

## INFRASTRUCTURE ASSET MANAGEMENT DRAFT POLICY



**Fezile Dabi**  
District Municipality

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## 2. DEFINITIONS

Assets	Resources controlled by the municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.
Asset Management Team	A multi-disciplinary team appointed by the Municipal Manager to initiate, monitor and review the asset management practices improvement program, the development of Infrastructure Asset Management Plans and a Consolidated Municipal Infrastructure Plan consistent with the municipality's goals and objectives.
Asset Management Policy	A formal statement adopted by Council that indicates the municipality's policy objective, the policy principles, and how these will be pursued (including the establishment of an IAM Team, and aligned systems and planning).
Asset Management Information System	A combination of processes, data and software applied to provide outputs required for effective asset management.
Asset Performance	The performance of an asset that is measured in line with the applicable Level of Service.
Asset Register	A record of information on each asset that supports effective financial and technical management of the assets, and meets statutory requirements.
Asset Utilisation	The extent to which an asset is being productively used – typically measured as a percentage of its capacity.
Borrowing costs	Interest and other expenses incurred by the municipality in connection with the borrowing of funds, for example interest on a bank overdraft.
Capital spares	Considered to be spares that constitute an entire or significant portion of a component type, or a specific component, defined in the immovable asset hierarchy, for example emergency equipment.
Carrying amount of PPE	The amount at which a Property, Plant or Equipment (PPE) asset is recognised after deducting any accumulated depreciation and accumulated impairments losses.
Carrying amount of Investment Property	The amount at which an Investment Property asset is recognised in the statement of Financial Position; which could be the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairments losses or the fair value at that point in time.
Carrying amount of heritage assets	The amount at which a Heritage asset is recognised after deducting any accumulated impairments losses.
Cash	Comprises cash on hand and demand deposits.
Cash flows	Inflows and outflows of cash and cash equivalents.
Cash equivalents	Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.
Cash-generating assets	Assets held with the primary objective of generating a commercial return.

Cash-generating unit	The smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflow from continuing use that are largely independent of the cash inflows from other assets or groups of assets.
Class of property, plant and equipment	A grouping of assets of a similar nature or function in the municipality's operations, which is shown as a single item for the purpose of disclosure in the financial statements.
Commencement of the lease term (municipality as the lessee)	The date from which the municipality is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.
Community Facilities	Discrete assets that provide a service directly to the community (such as parks, sports facilities, cemeteries, landfill sites etc.).
Components	The portions of an asset.
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.
Consolidated Municipal Infrastructure Plan	A plan that provides a holistic overview of existing service performance, a vision of future performance scenarios, the risks, priorities, funding and tariff implications, as a strategic input to the Integrated Development Planning process.
Cost of disposal	Incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expenses. Examples of costs of disposal are stamp duty, legal costs, costs of removing the asset and incremental costs to bring the asset into a condition for its sale.
Control	An entity is deemed to have control of an asset if it:  has the capacity to benefit from the asset;  is able to deny or regulate access of others to that benefit; and  has the ability to secure the future economic benefit of that asset.
Critical Assets	Assets for which the consequences of failure are sufficiently severe to justify pro-active inspection, maintenance and renewal. ("Important" Assets also justify pro-active inspection, maintenance and renewal, but not to the same level as "Critical" Assets).
Current Replacement Cost	A measure of replacement value – the cost of replacing an existing asset with a modern asset of equivalent capacity.
Demand Management	An active intervention to change the pattern of demand for a service e.g. to minimise or eliminate the need to upgrade assets, to address a limitation on bulk supply capacity, or minimise losses.
Depreciable amount	The cost of an asset, or other amount substituted for cost, less its residual value.
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.

