

# SOL PLAATJE MUNICIPALITY



## ASSET MANAGEMENT POLICY

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## **A. PREAMBLE**

Whereas section 14 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services, and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued.

And whereas the municipal council of Sol Plaatje Municipality wishes to adopt a policy to guide the municipal manager in the management of the municipality's assets;

And whereas the municipal manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets;

And whereas these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes;

Therefore the municipal council of the Sol Plaatje Municipality adopts the following asset management policy.

**B. ABBREVIATIONS**

AM	Asset Management
AMS	Asset Management System
AR	Asset Register
CFO	Chief Financial Officer
CRR	Capital Replacement Reserve
DM	District Municipality
EPWP	Expanded Public Work Program
GAMAP	Generally Accepted Municipal Accounting Practice
GIS	Geographical Information System
GRAP	Standards of Generally Recognised Accounting Practice
HR	Human Resource
IAM	Infrastructure Asset Management
IAMP	Infrastructure Asset Management Plan
IAR	Infrastructure Asset Register
IAS	International Accounting Standards
IDP	Integrated Development Plan
IIMM	International Infrastructure Management Manual
LM	Local Municipality
MFMA	Municipal Finance Management Act
MSA	Municipal Services Act
NT	National Treasury
O&M	Operation and Maintenance
OAG	Office of the Accountant General
PPE	Property, Plant and Equipment
SCM	Supply Chain Management

## **C. DEFINITIONS**

**Accounting Officer** means the Municipal Manager appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act no. 117 of 1998) and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act 2000 (Act no. 32 of 2000).

**Agricultural Produce** is the harvested product of the municipality's biological assets.

**Biological Assets** are defined as living animals or plants.

**Borrowing Costs** are interest and other costs incurred by an entity in connection with the borrowing of funds.

**Capital Assets (assets)** are items of Biological Assets, Intangible Assets, Investment Property or Property, Plant or Equipment defined in this Policy.

**Carrying Amount** is the amount at which an asset is included in the statement of financial position after deducting any accumulated depreciation (or amortisation) and accumulated impairment losses thereon.

**Chief Financial Officer (CFO)** means an officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.

**Community Assets** are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.

**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, or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

**Depreciable Amount** is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

**Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life.

**Fair Value** is the amount for which an asset could be exchanged or a liability between knowledgeable, willing parties in an arm's length transaction.

**GAAP** are standards of Generally Accepted Accounting Practice.

**GRAP** are standards of Generally Recognised Accounting Practice.

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

**Infrastructure Assets** are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.

**Intangible Assets** are defined as identifiable non-monetary assets without physical substance.

**Investment Properties** are defined as properties (land or buildings) that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

**Land and Buildings** are defined as a class of PPE when the land and buildings are held for purposes such as administration and provision of services. Land and Buildings therefore exclude Investment properties and Land Inventories.

**MFMA** refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003).

**Other Assets** are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

**Property, Plant and Equipment (PPE)** are tangible assets that:-

- (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
- (b) Are expected to be used during more than one period.

**Qualifying Assets** is an asset that necessarily takes substantial period of time to get ready for its intended use or sale.

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

**Recoverable Service Amount** is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.

**Residual Value** is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

**Senior Official** is an official directly accountable to the senior manager of the entity.

**Senior Manager** in relation to a municipal entity, means a manager directly accountable to the chief executive officer of the entity.

**Servitudes** are rights granted by a property owner to another person or entity to use the land for certain purposes, e.g. to construct assets on or over a specific property or the right to access to a property.

**Useful Life** is:-

- a) The period of time over which an asset is expected to be used by the municipality;  
or
- b) The number of production or similar units expected to be obtained from the asset by the municipality's accounting officer.

## **1 OBJECTIVES**

The MFMA was introduced with the objective of improving accounting in the municipalities sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, whilst the trend has been to move to an accrual system.

With the cash system, assets were written off in the year of disposal or, in cases where infrastructure assets were financed from advances or loans, they were written off when the loans were fully redeemed. No costs were attached to subsequent periods in which these assets would be used.

With an accrual system the assets are incorporated into the books of accounts and systematically written off over their anticipated lives. This necessitates that a record is kept of the cost of the assets, the assets are verified periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline, and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

According to the MFMA (see Section 63 (1) (a) to (2) (c)), the Accounting Officer in the Municipality should ensure:

- (c) that the municipality has and maintains an effective and efficient and transparent system of financial and risk management and internal control;
- (d) the effective, efficient and economical use of the resources of the municipality;
- (e) the management (including safeguarding and maintenance) of the assets of the municipality;
- (f) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
- (g) that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and
- (h) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

The objective of this Asset Management Policy is to ensure that the municipality:

- (i) has consistent application of asset management principles;
- (j) implements accrual accounting;
- (k) complies with PFMA, MFMA, Treasury Regulation, GAAP, GRAP and other related legislation;
- (l) safeguards and controls the assets of the municipality; and
- (m) optimises asset usage.

## 2 LEGISLATIVE FRAMEWORK

### 2.1 LEGAL FRAMEWORK

A municipality exercises its legislative and executive authority by, among others, developing and adopting policies, plans, strategies and programmes, including setting targets for delivery (section 11(3) of the MSA).

Participation by the local community in the affairs of the municipality must take place through, among others, generally applying the provisions for participation as provided for in the MSA (section 17(1) of the MSA).

A municipality must communicate to its community information concerning, among others, municipal governance, management and development (section 18(1) of the MSA).

As head of administration the Municipal Manager is, subject to the policy directions of the municipal council, responsible and accountable for, among others, the following:

- The management of the provision of services to the local community in a sustainable and equitable manner;
- Advising the political structures and political office bearers of the municipality (section 55(1) of the MSA); and
- Providing guidance and advice on compliance with the MFMA to the political structures, political office-bearers and officials of the municipality (section 60 of the MFMA).

As accounting officer of the municipality the Municipal Manager is responsible and accountable for, among others, all assets of the municipality (section 55(2) of the MSA).

The Municipal Manager must take all reasonable steps to ensure, among others, that the resources of the municipality are used effectively, efficiently and economically (section 62(1) of the MFMA).

### 2.2 RATIONALE FOR MANAGEMENT OF ASSETS

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objectives:

- Providing democratic and accountable government for local communities;
- Ensuring the provision of services to communities in a sustainable manner;
- Promoting social and economic development;
- Promoting a safe and healthy environment; and
- Encouraging the involvement of communities and community organisations in matters of local government.

In terms of the MFMA, the accounting officer is responsible for managing the assets and liabilities of the municipality, including the safeguarding and maintenance of its assets.

The MFMA further requires the accounting officer to ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for its assets and liabilities;
- The municipality's assets are valued in accordance with standards of generally recognised accounting practice; and
- The municipality has and maintains a system of internal control of assets and liabilities.

The OHSA requires the municipality to provide and maintain a safe and healthy working environment, and in particular, to keep its infrastructure assets safe.

## **2.3 PRINCIPLES OF ASSET MANAGEMENT**

According to the International Infrastructure Management Manual (IIMM), the goal of infrastructure asset management is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers. The core principles of infrastructure asset management are:

- Taking a life-cycle approach;
- Developing cost-effective management strategies for the long-term;
- Providing a defined level of service and monitoring performance;
- Understanding and meeting the impact of growth through demand management and infrastructure investment;
- Managing risks associated with asset failures;
- Sustainable use of physical resources; and
- Continuous improvement in asset management practices.

## 3 POLICY FRAMEWORK

### 3.1 POLICY OBJECTIVE

The municipality is committed to providing municipal services for which the municipality is responsible, in a transparent, accountable and sustainable manner and in accordance with sound infrastructure management principles.

The main challenges associated with managing fixed assets can be characterised as follows:

- (n) Moveable assets – controlling acquisition, location, use, and disposal (over a relatively short term lifespan)
- (o) Immovable assets – life-cycle management (over a relatively long-term lifespan).

