



MATATIELE
LOCAL MUNICIPALITY

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MATATIELE LOCAL MUNICIPALITY FIXED ASSETS MANAGEMENT AND METHODOLOGY

| <u>POLICY INFORMATION</u> | |
|-----------------------------------|--------------------|
| <u>DATE OF COUNCIL ADOPTION:</u> | 28/05/2026 |
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MRS N N ZEMBE
ACTING MUNICIPAL MANAGER

28/05/2026
DATE


CLLR M P STUURMAN
MAYOR

28/05/2026
DATE


CLLR N NGWANYA
SPEAKER COUNCIL

28/05/2026
DATE

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PART 1 - DEFINITIONS AND ABBREVIATIONS

Asset

A resource, tangible or intangible, controlled by the entity as a result of past events which is expected to be used during more than one reporting period and from which future economic benefits or service potential will flow.

Annual Financial Statements (AFS)

Formal statements prepared annually in compliance with GRAP and MFMA, reflecting the municipality's financial position and performance.

Asset Control Section (ACS)

The designated municipal unit responsible for overseeing the physical control, documentation, and compliance of assets within departments

Asset Management

Management of the assets of the municipality as required by municipal legislation which inter alia includes the compilation of a GRAP compliant register.

Asset Manager (AM)

The official responsible for compiling, maintaining, and reconciling the Fixed Asset Register under the direction of the CFO.

Auditor-General (AG)

The constitutional authority responsible for auditing and reporting on the accounts, financial statements, and financial management of municipalities.

Fixed Asset Register (FAR)

A list of the assets owned or controlled by an entity containing pertinent details about each asset to track their value and physical location.

Biological Asset

A living animal or plant controlled by the municipality.

Capitalisation

The process of recording expenditure as an asset in the fixed asset register rather than as an expense.

Carrying Amount

The amount at which an asset is included in the statement of financial position after deducting any accumulated depreciation and any impairment losses thereon.

Cash-Generating Asset

An asset held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

CFO

Chief Financial Officer or the official acting in that capacity.

CIDMS

Cities Infrastructure Delivery and Management System: A framework referenced for asset management practices, including useful life guidance.

Componentisation

The practice of separating a single asset into identifiable components that have significantly different useful lives or consumption patterns, each of which is recognised and depreciated separately in accordance with GRAP 17.

Condition Assessment

A systematic evaluation of the physical state of an asset using a standardised grading scale, used to inform impairment reviews, remaining useful life estimates, and maintenance planning decisions.

Cost

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.

Current Replacement Cost (CRC)

The cost of replacing the service potential of an existing asset using the most appropriate modern equivalent asset and technology.

Depreciable Amount

The cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

Depreciated Replacement Cost (DRC)

The current replacement cost of an asset less accumulated depreciation calculated on the basis of such cost to reflect the already consumed or expired service potential of the asset.

Depreciation

The systematic allocation of the cost of use of an asset over its useful life.

Derecognition

The removal of a previously recognised asset from the statement of financial position, either on disposal or when no further future economic benefits or service potential are expected from its use or disposal.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, in accordance with GRAP 104.

GRAP

Standards of Generally Recognised Accounting Practice.

Impairment

An asset is impaired when the carrying amount exceeds its recoverable amount or recoverable service amount.

mSCOA

Municipal Standard Chart of Accounts as prescribed by National Treasury regulations.

MFMA

Municipal Finance Management Act, No. 56 of 2003.

Municipal Manager (MM)

The Accounting Officer of the municipality, responsible for safeguarding and managing assets in terms of Section 63 of the MFMA.

Non-Cash-Generating Asset

An asset held for service delivery purposes and not primarily to generate a commercial return. The majority of municipal assets are non-cash-generating assets.

PPE

Property, Plant and Equipment - Tangible assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and are expected to be used during more than one reporting period.

Recoverable Amount

The higher of an asset's fair value less costs to sell and its value in use. Applicable to cash-generating assets per GRAP 26.

Recoverable Service Amount

The higher of a non-cash-generating asset's fair value less costs to sell and its value in use. Applicable to non-cash-generating assets per GRAP 21.

Residual Value

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.

Useful Life

Either the period over which an asset is expected to be available for use by the municipality, or the number of production or similar units expected to be obtained from the asset by the municipality.

Value in Use (Cash-Generating Assets)

The present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

Value in Use (Non-Cash-Generating Assets)

The present value of the remaining service potential of a non-cash-generating asset, determined using the depreciated replacement cost approach, the restoration cost approach, or the service units approach.

Work-in-Progress (WIP)

Expenditure incurred on the construction or development of an asset that is not yet available for use or in the condition necessary for it to be capable of operating in the manner intended by management.

PART 2 - OBJECTIVE OF THE ASSET MANAGEMENT POLICY (AMP)

The AMP provides direction for the management, accounting, and control of fixed assets owned or controlled by the Municipality, in accordance with applicable legislation, best practices, and mSCOA regulation requirements.

Each transaction shall be compliant with mSCOA.

PART 3 - ROLE OF MUNICIPAL MANAGER (MM)

Section 63 of the MFMA states that:

1. The Accounting Officer is responsible for the management of-

- a) The assets of the municipality, including the safeguarding and the maintenance of those assets; and*
- b) the liabilities of the municipality.*

2. The Accounting Officer must for the purposes of subsection (1) take all reasonable steps to ensure-

- a) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;*
- b) that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and*
- c) 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.*

As the Accounting Officer of the municipality, the MM shall be the principal custodian of all the municipality's fixed assets, and shall be responsible for ensuring that the AMP is scrupulously applied and adhered to.

PART 4 - ROLE OF CHIEF FINANCIAL OFFICER AND ASSET MANAGER

Chief Financial Officer (CFO)

The CFO shall be the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised far is maintained.

No amendments, deletions or additions to the far shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

Asset Manager (AM)

The AM shall have the following responsibilities:

- Ensure the compilation and maintenance of a complete and accurate FAR in the format determined by the CFO.
- Ensure that the information recorded in the FAR is accurate and up to date.
- Ensure that all documentation supporting the FAR entries is retained and can be produced when requested.
- Perform annual physical verification of fixed assets.
- Investigate and resolve all discrepancies between the FAR and physical verification results.
- Conduct condition assessments of assets in accordance with Part 18.
- Compile impairment assessments and present these to the CFO on an annual basis.
- Ensure that all new assets are recorded in the FAR with proper documentation.
- Ensure that asset disposals are properly documented and derecognised from the FAR.
- Co-ordinate the revaluation of assets in accordance with Part 29.
- Maintain asset numbering and identification systems.
- Ensure the timely completion of asset reconciliation procedures.
- Report on asset verification outcomes and FAR adjustments to the CFO.
- Support the annual review of useful lives and residual values.
- Monitor WIP balances and oversee their capitalisation.
- Liaise with departmental heads on asset-related matters; and
- Maintain liaison with external valuers and other professionals assisting with asset management.

PART 5 - ROLE OF OTHER DEPARTMENTS

Section 78 of the MFMA, Senior managers and other officials of municipalities, states that:

- 1. *Each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure:***
 - a) That the system of financial management and internal control established for the municipality is carried out diligently;*

- b) That the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;*
- c) That any unauthorised, irregular or fruitless and wasteful expenditure and any other losses are prevented;*
- d) That all revenue due to the municipality is collected;*
- e) That the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary;*
- f) That all information required by the accounting officer for compliance with the provisions of this Act is timeously submitted to the accounting officer; and*
- g) That the provisions of this Act, to the extent applicable to that senior manager or official, including any delegations in terms of section 79, are complied with.*

Human Resources Department

The Human Resources Department shall ensure that:

- No monies are paid out on termination of service without receiving the relevant asset resignation form signed off by the relevant department; and
- That every asset resignation form is counter signed by the ACS before processing the termination of service.