<p>Depreciated replacement cost (DRC)</p>	<p>This is established by subtracting the residual value from the current replacement cost (CRC) and proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the estimated useful life. The DRC approach requires information on the estimated useful life (EUL), residual value (RV), current replacement cost (CRC) and remaining useful life (RUL) of each of the asset components.</p> <p>Accordingly the following formula is used:</p> $DRC = ((CRC - RV) \times RUL / EUL) + RV$ <p>Replacement costs are "green fields", unless there is evidence of definite cost variance due to "brown-field" modifications. Capital unit costs vary from site to site and provision is made for site specific influencing factors e.g. topography. Capital unit costs are also influenced by macro-economic driving forces such as "supply and demand", financial markets and availability of contractors.</p>
<p>Disposal</p>	<p>The action required to effectively dispose, decommission, or transfer assets in terms of legal or organisational requirements.</p>
<p>Expenses</p>	<p>Decreases in economic benefits or service potential during the reporting period in the form of outflows or consumptions of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.</p>
<p>Exchange Transactions</p>	<p>Transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.</p>
<p>Entity-specific value</p>	<p>The present value or service potential of the benefits the municipality expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.</p>
<p>Exempted capital assets</p>	<p>Municipal capital assets to be disposed where National Treasury approved the disposal; therefore Council approval is not necessary.</p>
<p>Fair value</p>	<p>The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.</p>
<p>Finance lease</p>	<p>A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.</p>
<p>Heritage assets</p>	<p>Assets with cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.</p>
<p>High value</p>	<p>In relation to a capital asset of a municipality or municipal entity means that the fair market value of the capital asset exceeds any of the following amounts:</p> <p>R50 million;</p> <p>one per cent of the total value of the capital assets of the municipality or municipal entity, as determined from the latest available audited annual financial statements of the municipality or entity; or</p> <p>an amount determined by resolution of the council of the municipality or of the controlling municipality of the municipal entity which is less than R50 mil or one per cent of the total value.</p>

Infrastructure assets	Usually have the following characteristics: they are part of a system or network; they are specialised in nature and do not have alternative uses, they are immovable; and they may be subject to constraints on disposals.
An impairment loss	Of a <u>cash-generating asset</u> is the amount by which the carrying amount of an asset exceeds its recoverable amount.
	Of <u>non-cash generating asset</u> is the amount by which the carrying amount of an asset exceeds its recoverable service amount.
Immovable assets	Fixed structures such as buildings and roads. A plant that is built-in to the fixed structures and is an essential part of the functional performance of the primary asset is considered an immovable asset (though it may be temporarily removed for repair).
Impracticable	When the municipality cannot apply a requirement after making every reasonable effort to do so. For example; it is impracticable to apply a change in accounting policy for a prior period retrospectively if the effects of the retrospective application are not determinable.
Infrastructure Asset Management Plan	A plan developed for the management of Infrastructure Assets with the aim of providing specified levels of service in a cost-effective manner, now and in the future. Multi-disciplinary management techniques (including technical and financial) are combined to determine the aggregated asset life-cycle needs. A significant component of the plan is a long-term cash-flow.
Inception of a lease	The earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.  As at this date:  a lease is classified as either a finance lease or an operating lease, and  in the case of a finance lease, the amounts to be recognised at the commencement of the lease term as determined.
A lease	An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.
The lease term	The non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset with or without any further payments, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.
Level of Service	The defined parameters that characterise essential service delivery requirements for a particular service, against which performance may be measured. Criteria can relate to availability of the service, quality, quantity, reliability, responsiveness, environmental acceptability and cost. Measures are identified for each criteria and used for performance monitoring and reporting and as a departure point for risk management.
Life-cycle	The cycle of activities that an asset goes through – including planning and design, initial acquisition and construction, cycles of operation and maintenance and capital renewal, and finally disposal.