The policy approach has been to firstly focus on the financial treatment of assets, which needs to be consistent across both the movable and immovable assets, and secondly to focus on the management of immovable assets as a fundamental departure point for service delivery. This arrangement is summarised in Figure 1.



Figure 1: Proposed policy and strategic framework

## 3.2 POLICY PRINCIPLES

The following policy principles serve as a framework for the achievement of the policy objective:

### 3.2.1 *Effective Governance*

The municipality strives to apply effective governance systems to provide for consistent asset management and maintenance planning in adherence to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected. To this end, the municipality will:

- Adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- Regularly review and update amendments to the above legislation;
- Review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- Effectively apply legislation for the benefit of the community.

### 3.2.2 *Sustainable Service Delivery*

The municipality strives to provide to its customers services that are technically, environmentally and financially sustainable. To this end, the municipality will:

- Identify levels and standards of service that conform with statutory requirements and rules for their application based on the long-term affordability to the municipality;
- Identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- Identify current and future demand for services, and demand management strategies;
- Set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose assets, where applicable in line with national targets;
- Apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- Prepare and adopt an immovable (infrastructure) asset management strategy and immovable (infrastructure) asset management plans to support the achievement of the required performance;
- Prepare and adopt an immovable (infrastructure) asset maintenance strategy and immovable (infrastructure) asset maintenance plans to execute maintenance timeously;
- Allocate budgets based on long-term (20 year) financial forecasts that take cognisance of the full life-cycle needs of existing and future assets and the risks to achieving the adopted performance targets; and
- Implement its Tariff and Credit Control and Debt Collection Policies to sustain and protect the affordability of services by the community.

### 3.2.3 *Social and Economic Development*

The municipality strives to promote social and economic development in its municipal area by means of delivering municipal services in a manner that meet the needs of the various customer user-groups in the community. To this end, the municipality will:

- Regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- Implement changes to services in response to changing customer needs and expectations where appropriate;
- Foster the appropriate use of services through the provision of clear and appropriate information;
- Ensure services are managed to deliver the agreed levels and standards; and
- Create job opportunities and promote skills development in support of the national EPWP.

### 3.2.4 *Custodianship*

The municipality strives to be a responsible custodian and guardian of the community's assets for current and future generations. To this end, the municipality will:

- Establish a spatial development framework that takes cognisance of the affordability to the municipality of various development scenarios;
- Establish appropriate development control measures including community information;
- Cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- Ensure that heritage resources are identified and protected; and
- Ensure a long-term view and life-cycle costs are taken into account in immovable asset management decisions.

### 3.2.5 *Transparency*

The municipality strives to manage its immovable assets in a manner that is transparent to all its customers, both now and in the future. To this end, the municipality will:

- Develop and maintain a culture of regular consultation with the community with regard to its management of immovable assets in support of service delivery;
- Clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);
- Avail asset management information on a ward basis; and
- Continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

### 3.2.6 *Cost-effectiveness and Efficiency*

The municipality strives to manage its immovable assets in an efficient and effective manner. To this end, the municipality will:

- Assess life-cycle options for proposed new immovable assets;
- Regularly review the actual extent, nature, utilisation, criticality, performance and condition of immovable assets to optimise planning and implementation works;

- Assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of immovable assets;
- Ensure the proper utilisation and maintenance of existing assets;
- Establish and implement demand management plans;
- Timeously renew immovable assets based on capacity, performance, risk exposure, and cost;
- Timeously dispose of immovable assets that are no longer in use;
- Establish documented processes, systems and data to support effective life-cycle immovable asset management;
- Strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and
- Conduct annual assessments to support continuous improvement of immovable asset management practice.

## 4 ASSET RECOGNITION

### 4.1 CLASSIFICATION OF CAPITAL ASSETS

#### *General*

When accounting for Capital Assets, the municipality should follow the various standards of GRAP relating to the capital assets. An item is recognised in the statement of financial position as a Capital Asset if it satisfies the definition and the criteria for recognition of assets. The first step in the recognition process is to establish whether the item meets the definition of an asset. Secondly, the nature of the asset should be determined, and thereafter the recognition criterion is applied. Capital Assets are classified into the following categories for financial reporting purposes:

1. Property, Plant and Equipment (GRAP 17)
  - Land and Buildings (land and buildings not held as investment)
  - Infrastructure Assets (immovable assets that are used to provide basic services)
  - Community Assets (resources contributing to the general well-being of the community)
  - Housing Assets (rental stock or housing stock not held for capital gain)
  - Heritage Assets (culturally significant resources)
  - Other Assets (ordinary operational resources)
2. Intangible Assets (GRAP 102)
  - Intangible Assets (assets without physical substance held for ordinary operational resources)
3. Investment Property (GRAP 16)
  - Investment Assets (resources held for capital or operational gain)
4. Biological Assets (GRAP 101)
  - Biological Assets (livestock and plants held)

When accounting for Current Assets (that is of capital nature), the municipality should follow the various standards of GRAP relating to these assets. Current Assets (with a capital nature) are classified into the following categories for financial reporting purposes:

5. Assets classified as Held-for-Sale (GRAP 100)
  - Assets Held-for-Sale (assets identified to be sold in the next 12 months and reclassified as Inventory)

6. Land Inventories (GRAP 12)
  - Land Inventories (land or buildings owned or acquired with the intention of selling such property in the ordinary course of business)

Further asset classification has been defined in GRAP. The classifications used for infrastructure are limited and do not represent all asset types. However, these classifications are used for financial reporting consistency and should be used.

To facilitate the practical management of infrastructure assets and asset register data, infrastructure assets have been further classified. The recommended classifications are provided in **Appendix B**.

### ***Policy***

The asset classification specified by GRAP shall be adhered to as a minimum standard. The extended asset classification specified in **Appendix B** shall be adopted. The CFO shall ensure that the classifications specified by National Treasury, GRAP, and those adopted by the municipality are adhered to.

## **4.2 IDENTIFICATION OF ASSETS**

### ***General***

An asset identification system is a means to uniquely identify each asset in the municipality in order to ensure that each asset can be accounted for on an individual basis. Movable assets are usually identified using a barcode system by attaching a barcode to each item. Immovable assets are usually identified by means an accurate description of their physical location.

### ***Policy***

An asset identification system shall be operated and applied in conjunction with an asset register. As far as practicable, every individual asset shall have a unique identification number. The CFO shall develop and implement an asset identification system, while acting in consultation with the Executive Directors.

## **4.3 ASSET REGISTER**

### ***General***

An asset register is a database of information related to all the assets under the control of the municipality. The asset register consists of an inventory of all the assets, with each asset having a unique identifying number. Data related to each asset should be able to be stored in the asset register. The data requirements for the asset register are as follows:

Data type	Land	Movable	Infrastructure/ Buildings
<b>Identification</b>			
• Unique identification number or asset mark	✓	✓	✓
• Unique name	✓	✓	✓
• National Treasury Classification	✓	✓	✓
• Internal Classification	✓	✓	✓
• Descriptive data (make, model, etc.)	✓	✓	✓
• Erf/Registration	✓	✓	✓
• Title deed reference	✓		
<b>Accountability</b>			
• Department	✓	✓	✓
• Insurance reference		✓	✓
<b>Performance</b>			
• Age		✓	✓
• Condition		✓	✓
• Remaining Useful life		✓	✓
• Expected Useful Life		✓	✓
• Technical Asset Residual Value			✓
<b>Accounting</b>			
• Historic cost	✓	✓	✓
• Take on value	✓	✓	✓
• Take on date	✓	✓	✓
• Revalued amount	✓	✓	✓
• Valuation Difference (for purposes of Valuation Reserve and depreciation)	✓	✓	✓
• Depreciation method	✓	✓	✓
• Depreciation portion that should be transferred from Revaluation reserve to accumulated depreciation (where assets was revaluated)	✓	✓	✓
• Depreciation charge for the current financial year	✓	✓	✓
• Depreciation charge for ensuing year (for purposes on current portion)	✓	✓	✓
• Impairment losses in the current year	✓	✓	✓
• Accumulated depreciation	✓	✓	✓

Data type	Land	Movable	Infrastructure/ Buildings
• Carrying value	✓	✓	✓
• Residual value	✓	✓	✓
• Source of financing	✓	✓	✓

Assets remain in the asset register for as long as they are in physical existence or until being written off. The fact that an asset has been fully depreciated is not in itself a reason for writing-off such an asset.