All Departments

Managers shall ensure that:

- Ensure that employees in their departments adhere to the approved AMP's.
- Ensure that an employee with delegated authority has been nominated to implement and maintain physical control over assets in the department. The ACS must be notified of who the responsible person is. Although authority has been delegated, the responsibility to ensure adequate physical control over each asset remains with the Manager/Executive. The delegated individuals will be known as Asset Controllers.

- Ensure that assets are properly maintained in accordance with their respective asset maintenance policies.
- Ensure that the assets of the Municipality are not used for private gain.
- Ensure that all movable assets as reflected on the FAR are bar coded where possible.
- Ensure that the ACS is notified of any changes in the status of the assets under the department's control. This must be done on the prescribed form.
- Ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the ACS without delay.
- Ensure that all Managers of all departments inform the Budget & Treasury Section (Asset Unit) of any projects completed during the year and provide written confirmation of the date the project asset was handed over to the municipality and related assets available for use.
- Provide a completion certificate to the Budget & Treasury Section (Asset Unit) within 7 days of handover and/or completion to ensure that completed projects are taken up in the asset register of the municipality and are properly insured; and
- Ensure that when asset(s) are donated to the municipality, the Manager responsible for the maintenance and operation of the asset informs the relevant authority.

PART 6 - DEFINITION OF AN ASSET

An asset is a resource controlled by the municipality as a result of past events and from which future economic benefits or service potential is expected to flow to the municipality.

The definition has three components, which must all be satisfied in order to be classified as 'an asset' in an accounting sense. They are relevant to all forms of assets:

- The municipality has the capacity to control the service potential or future economic benefits of the asset, that it is control of the economic benefits or service potential of the asset rather than physical control.
- The service potential or future economic benefits arose from past transactions or events existing on reporting date (that is future assets cannot be recognised in the financial statements).

- The asset has future service potential or economic benefit for the municipality. The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the municipality. The potential may be a productive one that is part of the operating activities of the municipality. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative process lowers the costs of providing a service.
- Service potential is thus the capacity of an asset, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality.

PART 7 - FORMAT OF FIXED ASSET REGISTER (FAR)

The FAR must be maintained in the format determined by the CFO, which shall comply with the requirements of GRAP and any other accounting requirements that may be prescribed.

The FAR must reflect the following information:

- A brief but meaningful mSCOA segment description of each asset.
- The date on which the asset was acquired or brought into use.
- The supplier from which the asset was acquired.
- The location of the asset.
- The department(s) or vote(s) within which the assets will be used.
- The title deed number, in the case of fixed property.

- The stand number, in the case of fixed property.
- The identification number, as determined in compliance with Part 13.
- The original cost, or the revalued amount determined in compliance with Part 29, or the fair value if no costs are available.
- The (last) revaluation date of the fixed assets subject to revaluation.
- The revalued value of such fixed assets.
- Opening accumulated depreciation.
- The depreciation charge for the current financial year.
- Accumulated depreciation to date.
- The carrying value of the asset.
- The method and rate of depreciation.
- Impairment losses incurred during the financial year (and the reversal of such losses, where applicable).
- The source of financing.
- The current insurance arrangements.
- Whether the asset has been used to secure any debt, and if so, the nature and duration of such security arrangements.
- The date on which the asset is disposed of.
- The disposal price; and
- The date on which the asset is retired from use, if not disposed of.

All heads of department under whose control any fixed asset falls must promptly provide the CFO in writing with any information required to compile the FAR, and must promptly advise the CFO in writing of any material change which may occur in respect of such information.

A fixed asset must be capitalised (recorded in the FAR) as soon as it is acquired. If the asset is constructed over a period of time, it must be recorded as WIP until it is available for use, whereafter it must be appropriately capitalised as a fixed asset.

Matatiele Local Municipality Fixed Assets Management Policy

A fixed asset must remain in the FAR for as long as it is in physical existence. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing off such an asset.

PART 8 - CLASSIFICATION OF FIXED ASSETS

In compliance with the requirements of the National Treasury, the CFO must ensure that all fixed assets are classified under the following headings in the FAR. Heads of departments must provide the CFO with the necessary information or assistance in writing to compile a proper classification:

Property, Plant and Equipment

- Land (not held as investment assets)
- Infrastructure assets (assets which are part of a network of similar assets)
- Community assets (resources contributing to the general well-being of the community)
- Other assets (ordinary operational resources)

Heritage Assets

- Culturally significant resources

Intangible Assets

- Intangible resources

Investment Property

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

The CFO must adhere to the classifications indicated in the annexure on fixed asset lives (see Part 39). In the case of a fixed asset not appearing in the annexure, the CFO must use the classification applicable to the asset most closely comparable to the asset in question.

The classification of assets in the FAR shall be aligned with the mSCOA asset segment classifications as prescribed by National Treasury. The CFO shall maintain a mapping table that cross-references the municipality's internal asset categories (as set out in Part 8 above) with the corresponding mSCOA asset segment codes.

The mapping table shall be reviewed annually and updated to reflect any amendments to the mSCOA classification framework issued by National Treasury.

All asset acquisitions, transfers, and disposals shall be coded in accordance with this mapping to ensure compliance with mSCOA reporting requirements.

The following table provides the high-level alignment between policy asset classes and mSCOA segments:

Matatiele Local Municipality Fixed Assets Management Policy

| Policy Classification | mSCOA Asset Segment |
|------------------------|---|
| Land | Capital: Property, Plant and Equipment - Land |
| Infrastructure Assets | Capital: Property, Plant and Equipment - Infrastructure |
| Community Assets | Capital: Property, Plant and Equipment - Community |
| Other Assets | Capital: Property, Plant and Equipment - Other |
| Heritage Assets | Capital: Heritage Assets |
| Intangible Assets | Capital: Intangible Assets |
| Investment Property | Capital: Investment Property |
| Biological Assets | Capital: Biological Assets |
| Work-in-Progress (WIP) | Capital: Work-in-Progress |

PART 9 – INVESTMENT PROPERTY

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

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

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

Investment assets must not be depreciated, but must be valued regularly, not less than every five years, on balance sheet date to determine their fair (market) value.

Investment assets must be recorded in the statement of position at such fair value.

Adjustments to the previous year's recorded fair value must be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.

A professional valuer must be engaged by the municipality to undertake such valuations.

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property must in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use — thereafter it must be reclassified as an investment asset.

PART 10 – FIXED ASSETS TREATED AS INVENTORY

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

These assets must not be included in either property, plant and equipment or investment property in the municipality's statement of position.

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

PART 11 – RECOGNITION OF HERITAGE ASSETS IN THE FAR

Definition

Heritage assets are assets that have cultural, environmental, historical, natural, scientific, technological, or artistic significance and are held indefinitely for the benefit of present and future generations. Examples include works of art, conservation areas, historical buildings, and statues.

Recognition and Disclosure of Heritage Assets

The municipality must choose as its accounting policy either the cost model or the revaluation model, and must apply that policy to an entire class of heritage assets.

Where no evidence is available to determine the market value in an active market of a heritage asset, a valuation technique may be used to determine its fair value. Valuation techniques include using recent arm's length market transactions if available. In the case of specialised heritage buildings and other man-made heritage structures, such as monuments, the municipality may need to determine fair value by using a replacement cost approach.

PART 12 – RECOGNITION OF DONATED ASSETS

Definition

An item donated or bequeathed to the municipality, or acquired by means of an exchange of assets between the municipality and one or more other parties, must be recorded in the asset register only if it subscribes to the definition of an asset as set out above.

