

SOL PLAATJE MUNICIPALITY



DISPOSAL OF MOVABLE ASSETS POLICY

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DISPOSAL OF MOVEABLE ASSETS POLICY


DISPOSAL OF MOVEABLE ASSETS POLICY 2022/23				
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1. DEFINITIONS AND ACRONYMS

Asset	An asset shall mean any resource controlled by the municipality, from which the municipality expects to derive economic benefits or use for service delivery to the general public over a period extending beyond one financial year.
AM, AMU	Asset Management and Asset Management Unit
AMS	Asset Management System
AMP	Asset Management Plan
AO	means the Accounting Officer of the Municipality
ASB	Accounting Standards Board
ATR	Asset Management Regulations
Basic Municipal Service or BMS	Basic municipal service means a 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 or the environment.
Carrying amount	Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
Chief Financial Officer or CFO	Means the person appointed as the Chief Financial Officer of the Municipality, or his or her nominee.
Carrying amount	Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
Council	Council means the Municipal Council of the Sol Plaatje Municipality, its legal successors in title and its delegates.
Councillor	shall mean a member of the Council of the Municipality;
Disposal	Disposal means a process of preparing, negotiating and concluding a written contract where necessary which involve the alienation of an asset no longer needed by the municipality by means of a sale, a lease or a donation.
ED	Executive Director (a) means a senior management appointed in terms of section 57 of the Municipal Systems Act
Fair value	The fair value of an asset is the amount obtainable from the sale of the asset in an arm's length transaction between willing parties less the selling costs.

Fair market value	in relation to capital assets, means the value at which a knowledgeable willing buyer would buy and a knowledgeable willing seller would sell the capital asset in an arm's length transaction;
Financial Year	Shall mean the period starting from 1 July in any year and ending on 30 June of the following year.
GRAP	Standards of Generally Recognized Practice
INA	Infrastructure Assets
IA	Intangible Assets
IP	Investment Property
Immovable Property" also includes	(a) an undivided share in immovable property, and (b) any right in immovable property
MFMA	Municipal Finance Management Act (Act No. 56 of 2003)
Municipality or SPM	Means Sol Plaatje Municipality
MSA	Means the Local Government Municipal Systems Act (Act No. 32 of 2000) as amended
PPE	Property Plant and Equipment
Non-exempted capital asset	means a capital asset which is not exempted by section 14(6) or 90(6) of the Municipal Finance Management Act, 2003 (MFMA) from the other provisions of that section;
Organ of State	a) a national department or national public entity; b) a provincial department or provincial public entity; c) a municipality or municipal entity; or d) any other organ of state within the meaning assigned to 'organ or state' in section 239 of the Constitution;
Regulations	Refers to the Municipal Asset Transfer Regulations, Government Gazette no.31346;
Subsidiary Asset	In relation to a capital asset, means an asset that forms an integral part of the capital asset or of the operations or maintenance of the asset;
SCM	Supply Chain Management Policy
Scrap	refers to obsolete Inventory items such as any metal, steel, copper or any other discarded waste material that is suitable for reprocessing;

Transfer	In relation to a capital or subsidiary asset, means transfer of ownership in the asset as a result of a sale or other transaction.
VAT	Value Added Tax

2. PURPOSE OF THIS POLICY

The purpose of this policy is to provide a framework for the disposal or transfer of the municipality's capital assets and scrap items (Obsolete inventory stock).