The asset register does not include assets that belong to other third parties. These assets may be included as separable entities for control purposes.

### *Policy*

An asset register shall be maintained for all assets. In some cases, such as Investment Properties and Intangible Assets, separate asset registers will have to be maintained. The format of the register shall include the data needed to comply with the applicable accounting standards and data needed for the technical management of the assets. The asset register should be continuously updated and asset records should be reconciled to the general ledger on a quarterly basis, where possible.

## 4.4 RECOGNITION OF CAPITAL ASSETS: INITIAL MEASUREMENT

### *General*

A Capital Asset should be recognised as an asset in the financial and asset records when:

- It is probable that future economic benefits or potential service delivery associated with the item will flow to the municipality;
- The cost or fair value of the item to the municipality can be measured reliably;
- The cost is above any municipal capitalisation threshold (if any); and
- The item is expected to be used during more than one financial year.

Spare parts and servicing equipment are usually carried as inventory in terms of the Standard of GRAP on *Inventories* and recognised in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Further guidance for the recognition of assets is provided below:

## Capitalisation Threshold

The capitalisation threshold is a policy decision of the municipality and is the value above which assets are capitalised and reported in the financial statements as tangible or intangible capital assets as opposed to being expensed in the year of acquisition. As a result, the threshold has a significant impact on the size of the asset register and the complexity of asset management. However the capitalization threshold is regarded as a deviation from GRAP standards and should be determined annually against materiality and must be determined at a level that will ensure that the municipality do not deviate materially from the requirements of GRAP 17.

The capitalisation threshold should not be applied to the components of an asset, but should be applied to the value of the capital asset as a whole. If the threshold is applied at component level, the asset register would be incomplete in the sense that an asset recorded as such would not be a complete asset.

The municipality should take the following into account when considering a capitalisation threshold:

- The impact of the threshold on the financial statements and the decisions/assessments the users of the financial statement may or may not make;
- The cost of maintaining financial and management information on assets when the threshold is very low;
- The impact on comparability and benchmarking cost of services may be difficult if different capitalisation thresholds are applied;
- The size of the municipality or the size of its service areas when setting capitalisation thresholds levels. Municipalities vary greatly in size, so what is relevant to one may be immaterial to another.

Every Executive Director shall, however, ensure that any movable asset item with a value lower than the capitalisation threshold and with an estimated useful life of more than one year, shall be recorded on a *Minor Assets inventory listing*. Every Executive Director shall moreover ensure that the existence of items recorded on such inventory stock lists are physically verified from time to time, and at least once in every financial year, and any amendments which are made to such inventory stock lists pursuant to such stock verifications shall be retained for audit purposes.

However the municipality (Municipal Manager or to whom the right is delegated) can determine with an internal memorandum which assets who are under the threshold can be classified as capital assets.

## Calculation of initial cost price

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the municipality is not allowed to claim input VAT paid on purchase of such assets. In such an instance, the municipality should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are

deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:

- Costs of employee benefits (as defined in the applicable standard on Employee Benefits) arising directly from the construction or acquisition of the item of the Capital Asset
- The cost of site preparation;
- Initial delivery and handling costs;
- Installation costs;
- Professional fees such as for architects and engineers;
- The estimated cost of dismantling and removing the asset and restoring the site; and
- Borrowing costs when incurred on a qualifying asset in terms of GRAP 5.

When payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.

### Component approach

The component approach is a GRAP-supported approach where complex assets are split into separate depreciable parts for recording. The key considerations in determining what should become a separately depreciable part (component) are:

- Significant cost; and
- Considerable difference in useful life

If the value of a part of the asset is significant (i.e. material) compared to the value of the asset as a whole and/or has a useful life that is considerably different to the useful life of the asset as a whole, it should be recognised as a separately depreciable part (component).

### Subsequent Expenses

The municipality should not recognise the costs of day-to-day servicing of the item in the carrying amount of an item of capital asset. These costs are recognised as expenditure as and when incurred. Day-to-day costs are primarily the costs of labour and consumables and may include the costs of small parts. The purpose of these expenditures is usually for the 'repair and maintenance' of the capital asset.

Parts of some capital assets may require replacement at regular intervals. For example, a road may need resurfacing every few years. It may be necessary to make less-frequently recurring replacement of parts, such as replacing the interior walls of a building, or to make a non-recurring replacement. Under the recognition principle, an entity recognises in the carrying amount of the capital asset the cost of replacing the part of such an item when that cost is incurred if the recognition criteria are met. At the same time the part to be replaced should be derecognised.

## Rehabilitation/Enhancements/Renewals of capital assets

Expenditure to rehabilitate, enhance or renew an existing capital asset (including separately depreciable parts) can be recognised as capital if:

- The expenditure satisfies the recognition criteria;
- that expenditure is enhancing the service provision of that capital asset beyond its original expectation and either that expenditure:
  - increases the useful life of that capital asset (beyond its original useful life);
  - increases the capital asset capacity (beyond its original capacity);
  - increases the performance of the capital asset (beyond the original performance);
  - increases the functionality of that capital asset;
  - reduces the future ownership costs of that capital asset significantly; or
  - increases the size of the asset or changes its shape.

The expenditure to restore the functionality of the capital asset to its original level is a maintenance/refurbishment expense and will not be capitalised to the carrying value of the capital asset.

The rehabilitated or renewed separately depreciable part will be derecognised and the replacement will be recognised. Where the separately identifiable asset is rehabilitated or renewed, the amount incurred will be added to the carrying value of the asset.

## Leased Assets

A lease is an agreement whereby the lesser conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases are categorised into finance and operating leases:

- A Finance Lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred. Where the risks and rewards of ownership of an asset are substantially transferred, the lease is regarded as a finance lease and is recognised as a Capital asset.
- An Operating Lease is where there is no substantial transfer of risks and rewards of ownership and payments are expensed in the income statement on a systematic basis.

## **Policy**

All capital assets shall be correctly recognised as assets and capitalised at the correct value in its significant components. The capitalisation threshold will be determined annually by the municipality. All assets with values less than the capitalization threshold shall be recorded in a minor assets inventory.

The Council shall specify which kinds of leases the municipality may enter into.

The CFO must keep a lease register with all the information that is necessary for reporting purposes, for example, opening balance, acquisitions, disposals, transfers, depreciation, accumulated depreciation, etc.

## **4.5 SUBSEQUENT MEASUREMENT OF CAPITAL ASSETS**

### ***General***

After initial recognition of Property, plant and Equipment, the municipality values its assets using the cost model, unless a specific decision have been taken to revalue a certain class of assets and in such instance the PPE will be valued using the revaluation model.

When an item of PPE is revalued, the entire class of property to which that asset belongs, should be revalued.

When an asset's carrying amount is increased as a result of the revaluation, the increase should be credited to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

When an asset's carrying amount is decreased as a result of devaluation, the decrease should be recognised as an expense in the annual financial statements. However, the decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

## **4.6 RECOGNITION OF INVENTORY ITEMS (NON CAPITAL ITEMS)**

### ***General***

Inventories encompass finished goods purchased or produced, or work in progress being produced by the municipality. They also include materials and supplies awaiting use in the production process and goods purchased or produced by the municipality, which are for distribution to other parties for no charge or for a nominal charge. GRAP 12.7 defines Inventories as assets:

- In the form of materials or supplies to be consumed in the production process;
- In the form of materials or supplies to be consumed or distributed in the rendering of services;
- Held for sale or distribution in the ordinary course of operations; or
- In the process of production for sale or distribution.