Disclosure of Donated Assets

Donated assets must be disclosed in the Statement of Financial Position at fair value less accumulated depreciation at the date of acquirement. Fair value is defined as what the asset would cost in the open market at the date of acquirement. If there is no open market for such assets, the depreciated replacement value must be applied to determine fair value.

The fair value shall be determined based on the best evidence available, which may include:

- Independent professional valuation
- Market values of similar assets
- Cost of equivalent new asset less appropriate depreciation
- Donor's valuation where independently verified.

All donated assets shall be disclosed separately in the Annual Financial Statements as required by GRAP.

The nature of the donation and the valuation basis shall be documented in the FAR.

The transaction of acquirement must reflect on the Statement of Changes to Net Assets as "Assets Donated/Bequeathed."

PART 13 – IDENTIFICATION OF FIXED ASSETS

The CFO shall ensure that the municipality maintains a fixed asset identification system, which shall be operated in conjunction with its computerised FAR.

The identification system shall be determined by the CFO, acting in consultation with the MM and other heads of departments. It shall comply with any legal prescriptions, as well as any recommendations of the Auditor-General or National Treasury, and shall be decided upon within the context of the municipality's budgetary and human resources.

Every head of department shall ensure that the asset identification system approved for the municipality is scrupulously applied in respect of all fixed assets controlled or used by the department in question.

Each fixed asset shall be uniquely identified. Identification may be achieved through:

- Barcode labelling
- Serial numbers
- Asset registration numbers
- Physical descriptions and locations
- A combination of the above methods

The CFO shall establish and maintain a consistent asset numbering system that can be linked to the FAR. All assets shall be tagged or marked with their identification numbers where physically practicable.

PART 14 – PROCEDURE IN CASE OF LOSS, THEFT, DESTRUCTION, OR IMPAIRMENT OF FIXED ASSETS

Every head of department shall ensure that any incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in question is promptly

reported in writing to the CFO, to the internal auditor, and – in cases of suspected theft or malicious damage – also to the South African Police Service.

Upon the discovery of any loss, theft, destruction, or impairment of a fixed asset, the following procedure shall be followed:

- The departmental head shall immediately notify the CFO and the Asset Manager in writing, providing full details of the incident.
- An investigation shall be conducted to establish the circumstances surrounding the loss or damage.
- The CFO shall determine whether the asset shall be written off, impaired, or its estimated remaining useful life adjusted.
- If the asset is to be written off or substantially impaired, the matter shall be reported to the MM.
- The FAR shall be updated to reflect the disposal or impairment status.
- Insurance claims shall be lodged where applicable and the outcome documented.
- Disciplinary action may be initiated where negligence or misconduct is established.

PART 15 – CAPITALISATION CRITERIA: MATERIAL VALUE

Capitalisation Threshold

All items of PPE acquired that comply with the asset definition shall be capitalised in the FAR at cost and shall be provided for on the capital budget. These items shall be bar-coded (when moveable).

No item with an initial cost or fair value of less than R1,000 (one thousand rand) – or such other amount as the Council of the municipality may from time to time determine on the recommendation of the MM – shall be recognised as a fixed asset.

It may be appropriate to aggregate individually insignificant items under the above material value and apply the criteria to the aggregate value. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.

Computer equipment items such as hard drives, USBs, CDs, etc., with a lifespan of less than three years shall be expensed due to the difficulty of managing such small items, which are easily lost or compromised. This prevents the municipality from having to account for insignificant items in value.

Every GM or head of department shall ensure that any item with a value in excess of R1,000 and with an estimated useful life of more than one year shall no longer be recorded on an inventory listing but shall be capitalised in accordance with the revised threshold of capitalisation criteria.

Every head of department shall moreover ensure that the existence of items recorded on inventory listings with a value less than R1,000 is verified from time to time, and at least once in every financial year. Any amendments made to such inventory listings pursuant to verification shall be reported to the MM, and a record retained for audit purposes.

Group Assets

Group assets are assets of a similar nature and usually purchased as a group. A group of related assets, each individually below the R1,000 threshold but collectively above it, shall be capitalised as a single asset. Examples include:

- Water supply boreholes and electricity meters
- Chairs for community centres and the city hall
- A set of office furniture
- Kitchen equipment in a community centre / Tools and implements in a workshop

Additional considerations:

- The initial estimated costs of dismantling and removing the item and restoring the site on which it is located, to the extent that it is recognised as a provision.
- Administrative and other general overhead costs shall only be included if they can be directly attributed to the acquisition or construction of the asset.
- Interest on external loans directly attributable to the acquisition, construction, or production of a qualifying asset shall be capitalised in accordance with GRAP 5. Borrowing costs not directly attributable shall be expensed.

Componentisation of Infrastructure and Building Assets

In accordance with GRAP 17.47–50, where a component of an item of property, plant, and equipment has a cost that is significant in relation to the total cost of the item, it shall be recognised and depreciated separately.

The municipality shall apply componentisation to all infrastructure asset classes and to buildings where the revaluation model is adopted. The CFO, in consultation with the relevant technical departments, shall maintain component hierarchies for each major infrastructure network (roads, electricity, water supply boreholes, boreholes) and for buildings. The generalised component types and their estimated useful lives are set out in the EUL Annexure (Part 39) to this policy.

The CFO shall ensure that the far is progressively enhanced to reflect appropriate componentisation as infrastructure and building data is improved. The policy provides general guidance on component categories; the detailed component structure within the FAR shall be maintained as a working document and updated as the municipality's asset data matures.

Building Componentisation

Buildings under the revaluation model shall be componentised into building elements with materially different useful lives. The standard building element categories are:

- Superstructure (shell)
- Roof (by material type)
- Wall
- Floor
- Electrical installation
- Plumbing
- Fire protection
- Finishes/fixtures/fittings
- Air conditioning (centralised)
- Security devices/systems

Each element shall carry its own estimated useful life as per the EUL Annexure. Upon revaluation, each component's revalued amount shall be depreciated over its remaining component-specific useful life.

Componentisation Principles

The following principles shall guide the application of componentisation:

- A component shall be recognised separately where its cost exceeds 10% of the total cost of the parent asset, or where its useful life differs materially (by more than 20%) from the useful life of the parent asset.
- Each component shall be assigned its own useful life based on the component-specific useful life ranges set out in the Annexure to this policy.
- Upon replacement of a component, the carrying amount of the replaced component shall be derecognised and the new component recognised at cost.
- Where the cost of a replaced component is not separately determinable, the cost of the new component may be used as an indication of the cost of the replaced component at the time it was acquired or constructed.
- The CFO shall ensure that the FAR is structured to accommodate component-level recording and that each component is linked to its parent asset for reporting purposes.

PART 16 – COSTS INCURRED ON EXISTING PPE SUBSEQUENT TO THE INITIAL RECORDING OF THE COST PRICE

Assets are often modified during their life. Such modifications shall be classified as either *Enhancements/Rehabilitation* or *Maintenance/Refurbishment*.

Enhancements and Rehabilitation

Enhancements or rehabilitation occur where work is carried out on the asset that increases its service potential, extends its useful life, or improves its functionality. These costs shall be capitalised when it is probable that future economic benefits or service potential will flow to the municipality over the remaining life of the asset.

Examples include:

- Upgrading the capacity of equipment
- Extending the useful life of infrastructure
- Improving the functionality of facilities
- Modification of an item or plant to extend its useful life, including an increase in capacity
- Upgrading machine parts to achieve a substantial improvement in the quality of output
- Adoption of new production processes enabling a substantial reduction in operating costs
- Extensions or modifications to improve functionality, such as installing computer cabling or increasing the speed of a lift

Such costs shall be added to the carrying amount of the asset and depreciated over the remaining useful life of the asset, or over the new component life where componentisation applies.