<p>Intangible asset</p>	<p>An identifiable non-monetary asset without physical substance.</p> <p>An intangible asset is <u>identifiable</u> if it either:</p> <p>Is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licenced or exchanged, either individually or together with a related contract, identifiable asset or liability; or</p> <p>Arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.</p>
<p>Investment property</p>	<p>Property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:</p> <p>use in the production or supply of goods or services or for administrative purposes; or,</p> <p>sale in the ordinary course of operations.</p> <p><u>Classifications of investment property:</u></p> <p>Local government may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services. This property will also meet the definition of investment property.</p> <p>Investment property generates cash flows largely independently of the other assets held by the municipality. This distinguishes investment property from other land and buildings controlled by the municipality, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows.</p> <p><u>Investment property includes the following:</u></p> <p>land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;</p> <p>land held for a currently undetermined future use;</p> <p>a building owned by the municipality and leased out under one or more operating leases on a commercial basis to external parties;</p> <p>a property owned by the entity and leased out at below market rental; or</p> <p>property that is being constructed or developed for future use as investment property.</p> <p>When the municipality provides ancillary services to the occupants of a property it holds and the services are insignificant to the arrangement as a whole, the property will still be treated as investment property.</p>
<p>Maintenance</p>	<p>The action required for an asset to achieve its estimated useful life. Maintenance can be planned or unplanned. Repairs are a form of unplanned maintenance after failure or damage.</p>

Material	Omissions or misstatements of items are material if it could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The size or nature of the information item, or a combination of both, could be the determining factor.
Monetary assets	Money held or assets to be received in fixed or determinable amounts of money.
Movable assets	Not fixed structures and can be moved from one location to another location, for example computers and vehicles.
Non-monetary assets	Assets other than monetary assets.
Non-cash-generating assets	Assets other than cash-generating assets.
Non-exchange transactions	Transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
Non-exempted capital assets	Municipal assets for which Council must approve disposals.
An obligating event	<p>An event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.</p> <p>A <u>constructive obligation</u> is an obligation that derives from an entity's actions where:</p> <ul style="list-style-type: none"> <li>by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and</li> <li>as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.</li> </ul> <p>A <u>legal obligation</u> is an obligation that derives from:</p> <ul style="list-style-type: none"> <li>a contract (through its explicit or implicit terms);</li> <li>legislation; or</li> <li>other operation of law.</li> </ul>
Operations	The use of manpower and consumables (such as energy, chemicals and materials) required for an asset to operate to the required performance.
An operating lease	A lease other than a finance lease.
Organ of state	<p>Means –</p> <ul style="list-style-type: none"> <li>a national department or national public entity;</li> <li>a provincial department or provincial public entity;</li> <li>a municipality or municipal entity;</li> <li>any other organ of state within the meaning assigned to “organ of state” in section 239 of the Constitution.</li> </ul>
Owner-occupied property	Property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or administrative purposes.

A PPE asset hierarchy	This is adopted for Property, Plant and Equipment (PPE) which enables separate accounting for components of the asset that are considered significant to the municipality from a financial point of view, and for other reasons determined by the municipality, including risk management (in other words, taking into account the criticality of components) and alignment with the strategy adopted by the municipality in asset renewal (for example the extent of the replacement or rehabilitation at the end of life). In addition, the municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognises the functional relationship of assets and components.
Practices Improvement Plan	An action plan to improve the way infrastructure management is practiced in the municipality, based on an assessment of existing and target practice, and focussing on management processes, systems, data, and organisational arrangements. The initial Practices Improvement Plan may be prepared in the form of a Business Plan to be driven on a program basis.
Prior period errors	These are omissions from, and misstatements in, the municipality's financial statements for one or more prior periods arising from the failure to use, or misuse of, reliable information that: was available when financial statements for those periods were authorised for issue; and could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
Property, Plant and Equipment	These are tangible items that: a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and b) are expected to be used during more than one reporting period.
A provision	This is a liability of uncertain timing or amount.
Qualifying asset	An asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Examples of qualifying assets are office buildings, infrastructure such as roads, bridges and power distribution facilities and property that will become self-constructed items of property, plant and equipment once construction is complete.
Recoverable amount	The higher of a cash-generating asset's fair value less cost to sell and its value in use.
Recoverable service amount	The higher of a non-cash generating asset's fair value less cost to sell and its value in use.
Rehabilitation	The works to rebuild or replace parts of an asset to enable it to the original capacity and performance, and materially extend its useful life (which may be a full or partial extension of life – i.e. less than its estimated useful life).
Renewal	The replacement or rehabilitation of an asset.
Remaining useful life	Of an asset is the time remaining until an asset ceases to provide the required standard of performance or usefulness.
Reporting date	The date of the last day of the reporting period to which the financial statements relate.