Examples of Inventories may include the following:

- Ammunition;
- Consumable stores;
- Maintenance materials;
- Spare parts for plant and equipment other than those dealt with under PPE;
- Strategic stockpiles (Energy reserves, Water reserves);

- Work in progress; and
- Land / Property held for sale.

Cost of inventories shall comprise of all costs of purchase (i.e. purchase price, import duties, other taxes and transport, handling and other costs attributable to the acquisition of finished goods, materials and supplies), costs of development, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Trade discounts, rebates and other similarities are deducted. Taxes recoverable by the entity from the SARS may not be included.

Costs of development for housing or similar developments which are acquired or developed for resale will include costs directly related to the development – e.g. purchase price of land acquired for such developments, surveying, conveyance costs and the provision of certain infrastructure. Infrastructure costs relating to extending the capacity of existing infrastructure are excluded. The costs of inventories of a service provider consisting of direct labour and other costs of personnel directly engaged in providing the service and other attributable overheads are included.

### ***Policy***

Assets acquired or owned by the municipality for the purpose of selling or developing such assets with the intention to sell it or utilising the asset in the production process or in the rendering of services shall be accounted for in the municipality's financial statements as inventory items and not as property, plant and equipment.

The CFO must record inventories in a dedicated section of the Inventory Register and maintain it for this purpose. The amount of cost of inventories is to be recognised and carried forward until related revenues are recognised.

## 5 ASSET TYPES

### 5.1 PROPERTY, PLANT AND EQUIPMENT: LAND AND BUILDINGS

#### **General**

*Land and Buildings* comprise any land and buildings held (by the owner or by the lessee under a finance lease) by the municipality to be used in the production or supply of goods or for administrative purposes. Land held for a currently undetermined future use, should not be included in PPE: Land and Buildings, but should be included in Investment Properties. For this class of Land and Buildings there is no intention of developing or selling the property in the normal course of business. This land and buildings include infrastructure reserves.

The municipality shall choose either the **cost model** or the **revaluation model** as its accounting policy and shall apply that policy to an entire class of property, plant and equipment.

If the municipality chooses the cost model for its Land and Buildings, then after recognition as an asset, Buildings shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses

If the municipality chooses the revaluation model for its Land and Buildings, then after recognition as an asset, Land and Buildings whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

#### **Policy**

Subsequent to initial recognition, the Municipality choose the cost model as the accounting policy for its Land and Buildings. Land is not depreciated as it is deemed to have an indefinite useful life.

### 5.2 PROPERTY, PLANT AND EQUIPMENT: INFRASTRUCTURE ASSETS

#### 5.2.1 General

*Infrastructure Assets* comprise assets used for the delivery of infrastructure-based services. These assets typically include electricity, sanitation, solid waste, storm water, transport, and water assets. Many infrastructure assets form part of a greater facility e.g. a pump in a pump station.

## Level of detail of componentisation

For the technical management of infrastructure, the most effective level of management is at the maintenance item level. It is at this level that work orders can be executed and data collected. This data is useful for maintenance analysis to improve infrastructure management decision making. This level in most cases coincides with the level that means the accounting criteria of different effective lives and materiality. However, the collection of data at this level of detail can be very costly when dealing with assets that are very numerous in nature e.g. water meters, street signs, household connections, etc. It is therefore prudent to balance the value of the information with the cost of collecting the data. The different levels of detail are shown below:

- **Level 1:** Service level (e.g. Sol Plaatje Water Supply)
- **Level 2:** Network level (e.g. Sol Plaatje Pump Stations)
- **Level 3:** Facility level (e.g. Amstelhof Pump Station)
- **Level 4:** Maintenance item level (e.g. Pump 1 in Amstelhof Pump Station)
- **Level 5:** Component level (e.g. Bearing of Pump 1 in Amstelhof Pump Station)

The preferred level of detail for the accounting and technical management of infrastructure is level 4 above.

The compilation of a detailed infrastructure asset register in one financial term is a costly and onerous exercise. To ensure the practicality of implementing asset registers (and asset management planning as a whole), the International Infrastructure Management Manual (IIMM) recommends the adoption of a continuous improvement process as a practical implementation approach. This approach recognises the value of limited data above no data and enables the municipalities to slowly, but steadily, increase their knowledge in the assets they own. The improvement principles of the IIMM recommend starting with complete coverage of the infrastructure types at a low level of detail (e.g. level 2 or 3) and then improving the level of detail over a period of several years, starting with the high risk assets, such as pump stations, treatment works, etc. Guidance on the improvement plan is provided in **Appendix C**.

## **Policy**

The infrastructure asset register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimising the risks of the municipality. An improvement plan stipulating the level of detail and the timing of improvements shall be prepared. Infrastructure assets should be valued at cost less accumulated depreciation and accumulated impairment. If cost can however not be established, then infrastructure assets will be valued at depreciated replacement cost. Depreciated replacement cost is an accepted fair value calculation for assets where there is no active and liquid market. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value of, and the depreciation methods applied to Infrastructure assets should be reviewed regularly, but the cost related to such reviews should be measured against benefits derived to ensure value for money. Such reviews will have to be performed at least once in a three year cycle.

*Infrastructure Assets* shall be recorded under the following main categories;

- Electricity;
- Roads;
- Signage (other than for traffic control e.g. library, advertising);
- Sanitation;
- Sewerage;
- Water; and
- Solid waste.

## 5.3 PROPERTY, PLANT AND EQUIPMENT: COMMUNITY ASSETS

### **General**

*Community Assets* include a variety of assets used to provide services to the community. These assets include building assets such as aquariums, cemeteries, clinics, hospitals, game reserves, museums, parks, etc. Community assets also include recreational assets such as tennis courts, swimming pools, golf courses, outdoor sports facilities, etc.

### **Policy**

Community assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives.

*Community Assets* shall be recorded under the following main categories;

- Recreational Facilities;
- Sporting Facilities; and
- Other Facilities.

## 5.4 PROPERTY, PLANT AND EQUIPMENT: HOUSING ASSETS

### **General**

Housing Assets have their origin from housing units erected in terms of the Housing Act, funded from loans granted by Government and comprise of rental stock or selling stock not held for capital gain.

### **Policy**

Housing assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives.

*Housing Assets* shall be recorded under the following main categories;

- Rental Schemes; and

- Selling Schemes.

## 5.5 PROPERTY, PLANT AND EQUIPMENT: HERITAGE ASSETS

### **General**

A *Heritage Asset* is an asset that has historical, cultural or national importance and needs to be preserved. The following is a list of some typical heritage assets encountered in the municipal environment:

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

### **Policy**

Heritage assets are valued at cost less accumulated depreciation and accumulated impairment losses. No depreciation shall be charged against such assets. If the cost price of heritage assets is not known, then the heritage asset will be valued at fair value.

## 5.6 PROPERTY, PLANT AND EQUIPMENT: OTHER ASSETS

### **General**

*Other Assets* include a variety of assets that are of indirect benefit to the communities they serve. These assets include office equipment, furniture and fittings, bins and containers, emergency equipment, motor vehicles, plant and equipment.

### **Policy**

Other assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Other assets are not revalued.

*Other Assets* shall be recorded under the following main categories;

- Aircraft;
- Bins and Containers;
- Emergency Equipment;
- Furniture and Fittings;
- Motor Vehicles;
- Office Equipment;

- Plant and Equipment;
- Specialised Vehicles;
- Watercraft; and
- Other Assets as indicated in the Municipality's accounting policy.