3. OBJECTIVES

The objectives of this policy are:

- a) Ensure that only assets that do not provide the minimum level of basic municipal services are disposed of.
- b) Ensure that all disposals are done in terms of section 14 (5) of the Municipal Finance Management Act (Act No. 56, 2003
- c) Ensure that assets disposed of are updated in the municipality's Asset Register timeously and accurately
- d) To establish a standard procedure to manage and control the disposal of municipal assets.
- e) Ensure that the municipality maintains the correct portfolio of assets to provide the most effective and efficient basic municipal services.
- f) Ensure that the disposal of any municipal assets does not disadvantage the community SPM serves and impede the Municipality to deliver services to the public.
- g) Ensure that the Municipality disposes all movable asset as defined in accordance with relevant acts, regulations and standards that regulate and impact on the disposal of municipal assets

4. SCOPE

- (a) This Policy will be applicable to all redundant, obsolete, unserviceable assets such as vehicle, office equipment, computer equipment and other movable assets;
- (b) This Policy is applicable to all directorates and departments of the Municipality.

- (c) The following assets are excluded in the application of this Policy:
 - (i) Land Policy and Other Immovable Capital Assets
 - (ii) Firearms Disposal Management for Official Institutions Operational
- (d) The disposal of these assets e.g., land and buildings and firearms shall be governed by the policies of the respective directorates as approved by Council.

5. LEGAL AND POLICY FRAMEWORK

The following legal framework is applicable:

- The Constitution of the Republic of South Africa, 1996
- Municipal Finance Management Act (Act No. 56 of 2003)
- Preferential Procurement Policy Framework Act (Act No. 5 of 2000)
- Preferential Procurement Policy Framework Act, 2000: Preferential Procurement Regulations 2017 (No. Reg 40553, 20 January 2017)
- Local Government: Municipal Systems Act (Act No. 32 of 2000 as amended)
- Guide to the Municipal Asset Transfer Regulations (Regulations No. 31346
- Municipal Asset Transfer Regulations, Government Gazette no.31346
- Municipal Supply Chain Management Regulations, 2021
- All applicable GRAP standards
- Delegation of Powers Policy of the Sol Plaatje Municipality.
- Supply Chain Management Policy of the Sol Plaatje Municipality
- Asset Management Policy of the Sol Plaatje Municipality.
- Policy on Land and Other Immovable Assets of the Sol Plaatje Municipality.

6. POLICY PRINCIPLES AND LEGAL PROVISIONS

- 6.1 Section 14 of the Municipal Finance Management Act (Act No. 56, 2003) states: “A municipality may not transfer ownership as a result of a sale or other transaction, or otherwise permanently dispose of any capital asset needed to provide a minimum level of basic municipal services”. A municipality may transfer ownership or otherwise dispose of a capital asset, other than an asset mentioned above, only after all the prescribed asset disposal processes have been complied with.

6.2 The following key principles were adopted to assist in the identification and management of risks associated with the transfer and disposal of capital assets. These principles must be considered and implemented in the context of any asset transfer:

- a) All asset disposals must be fair, equitable transparent, competitive, and consistent with section 14 (5) of the Municipal Finance Management Act;
- b) **Valuation principle**, i.e. the need to attach a value to the transfer or disposal of a municipal capital asset, in order to ensure that the interests of the municipality and each of its stakeholders are not prejudiced by the transfer or disposal;
- c) **Continuity of service principle**, i.e., the need to ensure the uninterrupted continuance of a municipal service when a municipal capital asset that is being used in the delivery of that service, is transferred or disposed of, particularly when the asset is used in the provision of a minimum level of basic municipal service;
- d) **Risk transfer principle**, i.e., the need to transfer the risk relating to a municipal capital asset in conjunction with the transfer of the asset; and
- e) **Asset preservation principle**, i.e. the need to prevent the indiscriminate or unsustainable transfer or disposal of a municipal capital asset in order not to undermine the ability of the municipality to render or expand municipal services in the longer term.

7. ASSET TYPES

- (a) In this policy asset means any tangible or intangible resource capable of being owned. Tangible assets include physical assets, such as land, building, plant and equipment; whereas intangible assets include servitudes and similar assets that cannot necessarily be seen.
- (b) It is important that a municipality has a complete up-to-date asset register that records the name, type, allocation and value of the assets under its control. The asset register forms a critical source of information required during the decision-making process on the validity and reasonability of asset transfers and disposals.