Maintenance and Refurbishment

Maintenance or refurbishment costs are incurred to restore or maintain the future economic benefits or service potential of an asset. These costs shall not be capitalised, as they do not extend the functionality or useful life of the asset beyond what was originally estimated.

Key principles:

- Refurbishment shall be regarded as an operating expense in the statement of financial performance.
- Expenses incurred in maintenance or reinstatement of a fixed asset shall be considered operating expenses, irrespective of the quantum of the expenses concerned.
- If the improved performance or extended life of an asset is not beyond what was originally estimated, the expenditure shall be treated as an operating expense.
- Repair and maintenance of an asset shall not negate the need to depreciate it.

Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may, however, be capitalised as part of such asset.

These may include, but are not limited to:

- Import duties
- Forward cover costs
- Transportation costs
- Installation, assembly, and commissioning costs

PART 17 – MAINTENANCE PLANS

Every head of department shall ensure that a maintenance or rehabilitation plan in respect of every new infrastructure asset with a value of R200,000 (two hundred thousand rand) or more is prepared and submitted to the MM for approval.

If so directed by the MM, the maintenance plan shall be submitted to the Council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.

The head of department controlling or using the infrastructure asset in question shall annually report to the Council, not later than in July, on the extent to which the relevant maintenance plan has been complied with, the likely effect which any non-compliance may have on the useful operating life of the asset concerned, and whether the asset was impaired to any extent.

Each department responsible for fixed assets shall maintain a maintenance plan for the assets under their control.

The plan shall set out:

- Planned maintenance activities and their frequency
- Estimated maintenance costs
- Personnel responsible for execution
- Records of maintenance performed

The Asset Manager shall review departmental maintenance plans annually and provide guidance on asset-specific maintenance requirements.

PART 18 – DEFERRED MAINTENANCE

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset, the CFO shall investigate the extent and possible implications of such deferred maintenance, as well as any corrective measures proposed by the applicable head of department in order to redress the deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the CFO shall re-determine the useful operating life of the fixed asset in question, in consultation with the head of department controlling or using such asset where necessary, and shall recalculate the annual depreciation expenses accordingly.

Deferred maintenance occurs when planned maintenance is postponed or not performed.

Deferred maintenance may indicate that:

- The asset shall require replacement sooner than expected
- The estimated useful life shall require revision
- The asset may be impaired

The Asset Manager shall identify and report on assets with significant deferred maintenance to the relevant departmental heads and the CFO. A formal plan shall be developed to address deferred maintenance through adjusted maintenance budgets or capital provision for replacement.

The municipality shall implement a standardised condition assessment framework for all fixed assets to support impairment reviews, useful life reassessments, and maintenance planning decisions.

Condition Grading Scale

The following five-point condition grading scale shall be applied consistently across all asset classes:

- **Grade 1 – Very Good** Asset is in excellent condition with no visible defects. Recently constructed, rehabilitated, or replaced. No maintenance required beyond routine preventative maintenance.
- **Grade 2 – Good** Asset is in good condition with minor defects that do not affect functionality or service delivery. Normal maintenance regime is adequate.
- **Grade 3 – Fair** Asset shows moderate deterioration. Some components may require attention. Planned maintenance or minor rehabilitation may be required within the next 1–3 years to maintain service levels.
- **Grade 4 – Poor** Asset shows significant deterioration affecting functionality or service delivery. Major rehabilitation or replacement required within the next 1–2 years. Potential impairment indicator per GRAP 21.
- **Grade 5 – Very Poor** Asset is in a critical state with imminent or actual failure of service delivery capacity. Immediate intervention required. Asset shall be assessed for impairment and/or derecognition.

Frequency of Condition Assessments

- Infrastructure assets shall be assessed at least every three (3) years by qualified technical personnel, or more frequently where significant deterioration is suspected.
- Community assets and buildings shall be assessed at least every five (5) years, or at the time of the annual asset verification.
- Movable assets shall have their condition recorded at the time of the annual physical verification.

Linkage to Other Processes

- Condition grades of 4 (Poor) or 5 (Very Poor) shall trigger a formal impairment assessment in accordance with Part 27 of this policy.

- Condition data shall inform the annual review of useful life estimates as required by Part 24A.
- Condition assessment results shall be recorded in the FAR against each assessed asset.

PART 19 – GENERAL MAINTENANCE OF FIXED ASSETS

Every head of department shall be directly responsible for ensuring that all assets (other than infrastructure assets which are dealt with in Part 16 and Part 17 above) are properly maintained in a manner which shall ensure that such assets attain their useful operating lives.

All departments shall ensure that assets under their control are properly maintained in good working order. This shall include routine preventative maintenance as well as reactive repairs to address emergencies or unexpected failures.

Maintenance activities shall not be deferred except in exceptional circumstances where approved in writing by the departmental head and the CFO.

Regular maintenance shall reduce the rate of deterioration and extend asset useful lives.

PART 20 – DEPRECIATION OF FIXED ASSETS

All fixed assets, except land and heritage assets, shall be depreciated – or amortised in the case of intangible assets.

Depreciation shall be defined as the monetary quantification of the extent to which a fixed asset is used or consumed in the provision of economic benefits or the delivery of services.

Depreciation shall generally take the form of an expense calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed.

Depreciation shall be calculated from the date an asset is available for use or in a condition necessary for it to be capable of operating in the manner intended by management.

Depreciation shall be calculated on a monthly basis. Where an asset is acquired during a calendar month, it shall be depreciated from the first day of that month. Depreciation shall continue to be calculated until the date of derecognition of the asset.

Depreciation shall be calculated from the day in which a fixed asset is acquired or – in the case of construction works and plant and machinery – the month in which the fixed asset is brought into use, and thereafter, depreciation charges shall be calculated daily.

Each head of department, acting in consultation with the CFO, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable fixed assets controlled or used by the department in question, or expected to be so controlled or used during the ensuing financial year.

The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other fixed assets.

PART 21 – WHICH ASSETS SHALL BE DEPRECIATED

All fixed assets shall be depreciated – or amortised in the case of intangible assets – except for:

- Land (regardless of its nature – see Part 26)
- Heritage assets (unless they are infrastructure in nature)
- Biological assets in their natural growth phase

Although typically disclosed together, land and buildings are separable assets. Land shall not be depreciated because it normally has an unlimited life, whereas buildings shall be depreciated.

Heritage assets such as works of art, historical buildings, and statues shall not normally be depreciated. The reason is that these assets have cultural significance and are likely to be preserved for the benefit of future generations, making it impossible to determine their useful lives.

PART 22 – RATE OF DEPRECIATION

The CFO shall assign an estimated useful operating life to each fixed asset or asset class recorded in the municipality's FAR. In determining such useful life, the CFO shall adhere to the guidance provided in the Annexure to this policy (see Part 39).

The useful life assigned shall reflect the period over which the asset is expected to be available for use by the municipality. For assets acquired from third parties, useful lives may be adjusted based on acquisition dates, existing condition, and expected usage patterns.

In the case of a fixed asset which is not listed in the Annexure, the CFO shall determine a useful operating life, if necessary in consultation with the head of department controlling or using the asset in question. The determination shall be guided by the likely pattern in which the asset's economic benefits or service potential will be consumed.