## 5.7 INTANGIBLE ASSETS (GRAP 102)

### **General**

*Intangible Assets* can be purchased, or can be internally developed, by the municipality and includes, but are not limited to, computer software, website development cost, servitudes and mining rights.

### **Servitudes**

As servitudes are rights attached to property, an entity should consider whether the definition and recognition criteria in GRAP 102 on *Intangible Assets* are met.

### **Creation of servitudes through the exercise of legislation**

In terms of legislation, municipalities are granted certain rights regarding the creation of servitudes. For example, in proclaiming townships, a municipality may declare that servitudes are to be registered over certain parts of the land falling within the boundaries of the proclaimed township so that it is able to install infrastructure to provide basic services.

A key feature of servitudes created using rights granted in legislation, is that no compensation is paid to the landowner for the acquisition of these rights. Costs may however be incurred to register the servitude with the Deeds Office.

Servitudes granted under these conditions **do not meet** the "identifiably" criteria above for the following reasons:

- They cannot be sold, transferred, rented or exchanged freely and are not separable from the entity.
- They arise from rights granted to the entity in statute and are specifically excluded from GRAP 102 as they are "internally generated rights".

### **Creation of servitudes through acquisition (including by way of expropriation or agreement)**

An entity may need to acquire the rights associated with a specific piece of land, e.g. to span power cables related to an electricity distribution network. When an entity acquires rights associated with land and registers a servitude, the landowner is usually compensated.

Servitudes granted under these conditions are distinguished from those that are created through the exercise of legislation. These servitudes meet the definition of an "identifiable" intangible asset because they arise from contractual or other legal rights that are acquired through a specific arrangement, rather than through rights conferred on an entity in statute.

In these instances, an entity would recognise the servitude as an intangible asset at cost. The cost of these servitudes on initial recognition is usually the transaction price, i.e. the compensation paid to the landowner and any other costs that can be capitalised to the cost of the asset in terms of GRAP 102.

## **Policy**

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset. If an intangible asset is generated internally by the municipality, then a distinction should be made between research and development costs. Research costs should be expensed and development costs may be capitalised if all the criteria set out in GRAP 102 has been met.

## **5.8 INVESTMENT PROPERTY**

### **General**

*Investment Property* comprise of 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 property does not include property used in the production or supply of service or for administration. It also does not include property that will be sold in the normal course of business. Typical investment properties include:

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties);
- Shopping centres (developed along similar lines);
- Housing developments (developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit).

### **Policy**

Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position. Investment Property shall initially be measured at its cost. Transaction costs shall be included in this initial measurement. Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

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 PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.

After initial recognition, all investment property shall be measured at fair value, except in the cases described in GRAP 16.61. The fair value of investment property shall be determined annually at reporting date in terms of the municipality's Accounting Policy. The fair value should reflect market conditions and circumstances as at the reporting date. A gain or loss arising from changes in the fair value of investment property should be included in the net surplus/deficit for the period in which it arises.

The CFO shall ensure that investment assets are recorded in an Investment Property register.

## 5.9 BIOLOGICAL ASSETS

### **General**

*Biological Assets* are living plants and animals such as trees in a plantation or orchard, cultivated plants, sheep and cattle. **Managed agricultural activity** such as raising livestock, forestry, annual or perennial cropping, fish farming that are in the process of growing, degenerating, regenerating and / or procreating which are expected to eventually result in agricultural produce. Such agricultural produce is recognised at the point of harvest. Future economic benefits must flow to the municipality from its ownership or control of the asset.

Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to the market.

Where the municipality is unable to measure the fair value of biological assets reliably, a biological asset should be measured at cost less any accumulated depreciation and accumulated impairment losses.

### **Policy**

Biological assets, such as livestock and crops, shall be valued annually at fair value less estimated point-of-sales costs.

## 5.10 ASSETS CLASSIFIED AS HELD-FOR-SALE (GRAP 100)

### **General**

A non-current asset shall be classified as *Assets Held-for-Sale* if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

For the sale to be highly probable, management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

## **Policy**

Assets identified for disposal by way of a sale transaction, be it by public auction, bidding process or sales agreement, within 12 months of the date of identification shall be classified as assets held-for-sale and transferred from the home asset category to held-for-sale category. Such assets shall be measured at the lower of its carrying amount and fair value less costs to sell and is not depreciated any further upon classification as held-for-sale.

The municipality shall not classify a non-current asset that is to be abandoned as held-for-sale because its carrying amount will be recovered principally through continuing use.

## **5.11 INVENTORY PROPERTY (GRAP 12)**

### **General**

*Inventory Property* comprises 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.

### **Policy**

Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the municipality's Statement of Financial Position.

The CFO shall ensure the recognition and measurement of *Inventory Property* in terms of GRAP 12.

Inventory property shall be valued annually at reporting date at the lower of its carrying value or net realisable value, except where they are held for:

- (a) distribution at no charge or for a nominal charge, or
- (b) consumption in the production process of goods to be distributed at no charge or for a nominal charge, then they shall be measured at the lower of cost and current replacement cost.
- (c) the CFO shall ensure that inventory properties are recorded in the Inventory register.

## **5.12 MINOR ASSETS (CAPITAL ASSETS BELOW APPROVED THRESHOLD)**

### **General**

*Minor Assets* comprise movable assets not capitalised in terms of the threshold policy of the municipality. However, these assets must still be controlled, safeguarded and verified by the municipality. They are not capitalised for the number of assets compared to their value does not warrant the complex procedures applicable to asset management, rendering a manageable asset register by concentrating on what is material and significant to the municipality's operation.

## ***Policy***

Minor assets shall be expensed in the Statement of Financial Performance and not be capitalised. However, these assets shall be bar-coded for identification purposes and recorded at cost in the Minor Asset Inventory Listing. These assets shall not be depreciated or tested for impairment and shall not generate any further transactions, except in the cases where losses are recovered by means of insurance claims or recoveries from disciplinary actions.

## 6 ASSET ACQUISITION

### 6.1 ACQUISITION OF ASSETS

#### *General*

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing.

#### *Policy*

Should the municipality decide to acquire an Capital asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset:

- The purpose for which the asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it;
- The asset fit the definition of a Capital Asset (as defined in GRAP 16, GRAP 17, GRAP 101 and GRAP 102)
- The asset has been budgeted for;
- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
- The asset is appropriate to the task or requirement and is cost-effective over the life of the asset.
- The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
- Space and other necessary facilities to accommodate the asset are in place; and
- The most suitable and appropriate type, brand, model, etc. has been selected.
- These principles shall be applied in accordance with Supply Chain Management Policy and that the CFO shall ensure that assets are appropriately incurred.
- The CFO shall ensure that all acquired assets are appropriately insured.

### 6.2 CREATION OF NEW INFRASTRUCTURE ASSETS

#### *General*

Creation of new infrastructure assets refers to the purchase and / or construction of totally new assets that has not been in the control or ownership of the municipality in the past.

## ***Policy***

The cost of all new infrastructure facilities (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs of new infrastructure into the component parts, each of which have an appropriate useful life.

Work in progress shall be flagged as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for to operate in the manner intended by management.

Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

## **6.3 SELF-CONSTRUCTED ASSETS**

### ***General***

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality.

### ***Policy***

All assets that can be classified as assets and that are constructed by the municipality should be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for to operate in the manner intended by management.

## **6.4 DONATED ASSETS**

### ***General***

A donated asset is an item that has been given to the municipality by a third party in government or outside government without paying or actual or implied exchange.

### ***Policy***

Donated assets should be valued at fair value, reflected in the asset register, and depreciated as normal assets.

All donated assets must be approved by the Municipal Manager and ratified by Council prior to acceptance.

## 7 ASSET MAINTENANCE

### 7.1 USEFUL LIFE OF ASSETS

#### **General**

*Useful Life* of assets is basically the period or number of production units for which an asset can be used economically by the municipality.