7.1 Capital Assets

A capital asset may be movable or immovable, provided that it has a life span of at least one year and can be used to produce or supply goods and services, for rentals to others or for administrative purposes (where a future economic or social benefit can be enjoyed).

7.1.1 Exempted Capital Assets

An exempted capital asset is an asset exempted by sections 14(6) or 90(6) of the MFMA and regulation 20 from the rest of sections 14 and 90 of the MFMA.

Exempted capital assets are assets transferred to another organ of state as a result of any of the following circumstances (regulation 20):

- a) the review by the Municipality of its service delivery mechanisms for the performance of a municipal service in terms of Chapter 8 of the Municipal Systems Act (MSA), and the subsequent appointment of an organ of state to perform this service;
- b) The reorganisation of powers and functions between a parent municipality and its municipal entity;
- c) An assignment of any of the powers and functions of a municipality to another organ of state by national legislation or in terms of a power contained in national legislation;
- d) When municipal housing or land is transferred to a national or provincial organ of state for housing for the poor in terms of a national or provincial housing policy;
- e) When the transfer is required or permitted in terms of national legislation and that legislation determines the conditions of the transfer; or
- f) Any other circumstance provided that the capital asset to be transferred to the organ of state is determined by resolution of the Council not to be needed to provide a minimum level of basic municipal service and is surplus to the requirements of the municipality and municipal entity.

7.1.2 Non-exempted Capital Assets

If the transfer or disposal is not the result of any of the above transactions, the asset to be transferred or disposed of will be considered to be a non-exempted capital asset where sections 14 and 90 of the MFMA and the SCM Regulations will apply. In these situations, therefore:

- (a) the Municipality may not transfer or dispose of a capital asset deemed to be needed to provide a minimum level of basic municipal service;
- (b) the Municipality, in making the decision as to whether an asset is required to provide a minimum level of basic municipal service, must make that decision and consider the fair market value, and economic and community value to be received for the asset at a meeting open to the public; and
- (c) any transfer must be fair, equitable, transparent, competitive, and consistent with the municipality's Supply Chain Management Policy.

The requirement to hold a public meeting to consider the decision to transfer or dispose of a movable capital asset below a value determined by Council, may be delegated to the Accounting Officer (AO) to make a decision in some cases (section 14(4) of the MFMA). All transfers or disposals of this nature will be regulated by sections 14 and 90 of the MFMA and Chapter 2 of the ATR – 'Transfer and Permanent disposal of non-exempted capital assets.

7.1.3 Subsidiary Assets

A subsidiary asset is an asset that forms an important part of a capital asset, as well as an asset that forms part of the operation or maintenance of that capital asset.

These assets are particularly relevant in the transfer of a service, power or function. In these instances, the ATR allow certain subsidiary assets to be transferred with the transfer of that service, power of function. The following subsidiary assets may be included in the transfer:

- (a) movable and immovable assets used for or in connection with the service, power or function to be transferred (including investment property);
- (b) intangible assets which are an integral part of that service, power or function;

- (c) short and long-term receivables associated with that service, power or function; and
- (d) investments, cash and bank balances or reserves derived from the performance of that service, power or function.

Subsidiary assets are always linked to the capital asset being transferred and therefore a municipality will not need to consider whether they should be regarded as high value or otherwise, they may be either – provided that their transfer comes as a result of the transfer of a service, power or function. If the capital asset to which the subsidiary asset is linked, is of high value, that the public consultation process on that capital asset must include consultation on all the subsidiary assets linked to that capital asset, to ensure transparency of the transaction as a whole. If the transfer of the capital asset is classified as exempted, the transfer of the subsidiary asset is also exempted, if it is part of the same transaction.