PART 23 – METHOD OF DEPRECIATION

Unless otherwise approved by the CFO, all assets shall be depreciated using the straight-line method. Under the straight-line method, depreciation shall be calculated as:

Annual Depreciation = (Cost – Residual Value) / Useful Life in Years

For asset classes measured under the revaluation model (refer to Part 29), depreciation after revaluation shall be calculated on the revalued amount over the remaining useful life at the date of revaluation, as follows:

Annual Depreciation = (Revalued Amount – Residual Value) /
Remaining Useful Life at Revaluation Date

PART 24 – AMENDMENT OF ASSET LIVES AND DIMINUTION IN THE VALUE OF FIXED ASSETS

Only the CFO shall amend the useful operating life assigned to any fixed asset. Where any material amendment occurs, the CFO shall inform the Council of the municipality of such amendment.

The CFO shall amend the useful operating life assigned to any fixed asset if it becomes known that such asset has been materially impaired, improperly maintained to such an extent that its useful operating life shall not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential shall be consumed.

The municipality shall assess at each reporting date whether there is any indication that expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality shall revise the expected useful life and/or residual value accordingly.

The CFO shall review the estimated useful lives assigned to fixed assets on an annual basis. Where current estimates differ from revised expectations, the changes shall be accounted for as changes in accounting estimates in accordance with GRAP 3.

Any diminution in the value of a fixed asset that is not addressed through depreciation adjustments shall be addressed through an impairment assessment in accordance with Part 27 of this policy.

In accordance with GRAP 17.61, the residual value and the useful life of an asset shall be reviewed at least at each reporting date. Where expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate in accordance with GRAP 3.

The CFO shall, in consultation with the relevant heads of department and technical personnel, conduct a formal annual review of useful life estimates and residual values for all classes of fixed assets. This review shall be conducted no later than 31 May of each financial year and shall consider:

- The physical condition of assets as determined through condition assessments (Part 18)
- Changes in the manner or extent of use of the asset

- Significant changes in the technological, legal, or economic environment
- Changes in expected patterns of consumption of economic benefits or service potential
- The results of the annual asset verification (Part 30)
- Any impairment indicators identified during the financial year

The review shall be documented, including the rationale for any changes made, and approved by the CFO. Material changes in useful life estimates shall be reported to the MM and, where significant, to Council.

All changes shall be applied prospectively from the date of the change and shall be processed in the FAR within 30 days of approval.

If the value of a fixed asset has been diminished to such an extent that it has no or negligible further useful operating life or value, such fixed asset shall be fully depreciated in the financial year in which such diminution occurs.

Similarly, if a fixed asset has been lost, stolen, or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the fixed asset has physically ceased to exist, it shall be written off the FAR.

In all the foregoing instances, the additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

If any of the foregoing events arise in the case of a normally non-depreciable fixed asset, and such fixed asset has been capitalised at a value other than a purely nominal value, such fixed asset shall be partially or fully depreciated, as the case may be, as though it were an ordinary depreciable asset. The department or vote controlling or using the fixed asset in question shall bear the full depreciation expenses concerned.

PART 25 – ALTERNATIVE METHODS OF DEPRECIATION IN SPECIFIC INSTANCES

In specific circumstances, the CFO may approve depreciation methods other than the straight-line method. The diminishing balance (sum-of-the-units) method may be used where the consumption of benefits is uneven throughout the asset's life, or where assets are physically wasted in the process of providing economic benefits or delivering services.

Where the CFO decides to employ an alternative method of depreciation, the following shall apply:

- The CFO's approval shall be documented together with the rationale for the alternative method.
- The method shall be consistently applied to the asset class concerned.
- The method shall be disclosed in the Annual Financial Statements.
- Any subsequent change in method shall also require CFO approval and documentation.
- The head of department concerned shall undertake to provide the statistical information required by the CFO to prepare depreciation expense estimates for each financial year, and shall supply such information at the specific times stipulated.

PART 26 – RESIDUAL VALUES

Definition

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

Determination of Residual Values

Residual values shall be determined based on observable market data or professional valuation where available. Where market data is not available, residual value may be estimated based on:

- Historical disposal proceeds for similar assets
- Estimated scrap or salvage value
- Quoted prices in active markets for similar assets of the same age and condition

Residual value of PPE shall be determined using historical data and prevailing market conditions.

The residual value of an asset may increase to an amount equal to or greater than the asset's carrying amount. If it does, the asset's depreciation charge shall be zero unless and until its residual value subsequently decreases to an amount below the asset's carrying amount.

Residual values shall be reviewed at least at each reporting date. Where expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate in accordance with GRAP 3.

Assets with Zero Residual Value

The following asset classes shall be assigned zero residual values, as the municipality continues to use these assets beyond their economic life:

- Infrastructure assets
- Community assets
- Other assets

PART 27 – IMPAIRMENT OF ASSETS

The municipality shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality shall estimate the recoverable amount or recoverable service amount of the asset.

Classification of Assets for Impairment Purposes

- **Cash-generating assets** shall be assessed for impairment in accordance with GRAP 26.
- **Non-cash-generating assets** shall be assessed for impairment in accordance with GRAP 21.

The majority of the municipality's assets are non-cash-generating assets held for service delivery purposes.

External Indicators of Impairment

The following external indicators shall be considered:

- Cessation of, or significant decline in, the demand or need for services provided by the asset
- Significant long-term changes in the technological, legal, or environmental context in which the municipality operates that have or will have an adverse effect on the municipality
- A significant decline in the market value of an asset beyond what would normally be expected as a result of the passage of time or normal use

Internal Indicators of Impairment

The following internal indicators shall be considered:

- Evidence of physical damage to the asset
- A significant change in the manner or extent to which the asset is used or expected to be used that will adversely affect the municipality (including the asset becoming idle, plans to discontinue or restructure the operation to which the asset belongs, or plans to dispose of the asset before the previously expected date)
- A decision to halt the construction of an asset before it is complete or in a usable condition
- Evidence from internal reporting that indicates that the service performance or economic performance of an asset is, or will be, significantly worse than expected
- A condition assessment grade of 4 (Poor) or 5 (Very Poor) as defined in Part 18 of this policy

Measurement of Impairment

- For **non-cash-generating assets**, the recoverable service amount shall be the higher of the asset's fair value less costs to sell and its value in use, where value in use is determined using:
 - The depreciated replacement cost approach
 - The restoration cost approach
 - The service units approach
- For **cash-generating assets**, the recoverable amount shall be the higher of the asset's fair value less costs to sell and its value in use, where value in use is the present value of expected future cash flows.

Responsibilities and Process

The CFO, with the assistance of all heads of department, shall review the carrying values (as defined in Part 28) in respect of all fixed assets on an annual basis. This review shall be conducted no later than 31 May of each financial year.

Where the carrying value exceeds the recoverable amount for a cash-generating asset, or exceeds the recoverable service amount for a non-cash-generating asset, such reduction shall be recorded as an impairment loss against the operating account of the department concerned.

The depreciation applicable to the asset concerned shall thereafter be effected against the reduced carrying amount over the remaining estimated life of such asset.

All impairment assessments shall be documented, including the indicator(s) that triggered the assessment, the methodology used, and the resulting impairment loss (if any).

Impairment losses and their reversal shall be approved by the CFO and reported to the MM.

Reversal of Impairment Losses

An impairment loss recognised in prior periods shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount or recoverable service amount since the last impairment loss was recognised.

The increased carrying amount due to reversal shall not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior periods.

PART 28 – CARRYING VALUES OF FIXED ASSETS

All fixed assets shall be carried in the FAR and appropriately recorded in the Annual Financial Statements at their original cost or fair value, less any accumulated depreciation and accumulated impairment.