Replacement	The complete replacement or reconstruction of an asset with one that performs to a similar standard of performance.
Residual value	The estimated amount that the municipality would currently obtain from disposal of the asset after deducting the estimated cost of disposal, if the asset was already of the age and in a condition expected at the end of its useful life.
Revenue	The gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.
Risk Management	The application of a formal process that identifies the exposure of a municipality to service performance risk and determines appropriate responses.
Upgrading	The replacement, augmentation, or alteration of an asset that results in a material improvement to capacity or performance.
Useful life	This is: 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.

### 3. ABBREVIATIONS

CFO	Chief Financial Officer
COGTA	Department of Cooperative Governance and Traditional Affairs
FDDM	Fezile Dabi District Municipality
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Standards of Generally Recognised Accounting Practice
IAMP	Infrastructure Asset Management Plan
IAS	International Accounting Standards
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act (Act No.56 of 2003)
OHSA	Occupational Health and Safety Act (Act No.85 of 1993)
PPE	Property, plant and equipment

## 4. PURPOSE OF THIS DOCUMENT

This policy for the management of immovable assets has been designed to assist management and officials of the Fezile Dabi District Municipality's (hereafter named FDDM) with the description of the management and accounting policy applicable to immovable assets such as Property, Plant and Equipment (PPE) and Land.

This policy defines what must be done and the required outputs (where applicable), which must be extended through supporting documents that show:

- How the work should be done (Procedures); and,
- The process, targets and intermediate goals involved with changing from the status quo to the desired future level of immovable asset management (Strategic Plan).

The policy commits the municipality to ensure that:

- An asset register is established and maintained to ensure compliance with the latest accounting standards, and to account for the assets in a way that is aligned with the municipality's strategic objectives and recognised good practice.
- All assets acquired are necessary for the efficient, effective and economical delivery of the intended level of service.
- Assets requiring periodic maintenance are properly maintained to ensure that the intended benefit to be derived from assets procured is realised.
- Assets no longer needed to deliver services, must be declared for subsequent transfer to areas where needed or to be disposed of in the appropriate manner.
- Individuals entrusted with FDDM's assets must properly utilize such assets to ensure that the intended benefit to be derived is realised.
- Adequate security measures to safeguard the FDDM's assets must be adhered to; to ensure that loss or theft of assets is minimized.
- Assets acquisitions, movements, transfer and disposals policies and procedures must be adhered to at all times to ensure that the assets recorded in the Assets Register and funding sources are correctly identified and recorded appropriately.
- Disciplined asset management from the individual asset user up to top management must ensure that this is achieved.

## **5. BACKGROUND**

### **5.1 CONSTITUTIONAL AND LEGAL FRAMEWORK**

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

- providing democratic and accountable government for local communities;
- ensuring the provision of services to communities in a sustainable manner;
- promoting social and economic development;
- promoting a safe and healthy environment; and
- encouraging the involvement of communities and community organisations in matters of local government.

The manner in which a municipality manages its PPE is central to meeting the above challenges. Accordingly, the Municipal Systems Act (MSA) (Act No.32 of 2000) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) (Act No.56 of 2003) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal assets with the Municipal Manager.

The Occupational Health and Safety Act (OHSA) (Act No.85 of 1993) requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its immovable assets safe.

### **4.2 ACCOUNTING STANDARDS**

The MFMA requires municipalities to comply with the Standards of Generally Recognised Accounting Practice (GRAP), in line with international practice.

