognition but are valuable enough to warrant special safe-guarding, same as Control Items.</i>
<b>“Asset categories”</b>	<i>are the asset categories as per the Overstrand Asset Register.</i>
<b>“Basic Municipal Services”</b>	<i>means the amount or level of any municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety of the environment and for this Policy includes, but is not restricted to electricity, refuse collection, sanitation, local roads, storm water drainage, fire services and water services.</i>
<b>“Capitalization”</b>	<i>is the recognition of expenditure as an Asset in the Financial Asset Register.</i>
<b>“Carrying amount”</b>	<i>is the amount at which an asset is included in the Statement of Financial Position after deducting any accumulated depreciation and accumulated impairment thereon.</i>
<b>“Control items”</b>	<i>are items of assets that are not significant enough for financial recognition but are valuable enough to warrant special safe-guarding.</i>
<b>“Cost”</b>	<i>is the amount of cash or cash equivalents paid or the fair value of the other consideration given or received to acquire an asset at the time of its acquisition or construction.</i>
<b>“Cost of acquisition”</b>	<i>is all the costs incurred in bringing an asset item to the required condition and location for its intended use.</i>
<b>“Depreciation”</b>	<i>is the systematic allocation of the depreciable amount of an asset over its useful life.</i>
<b>“Depreciable amount”</b>	<i>is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.</i>
<b>“Director”</b>	<i>is the “head of each Directorate” that 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 that directorate. The execution of this responsibility will require the relevant asset manager to control the acquisition, utilization, management and disposal</i>

	<i>of this set of assets to optimize the achievement of these objectives.</i>
<b>“Disposal”</b>	<i>in relation to a capital asset, includes: (a) the demolition, dismantling or destruction of the capital asset; or (b) any other process applied to a capital asset which results in loss of ownership of the capital asset otherwise than by way of transfer of ownership.</i>
<b>“Fair value”</b>	<i>is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm’s length transaction.</i>
<b>“Finance Lease”</b>	<i>is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.</i>
<b>“Financial asset register”</b>	<i>is the control register recording the financial and other key details for all municipal assets recognized in accordance with this policy.</i>
<b>“Fixed Asset”</b>	<i>(also referred to as a “non-current asset”) is an asset with an expected useful life greater than 12 months and includes moveable and immovable assets.</i>
<b>“Grantor”</b>	<i>is the entity that grants the right to use the service concession asset to the operator.</i>
<b>“Heritage Assets”</b>	<i>are assets defined as culturally, environmental, historical, natural, scientific, technological or artistic significant and are held indefinitely for the benefit of present and future generations. Examples are works of art, historical buildings and statues.</i>
<b>“Immovable Assets”</b>	<i>are fixed structures such as buildings and roads, tied to the land, meaning it cannot physically be moved elsewhere. A plant that is built-in to the fixed structures and is an essential part of the functional performance of the primary asset is considered an immovable asset (though it may be temporarily removed for repair).</i>
<b>“Impairment loss” of a cash-generating asset</b>	<i>is the amount by which the carrying amount of an asset exceeds its recoverable amount.</i>
<b>“Impairment loss” of a non-cash-generating asset</b>	<i>is the amount by which the carrying amount of an asset exceeds its recoverable service amount.</i>
<b>“Infrastructure assets”</b>	<i>are defined as any assets that are part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains.</i>
<b>“Intangible assets”</b>	<i>are defined as identifiable non-monetary assets without physical substance.</i>
<b>“Investment properties”</b>	<i>are defined as properties that are acquired for economic and capital gains.</i>
<b>“Mandated Function”</b>	<i>involves the delivery of a public service by an operator on</i>

	<i>behalf of a grantor that falls within the grantor's mandate.</i>
<b>“Minor Assets”</b>	<i>are moveable assets with the exception of items specifically excluded in Annexures 1, 2 &amp; 3 of this Policy</i>
<b>“Movable Assets”</b>	<i>are the stock of equipment owned or leased by the municipality such as office equipment and furniture, motor vehicles and mobile plant.</i>
<b>“Operator”</b>	<i>is the entity that uses the service concession asset to provide a mandated function subject to the grantor's control of the asset.</i>
<b>“Organ of State”</b>	<i>in terms of this policy, means –</i> <i>(a) a national department or national public entity;</i> <i>(b) a provincial department or provincial public entity;</i> <i>(c) a municipality or municipal entity; or</i> <i>(d) any other organ of state within the meaning assigned to "organ of state" in section 239 of the Constitution.</i>
<b>“Other assets”</b>	<i>are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture.</i>
<b>“Prescribe”</b>	<i>means as prescribed by the Minister of Finance by regulation.</i>
<b>“Property, plant or equipment” (PPE)</b>	<i>Means tangible assets that:</i> <i>(a) are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and</i> <i>(b) are expected to have a useful life extending for more than one financial year.</i>
<b>“Recoverable amount”</b>	<i>is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.</i>
<b>“Residual value”</b>	<i>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.</i>
<b>“Service concession arrangement”</b>	<i>is a contractual arrangement between a grantor and an operator in which:</i> <i>(a) the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time; and</i> <i>(b) the operator is compensated for its services over the period of the service concession arrangement.</i>
<b>“Service concession asset”</b>	<i>is an asset used to provide a mandated function in a service concession arrangement that:</i> <i>a) is provided by the operator which:</i> <i>i. the operator constructs, develops, or acquires from a third party; or</i> <i>ii. is an existing asset of the operator; or</i> <i>b) is provided by the grantor which:</i> <i>i. is an existing asset of the grantor; or</i> <i>ii. is an upgrade to an existing asset of the grantor.</i>

<b>“Useful life”</b>	<p><i>is either:</i></p> <p>(a) <i>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</i></p> <p>(b) <i>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.</i></p>
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#### 4. STATUTORY AND REGULATORY FRAMEWORK