8. PLANNING FOR TRANSFER OR DISPOSAL OF ASSETS

Directorates, in consultation with the Asset Management Unit, are responsible for the strategic planning for their directorates, including planning for the disposal of non-performing assets that undermine service delivery and are inefficient and ineffective. Planning for disposals must be conducted by Assets Management Section of Financial Services Directorate on an annual basis and revised on quarterly basis. Thereafter, the asset disposal list must be submitted to the Disposal Committee for approval. The planning should involve a detailed assessment of assets identified as surplus, redundant or obsolete by the directorate. Surplus, obsolete or redundant assets include the following:

- (a) Assets not required for the delivery of services, either currently, or over the longer planning period.
- (b) Assets that have become uneconomical to maintain or to operate.
- (c) Assets those are not suitable for service delivery.
- (d) Assets that have a negative impact on the service delivery of the municipality, the environment or the community.
- (d) Assets that no longer support a directorate's service objective due to a change in type of service being delivered or the delivery method.

- (e) Assets where the use has become uneconomical to continue due to the limited availability of spares or the cost of replacement parts exceed the reasonable value of the item.
- (f) Assets where the technology has been out-dated.
- (g) Assets which can no longer be used for the purpose originally intended.

Planning for disposals offers Directorates and Departments the means to dispose surplus assets. This must be timed to minimise disruption of service delivery and maximise returns by selecting appropriate time in the asset's life cycle.

9. ASSESING TRANSFER OR DISPOSAL OF ASSETS

- (a) The Disposal Committee is responsible for assessing the disposals proposed by the directorates of the municipality. The Disposal Committee shall also consider the following factors:
 - (i) Whether there are net disposal benefits, either in financial or other forms.
 - (ii) Whether there are secondary service obligations associated with the asset which dictates its retention.
 - (iii) Whether a disposal can be carried out without adverse impacts on the physical environment.
- (b) In assessing the benefits of disposal, the advantages and disadvantages for the whole municipality, not just the controlling directorate, must be considered.
- (c) Assets that have been identified as surplus may need to be retained due to heritage, social, environmental considerations or requirements of other directorates. The symbolic importance and the cultural significance of assets should also be considered when assessing the disposal of the asset.
- (d) The Disposal Committee should consider the advantages of engaging experts if their experience in disposal activities is infrequent or not core business to assist with the activities in the disposal cycle.
- (e) Not all assets identified as surplus will be able to be sold at a value greater than it's carrying amount. In such circumstances, the advantages of disposing the asset must be weighed against the costs of continued ownership.

Examples of cost of ownership include:

- i) Insurance
 - ii) Maintenance
 - iii) Storage costs
 - iv) Operating costs
 - v) Staffing costs
- (f) Retaining such assets in service when they no longer effectively support service delivery will expend resources that could otherwise be used elsewhere and could effectively constrain investment in more suitable and economic assets.
- (g) Disposals need not always be for a financial gain. Other opportunities and gains should also be taken into consideration, for example:
 - i) Swapping one asset for another
 - ii) Construction of a facility for the municipality in return for the asset.

10. PROCEDURES TO BE FOLLOWED WHEN DISPOSING AN ASSET.

- (a) When an asset of the municipality is no longer in use, the following procedures must be followed:
 - (i) Asset(s) that are uneconomical to maintain or operate must be identified.
 - (ii) Asset Disposal Form must be completed and signed by the Director or the Acting Director
 - (iii) The Disposal form must clearly motivate the reasons for the disposal of such an asset
 - (iv) The application to dispose of an asset form must be completed and sent to Asset Management Section for assessment.
 - (v) If the item is of a technical nature e.g. computer equipment, a request must be forwarded to IT division to check the status of the equipment and submit a report to Assets Management Section.
 - (vi) Based on the reports and motivation submitted by the directorate, a motivation will then be submitted to the Disposal Committee to dispose the asset.
- (b) The Disposal Committee members will authorise the disposal of an asset by signing the (Authority to dispose of an asset form). The approved forms (Authority to dispose an asset forms) shall be forwarded to Budget and Treasury Division, Asset Management Division for disposal.