Key changes include the recognition of depreciation of assets as an expense, and conditional grants as revenue when it is utilised. A Government Grants Reserve and a Donations and Public Contribution Reserve are established, based on the source of funding. Immoveable assets are unbundled and each significant component is individually recognised and accounted for. PPE are measured at cost, though in cases where it is impracticable to establish the cost (e.g. where there are no reliable records, or records cannot be linked to specific assets), the cost is deemed to be the fair value of the PPE

### 5.3 MANAGEMENT OF INFRASTRUCTURE ASSETS

Effective management of infrastructure and community facilities is central to the municipality providing an acceptable standard of services to the community. Infrastructure impacts on the quality of the living environment and opportunities to prosper. Not only is there a requirement to be effective, but the manner in which the municipality discharges its responsibilities as a public entity is also important. The municipality must demonstrate good governance and customer care, and the processes adopted must be efficient and sustainable. Councillors and officials are custodians on behalf of the public of infrastructure and community assets.

Key themes of the latest generation of national legislation introduced relating to municipal infrastructure management include:

- long-term sustainability and risk management;
- service delivery efficiency and improvement;
- performance monitoring and accountability;
- community interaction and transparent processes;
- priority development of minimum basic services for all; and
- the provision of financial support from central government in addressing the needs of the poor.

Legislation has also entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However, the IDP cannot be compiled in isolation – for the above objectives to be achieved, the IDP needs to be informed by robust, relevant and holistic information relating to the management of the municipality's infrastructure.

There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintaining and renewing existing infrastructure whilst also addressing backlogs in basic services and facing on going changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from a number of departments of the municipality, including infrastructure, community services, financial planning, and corporate services.

**COGTA** has prepared guidelines in line with international practice, that propose that an Infrastructure Asset Management Plan (IAMP) is prepared for each sector (such as potable water, roads etc.). These plans are used as inputs into a Comprehensive Municipal Infrastructure Plan (CMIP) that presents an integrated plan for the municipality covering all infrastructures. The arrangements outlined in the COGTA guidelines are further strengthened by the provisions of the National Treasury's Local Government Capital Asset Management Guidelines. This is in line with the practice adopted in national and provincial spheres of

government in terms of the Government-wide Immoveable Asset Management Act (GIAMA) (Act No.19 of 2007).

Accordingly, the asset register adopted by a municipality must meet not only financial compliance requirements, but also set a foundation for improved infrastructure asset management practice.

This document provides the framework and policy directives in terms of which FDDM accounts for immovable assets in a manner that satisfies the requirements of all relevant accounting standards. A complimentary policy focussing on the management aspects of immovable assets will be prepared to give effect to Council's strategic objectives in a manner that employs industry best asset management philosophies and methods.

## **6. OBJECTIVES**

The objective of this policy is for the municipality to:

- Implement prevailing accounting standards.
- Provide a data platform that will support asset management practice in accordance with legal requirements and recognised good practice.
- Ensure the effective and efficient control, utilization, safeguarding and management of the FDDM's property, plant and equipment are achieved.
- Set out the standards of physical asset management, recording and internal controls to ensure property, plant and equipment are safeguarded against loss and/or inappropriate utilisation.
- Specify the outputs required for acquisition, transfer and disposal of assets.

## **7. APPROVAL AND EFFECTIVE DATE**

The CFO is responsible for the submission of this document to Council to consider its adoption after consultation with the Municipal Manager. Council shall indicate the effective date for implementation of the policy.

## **8. POLICY AMENDMENTS**

Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the CFO in consultation with the Municipal Manager and respective Directors. The recommendations of the CFO shall be considered for adoption by Council.

## **9. REFERENCES**

The following references were observed in compiling this document:

- Asset Management Framework, National Treasury, 2004.
- Guidelines for Infrastructure Asset Management in Local Government, Department of Provincial and Local Government, 2006.
- Municipal Finance Management Act, 2003 (Act No.56 of 2003).
- Municipal Systems Act, 2000 (Act No.32 of 2000).
- MFMA Circular 18 & 44.
- Local Government Capital Asset Management Guidelines, National Treasury, 2008.
- Government Gazettes (30013 & 31021).