- 4.1. This policy must comply with all relevant legislative requirements including:
- 4.1.1 The Constitution of the Republic of South Africa, 1996
  - 4.1.2 Municipal Structures Act No 117 of 1998
  - 4.1.3 Municipal Systems Act No 32 of 2000
  - 4.1.4 Division of Revenue Act (enacted annually)
  - 4.1.5 Municipal Finance Management Act No 56 of 2003
  - 4.1.6 Local Government: Municipal Asset Transfer Regulations, 2008
- 4.2. Also, this policy must comply with the standards specified by the Accounting Standards Board. The relevant currently recognized accounting standards include:
- 4.2.1 GRAP 5        Borrowing Costs
  - 4.2.2 GRAP 11       Construction Contracts
  - 4.2.3 GRAP 12       Inventories
  - 4.2.4 GRAP 13       Leases
  - 4.2.5 GRAP 16       Investment property
  - 4.2.6 GRAP 17       Property, Plant and Equipment
  - 4.2.3 GRAP 21       Impairment of Non Cash Generating Assets
  - 4.2.4 GRAP 26       Impairment of Cash Generating Assets
  - 4.2.5 GRAP 31       Intangible Assets (Previously GRAP 102)
  - 4.2.6 GRAP 32       Service Concession Arrangements: Grantor
  - 4.2.7 GRAP 100      Discontinued Operations
  - 4.2.8 GRAP 103      Heritage Assets
- 4.3. This policy does not overrule the requirement to comply with other policies such as Supply Chain Management policy, Budget policies or the Administration of Immovable Property policy.

#### 5. RESPONSIBILITIES AND ACCOUNTABILITIES

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

**5.2. The Municipal Manager** must take all reasonable steps to ensure that:

- 5.2.1 the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- 5.2.2 the municipality's assets are valued in accordance with standards of GRAP;
- 5.2.3 the municipality has and maintains a system of internal control of assets, including an asset register, and
- 5.2.4 the Directors comply with this policy.

**5.3. The Director: Finance** is responsible to the Municipal Manager to ensure that the financial investment in the municipality's assets is properly recorded.

## 5.3.1. The Director: Finance must take all reasonable steps to ensure that:

- a) appropriate systems of financial management and internal controls are established and carried out diligently;
- b) the financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- c) any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- d) the systems, processes and registers required to substantiate the financial values of the municipality's assets are maintained to standards sufficient to satisfy the requirements of all statutes;
- e) financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- f) the Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets, and
- g) the Directors are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets.

## 5.3.2. The Director: Finance may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

**5.4. The Directors** must take all reasonable steps to ensure that:

- 5.4.1 appropriate systems of physical management and controls are established and carried out for assets in their areas of responsibility;
- 5.4.2 the municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- 5.4.3 the assets under their control are appropriately safeguarded and maintained to the extent necessary and that risk management systems are in place and applied;
- 5.4.4 any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- 5.4.5 their asset management systems and controls can provide an accurate, reliable and up to date account of assets under their control;



- 5.4.6 they are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives;
- 5.4.7 the purchase of assets complies with all municipal policies and procedures, including the procurement of items from the correct budget allocation;
- 5.4.8 all moveable property, plant and equipment is duly processed and identified when it is received into his/her stewardship;
- 5.4.9 all moveable assets received into his/her stewardship are appropriately safeguarded against inappropriate use or loss. This will include control over the physical access to these assets and regular asset counts to ensure any losses have not occurred. Any known losses should be immediately reported to the Director: Finance, and
- 5.4.10 assets are appropriately utilized for the purpose for which the municipality acquired them.
- 5.4.11 The Director may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

## **5.5 Safe-guarding of assets.**

Directors shall be directly responsible for the physical safe-guarding of any fixed asset controlled or used by the department in question.

In exercising this responsibility, Directors shall adhere to the stipulations of this policy as well as any other written directives issued by the municipal manager to the department in question, or generally to all departments, in regard to the control of or safe-guarding of the municipality's fixed assets.

## **6. FINANCIAL MANAGEMENT**

### **6.1 Approval to acquire Property, Plant or Equipment**

Money can only be spent on a capital project if:

- 6.1.1 the money has been appropriated in the capital budget, and the future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- 6.1.2 the project, including the total cost and funding sources, has been approved by Council;
- 6.1.3 the Director: Finance confirms that funding is available for that specific project, and
- 6.1.4 the Supply Chain Management prescripts/procedures have been adhered to.

### **6.2 Funding period of capital projects**

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

### **6.3 Disposal of assets (excluding immovable property covered under the Administration of Immovable Property Policy)**

- 6.3.1 The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of an asset needed to provide

the minimum level of basic municipal services, unless such asset is obsolete or surplus to requirements or beyond a state of good repair or being replaced and provided that the delivery of the minimum level of basic municipal services must not be compromised as a result of the disposal of the asset.

- 6.3.2 The decision that a specific asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset had been sold, transferred or otherwise disposed of.
- 6.3.3 The disposal of an item of property, plant or equipment must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management and the Supply Chain Management Policy of the municipality.
- 6.3.4 The transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions, provided such transfer is being done in accordance with a prescribed regulatory framework.
- 6.3.5 Directors shall report in writing to the Director: Finance on all fixed assets controlled or used by the department concerned, which such Director wishes to alienate by public auction or public tender. The Director: Finance shall thereafter consolidate the requests received from the various departments, and shall promptly report such consolidated information to the council or the municipal manager of the municipality, as the case may be, recommending the process of alienation to be adopted.
- 6.3.6 Fixed assets identified to be disposed of by means of auction / tender must have been considered for impairment.
- 6.3.7 Once the fixed assets are alienated, the Director: Finance shall de-recognize the asset from the accounting records and the fixed asset register.
- 6.3.8 All gains and losses realized on the alienation of fixed assets shall be accounted for according to section 11.13 below (Accounting treatment on disposal).
- 6.3.9 Disposal of immovable property is dealt with in terms of the Overstrand Administration of Immovable Property Policy.