11. APPROVAL OF DISPOSAL OR TRANSFER OF ASSETS

- (a) The Assets Management Section shall prepare an item based on submissions received from directorates requesting assets to be disposed of or request for free donations from the non-profit organisations and educational institutions to Disposal Committee, subject to final approval by the accounting officer.
- (b) Disposal Committee shall be responsible for compiling a register of assets to be disposed of after:
 - i) deciding on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
 - ii) Consideration of the fair market value of the asset and the economic and community value to be received in exchange for the asset.
 - iii) Disposal Committee shall be responsible to meet on a quarterly basis to assess and compile disposals submitted by Assets Management Unit on behalf of the directorates.
- (c) The Disposal Committee shall recommend to the Accounting Officer, the approval of the register for the disposal of assets.
- (d) The Accounting Officer shall have the authority to approve the disposal list of assets contained in the register subject to Council taking a decision in principle that the assets may be disposed.
- (e) Thereafter, the Disposal Committee must implement a fair, competitive disposal process, subject to the principles contained Asset Disposal Policy and the Asset Transfer Regulations.
- (f) The Accounting Officer shall on a periodic basis inform Council of the process and results of such disposals to enable council to perform its oversight function.

12. TRANSFER OR DISPOSAL OF ANASSET

- (a) The MFMA requires the actual transfer or disposal to be equitable, transparent, competitive and consistent with the SCM Regulations. Council only has an oversight role in this process to ensure that Council policy is implemented.
- (b) No Councillor of any municipality may be a member of a municipal asset disposal committee or any other committee evaluating or approving tenders, quotations, contracts or other bids or attend any such meeting as an observer. (Refer MFMA section 11) or being involved in the disposal process.

- (c) Once Council has approved in principle, the transfer or disposal, the Municipality may commence proceedings to transfer or dispose of the asset in accordance with its Disposal of Movable Assets Policy.
- (d) In terms of regulation 12(2), there are two exceptions to the requirement that the actual transfer or disposal of the non-exempted capital asset be done in terms of a competitive process:
 - (i) when a municipality undertakes a review of service delivery mechanisms in terms of Chapter 8 of the Systems Act and a private sector party is selected; and
 - (ii) when a municipality appoints a private sector party or organ of state to perform a commercial.
- (e) In these cases, provided that a competitive bidding process is used to appoint the service provider, a municipality may transfer the asset as part of the appointment of the service provider and negotiate directly with the selected bidder (regulation 12(3)).
- (f) The redundant assets will be removed from offices or place of use and be delivered by the user department in consultation with Asset Management Unit (AMU) to stores for storage until such time that auctioneer has been appointed. The stores will enter them into register for storage.

13. METHOD OF DISPOSING OR TRANSFERRING ASSETS

- (a) Disposal of an asset should be performed in a manner which satisfies the following objectives:
 - i) The disposal should take place on an equitable basis. There should be an equal opportunity for all to purchase the asset.
 - ii) The best possible return for the municipality must be achieved.
 - iii) Any adverse environmental impacts should be avoided.
- (b) The municipality should clearly document the basis of the decision to dispose of an asset. The following methods of disposal could be used to achieve the objectives mentioned above:

13.1 Auction

Benefits of an auction are as follows:

- (a) Process is transparent, fair, equitable, competitive and consistent with the Disposal of Movable Assets Policy of the Municipality.
- (b) Process is open to public scrutiny.
- (c) In certain instances, the auction may generate high income for the Municipality.

13.2 Tender

- (a) The tender method is used to appoint Service Provider for the provision of auctioneering services to dispose or transfer assets in a public auction. This method is preferred where more control over the actual disposal of the asset is required or where the credentials of the purchaser need to be assessed in detail.
- (b) This method is preferable as it is an objective way of disposing the municipal capital assets and in compliance with the legislative regime applicable to the proposed transfer or disposal

13.3 Disposal of Computer equipment

In the case of PC's, only on the recommendation of the IT division will the item be disposed of. Preference shall be given to educational institutions, welfare and charitable organisations.