National Treasury (NT) published its Local Government Asset Management Guideline in August 2008 that includes directives for useful lives of assets, but municipalities must use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for the particular classes of assets. Should the municipality decide on a useful life outside the given parameters, the National Treasury (OAG) should be approached and provided with a motivation, for its agreement of the rate utilised. The calculation of useful life is based on a particular level of planned maintenance.

#### **Policy**

The remaining useful life of assets shall be reviewed annually. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

### 7.2 RESIDUAL VALUE OF ASSETS

#### **General**

The *Residual Value* of an asset is the estimated amount that the municipality would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

#### **Policy**

Residual values should be determined upon the initial recognition (capture) of assets. However, this will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. In practise, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The residual value of assets shall be reviewed annually at reporting date. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

## 7.3 DEPRECIATION OF ASSETS

### **General**

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

The depreciation method used **must** reflect the pattern in which economic benefits or service potential of a Capital Asset is consumed by the municipality. The following are the allowed alternative depreciation methods that can be applied by the municipality:

1. Straight-line;
2. Diminishing Balance; and
3. Sum of the Units.

### **Policy**

All assets, except land and heritage assets, shall be depreciated over their reasonable useful lives. The *residual value* and the *useful life* of an asset shall be reviewed at each reporting date. The depreciation method applied must be reviewed at each reporting date. Reasonable budgetary provisions shall be made annually for the depreciation of all applicable assets controlled or used by the municipality, or expected to be so controlled or used during the ensuing financial year.

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item. Depreciation of an asset should begin when the asset is ready to be used, i.e. the asset is in the location and condition necessary for it to be able to operate in the manner it is intended by management. Depreciation of an asset ceases when the asset is derecognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under certain methods of depreciation the depreciation charge can be zero while there is no production.

In the case of intangible assets being included as assets, the procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other assets.

## 7.4 IMPAIRMENT LOSSES

### **General**

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. The following serve as examples of impairment indicators:

- Significant decline in market value;

- Carrying amount of an asset far exceeds the recoverable amount or market value;
- There is evidence of obsolescence (or physical damage);
- The deterioration of economic performance of the asset concerned; and
- The loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (such as through inadequate maintenance).

The impairment amount is calculated as the difference between the *carrying value* and the *recoverable service value*. The recoverable service value is the higher of the asset's value in use or its net selling price. Where the recoverable service amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at revalued amount.

If the asset is carried at a revalued amount (in the case of investment property, infrastructure and community assets) the impairment should be recorded as a decrease in the revaluation reserve. Where immovable property, plant and equipment surveys are conducted, the recoverable service value is determined using the depreciated replacement costs method by assessing the remaining useful life.

## **Policy**

Assets shall be reviewed annually for all assets with impairment indicators. Impairment of assets shall be recognised as an expense, unless it reverses a previous revaluation in which case it should be charged to the *Revaluation Surplus*. The reversal of previous impairment losses recognised as an expense is recognised as an income.

## **7.5 MAINTENANCE OF ASSETS AND THE ASSET REGISTER**

### **General**

Maintenance refers to all actions necessary for retaining an asset as near as practicable to its original condition in order for it to achieve its expected useful life, but excluding rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance.

For linear infrastructure assets, such as pipes and roads, the following test is applied to differentiate between maintenance and renewal when partial sections of linear assets are renewed:

- If a future renewal of the entire pipe will include the renewal of the partial section that is now renewed, then the renewal of the partial section is treated as maintenance.

- If a future renewal of the entire pipe will retain the partial section that is now renewed, then the renewal of the partial section is treated as renewal and the pipe is split into two separate assets.

The splitting of linear infrastructure has a data management implication, but it is the easiest method that maintains the data integrity over time.

Maintenance analysis is an essential function of infrastructure management to ensure cost-effective and sustainable service delivery. In order to analyse maintenance data, maintenance actions undertaken against individual infrastructure assets should be recorded against such assets.

### ***Policy***

Maintenance actions performed on infrastructure assets shall be recorded against the individual assets that are individually identified in the asset register.

## **7.6 RENEWAL OF ASSETS**

### ***General***

Asset Renewal is restoration of the service potential of the asset. Asset renewal is required to sustain service provision from infrastructure beyond the initial or original life of the asset. If the service provided by the asset is still required at the end of its useful life, the asset must be renewed. However if the service is no longer required, the asset should not be renewed. Asset renewal projections are generally based on forecast renewal by replacement, refurbishment, rehabilitation or reconstruction of assets to maintain desired service levels.

### ***Policy***

Assets renewal shall be accounted for against the specific asset. The renewal value shall be capitalised against the asset and the expected life of the asset adjusted to reflect the new asset life.

## **7.7 REPLACEMENT OF ASSETS**

### ***General***

This deals with the complete replacement of an asset that has reached the end of its useful life so as to provide a similar or agreed alternative level of service.

### ***Policy***

Assets that are replaced shall be written off at their carrying value. The replacement asset shall be accounted for as a separate new asset. All costs incurred to replace the asset shall be capitalised against the new asset.

## 8 ASSET DISPOSAL

### 8.1 TRANSFER OF ASSETS

#### *General*

The processes and rules for the transfer of a capital asset to another municipality, municipal entity or national/provincial organ of state are governed by an MFMA regulation namely “the Local Government: Municipal Asset Transfer Regulations”.

Transfer of assets or inventory items refers to the internal transfer of assets within the municipality or from the municipality to another entity. Procedures need to be in place to ensure that the Asset Control Department can keep track of all assets and ensure that the fixed asset register is updated with all changes in asset locations. These procedures must be followed and apply to all transfers of assets from:

- One Department to another Department;
- One location to another within the same department;
- One building to another; and
- One entity to another.

#### *Policy*

The transfer of assets shall be controlled by a transfer process and the asset register shall be updated.

### 8.2 EXCHANGE OF ASSETS

#### *General*

According to GRAP 17.33 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

- the exchange transaction lacks commercial substance; or
- the fair value of neither the asset received nor the asset given up is reliably measurable.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

## **Policy**

The cost of assets acquired in exchange for another asset shall be measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred.

### **8.3 ALIENATION / DISPOSAL OF ASSETS**

#### **General**

Alienation / Disposal (alienation) is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality.

The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the disposal of capital assets. Specifically:

- A municipality may not ...” permanently dispose of a capital asset needed to provide the minimum level of basic municipal services”
- Where a municipal council has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the municipality’s supply chain management policy.

#### **Policy**

There are various methods of disposal. Different disposal methods will be needed for different types of assets. Before deciding on a particular disposal method, the following should be considered:

- The nature of the asset
- The potential market value
- Other intrinsic value of the asset
- Its location
- Its volume
- Its trade-in price
- Its ability to support wider Government programmes;
- Environmental considerations
- Market conditions
- The asset’s life

Appropriate means of disposal may include:

- Public auction
- Public tender
- Transfer to another institution
- Sale to another institution
- Letting to another institution
- Trade-in

- Controlled dumping (for items that have low value or are unhygienic)

Alienated assets shall be written-off in the asset register.

- Donations: Donations may be considered as a method of alienation, but such requests must be motivated to the Municipal Manager for approval.
- Destruction: Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.
- Scrapping: Scrapping of assets that cannot be alienated otherwise may be considered as a method of alienation, but such requests must be motivated to the Municipal Manager.
- Once the assets are alienated, the CFO shall write-off the relevant assets in the asset register.
- The letting of immovable property, excluding municipal housing for officials and political office bearers, must be done at market-related tariffs, unless the relevant treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.

## 8.4 SELLING OF ASSETS

### *General*

Selling of assets refers to the public sale of municipal assets approved for alienation.