#### **6.4 Loss, Theft, Destruction or Impairment of assets**

- 6.4.1 Directors 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 Director: Finance, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service.
- 6.4.2 Directors shall further ensure that all the required insurance claim documentation and information is promptly submitted to the Director: Finance in terms of the prescribed claims procedures.

## **7. INTERNAL CONTROLS**

### **7.1 Financial Asset registers**

#### **7.1.1 Establishment and Management of the Financial Asset Register:**

- a) The Director: Finance will establish and maintain the Asset Register containing key financial data on each item of Assets that satisfies the criterion for recognition.

#### **7.1.2 Contents of the Financial Asset Register:**

- a) The fixed asset register shall be maintained in the format determined by the Director: Finance, which format shall comply with the requirements of generally recognized accounting practice (GRAP) and any other accounting requirements which may be prescribed.
- b) Directors under whose control any fixed asset falls shall promptly provide the Director: Finance in writing with any information required to compile the fixed asset register, and shall promptly advise the Director: Finance in writing of any material change which may occur in respect of such information.

#### **7.1.3 Internal Controls over the Financial Asset Registers:**

- a) Controls around the asset registers should be sufficient to provide Directors with an accurate, reliable and up to date account of assets under their control to the standards specified by the Director: Finance and required by relevant legislation.
- b) These controls will include the physical management and recording of all acquisitions, assignments, transfers, losses and disposals of assigned assets as well as regular asset counts and systems audits to confirm the adequacy of controls.
- c) The Municipal Manager shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerized fixed asset register.

### **7.2 Responsibilities: Physical Receipting and Management**

7.2.1 The Manager: Expenditure & Asset Management will undertake at least a bi-annual count of assets as part of the annual reporting process.

7.2.2 The date of acquisition of assets is deemed to be the time when legal title or control passes to the municipality.

7.2.3 The date of acquisition of assets may vary for different categories of assets but will be the point of time when the asset is in the final condition and location as intended for use by the Director.

7.2.4 A Director must advise the Director: Finance, in writing, of capital work-in-progress at the end of the financial year.

7.2.5 A Director must advise the Director: Finance, promptly in writing whenever capital work-in-progress is completed, for inclusion in the Asset Register.

### **7.3 Transfers between Directorates**

#### **7.3.1 Permanent transfers to another Directorate**

- a) A Director retains managerial accountability and control for a particular asset unless:

- i. another Director agrees in writing to accept responsibility for the assets, and
  - ii. the Director: Finance endorses the transfer.
- b) The Finance Directorate must appropriately amend the Financial Asset register by accounting for all approved transfers.
- c) The Director to whom the asset is transferred must assume accountability for the transferred asset.

#### 7.3.2 Relocation or Re-assignment of Assets:

- a) A Director must ensure that assets are appropriately safeguarded for loss, damage or misuse wherever it is located. Safeguarding includes ensuring reasonable physical restrictions.
- b) A Director must advise the Director: Finance, in writing, whenever an asset is permanently relocated or reassigned from the location (or base) or cost centre recorded in the Financial Asset Register.
- c) A Director must advise the Director: Finance, in writing, 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 Director must also advise the Director: Finance when the asset is returned. In the case of assets being utilized in the normal course of operations away from its base, such as vehicles, reporting is not necessary.

### 7.4 Verification of fixed assets

- 7.4.1 Directors shall at least twice during each year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.
- 7.4.2 Directors shall promptly and fully report in writing to the Director: Finance in the format determined by the Director: Finance, all relevant results of such fixed asset verification. The resultant reports shall be submitted by Directors, to the Director: Finance, by not later than 30 days after the last day of the period in question.

### 7.5 Insurance of fixed assets

- 7.5.1 The Municipal Manager shall ensure that movable fixed assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.
- 7.5.2 If the municipality operates a self-insurance reserve, the Director: Finance shall annually determine the contribution to be made to the self-insurance reserve.

### 7.6 Recovery of loss

- 7.6.1 A Claims and Asset Loss Control Committee, appointed by the Accounting Officer, must be established to investigate all losses and to consider the settlement of third party insurance claims falling within the relevant excess limits.
- 7.6.2 The Claims and Asset Loss Control Committee must comprise of a representative from Legal Services, Human Resources (Labour Relations), Finance (Asset Management) and the senior manager within whose vote

the transaction occurs or a senior official as representative for his/her department or division.

- 7.6.3 Where applicable, the matter must be referred to the relevant Department in order to institute disciplinary action in order to recover any possible loss in incidents where negligence or misconduct may be suspected.

## **8. MANAGEMENT OF ITEMS BELOW CAPITALIZATION THRESHHOLD (Control Items)**

- 8.1 The Director Finance has identified asset items which will not be capitalized. These assets are qualitative and quantitatively immaterial and the costs to maintain these assets were considered and found to exceed the economic benefit if considered over the life cycle of the assets. Three types of assets were defined as per the annexures hereto.
- 8.2 The requirements to manage control items include:
- Recepting and bar-coding of these items.
  - Maintaining and updating a register.
  - Regular asset counts by the assigned person to ensure these control items are being appropriately safeguarded.
  - Recording and reporting of any disposal, transfer or loss of control items by the assigned official to the CFO and adjustment of the control items register.
- 8.3 Control items will **not** be:
- capitalized as an asset,
  - depreciated,
  - revalued,
  - recorded in the financial asset register, or
  - otherwise treated as an asset.
- 8.4 On an annual basis, the Director: Finance will review the listing of items not capitalized in order to ensure that the effect of the treatment is not material in any aspects.