13.4 Disposal of notebooks

- (a) Notebooks that Councillors and officials have, on termination of their services with the Municipality, may purchase the notebook computers allocated to them at the written- down value thereof (this value to be determined on a straight-line depreciation basis over 3 years) plus value added tax at the applicable rate.
- (b) Due to the advancement in computers and inherent depreciation of the value of computers, obsolete laptops, notebooks and desktop PCs, officials shall be granted the opportunity to purchase such equipment at the depreciated value.

14. FREE DISPOSAL OF MUNICIPALITY ASSETS

- (a) The following types of organisations shall be considered for a free disposal of municipality assets:
- i) Registered welfare or Charitable Organisations
 - ii) Schools catering for handicapped and disabled,
 - iii) Schools for special learners
 - iv) Educational institutions initiating programmes for the benefit of the community of the Sol Plaatje Municipality.
- (b) Free disposal of municipality assets through shall be applicable to the following assets:
- i) Obsolete furniture and redundant equipment
 - ii) Computer equipment (obsolete or redundant)
 - iii) Computer notebooks (in a case where the user of the notebook did not exercise the purchase option)
 - iv) Used uniforms that are old but could be donated to needy organisations.
- (c) The following procedures shall apply on consideration of an application for a free disposal of assets except for Computer equipment and Uniforms that will be dealt with under s 14.1 and 14.2 below.
- (d) Applications shall be directed to Sol Plaatje Municipality for the attention of the Assets Manager: Financial Services Directorate. The application shall be accompanied by the following:
- i) Motivation with reasons for requesting a free disposal of such a particular asset of the municipality;
 - ii) The role of the entity in the community;
 - iii) Proof of registration of the organisation/ institution;
 - iv) A copy of the applicant's constitution.

14.1 Free Donation in respect of computer equipment

- (a) Where computer equipment is to be disposed of, the Department of Education should be approached to make arrangements for free transfer of such items to educational institutions. Note that no computer equipment may be disposed of unless the matter

was referred to the Information Technology Steering Committee, for its written recommendations.

- (b) The following criteria must apply when donating assets to outside organisations in respect of computer equipment:
 - (i) Preference shall be given to educational institutions, welfare and charitable organisations as described below.
 - (ii) Applications shall be directed to Sol Plaatje Municipality for the attention of the Assets Manager, Financial Services Directorate.
 - (iii) Motivation with reasons for requesting a free disposal of such a particular asset of the municipality, or existence in the community:
 - o Proof of registration of the organisation/ institution
 - o A copy of the applicant's constitution

14.2 Free Donation of used uniforms

- (a) The relevant directorate dealing with uniforms shall identify needy organisations where the used and old uniform will be donated. The directorate concerned shall adhere to the following:
 - i) All badges shall be removed before any donation takes place.
 - ii) No complete set of uniform shall be donated to one organisation.

15. SCRAP ITEMS / OBSOLETE INVENTORY / LIBRARY BOOKS

15.1 Scrap Items

Each ED of Directorate must identify scrap items that have an economic value and as such the scrap items should be sold on public auction as opposed to being disposed of at the municipal dumping site. The items, with a detailed list containing the description of the scrap items, the quantities as well as an estimated value of the scrap must be delivered to the Asset Disposal Store and proof of delivery must be obtained. The scrap items will be sold as part of the annual asset auction.

15.2 Obsolete Inventory

- (a) The CFO, in consultation with the SCM Manager and the Assets Manager (and as per the approved System of Delegations) and the end-user departmental head concerned must approve the write-offs, if they are satisfied that: -
- i) The inventory is redundant
 - ii) The inventory is of a specialised nature and has become outdated due to the introduction of upgraded and more effective products;
 - iii) The inventory cannot be used for the purposes for which it was originally intended; or
 - iv) The inventory has been damaged beyond repair and is rendered obsolete.