The carrying value of a fixed asset shall be the amount at which the asset is recorded in the statement of financial position after:

- Adding the cost or other initial measurement of the asset

- Adding any subsequent enhancements or improvements
- Deducting accumulated depreciation
- Deducting any impairment losses
- Adding back any impairment reversals

The only exceptions to this rule shall be revalued assets (see Part 29 below) and heritage assets in respect of which no value is recorded in the FAR.

The CFO shall ensure that carrying values in the FAR are reconciled to the statement of financial position on a monthly basis and adjusted for any discrepancies.

PART 29 – REVALUATION OF FIXED ASSETS

Measurement Model

The municipality shall adopt the following measurement models for each class of fixed assets:

- **Land:** Revaluation model
- **Buildings:** Revaluation model
- **Infrastructure assets:** Revaluation model
- **Community assets:** Revaluation model

- **Other assets (movable):** Cost model
- **Heritage assets:** Cost model (or revaluation model where reliable fair values exist)
- **Intangible assets:** Cost model
- **Investment property:** Fair value model (per GRAP 16)

Revaluation Requirements

1. Frequency of Revaluation

Revaluations shall be carried out with sufficient regularity to ensure that the carrying amount does not differ materially from fair value at the reporting date. For all asset classes under the revaluation model, revaluations shall occur at least every five (5) years, or with the adoption of each new municipal valuation roll, whichever occurs first.

The effective date of the most recent revaluation was 30 June 2024, performed by an independent valuer. The valuation was performed using the discounted cash flow approach for infrastructure and community assets, and arm's length market evidence for land and buildings.

2. Class-Wide Revaluation

If an asset belonging to a class of PPE is revalued, the entire class of PPE to which that asset belongs shall be revalued. Items within a class shall be revalued simultaneously, or on a rolling basis provided the revaluation is completed within a short period and the revaluations are kept up to date.

Treatment of Revaluation Surpluses

If the carrying amount of an asset is increased as a result of a revaluation, the increase shall be credited directly to a revaluation surplus in net assets. 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.

The CFO shall also, where applicable, create a revaluation reserve for each such fixed asset equal to the difference between the value as recorded in the valuation roll and the carrying value of the fixed asset before the adjustment in question.

The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its revalued amount, over its remaining useful operating life. Such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the department or vote controlling or using the fixed asset in question.

The CFO shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred each month from the revaluation reserve to the municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary.

Treatment of Revaluation Deficits

If the carrying amount of an asset is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

If the amount recorded on the valuation roll is less than the carrying value of the fixed asset recorded in the FAR, the CFO shall adjust the carrying value of such asset by increasing the accumulated depreciation of the fixed asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll. Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient, an immediate additional charge shall be made against the department or vote controlling or using the asset in question.

Use of Valuers

A professional valuer shall be engaged by the municipality to undertake revaluations. The valuer shall hold a recognised professional qualification and have recent experience in the location and category of assets being valued.

Recording and Disclosure

Revalued land and buildings shall be carried in the FAR, and recorded in the Annual Financial Statements, at their revalued amount, less accumulated depreciation (in the case of buildings).

The revaluation surplus in equity related to a specific item of property, plant, and equipment shall be the cumulative increase in carrying amount resulting from revaluations, net of any revaluation decreases previously recognised in surplus or deficit for that asset. The revaluation surplus shall be transferred directly to retained earnings when the asset is derecognised.

The CFO shall maintain a revaluation reserve schedule that reconciles the revaluation surplus per asset class.

PART 30 – VERIFICATION OF FIXED ASSETS

The municipality shall conduct an annual physical verification of all fixed assets to ensure that:

- All assets recorded in the FAR physically exist
- All physically existing assets are recorded in the FAR
- Assets are in the locations recorded in the FAR
- Assets are in the condition expected

Every head of department shall, at least once during every financial year and in compliance with the relevant written directives issued by the CFO, undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

The Asset Manager shall coordinate the annual physical verification, normally conducted between May and June of each financial year. Departmental heads shall ensure that asset verification teams have access to assets and facilities.

Verification Reports

A verification report shall be prepared documenting:

- Assets found in situ
- Assets not located
- Assets found in different locations
- Assets found in different condition
- Surplus assets identified
- Recommendations for FAR adjustments

The directives issued by the CFO shall stipulate the date(s) when such verification shall be undertaken and completed, and such date(s) shall be as close as possible to the end of each financial year.

Every head of department shall promptly and fully report in writing to the CFO, in the format determined by the CFO, all relevant results of such fixed asset verification. The resultant report shall be submitted to the CFO not later than 30 June of the year in question.

Verification-to-FAR Reconciliation

Following the completion of the annual asset verification, the Asset Manager shall prepare a formal reconciliation between the verification results and the FAR. This reconciliation shall be completed within 30 days of the verification completion date.

The reconciliation shall categorise all discrepancies as follows:

- **Surpluses:** Assets found during verification but not recorded in the FAR – to be investigated and, where appropriate, recognised in the FAR at fair value with approval from the CFO.
- **Shortages:** Assets recorded in the FAR but not found during verification – to be investigated and, where not subsequently located within 30 days, recommended for write-off or impairment in accordance with Parts 27 and 32.
- **Location discrepancies:** Assets found in a different location from that recorded in the FAR – the FAR shall be updated to reflect the correct location.
- **Condition discrepancies:** Assets found in a materially different condition from that previously recorded – a formal condition reassessment shall be performed and the useful life and impairment status reviewed.

Approval of FAR Adjustments

All adjustments to the FAR arising from the verification reconciliation shall be approved by the CFO before being processed.

Reporting

The CFO shall report material verification discrepancies to the MM within 60 days of verification completion. A summary of verification outcomes and FAR adjustments shall be included in the annual report to Council.

PART 31 – ALIENATION/DISPOSAL OF FIXED ASSETS

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the transfer or disposal of ownership of any fixed asset shall be fair, equitable, transparent, competitive, and consistent with the municipality's supply chain management policy and delegation's framework.

Methods of Disposal

Assets may be disposed of through:

- Sale to third parties
- Trade-in as part of new acquisitions
- Donation to other entities
- Scrapping or demolition where the asset has reached the end of its useful life

Departmental Reporting

Every head of department shall report in writing to the CFO on 31 October and 30 April of each financial year on all fixed assets controlled or used by the department concerned which such head of department wishes to alienate.

The CFO shall thereafter consolidate the requests received from the various departments and promptly report such consolidated information to the MM, indicating the process of alienation

to be adopted in accordance with Section 20 of the municipality's supply chain management policy.

CFO Responsibilities

The CFO shall ensure that:

- The alienation of any fixed asset with a carrying value equal to or in excess of R50,000 takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004.
- Any gain or loss on disposal is recorded in the statement of financial performance.
- Proceeds from disposal are accounted for in accordance with mSCOA requirements.
- All related documentation is retained for audit purposes.

Once fixed assets are alienated, the CFO shall delete the relevant records from the FAR.

Accounting Treatment of Gains and Losses

- If the proceeds of the alienation are less than the carrying value recorded in the FAR, such difference shall be recognised as a loss in the statement of performance of the department or vote concerned.
- If the proceeds of the alienation are more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the statement of performance of the department or vote concerned.
- All gains realised on the alienation of fixed assets shall be appropriated annually to the municipality's capital replacement reserve (except in specific cases outlined in policy).
- All losses on the alienation of fixed assets shall remain as expenses on the income statement of the department or vote concerned.
- If both gains and losses arise in any one financial year in respect of the alienation of fixed assets of any department or vote, only the net gain (if any) shall be appropriated.

Transfers to Other Entities

Transfer of fixed assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control), or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty in accordance with Section 20 of the municipality's supply chain management policy.