## **9. MANAGEMENT AND OPERATION OF ASSETS**

### **9.1 Accountability to manage assets**

- Each Director is accountable to ensure that municipal resources assigned to him are utilized effectively, efficiently, economically and transparently.
- Directors need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost.

### **9.2 Reporting on Impeding Issues**

- Each Director 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 & COMPONENTS

### 10.1 Classification of assets

10.1.1 Any asset recognized as an asset under this policy will be classified according to categories as per the Overstrand Asset Register.

10.1.2 All fixed assets should be classified under the following headings in the Asset Register:

**a) Property, plant and equipment:**

- land (not held as investment property)
- buildings (not held as investment property)
- community assets (resources contributing to the general well-being of the community)
- infrastructure assets (assets which are part of a network of similar assets)
- other assets (ordinary operational resources, consisting of Furniture, Equipment and Vehicles)

**b) Heritage Assets**

- heritage assets (culturally, environmental, historical, natural, scientific, technological or artistic significant assets)

**c) Investment property**

- investment assets (resources held for capital or operational gain)

**d) Intangible Assets**

- non-monetary assets without physical substance such as computer software, licenses etc.

**e) Leased Assets**

- asset financed through a lease arrangement such as cell phone contracts or finance leases

**f) Service Concession asset**

- is the asset used in a service concession agreement in order to provide services to the public within the juristic boundaries of the municipality
- Examples hereof include water treatment plants being operating by a third party or a toll road operated by a third party if the conditions of GRAP 32 are met

10.1.3 The Director: Finance may agree to subdivide these classifications further. This decision will be noted as an amendment to the Asset Register of the Overstrand Municipality.

### 10.2 Treatment of Major Components

- All parts of an asset that is significant to the cost of the item as a whole shall be treated as a separate major component and each major component shall be treated as described below.

- A Director may, with agreement of the Director: Finance, treat other non-significant parts as 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) or its financial parameters (e.g. a road surface).
- In agreeing to these treatments the Director: Finance 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,*
  - *justify the costs of separate identification,*
  - *have probable future economic benefits or potential service delivery associated with the asset which will flow to the municipality,*
  - *is such that the cost of the asset to the municipality can be measured reliably,*
  - *is such that the municipality has control over the asset,*
  - *the item is not listed as an expense or control item in the appendixes hereto, and*
  - *is such that 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 was a separate asset.

## 11. ACCOUNTING FOR ASSETS

### 11.1 Recognition of assets

- An item of property, plant or equipment will be recognized as an asset when:
  - *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 control over the asset,*
  - *the item is not listed as an expense or control item in the appendixes hereto, and*
  - *the asset is expected to be used during more than one financial year.*

### 11.2 Initial measurement

- An item of property, plant or equipment that qualifies for recognition as an asset should be initially measured at its “cost of acquisition”.
- This “cost of acquisition” usually include the following:
  - *Purchase costs (less any discounts given)*
  - *Delivery costs*
  - *Installation costs*
  - *Professional fees for architects, engineers and attorneys*

- *Import duties*
- *Non-refundable taxes*
- *Site development costs*
- *Contractor fees*

### **11.3 Donations or exchanges**

Where an item of property plant or 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 asset register if the item is considered an asset other than control item or expense.

### **11.4 Recognition threshold**

The municipality does not utilize a recognition threshold, but has rather identified items that are insignificant and thus would not be capitalized. The listing of items and methodology for identifying such items are listed in the appendixes hereto.

### **11.5 Carrying amount of assets**

Subsequent to initial recognition as an asset, an item of property, plant or equipment should be carried at its cost of acquisition less any accumulated depreciation and accumulated impairments.

### **11.6 Depreciation**

- All fixed assets, except land and heritage assets, shall be depreciated.
- The depreciable amount of an item of property, plant or 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 Director unless it is included in the carrying amount of another asset.
- The depreciation method used shall reflect the pattern in which the assets future economic benefits or service potential are expected to be consumed by the municipality.
- A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include the straight-line method, the diminishing balance method and the units of production method. Straight-line depreciation results in a constant charge over the useful life if the asset's residual value does not change. The diminishing balance method results in a decreasing charge over the useful life. The units of production method results in a charge based on the expected use or output. The entity selects the method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset. That method is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.
- The depreciation method will be the straight-line method unless otherwise agreed to in writing by the Director: Finance.



- Depreciation shall be calculated from the day the fixed asset is available for use (GRAP 17).
- Directors, acting in consultation with the Director: Finance, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question or expected to be so controlled or used during the ensuing financial year.
- The procedures to be followed in accounting and budgeting for the amortization of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

#### **11.7 Initial determination of useful life**

- Directors need to determine the useful life of a particular item or class of asset through the development of a strategic asset management plan. The determination of useful life should be developed as part of any pre-acquisition planning that would consider, inter alia, the following factors:
  - The 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 municipality's needs,
  - Technological obsolescence,
  - Social obsolescence due to changing demographics, and
  - Legal obsolescence due to statutory constraints.
- The Table of Useful Lives is provided in the MFMA Local Government Capital Asset Management Guideline. These should be used as a guide to the minimum useful lives only because actual asset lives experienced greatly exceed those recommend lives.

#### **11.8 Review of useful life**

- Only the Director: Finance may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs, the Director: Finance shall inform the council of the municipality of such amendment.
- The Director: Finance shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.
- The useful life of an item of property, plant or equipment should be reviewed only when there is an indicator that the current useful lives are not appropriate. Annually the Director: Finance will review a list of circumstances that could indicate the need to revise the useful lives of assets. If any indicators require useful lives to change and these revised expectations are significantly different from previous estimates, then the depreciation charge for the current and future periods should be adjusted and the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question. The indicators are those listed under impairment indicators.

### 11.9 Review of depreciation method

- The depreciation method applicable to property, plant or 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 and the depreciation charge for the current and future periods should be adjusted.