15.3 Library Books

The disposal of library books must be done through a process of “weeding”. The relevant Executive Director must prepare a Library Book Weeding Register, for approval and implementation on an annual basis. All library books disposed of, must be recorded with details of the books disposed, estimated value of the books and the method of disposal and forwarded to the Finance Department for the updating of the Asset Register on an annual basis. The Finance Department will include these books in the item on the annual write-off of assets.

16. OTHER METHODS

Any other proposed method of disposal shall be communicated to the Assets Management Section for submission to the disposal committee for approval. It is preferable that the method of disposal be included in the disposal plan for each directorate

17. LACK OF OTHER POSSIBLE PURCHASERS

Disposal of assets by direct negotiations with one possible interested party should be the exception rather than the rule. When sale by auction or tender has failed due to lack of demand or unacceptable offers were received and established further efforts indicate that efforts to dispose of the asset by auction or tender is unlikely to succeed, direct possible negotiations with one possible interested party shall be allowed.

The outcome of such must be reported to the accounting officer, who in turn will inform council.

18. VALUATION OF ASSETS

When a transfer or disposal of a capital asset is considered, the value of the asset should be determined in accordance with the applicable GRAP standards. In the absence of guidelines through GRAP, any of the following valuation methods must be used:

- a) **depreciated replacement cost (DRC):** this is the cost to replace the asset less depreciation to take account of the age and condition of the asset;
- b) **fair market value:** this is the value that would be agreed between a knowledgeable and willing buyer and a knowledgeable and willing seller;
- c) **historical cost**, adjusted for depreciation and impairment: this is the original purchase price less adjustments for depreciation and impairment.
- d) **realisable value:** this is the amount that could be obtained from the transfer less any transfer and completion costs.

19. VALUATION OF LIABILITIES

When a liability specifically associated is to be transferred or disposed asset, the value of the liability must also be determined in accordance with the applicable GRAP standard the municipality applies in preparing its annual financial statements. Such calculations are only necessary where borrowings are transferred or disposed in terms of exempted capital asset transfers or disposals to other organs of state in the circumstances.

In the absence of guidelines through GRAP, any of the following valuation methods must be used:

- a) **settlement value:** the amount that will be paid or the value of the service that will be provided to settle the liability; or
- b) **net present value:** the value after discounting a future settlement value to a present value.

20. ACCOUNTING FOR THE DISPOSAL OF ASSETS

- (a) When an asset is disposed of, the cost of the asset and the accumulated depreciation recorded in the statement of financial position need to be reversed to the statement of financial performance, a profit and loss on disposal of asset account. This will result in a debit in the statement of financial performance equal to the asset's carrying value.
- (b) The total proceeds to be received from the disposal of the asset need to be credited to the profit and loss on disposal of asset account. The account will now reflect a debit or credit amount in the statement of financial performance equal to the profit and loss on disposal equal to the result of the calculation discussed in above.
- (c) Note that depreciation will need to be calculated up to the date of disposal. If the disposal date is during a financial year, the depreciation needs to be calculated on a pro rata basis based on completed months of ownership or use. No depreciation is calculated for the asset after the disposal date.
- (d) At the disposal date the asset being disposed of needs to be derecognised from the fixed asset register of the municipality. Other accounting and disclosure matters discussed in the Asset Management Policy document of the municipality also need to be adhered to.

21. TRANSFER OF OWNERSHIP

The directorate shall be allowed to transfer ownership of the asset only after the following events have occurred:

- (a) The directorate has received a notification from the Assets Management Section that the Accounting Officer has approved the disposal register submitted by the Disposal Committee subject to Section 14 of the Municipal Finance Management Act (Act No. 56, 2003).
- (b) The directorate has received payment in full or partial payment in terms of the terms and conditions of the purchase agreement where necessary. At transfer of ownership of the asset, the purchaser must sign an acknowledgement of receipt form as evidence that the purchaser has received the asset according to the terms and conditions of the purchase agreement and in the expected physical condition.