Reporting to Council

The CFO shall in July of every year report to the Council of the municipality details of all fixed assets disposed of during the immediately preceding financial year.

PART 32 – OTHER WRITE-OFFS OF FIXED ASSETS

A fixed asset, other than when disposed of in accordance with Part 31, and even though fully depreciated, shall be written off by the CFO only on the recommendation of the head of department controlling or using the asset concerned, and with the approval of the MM.

Every head of department shall report to the CFO on 31 October and 30 April of each financial year on any fixed assets which such head of department wishes to have written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports and promptly submit a recommendation to the Council of the municipality on the fixed assets to be written off.

Acceptable Reasons for Write-Off

Assets may be written off (derecognised) where:

- They have become obsolete and are no longer required by the municipality
- They are beyond economical repair or restoration
- They are in such poor condition that they cannot be safely used or disposed of
- They have been lost, stolen, or destroyed and cannot be recovered or replaced
- They have suffered material impairment that renders them unusable

Approval and Accounting Treatment

- Write-offs shall be approved by the CFO and, where the write-off value exceeds a prescribed threshold, by the MM or Council.
- Write-offs shall be recorded as losses in the statement of financial performance and removed from the FAR.

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

PART 33 – REPLACEMENT NORMS

The MM, in consultation with the CFO and relevant heads of department, shall establish and maintain replacement norms for various asset classes.

Replacement norms represent the expected useful lives and standard replacement cycles for assets required for service delivery.

Purpose of Replacement Norms

Replacement norms shall be used to:

- Plan for capital replacements
- Forecast maintenance and operating costs
- Inform budget allocations
- Assess the backlog of deteriorating assets

Review and Adjustment

The Asset Manager shall review replacement norms annually and adjust them based on actual experience, condition assessments, and changing circumstances.

Norms and standards for the replacement of operational fixed assets such as motor vehicles, furniture and fittings, and computer equipment shall be included in a formal policy submitted to Council for approval. These norms shall ensure that assets which have become uneconomical to maintain are replaced in a timely and cost-effective manner.

PART 34 – INSURANCE OF FIXED ASSETS

The municipality shall insure appropriate fixed assets against loss, damage, or destruction to the extent that insurance is cost-effective and available in the market.

The CFO shall ensure that:

- All movable fixed assets are insured at least against fire and theft
- All municipal buildings are insured at least against fire and allied perils
- Records of all insured assets are maintained
- Insurance valuations are updated to reflect current values
- Claims are lodged promptly and followed up to resolution
- Insurance proceeds are accounted for appropriately when received

The CFO shall annually determine the premiums payable by departments in respect of the assets under their control.

The CFO shall determine the basis of insurance to be applied to each type of fixed asset, either the carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

Insurance proceeds received shall be accounted for in the statement of financial performance in the year received and applied to restoration or replacement of the damaged asset where applicable.

The CFO shall annually submit a report to the Council of the municipality for approval on any insurance cover deemed necessary to procure for the municipality's assets.

PART 35 – BIOLOGICAL ASSETS

Biological assets are living animals or plants controlled by the municipality, including livestock, forests, and agricultural crops.

Biological assets shall be recognised and measured in accordance with GRAP 101. They shall be measured at fair value less estimated costs to sell at each reporting date.

Changes in fair value shall be recognised in surplus or deficit in the period in which they occur. All biological assets shall be separately identified and recorded in the FAR, or in a separate accounting record, with supporting documentation of valuation methodologies applied.

The CFO, in consultation with the relevant heads of department, shall ensure that biological assets are valued annually at 30 June by a recognised valuer in the line of the biological assets concerned.

If any biological asset is lost, stolen, or destroyed, the matter – if material – shall be reported in writing by the head of department concerned in the same manner as though the asset were an ordinary fixed asset.

Records of biological assets shall reflect the information deemed necessary for accounting and control purposes by the CFO, in consultation with the head of department concerned and the internal auditor.

The CFO shall annually insure the municipality's biological assets, in consultation with the relevant heads of department, provided the Council considers such insurance desirable and affordable.

PART 36 – INTANGIBLE ASSETS

Definition

Intangible assets are identifiable, non-monetary assets without physical substance. Examples include:

- Software and software licences
- Patents and trademarks
- Copyrights
- Franchise agreements
- Customer lists
- Leasehold interests
- Mineral exploration rights
- Servitudes, advertising rights, and encroachment rights

Recognition and Measurement

An intangible asset shall be recognised if:

- It is probable that future economic benefits or service potential will flow to the municipality from the asset
- The cost of the asset can be measured reliably

Intangible items shall initially be recorded at cost. Where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition.

Cost Model

Under the cost model, an intangible asset shall be carried at cost less accumulated amortisation and any accumulated impairment losses.

Revaluation Model

If approved by the CFO, the revaluation model may be applied to a class of intangible assets where fair values are reliably determinable by reference to an active market.

An intangible asset carried under the revaluation model shall be measured at its fair value at the date of revaluation, less any subsequent accumulated amortisation and impairment losses.

Useful Life

The municipality shall assess whether the useful life or service potential of an intangible asset is finite or indefinite.

- An intangible asset with a **finite useful life** shall be amortised over that period.
- An intangible asset with an **indefinite useful life** shall not be amortised, but its useful life assessment shall be reviewed annually.

Useful lives shall normally be:

- Computer software: 3–10 years
- Patents and trademarks: based on legal protection or economic life
- Leasehold interests: the length of the lease term

Retirements and Disposals

An intangible asset shall be derecognised:

- On disposal, or
- When no further economic benefits or service potential are expected from its use

Any gain or loss on derecognition shall be recorded in surplus or deficit.

Review of Useful Life Assessment

The useful life of each intangible asset shall be reviewed annually. Where the current assessment differs from previous estimates, the change shall be accounted for as a change in accounting estimate in accordance with GRAP 3.

PART 37 – WORK-IN-PROGRESS (WIP) MANAGEMENT

All expenditure incurred on the construction, development, or acquisition of capital assets that are not yet available for use shall be recorded as WIP in the FAR.

Recording of WIP

Capital project expenditure shall be recorded as WIP from the date of first expenditure. Each WIP item shall be linked to a specific capital project and budget vote. The following information shall be maintained for each WIP item:

- Project name and reference number
- Budget vote and mSCOA classification
- Cumulative expenditure to date
- Expected completion date
- Responsible department and project manager

Capitalisation of WIP

WIP shall be capitalised (transferred to the appropriate asset class) when:

- The asset is available for use or in the condition necessary for it to be capable of operating in the manner intended by management; and
- A completion certificate or equivalent documentation has been received and approved

In accordance with Part 5, a completion certificate must be provided to the Budget and Treasury Section (Asset Unit) within 7 days of handover and/or completion to ensure that completed projects are taken up in the FAR and are properly insured.

Borrowing Costs

Where borrowing costs are directly attributable to the acquisition, construction, or production of a qualifying asset (being an asset that necessarily takes a substantial period of time to get ready for its intended use), such borrowing costs shall be capitalised as part of the cost of that asset in accordance with GRAP 5.

Review of Long-Outstanding WIP

The CFO shall review all WIP balances on a quarterly basis. Any WIP item that has been outstanding for more than 12 months beyond its expected completion date shall be investigated and one of the following actions taken:

- The expected completion date is revised with documented justification
- The project is identified as impaired and an impairment assessment is conducted per Part 27
- The project is recommended for write-off if it has been abandoned with no prospect of completion

The results of quarterly WIP reviews shall be reported to the MM.

PART 38 – RECOGNITION OF ASSETS IN FINANCIAL STATEMENTS

Recognition

Recognition is the process of incorporating in the Statement of Financial Position or Statement of Financial Performance an item that meets the definition of an asset and satisfies the criteria for recognition.