### 11.10 Subsequent expenditure on property plant or equipment

- Subsequent expenditure relating to an item of property, plant or equipment that meets the definition of an asset should be added to the carrying amount of the asset when such expenditure will increase the useful life of the asset or increase the efficiency of the asset or reduce the cost of operating the asset, resulting in financial or service delivery benefits.
- All other expenditure should be recognized as an expense in the period in which it occurred.
- Before allowing the capitalization of subsequent expenditure, the Director: Finance must be satisfied that this expenditure will significantly:
  - increase the life of that asset beyond that stated in the asset register, or
  - increase the quality of service provided by that asset beyond the existing level of service, or
  - increase the quantity of services that asset can provide, or
  - reduce the future assessed costs of maintaining that asset.

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

### 11.11 Impairment of assets

The accounting treatment relating to impairment losses is outlined as follows in **GRAP 21 & 26**:

The carrying amount (Book value) of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.

Recoverable amount is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal. 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.

The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification work is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline

in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.

The following may be indicators that an item of PPE has become impaired:

- The asset has been damaged.
- The asset has become technologically obsolete.
- The asset remains idle for a considerable period either prior to it being put into use or during its useful life.
- Land is purchased at market value and is to be utilized for subsidized housing developments, where the subsidy is less than the purchase price.

**Example:**

An example of where the municipality has suffered an impairment loss is the purchase of land for an amount of R 5 000 000. The land will be utilized for new subsidized housing developments. If at year end the expectation is that the Municipality will receive only R 1 000 000 by way of subsidies an impairment loss of R4 000 000 needs to be recognized. The recoverable amount (R 1 m) is calculated as being the larger of:

- **Net Selling price** of the land which is the amount obtainable from the sale of the market in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal.
- **Value in use** of the land which is the present value of the estimated future net cash inflows expected from the continuing use of the asset and from its disposal at the end of its useful life.

**The following steps will have to be performed regularly during the year to account for impairment losses:**

- Directorates will identify and inform Finance Department - Asset Control of assets that:
  - Are in a state of damage at year end.
  - Are technologically obsolete at year end. This can be facilitated if Directorates require Finance Department - Asset Control, to supply them with a Fixed Asset Register pertaining to major assets showing the remaining useful lives of assets. The Directorates can then assess and indicate cases where the assessed remaining useful life is shorter than the remaining useful life on the printout.
  - Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.
  - Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts. An example of this is Land that is purchased at market value and is to be utilized for subsidized housing developments.
- The recoverable amounts of these assets need to be calculated by calculating the Net selling Price per asset as defined above.
- The impairment loss per asset needs to be calculated as the difference between the Net selling price and the book value of the asset.

- The impairment loss needs to be accounted for by identifying the relevant funding source.
- The carrying amount of an 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 impairment expense immediately, unless it reverses a previous revaluation in which case it should be charged to the Revaluation 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 proportional to its useful life, service capacity or quality of service that is not intended to be restored by normal maintenance programs.

#### **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 Accounting treatment on Disposal**

- An item of property, plant or equipment should be eliminated from the Statement of Financial Position, 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, in accordance with GRAP 100.
- Gains or losses arising from the retirement or disposal of an item of property, plant or 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.
- All gains realized on the alienation of fixed assets shall be appropriated annually to the municipality's Capital Replacement Reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the Statement of Financial Performance of the department or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any department or vote, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.

#### **11.14 Reinstatement, maintenance and other expenses**

Only expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset) or in the material extension of the useful operating life of a fixed asset shall be capitalized.

**OVERSTRAND MUNICIPALITY – ASSET MANAGEMENT POLICY**

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Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses incurred in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalized, irrespective of the quantum of the expenses concerned.

Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalized as part of such fixed asset. Such expenses may include but need not be limited to import duties, forward cover costs, transportation costs, installation, assembly and communication costs.

The following matrix will assist in distinguishing capital expenditure from maintenance expenditure: -

<b>Capital Expenditure</b>	<b>Maintenance</b>
<ul style="list-style-type: none"> <li>▪ Acquiring a new asset</li> <li>▪ Replacing an existing asset</li> <li>▪ Enhancing an existing asset so that its use is expanded</li> <li>▪ Further developing an existing asset so that its original useful life is extended</li> </ul>	<ul style="list-style-type: none"> <li>▪ Restoring an asset so that it can continue to be used for its intended purpose</li> <li>▪ Maintaining an asset so that it can be used for the period for which it was initially intended.</li> </ul>

#### **11.15 Assets held under leases**

**Finance leases** are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the municipality and reflected as such in the FAR. It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement. The asset is then depreciated over its expected useful life.

**Operating leases** are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due. Assets held under operating leases are not accounted for in the asset registers of the municipality.

#### **11.16 Investment property**

Investment assets shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's statement of position.

Investment assets shall comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.

Investment assets shall be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

**Decide on which accounting model, cost or fair value, the municipality will apply to investment property.**

##### **Fair value**

Investment assets shall not be depreciated, but shall be annually valued to determine their fair (market) value. Investment assets shall be recorded in the Statement of Financial Performance at such fair value. Adjustments to the previous year's recorded fair value shall be accounted for as either gains

(revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

If the council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use – where-after it shall be re-classified as an investment asset.

#### **11.17 Fixed assets treated as inventory**

Any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings 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, and not included in either property, plant and equipment or investment property in the municipality's statement of position.

Such inventories shall, however, be recorded in the fixed assets register in the same manner as other fixed assets, but a separate section of the fixed assets register shall be maintained for this purpose.

#### **11.18 Recognition of heritage assets in the fixed asset register**

Heritage assets shall be carried at their cost values. If no original costs or fair values are available in the case of one or more or all heritage assets, the Director: Finance may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the fixed asset register without an indication of the costs or fair value concerned.

For Statement of Financial Performance purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

#### **11.19 Other write-offs of fixed assets**

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

In every instance where a not fully depreciated fixed asset is written off, the Director: Finance shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned.