- Generally Recognised Accounting Practice (GRAP 1, 3, 5, 13, 16, 17, 19, 21, 26, 31, 100, 103).
- Exposure Drafts (ED 44-46).
- Municipal Transfer and Disposal Regulations, Government Gazette no.31346.

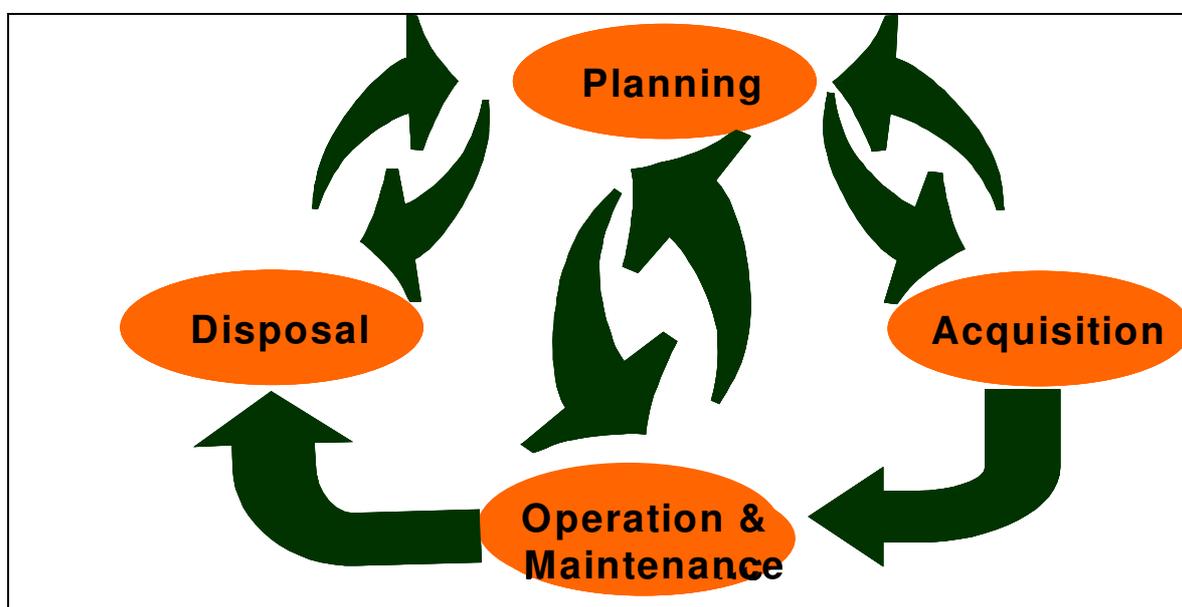
## 10. ASSET MANAGEMENT LIFE-CYCLE

### 10.1 OVERVIEW

At the municipal level, this policy defines what must be done and the required outputs (where applicable), which must be extended through supporting documents that show:

- How the work should be done (Procedures); and,
- The process, targets and intermediate goals involved with changing from the status quo to the desired future level of immovable asset management (Strategic Plan).

The FDDM shall work in accordance with the asset management lifecycle as defined by National Treasury and shown in Figure 1.



**Figure 1: Asset Life Cycle**

The following sections define what must be done in each of the phases in the asset life cycle, namely:

- Planning Phase.
- Acquisition Phase.
- Operation and Maintenance Phase.
- Disposal Phase.

### 10.2 PLANNING PHASE

#### i. Infrastructure and Community Services Backlog Study

An *Infrastructure and Community Services Backlog Study* to quantify the demand for the affordable delivery of current and future municipal infrastructure and community services and

the associated impact on infrastructure creation, operations, maintenance, renewal, upgrading and disposal. For this exercise, a backlog is defined as any obligation created or to be created in the provision of infrastructure or community services, in terms of both capital investment and maintenance expenditure. This is done for a future period of 25-years, it is monitored annually and it is updated every 5-years.