An asset shall be recognised if:

- It is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- The asset has a cost or value that can be measured reliably.

Where reasonable estimates are required, their use shall not undermine reliability. However, if a reasonable estimate cannot be made, the item shall not be recognised in the Statement of Financial Position or Statement of Financial Performance.

Presentation and Disclosure

All fixed assets meeting the definition and recognition criteria shall be recorded in the Statement of Financial Position.

Fixed assets shall be presented in the Statement of Financial Position grouped by asset class:

- Property, Plant and Equipment (PPE) – further analysed by land, buildings, infrastructure, community assets, and other assets
- Heritage Assets
- Intangible Assets
- Investment Properties
- Biological Assets

The notes to the Annual Financial Statements shall disclose:

- Movements in fixed assets during the year (opening balance, additions, disposals, depreciation, impairment)
- Valuation basis and depreciation methods used
- Details of any revaluations conducted during the year
- Details of any significant impairment assessments
- Details of any donated assets

- Composition of WIP
- Analysis by asset class and useful life categories

Expenditure Treatment

- Expenditure incurred on an existing asset shall be capitalised if it extends the useful life or enhances functionality, and shall be depreciated over the remaining life of the asset.
- Expenditure that does not extend useful life or functionality shall be recognised as maintenance expense in the Statement of Financial Performance.
- Expenditure incurred for safety or environmental reasons shall qualify for recognition as an asset if it enables future economic benefits or service potential to be derived from related assets. Recognition shall be limited to the extent that the resulting carrying amount of such assets does not exceed the total economic benefits or service potential expected from their continued use and ultimate disposal.

PART 39 – ANNEXURE - ESTIMATED USEFUL LIVES

The following table provides estimated useful lives at the generalised Sub-class level. Where more granular component-level useful lives exist, the representative Sub-class useful life is shown. The municipality may adopt more detailed useful lives as the FARis enhanced.

Residual value shall be Nil (0%) for all infrastructure and building components, consistent with established public sector asset management practices and national guidance.

| Asset Class | Sub-Class | Asset Type | Description | EUL (Yrs) |
|----------------|------------------------|--------------------------------------|--|-----------|
| Infrastructure | Roads | Road Structure | Roads Base Structure | 50 |
| Infrastructure | Roads | Road Structure | Road Surface (wearing course) | 20 |
| Infrastructure | Roads | Road Structure | Kerbing | 50 |
| Infrastructure | Roads | Road Furniture | Footpaths/Pavements | 20 |
| Infrastructure | Roads | Road Furniture | Guard Rails | 25 |
| Infrastructure | Roads | Road Furniture | Road Signs | 10 |
| Infrastructure | Roads | Stormwater supply boreholes Drainage | Stormwater supply boreholes Pipes/Channels | 50 |
| Infrastructure | Roads | Stormwater supply boreholes Drainage | Culverts | 50 |
| Infrastructure | Roads | Bridge | Vehicle/Pedestrian Bridge | 80 |
| Infrastructure | Roads | Public Lighting | Street Lights | 40 |
| Infrastructure | Roads | Public Lighting | High Mast Lights | 50 |
| Infrastructure | Roads | Traffic Management | Traffic Lights | 15 |
| Infrastructure | Electricity | Electrical Distribution | Transformers | 45 |
| Infrastructure | Electricity | Electrical Distribution | Mini-Substations | 45 |
| Infrastructure | Electricity | Electrical Distribution | Distribution Kiosks | 40 |
| Infrastructure | Electricity | Electrical Distribution | HV Towers/Poles | 40 |
| Infrastructure | Electricity | Substation | Circuit Breakers | 45 |
| Infrastructure | Electricity | Substation | Busbars and Isolators | 50 |
| Infrastructure | Electricity | Substation | Capacitor Banks | 15 |
| Infrastructure | Electricity | Substation | Static Power (Batteries) | 15 |
| Infrastructure | Electricity | Switching Station | Switchgear (MV/HV) | 45 |
| Infrastructure | Electricity | MV/LV Feeders | Overhead Lines | 45 |
| Infrastructure | Electricity | MV/LV Feeders | Underground Cables | 40 |
| Infrastructure | Electricity | Electrical Equipment | Electricity Meters | 20 |
| Infrastructure | Water supply boreholes | Civil Structure | Borehole Structures | 50 |
| Infrastructure | Water supply boreholes | Pipe work | Valves (Isolation/PRV/NRV) | 15 |
| Infrastructure | Boreholes | Civil Structure | Treatment Works Structures | 50 |
| Infrastructure | Boreholes | Civil Structure | Oxidation Ponds/Dams | 50 |
| Infrastructure | Boreholes | Civil Structure | Manholes | 50 |
| Infrastructure | Boreholes | Pipe work | Sewer Pipes (Gravity) | 70 |
| Infrastructure | Boreholes | Pipe work | Sewer Pipes (Rising Mains) | 70 |
| Community | Buildings | Building (Shell) | Superstructure (per type) | 25–50 |
| Community | Buildings | Building Elements | Roof (per material) | 20–40 |
| Community | Buildings | Building Elements | Wall | 60 |
| Community | Buildings | Building Elements | Floor | 50 |
| Community | Buildings | Building Elements | Electrical Installation | 30 |
| Community | Buildings | Building Elements | Plumbing | 20 |

| | | | | |
|-----------------|--------------|--------------------------|------------------------------|------|
| Community | Buildings | Building Elements | Fire Protection | 20 |
| Community | Buildings | Building Elements | Finishes, Fixtures, Fittings | 15 |
| Community | Buildings | Building Elements | Air Conditioning (Central) | 8 |
| Community | Buildings | Building Elements | Security Devices/Systems | 7–10 |
| Community | Buildings | Building Elements | Security Fence and Gate | 20 |
| Community | Buildings | External Facility | External Structures | 7–30 |
| Community | Recreation | Sports Facility | Swimming Pools | 20 |
| Community | Recreation | Sports Facility | Courts/Pitches/Tracks | 20 |
| Community | Recreation | Outdoor Facility | Playground/Gym Equipment | 20 |
| Other (Movable) | Transport | Transport Assets | Passenger Vehicles | 7 |
| Other (Movable) | Transport | Transport Assets | Trucks, Buses, LDVs | 7–15 |
| Other (Movable) | Transport | Transport Assets | Emergency Vehicles | 10 |
| Other (Movable) | Transport | Transport Assets | Specialised/Farm Vehicles | 15 |
| Other (Movable) | Furniture | Furniture & Office Equip | Tables, Desks, Chairs | 7 |
| Other (Movable) | Furniture | Furniture & Office Equip | Cabinets, Shelving | 7 |
| Other (Movable) | Furniture | Furniture & Office Equip | Office Machines | 5 |
| Other (Movable) | IT Equipment | Computer Equipment | Computer Hardware | 4 |
| Other (Movable) | Machinery | Machinery & Equipment | Earth Moving Equipment | 7 |
| Other (Movable) | Machinery | Machinery & Equipment | Workshop Equipment/Tools | 5 |
| Other (Movable) | Machinery | Machinery & Equipment | Emergency/Medical Equip | 5 |

This Policy shall be reviewed periodically to ensure alignment with applicable legislation, accounting standards, and best practices relating to municipal asset management. In the event that new guidelines, directives, or requirements are issued through Municipal Finance Management Act (MFMA) Circulars, National Treasury instructions, or other applicable legislation and such provisions have not yet been formally incorporated into this Policy through an amendment process, the relevant MFMA Circulars and directives shall take precedence and be deemed applicable and enforceable until the Policy is duly updated and approved by Council.