#### **11.20 General maintenance of fixed assets**

Every Director shall be directly responsible for ensuring that all assets are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

#### **11.21 Service Concession arrangements**

A service concession arrangement is governed through a contractual arrangement between the municipality and an independent third party (operator). It involves the creation and/or use of an existing municipal asset in order to provide services to the general public. The asset can be provided by the municipality or the arrangement can specify that the operator must create a new asset for purposes of the providing the services on behalf of the municipality (grantor).

If the municipality provides the asset (i.e. it is an existing asset that the operator uses), no liability needs to be created in relation to the assets used by the operator. However, in the case that the operator has to create a new asset in order to fulfill

the obligations of the agreement, an asset and liability needs to be created in order to account for the asset.

Assets held under a concession agreement must be separately disclosed similarly to assets acquired through a lease agreement.

The assets held under the service concession agreement is under the control of the Director: Infrastructure and Planning and such director must report annually to the Director of finance of the status of the asset, such as any impairments, replacement parts, improvements etc. to the service concession assets. These assets would be disclosed in terms of the requirements of GRAP 32: *Service Concession Arrangements: Grantor*.

## 12. FINANCIAL DISCLOSURE

Assets must be disclosed, in respect of each class of property, plant and equipment, in accordance with Generally Recognized Accounting Practice.

## 13. IMPLEMENTATION AND REVIEW PROCESS

13.1 This policy will come into effect as from **1 July 2021**;

13.2 This policy will be reviewed at least annually or when required by way of a Council resolution.

## 14. SHORT TITLE

This policy will be known as the Asset Management Policy of the Overstrand Municipality.

<b>POLICY SECTION:</b>	<b>SENIOR MANAGER: EXPENDITURE AND ASSET MANAGEMENT</b>
<b>CURRENT UPDATE:</b>	<b>26 MAY 2021</b>
<b>PREVIOUS REVIEW</b>	27 MAY 2020
<b>PREVIOUS REVIEW</b>	29 MAY 2019
<b>PREVIOUS REVIEW</b>	30 MAY 2018
<b>PREVIOUS REVIEW</b>	31 MAY 2017
<b>PREVIOUS REVIEW</b>	25 MAY 2016
<b>PREVIOUS REVIEW</b>	28 MAY 2015
<b>PREVIOUS REVIEW</b>	28 MAY 2014
<b>PREVIOUS REVIEW</b>	29 MAY 2013
<b>PREVIOUS REVIEW:</b>	30 MAY 2012
<b>PREVIOUS REVIEW:</b>	04 MAY 2011
<b>PREVIOUS REVIEW:</b>	26 MAY 2010
<b>APPROVAL BY COUNCIL:</b>	24 JUNE 2009

## OVERSTRAND MUNICIPALITY – ASSET MANAGEMENT POLICY

### APPENDIX 1: REVISION OF ASSET CAPITALISATION THRESHOLD

#### Introduction

The municipality reviewed the Asset Management Policy and has determined that the capitalization threshold needed to be revised in order to ensure compliance with the GRAP requirements and to align the budgeting process with the requirements of GRAP. Based on the revision of the capitalization threshold it has decided that the most suitable approach would be to identify assets for which their value or use does not justify the cost to maintain the assets in the register.

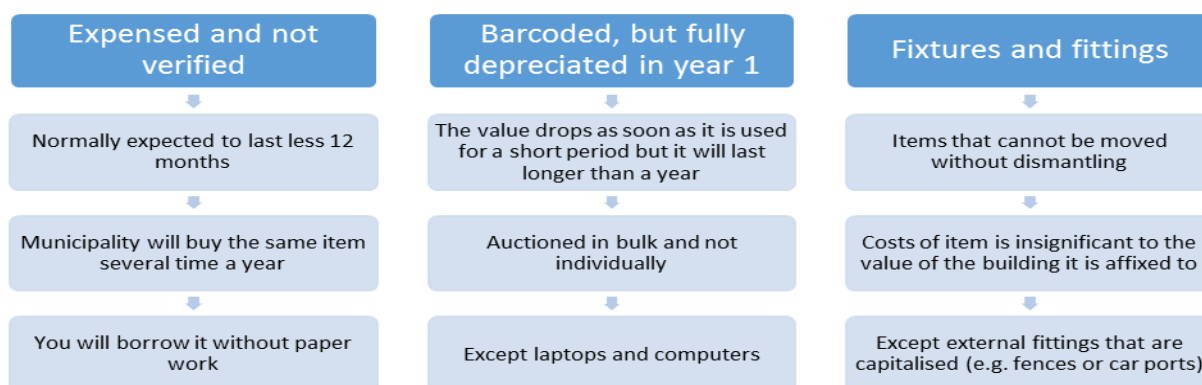
The GRAP discussion paper on materiality states the following: "Information in the financial statements is therefore relevant when it meets these information needs. The relevance of information is affected by its nature and materiality." This implies that certain information would not be relevant to the users of financial statement due to its value or nature. Furthermore, the discussion paper also states: "Materiality establishes a threshold, which may include a cut-off point, or criteria which are used in making certain decisions. Materiality in itself is not a characteristic that information must have to be useful to users. "The municipality followed a qualitative materiality approach rather than a purely quantitative approach in order to identify items that are considered not material.

Management of assets within an asset register is a costly exercise and certain assets economic benefits have been noted to be exceeded by the annual cost to maintain these assets within the register. For this reason the municipality has taken an approach to identify assets that fall within this category where the management cost of the assets exceed their economic benefits.

#### Materiality

The full cost price of all assets that would not be included in the AFS as at 1 April 2016 was extracted and compared to materiality. The accumulative cost of all these assets listed in annexures 1-3 amounted to less 30% of materiality and thus accepted as reasonable. Materiality was based on the 2015 balance for Property, plant and equipment as utilized by the auditors during the audit of 2014/15. Annually the assets with that fall within this category will be extracted and compared to the prior year's materiality to ensure that the threshold application does not result in any material deviation from the standards of GRAP.