## ii. Spatial Development Framework

A *Spatial Development Framework* showing the areas where future developments should take place in terms of land use and development densities in order to meet the expected demand for the affordable delivery of future municipal infrastructure and community services. This is done for a future period of 25-years, it is monitored annually and it is updated every 5-years.

## iii. Master Plan

The *Master Plans* per technical service showing how the required infrastructure will be delivered in the identified development areas in order to meet the future demand for the required municipal infrastructure and community services. This is done for a future period of 25-years, it is monitored annually and it is updated every 5-years.

## iv. Infrastructure Asset Management Plan

The Infrastructure Asset Management Plan (IAMP) must be prepared for each sector / area of service delivery that requires infrastructure assets. The IAMP sets out the sector's needs and priorities, the levels of service, the future demand, capital works, operation and maintenance programmes and strategies, with the associated funding plans.

The planning process for infrastructure asset management must be informed by the availability of relevant city wide information produced by the **Planning Department** covering aspects such as:

National, Provincial and Municipal targets and development plans.

The availability of the existing infrastructure from information in the financial asset register and/or a technical management system.

The ability of the existing infrastructure to meet existing service demands that must be assessed in terms of current service delivery backlogs.

The future needs/demands for infrastructure service delivery where information regarding the affordability and sustainability of infrastructure provision must be assessed (e.g. *Socio-Economic Study*) together with the future plan for municipal development (e.g. *Spatial Development Framework*).

An IAMP shall be produced by 31 October in each calendar year for the following sectors:

- Community Facilities Services (including Community and Amenities); and
- Operational Building Services.

## v. Operation and Maintenance Plan

The *Operation and Maintenance Plan* per technical services that covers a 5-year period and is updated annually in order to:

- Identify the assets to be operated and maintained;
- Determine the risk of theft of each and every infrastructure asset with the associated preventative action(s).
- Define the operational tactics and activities that must be executed with the associated personnel and budget requirements.
- Define the planned maintenance tactics and activities that must be executed with the associated personnel and budget requirements.
- Define the reactive (un-planned) maintenance approach and expected activities that will probably be executed with the associated personnel and budget requirements.

## vi. Integrated Development Plan

Legislation has entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However the IDP needs to be informed by robust information relating to the long-term management of the municipality's infrastructure. The CMIP is the document that provides regulators and other stakeholders with confidence in the infrastructure inputs to the IDP as illustrated in **Error! Reference source not found..**