### *Policy*

All assets earmarked for sale must be sold by public auction or tender and the following steps shall be followed:

- A notice of the intention of the municipality to sell the asset shall be published in a local newspaper;
- The municipality shall appoint an independent appraiser to fix a minimum selling price;
- In the case of a public auction, the municipality shall appoint an independent auctioneer to conduct the auction; and
- In the case of a tender, the prescribed tender procedures of the municipality shall be followed.

A request for assets to be sold must be submitted to the Municipal Manager and approved by Council. The request must be accompanied by a list of assets to be sold and the reasons for sale as described in paragraph 8.3 above.

Assets earmarked for sale, shall be reclassified as Assets Held-for-Sale in terms of paragraph 5.10 of this Policy and shall not attract any further depreciation.

Sold assets shall be written-off in the asset register.

## **8.5 WRITING-OFF OF ASSETS**

### ***General***

The write-off of assets is the process to permanently remove the assets from the asset register. Assets can be written-off after approval of the Municipal Manager of a report indicating that:

- The useful life of the asset has expired;
- The asset has been destroyed;
- The asset is outdated;
- The asset has no further useful life;
- The asset does not exist anymore;
- The asset has been sold; and
- Acceptable reasons have been furnished leading to the circumstances set out above.

### ***Policy***

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

## 9 ASSET PHYSICAL CONTROL (MOVEABLE ASSETS)

### 9.1 PHYSICAL CONTROL / VERIFICATION

#### *General*

Movable assets require physical control and verification of existence.

#### *Policy*

All movable assets shall be actively controlled, including an annual verification process.

Registers must be kept for those assets allocated to staff members.

The individuals are responsible and accountable for the assets under their control. These registers should be updated when the assets are moved to different locations or allocated to a different staff member in order to facilitate control and physical verification.

### 9.2 INSURANCE OF ASSETS

#### *General*

Insurance provides selected coverage for the accidental loss of the asset value. Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury.

#### *Policy*

Assets that are material in value and substance shall be insured at least against destruction, fire and theft. All municipal buildings shall be insured at least against fire and allied perils.

### 9.3 SAFEKEEPING OF ASSETS

#### *General*

Asset safekeeping is the protection of assets from damage, theft, and safety risks.

#### *Policy*

The Municipal Manager must issue directives that detail the safekeeping of all assets.

Directives for the safekeeping of assets shall be developed and the safekeeping of assets shall be actively undertaken.

## 10 ASSET FINANCIAL CONTROL

### 10.1 CAPITAL REPLACEMENT RESERVE (CRR)

#### *General*

The Capital Replacement Reserve is a reserve account to set aside funds for the financing of property, plant and equipment. The CRR is therefore an asset financing source that represents an alternative to the other funding sources available to the municipality, namely external loans (interest bearing borrowings) and government grants & subsidies. The value of this reserve is not represented by any values of assets under the municipality's control and shall be cash-backed.

#### *Policy*

It is the policy of Council to annually make contributions to the CRR to ensure that the CRR remains a capital funding source for the future. The municipality will determine its future capital financing requirements and transfer sufficient cash to its CRR in terms of this determination. The Integrated Development Plan, the municipality's ability to raise external finance and the amount of government grants and subsidies that will be received in future will need to be taken into account in determining the amount that must be transferred to the CRR.

Whenever an asset is sold by the municipality, the proceeds on the sale of the assets will be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets if material.

All proceeds if material on the sale of land will be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets.

Whenever an asset is purchased out of the CRR an amount equal to the cost price of the asset purchased, is transferred from the CRR into accumulated surplus on the Statement of Changes in Net Assets.

Interest earned on the CRR investments is recorded as interest earned in the Statement of Financial Performance and must then be transferred to the CRR in the Statement of Changes in Net Assets.

### 10.2 BORROWING COSTS (GRAP 5)

#### *General*

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of premiums or

discounts associated with such borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance charges in respect of finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as an adjustment to interest costs.

The capitalisation of borrowing costs should take place when borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress.

During extended periods in which development of an asset is interrupted, the borrowing costs incurred over that time period should be recognised as an expense when incurred. Capitalisation of borrowing costs should cease when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

### ***Policy***

Borrowing costs shall be capitalised, if related to the construction of an asset, when the construction of an asset is expected to take a substantial period of time to get ready for its intended use or resale and an outside agency is used to finance the project.

## **10.3 FUNDING SOURCES**

### ***General***

The Municipal Finance Management Act (MFMA) provides guidelines on how to utilise funds in financing assets (Section 19 of MFMA). The municipality shall utilise any of the following sources to acquire and / or purchase assets:

- Grants, Subsidies and Public Contributions;
- Revenue Contributions;
- Capital Replacement Reserve;
- Cash Surplus; and / or
- External / Donor Funds.

### ***Policy***

The annual capital budget must be funded and the sources of finance must be disclosed as part of the Council's budget.

## **10.4 DISASTER**

### ***General***

In terms of the Disaster Management Act, 2002, Disaster means a progressive or sudden, widespread or localised, natural or human – caused occurrence which causes or threatens to cause:

- death, injury or disease;
- damage to property, infrastructure or the environment; or

- disruption of life of community; and
- is of a magnitude that exceeds the ability of those affected by the disaster to cope with its effects using only their own resources.

In terms Section 56 (b) of the Disaster Management Act, 2002 the cost of repairing or replacing public sector infrastructure should be borne by the organ of state responsible for the maintenance of such infrastructure. The National, Provincial and Local organs of state may contribute financially to response efforts and post – disaster recovery and rehabilitation.

### ***Policy***

The Municipality will correspond with the Department of Human Settlement, etc. and Frances Baard District Municipality to gain funds for repairing assets damaged in disaster events.

The municipality must adhere to the disaster management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster.

# ANNEXURES

## ANNEXURE A INFRASTRUCTURE ASSET CLASSIFICATION

The tables below show the infrastructure classification, expected useful lives (EUL) and residual value percentage of replacement cost (RV).

**Table A1: Electricity Asset Types, Expected Lives and Residual Value Percentage**

Class	Asset Type	EUL	RV
High Voltage	HV Overhead Line	50	0
High Voltage	HV Substation_Battery	10	0
High Voltage	HV Substation_Electrical Plant	50	0
High Voltage	HV Substation_Yard Stone	15	0
High Voltage	HV Underground Cable	50	0
Medium Voltage	Ground Mounted Transformer	50	0
Medium Voltage	Mini Sub-Station	50	0
Medium Voltage	MV Overhead Line	50	0
Medium Voltage	MV Substation_Battery	10	0
Medium Voltage	MV Substation_MV Switchgear	50	0
Medium Voltage	MV Underground Cable	50	0
Medium Voltage	Pole Mounted Transformer	50	0
Medium Voltage	Ring Main Unit	50	0
Low Voltage	LV Conductor Network	50	0
Low Voltage	Streetlight	50	0
Low Voltage	LV Consumer Connection	50	0

**Table A2: Water Supply Asset Types, Expected Lives and Residual Value Percentage**

Class	Asset Type	EUL	RV
Borehole	Civil Structure	50	0
Borehole	Electrical Plant	15	0
Borehole	Telemetry	30	0
Borehole	Mechanical Plant	15	0
Dam	Civil Structure	100	0
Spring Protection	Civil Structure	50	0
Bulk Water Channel	Concrete	50	0
Bulk Water Pipeline	AC	60	0
Bulk Water Pipeline	FC	60	0
Bulk Water Pipeline	GRP	100	0
Bulk Water Pipeline	HDPE	100	0
Bulk Water Pipeline	PVC	60	0
Bulk Water Pipeline	Steel	100	0
Bulk Water Pipeline	uPVC	100	0