#### Decision Tree



All items not falling in the above categories would be considered assets and would be included in the asset register.

Three different types of assets were identified that require amendment in the approach due to the revised capitalization approach. These are:

- 1) Items with expected useful lives of less than 12 months expensed immediately
- 2) Items that are considered assets, but will not be included in the asset register due to the fact that the costs to maintain these assets in the final asset register would exceed the value/economic benefits of the assets (Control Items)
- 3) Items that are capital in nature, but would not be included in the asset verification process as the items are affixed to buildings and thus would no longer be considered movable assets.



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**1) Items that are expected to be consumed within 12 months (Items not barcoded)**

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**Characteristics of asset type**

Many purchased goods are expected to be consumed within 1 year, but due to the usage of the asset, the lifespan might be prolonged. In example, a stapler is not really expected to last more than a year as wear and tear on the items are quite excessive. However, certain staff members have indicated that their staplers could last several years. The fact that a single item lasts longer than a year does not negate from the expectation that the item would be consumed within 1 year.

**OR**

Another consideration in this category is the replacement or purchase rate. If the item is expected to be purchased multiple times in a single year, the item is not considered to be an item that would last for longer than 1 year. In example, despite the fact that spanners could be durable, they are often purchased throughout the year with new spanners being purchased at a regular interval. Due to the regular repurchase rate, the item is not considered to last for longer than a year despite its durable nature.

**OR**

The final consideration for items that fall within this category is the control over the ability to transfer assets. Some assets are of such a minute significance to a department, that when assets are transferred between users, formal asset transfer documentation would not be maintained. Example, if employee 1 is willing to borrow his wrench to employee 2 without asking for written confirmation of the transfer of the wrench since the inherent value of the item does not justify any audit trail of the transfer.

**OR**

The item is a plastic or wood stackable table / chair used at a community hall.

For control purposes, these items are not barcoded and will be purchased through an expense account (operational budget) Cost Code / B-key,

**For ease of reference, examples of items that fall within this category:**

- All stationery items excluding heavy duty versions thereof (any item titled machine, would not fall within this category e.g. Binding Machine, Laminating Machine) including calculators and other small items
- Any boxes, and containers designed to retain stationary (such as buddi-drawers, pen holders, paper racks)
- All bins and disposal containers
- Any camp site bedroom furniture such as beds and bedding
- Small appliances such as kettles, toasters, fans with a warrantee of 1 year
- Any computer accessories such and keyboards, mouse, laptop bags, dongles (UPS's and external hard drives are excluded from this)
- Fire extinguishers as their service interval requires exchanging of these items several times a year
- Hand tools that are normally transported in bulk (i.e. small tools that would be transported with other tools in toolboxes)
- Cleaning items such as buckets, mops, brooms etc. (excluding machines used to clean items such as dish washers and vacuum cleaners)
- Safety equipment that is frequently replaced, similar to helmets, goggles, gloves etc.
- Crockery, cutlery and other kitchen utensils

**The approved listing of items that serve as examples of this category is listed in Annexure 1.**

(Please note the difference from the next section 2 below, where “the Items below Capitalization Threshold Cost Code / B-key” is expected to last longer than 12 months and these Items will be barcoded.)

**2) *Items below capitalization threshold that will be barcoded but not included in the asset register (previous control items)***

These items will be barcoded and counted during the verification, but due to the insignificant value of these items, will not be included in the final asset register for annual maintenance such as depreciation, impairments and other value-based adjustments. The items would be recorded as assets, but fully depreciated in the first year of purchase. The items are generally used both in the office and the home and thus control needs to be established to reduce the probability of items being taken home for personal use.

In the accounting records of the municipality, the assets would be purchased directly against operational expenditure based on the requirements of mSCOA. This is more practical as the full impact of the purchase must be accounted for against the expenditure rather than to retain the costs of the items within the capital maintenance system. This process is followed to ensure depreciation is not accelerated and to ensure that the asset register agrees to capital acquisitions on an annual basis.

**Characteristics of asset type**

These are items that are used on a daily basis. In fact, the items are used so frequently, that the frequent use is the determining factor in establishing the useful lives of the assets. These items might be designed to be durable, but the usage thereof results in rapid wear and tear. Items such as chairs, printers, microwaves, drills, angle grinders etc. are used so frequently, that their values are diminished after the first 6 months of use.

**AND**

The items are normally sold in bulk at auctions as bidders will not be interested in buying single items as the unit price too low to justify single sales. Often the items prices are based on the value of the components (e.g. copper or scrap metal price) rather than the resale value of the items.

**BUT**

Some items that fall within this category are exceptions to the rule as their value lies in an extended use, despite the diminished return on purchase price after the first use. The items specifically excluded from the listing are:

- Items purchased through means of a finance lease contract (example multi-function printers)
- Computer towers or laptops as their lifespans can easily be extended through refurbishing the assets at a fraction of their original cost
- Industrial or heavy duty tools or equipment that are designed to last for longer

These items are purchased from the Operational Budget allocation (B-key) for Assets less than threshold.

**For ease of reference, examples of items that fall within this category:**

- All chairs except stackable plastic chairs
- Tables that are being used by multiple users (public and internal) (e.g. training tables, library tables, visitors' tables, community halls etc.)
- Medium sized kitchen equipment such as microwaves, urn's, hydro boil systems

**Explanatory comments on the characteristics:**

- Desks are used every day, but the usage of a desk does not automatically reduce the value of the desk. Thus a desk does not fall within this category.
- Various power tools would also fall within this category. Industrial sized power tools will be excluded.
- Despite judgement that needs to be applied, the general consensus by an informed member of public should also come to the same conclusion as to the treatment of the item. Classification of items as control items or fully capitalised assets should not be based on budgetary requirements, but rather on the nature of the item and the municipality's intended use or the manner in which the municipality aims to control the item.