22. COMPOSITION AND SITTING ARRANGEMENTS OF THE COMMITTEE

- (a) The Disposal Committee is constituted by members from various directorates inclusive of the Chairperson and they are appointed in writing by the Accounting Officer.
- (b) The Municipality Disposal Committee shall consist of at least not less than 5 members. In terms of the composition of the committee, at least one member must be from the Technical department while one member must be from the Asset Office/SCM Office. The Chairperson must be at a managerial level and the other two members will be chosen at the Accounting Officer's discretion.
- (c) The Disposal Committee shall meet on a quarterly basis; the chairperson of the committee may arrange an emergency meeting based on need.
- (d) Term of Office for the Municipal Disposal Committee is 12 months starting on 1st July to 30 June of each financial year. Members should have knowledge regarding various aspects of asset and asset management e.g. stocktaking, disposal, movement of items, history of equipment etc. The code of conduct for the Municipality disposal committee members shall be in accordance with the code of conduct and regulations and policy applicable to Supply Chain Management.

23. THE DUTIES OF THE SECRETARIA AND THE CHAIR OF THE DISPOSAL COMMITTEE

23.1 Secretariat

- a) The Secretariat shall ensure that all the necessary forms i.e. Store's Disposal form, Issue voucher form and Disposal Certificates of the assets to be disposed have been submitted and are in order.
- b) In consultation with all members of the disposal committee, the secretariat will determine the date on which the disposal meeting will take place.
- c) Determine if the Municipal Disposal Committee forms a quorum and disposal committee's quorum is 50% + 1.
- d) After the process of recommendation by the Disposal Committee has been completed, the Chairperson must sign the Disposal Certificate.

23.2 Chair

- a) The Chairperson of the Municipal Disposal Committee shall be at a managerial level as determined by the organisational structure of the Municipality.
- b) In case the chair is not available, the committee will appoint the chairperson for that sitting meeting.
- c) Subject to the recommendation of the chairperson, the accounting officer may appoint an additional member who possesses specialized knowledge in the relevant field for the evaluation of specialized stores and equipment on an hoc basis.
- d) The chair may at any time invite in writing any stakeholders i.e. Municipal Manager/ his /her delegate, Asset Managers on assets to be disposed of.
- e) To ensure that the Disposal Certificates together with all relevant documentation are submitted to the Confirming Authority.

24. POLICY AMENDMENT

This policy as and when required in line with changes in the compliance environment and changes in relevant legislation and accounting standards.

25. POLICY IMPLEMENTATION

The Policy will become immediately effective upon approval by Council.

26. APPENDIX A

26.1 CALCULATION OF THE PROFIT AND LOSS ON DISPOSAL

Gain on disposal of asset (if proceeds are greater than carrying value)

Asset (Cost)		Accumulated depreciation	
	Profit / Loss XX	Profit/ Loss XX	
Profit / Loss		Bank/ Debtors	
Asset (cost) XX	Acc.Dep XX	Profit/ Loss XX	
Gain (P/L) XX	Bank XX		

Loss on disposal of asset (if proceeds are less than carrying value)

Asset (Cost)		Accumulated depreciation	
	Profit / Loss XX		Profit / Loss XX
Profit / Loss		Bank/ Debtors	
Asset (cost) XX	Acc.Dep XX		Profit/ Loss XX
Bank XX	Loss (P/L) XX		

26.2 Additional information:

Profits and losses on the sale of property, plant and equipment are calculated as follows, and are disclosed in total in the financial statements:

- Proceeds Sales value, trade-in value or proceeds received from insurance if the asset was damaged or stolen.
- Less: Carrying value Cost, or if valued, revaluation amount, less accumulated depreciation up to the date of sale or when the asset can no longer be used for its intended purpose.
- Equals PROFIT or If proceeds are greater than carrying value, or
- Equals LOSS if proceeds are less than carrying value.