Class	Asset Type	EUL	RV
Pump Station	Civil Structure	50	0
Pump Station	Electrical Plant	15	0
Pump Station	Telemetry	30	0
Pump Station	Mechanical Plant	30	0
Reservoir	Civil Structure	50	0
Reservoir	Electrical Plant	15	0
Reservoir	Telemetry	30	0
Reticulation Pipeline	AC	60	0
Reticulation Pipeline	CI	100	0
Reticulation Pipeline	Clay	60	0
Reticulation Pipeline	FC	60	0
Reticulation Pipeline	HDPE	100	0
Reticulation Pipeline	PVC	60	0
Reticulation Pipeline	Steel	100	0
Reticulation Pipeline	uPVC	100	0
Water Treatment Works	Civil Structure	50	0
Water Treatment Works	Mechanical Plant	15	0
Water Treatment Works	Electrical Plant	15	0
Water Treatment Works	Telemetry	30	0

**Table A3: Sanitation Asset Types, Expected Lives and Residual Value Percentage**

Class	Asset Type	EUL	RV
Bulk Sewer Pipeline	AC	60	0
Bulk Sewer Pipeline	CI	100	0
Bulk Sewer Pipeline	Concrete	60	0
Bulk Sewer Pipeline	GRP	60	0
Bulk Sewer Pipeline	HDPE	60	0
Bulk Sewer Pipeline	PF	60	0
Bulk Sewer Pipeline	PVC	60	0
Bulk Sewer Pipeline	SG	60	0
Bulk Sewer Pipeline	uPVC	60	0
Bulk Sewer Pipeline	Weholite	60	0
Pump Station	Civil Structure	50	0
Pump Station	Electrical Plant	15	0
Pump Station	Telemetry	30	0
Pump Station	Mechanical Plant	30	0
Sewage Treatment Works	Civil Structure	50	0
Sewage Treatment Works	Mechanical Plant	15	0
Sewage Treatment Works	Electrical Plant	15	0
Sewage Treatment Works	Telemetry	30	0
Sewer Reticulation Pipeline	AC	60	0
Sewer Reticulation Pipeline	CI	100	0
Sewer Reticulation Pipeline	Concrete	60	0
Sewer Reticulation Pipeline	GRP	60	0
Sewer Reticulation Pipeline	HDPE	60	0
Sewer Reticulation Pipeline	PF	60	0
Sewer Reticulation Pipeline	PVC	60	0
Sewer Reticulation Pipeline	SG	60	0

Class	Asset Type	EUL	RV
Sewer Reticulation Pipeline	Steel	60	0
Sewer Reticulation Pipeline	uPVC	60	0
Sewer Reticulation Pipeline	Vitreous Clay	60	0
Sewer Reticulation Pipeline	Weholite	60	0

**Table A4: Road Transport Asset Types, Expected Lives and Residual Value Percentage**

Class	Asset Type	EUL	RV
Overhead Gantry	Overhead Gantry	100	0
Parking Area	Surfacing Asphalt	50	0
Road Asphalt	UA Surfacing	15	0
Road Asphalt	UA Base	30	0
Road Asphalt	UA Structure	100	0
Road Asphalt	UB Surfacing	15	0
Road Asphalt	UB Base	30	0
Road Asphalt	UB Structure	100	0
Road Asphalt	UC Surfacing	20	0
Road Asphalt	UC Base	40	0
Road Asphalt	UC Structure	100	0
Road Asphalt	UD Surfacing	25	0
Road Asphalt	UD Base	50	0
Road Asphalt	UD Structure	100	0
Road Unpaved	Surface	7	0
Road Unpaved	Structure	25	0
Signalized Intersection	Signalized Intersection	15	0
Guardrail	Guardrail	15	0
Bridge	Bridge	100	0
Retaining Wall	Retaining Wall	100	0
Taxi Rank	Commuter Shelter	15	0
Taxi Rank	Surfacing Asphalt	15	0
Footpath	Footpath	30	0

**Table A5: Stormwater Asset Types, Expected Lives and Residual Value Percentage**

Class	Asset Type	EUL	RV
Attenuation Pond	Attenuation Pond	25	0
Covered Channel	Lined Channel	50	0
Culvert	Major Culvert	50	0
Culvert	Minor Culvert	20	0
Erosion Protection	Erosion Protection	20	0
Open Channel	Lined Channel	50	0
Open Channel	Unlined Channel	10	0
Reticulation Pipeline	Concrete	50	0

**Table A6: Solid Waste Asset Types, Expected Lives and Residual Value Percentage**

Class	Asset Type	EUL	RV
Containers	Containers	20	0
Landfill	Leachate System	50	0
Landfill	Weighbridge	50	0
Landfill	Earth Embankment	25	0
Landfill	Pump Station Electrical Plant	15	0
Landfill	Pump Station Civil Structure	50	0
Landfill	Leachate System	50	0
Landfill	Pump Station Telemetry	30	0
Landfill	Pump Station Mechanical Plant	15	0
Transfer Stations	Building	30	0
Transfer Stations	Civil Structure	8	0
Transfer Stations	Mechanical Plant	15	0

## ANNEXURE B INFRASTRUCTURE ASSET REGISTER IMPROVEMENT PLAN

### Hierarchy levels

For facility based assets:

- Level 1: Service level (e.g. Sol Plaatje Water Supply)
- Level 2: Network level (e.g. Sol Plaatje Pump Stations)
- Level 3: Facility level (e.g. Lookout Pump Station)
- Level 4: Maintenance item level (e.g. Pump 1 in Lookout Pump Station)
- Level 5: Component level (e.g. Bearing of Pump 1 in Lookout Pump Station)

For network based assets:

- Level 1: Service level (e.g. Sol Plaatje Water Supply)
- Level 2: Network level (e.g. Sol Plaatje Reticulation)
- Level 3: Facility level (e.g. Sol Plaatje Ward 3 Reticulation)
- Level 4: Maintenance item level (e.g. Reticulation Pipe-12345)
- Level 5: Component level (e.g. Pipe interior of Reticulation Pipe-12345)

**Note:** Level 4 is the preferred lowest level of defining an infrastructure asset

Service	Facility type	Current 30 June 2009 level	Final target level
Electricity	HV Conductor	4	4
Electricity	HV Substation	4	4
Electricity	HV Switching Station	4	4
Electricity	MV Ground Mounted Transformer	4	4
Electricity	MV Mini Sub-Station	4	4
Electricity	MV Conductor	4	4
Electricity	MV Pole Mounted Transformer	4	4
Electricity	MV Ring Main Unit	4	4
Electricity	LV Conductor	4	4
Electricity	LV Street Light	3	4
Electricity	LV Electricity Connection	3	4
Transport	Overhead Gantry	4	4
Transport	Parking Areas	4	4
Transport	Road	4	4
Transport	Signalized Intersection	4	4
Transport	Retaining Wall	4	4
Transport	Taxi Rank	4	4
Transport	Air Field	4	4
Transport	Footpath	2	4
Transport	Road Sign	2	4

Service	Facility type	Current 30 June 2009 level	Final target level
Sanitation	Bulk Sewer Pipeline	4	4
Sanitation	Pump Station	4	4
Sanitation	Sewage Treatment Works	4	4
Sanitation	Sewer Reticulation Pipeline	4	4
Solid Waste	Landfill	4	4
Solid Waste	Transfer Station	4	4
Solid Waste	Container	4	4
Stormwater	Attenuation Pond	3	4
Stormwater	Channel	3	4
Stormwater	Culvert	3	4
Stormwater	Erosion Protection	3	4
Stormwater	Reticulation Pipeline	3	4
Stormwater	Bridge	3	4
Water Supply	Borehole	4	4
Water Supply	Dam	4	4
Water Supply	Spring Protection	4	4
Water Supply	Bulk Water Channel	4	4
Water Supply	Bulk Water Pipeline	4	4
Water Supply	Pump Station	4	4
Water Supply	Reservoir	4	4
Water Supply	Reticulation Pipeline	4	4
Water Supply	Water Treatment Works	4	4
Water Supply	Water Meters	2	4