The approved listing of items that serve as examples of this category is listed in Annexure 2.

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### 3) *Items of capital nature affixed to buildings*

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When these items are purchased, the purpose is to enable or increase the productivity of the users, rather than to increase the value of the buildings that the items would be affixed to. Despite its purpose, the items are often deemed to increase the value of the buildings that it is affixed to as it is considered an investment in the building.

When a sales agreement are entered into, the fixtures must be retained to the building, unless otherwise stated. Fixtures are however, often a hindrance to many potential buyers and considered a burden rather than an additional value added to the building. More often than not, items such as air-conditioners need to be completely replaced, and built-in cupboards, shelving are not in the correct location as per the intention of any potential owners. The municipality has opted to classify and fittings as repairs and maintenance to the buildings, as new fixtures could only allow the buildings value to be reinstated (example carpets being replaced) rather than increase the value of the buildings. Fixtures are capitalized as part of the initial cost of a new building; all cost thereafter is treated as maintenance

When the fixtures added to the building is considered against the value of the building, the fixtures are often inconsequential (has no significant impact) to the value of the building as a whole and accordingly, the capitalization of fixtures are not considered of additional value.

External fixtures, such as fences, car ports, etc. are items that are not part of the building itself and thus improve the value of the land, these items are for practical reasons capitalized against the buildings (premises) as land is not depreciated and any external structures will incur wear and tear.

These items are purchased from the Operational Budget allocation (B-key) for Assets less than threshold.

**For ease of reference, examples of items that fall within this category:**

- Whiteboards permanently affixed to walls
- Air-conditioners
- Shelving and cupboards affixed to walls or ceiling
- Office partitioning (i.e. dividers used to split rooms) when these are bolted down.
- And stands or holders that are affixed to the property (e.g. projector fittings)

**The approved listing of items that serve as examples of this category is listed in Annexure 3.**

**Annexure 1: Items expected to be consumed within 12 months**

The following list of items is approved to only be purchased via the operational cost code / B-key for expenditure and these items will not be barcoded:

Description	Description
Bait pump	Hand drill
Banners	Headphones
Bar and foot stools	Heaters
Batteries	Jump starters
Beds and mattresses	Kettles
Bedside furniture	
Bins (All)	
Boxes - money, tender, CV's etc	Laser Presentation Remote
Buddy drawers	Letter Opener
Calculators	Lifting Bag
CD Racks	
Chairs (Plastic stackable)	Measuring wheels, tapes
Chargers except industrial	
Clipboards	Paper trays
Drip torch	Pool brooms, brushers
Extension leads	Pots and pans
	Protective Clothing
Fans	Soldering bolt
Fire extinguishers	Stand pipe
First aid and medic kits	Toolbox incl. tools
Flashlight, torch	Wind meter
Foam branch	Wrench

*Annexure 2: Items barcoded, but bought through assets below threshold (control items) budget cost code / B-key (operational expenditure)*

The following list of items is approved to only be purchased via the assets below threshold vote. The items must be barcoded and verified annually:

Description	Description
Air gun	Hot plate/tray
Alcohol Tester	Jack trolley
Angle grinder	Jigsaw
	<u>Label printing equipment</u>
Audio and video recorders	Ladders (All)
Benches (All)	Lamps
	<u>Laser Distance Meter</u>
Binoculars	Lighting System
	<u>Link Stick</u>
Blood Pressure Monitor	Litter tester
Cameras	Lockers
Case: Mayors chains	Mega phone
Cash Drawer, register	Microphone
Cell Phone	Microscope
Chairs and Couches (All, except plastic stackable)	Microwave
Charger - industrial	Mitre Saw
Circular Saw	Mobile Dash Light
	<u>Modems</u>
Coffin Hoist	Monitors for PC's (excluding Televisions)
Colorimeter	Nail Gun
Cordless microphones	Nozzle
Cut-off Saw	Ottoman
Decoder	Packaging Roller
Docking Station	PH Meter
Drawing board	Piano Chair
Drill set	Pipe Binder
DVD, Tape Players	Polisher
Electric Spray Gun	Punch Heavy Duty
Electrical saw	Radio - for communication
Electrical Screw Driver	Refracto Meter
Examination table	Rotary saw
<u>External hard drives</u>	
Flip charts	Sander Machine
FM/AM Radio	Scale
Gas Burners (1 or 2 plate)	Scanner
Gateways, incl. routers, fire walls, proxies	Siren
Gavel	Speaker
Gazebo	Spectro Photometer
Glue Gun	Spine board
Grease gun	Spot Light

Description	Description
Grease pump	Spray trolley
Griller	Stands (All)
Guillotine	Stapler Heavy Duty
Hand Control Divider	Stretcher
Heat gun	Turbidi meter
Hose Washer	Typewriter
Table (Foldable - steel)	Urn
Table (Learner/Training)	Vacuum cleaner
Table (Wooden / plastic in community halls)	Vice grip – steel (heavy duty)
Telephone	Water cooler/dispenser
Tester battery car	Winch and winch bracket
Timing Light	Wood Chipper
Tripods (All)	Wood Stage
Trolleys (All)	

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*Annexure 3: Items considered furniture and fitting and treated as maintenance of existing buildings*

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The following list of items is approved to only be purchased via the maintenance cost codes / B-keys as the items are mounted to a building:

<b>Description</b>	<b>Description</b>
Air conditioner	Key cabinet
Boards (All)	Pigeonhole With Credenza
Bookcase bolted to floor or wall	Projector Screen
Clocking devices	Safe
Cupboard - built in	Screen
Divider Stand	Shelving, wood and steel
Extractor fan	Strobe Lights
Flagpole	Work station divider
Jet master	