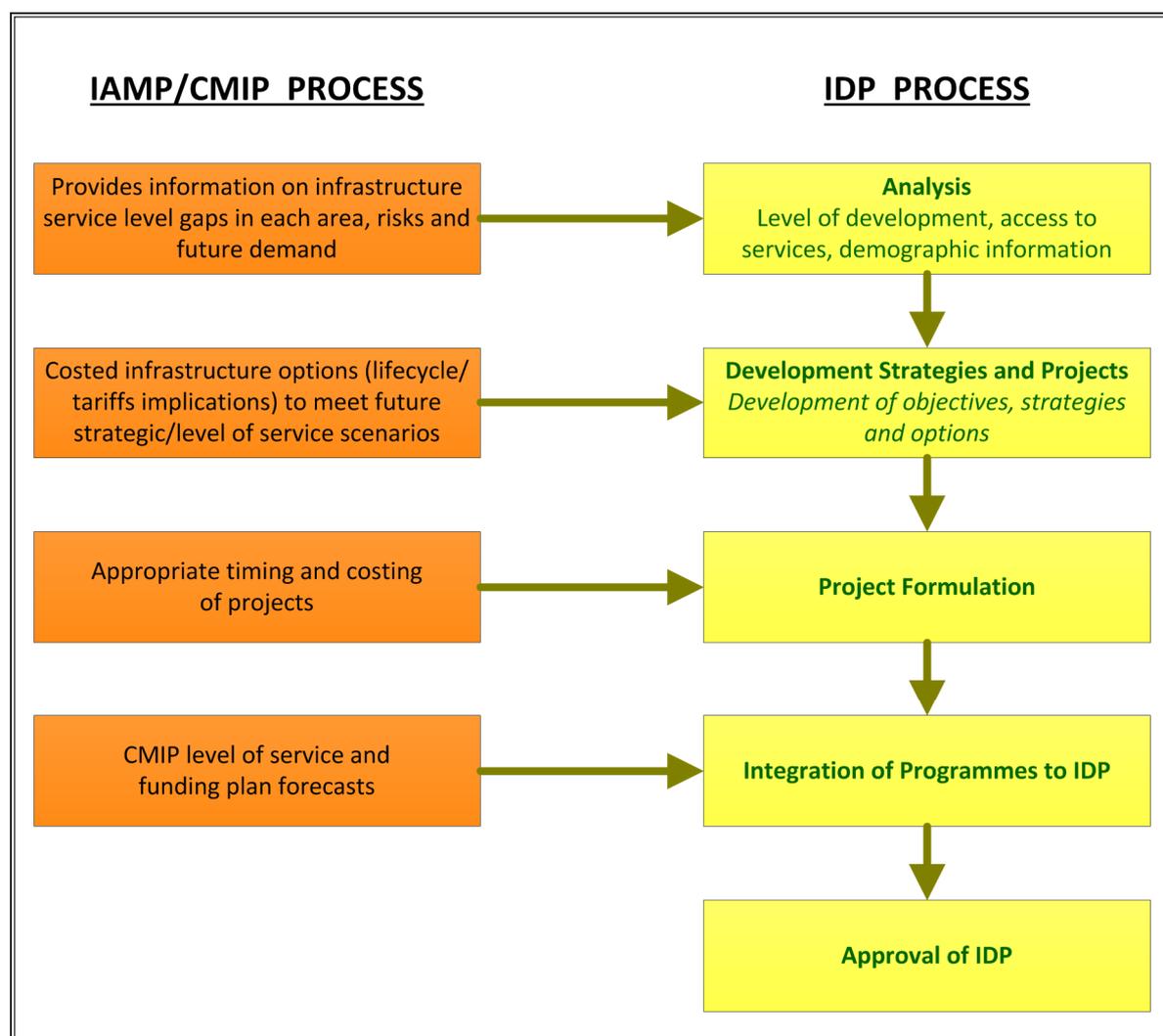


Figure 2: Infrastructure Inputs to the IDP <sup>1</sup>

### 10.2.1 Budgeting

The capital and operational funds required to implement the programmes and projects defined in the O&M documentation shall be included, per financial year, in the Medium Term Revenue and Expenditure Framework (MTREF) so that:

- a) Each identified Programme is allocated a unique programme identifier, where a single person is responsible and accountable for the budget and expenditure against that programme identifier.
- b) Each identified Project belongs to a Programme and is allocated a unique project identifier that is linked to the relevant Programme, where a single person is responsible and accountable for the budget and expenditure against that project identifier.
- c) Each programme shall have at least one project since budgets and subsequent expenditure will be allocated at the project level.

<sup>1</sup> Figure 2; The dplg; *Guidelines for Infrastructure Asset Management*.

- d) No expenditure shall be allocated at the programme level and all expenditure shall only be allocated at a project level.
- e) The programme budget is the summary of the budgets for each project under that programme.
- f) The programme expenditure is the summary of the expenditure for each project under that programme.

### 10.3 ACQUISITION PHASE

#### 10.3.1 Supporting Documentation

The acquisition phase is applicable to a specific project for the delivery or construction of an immovable asset. Several possible options exist for the acquisition of an immovable asset and **Error! Reference source not found.** describes these options together with the required supporting documentation that must be approved by the relevant Department within one (1) month of the date of issue of the practical/works completion certificate<sup>2</sup> (start of defects liability period). The approved documentation must be filed, with a copy sent to the Asset Management Section at FDDM: Finance. The relevant Functional Head is responsible and accountable for ensuring that the supporting documentation is delivered within the specified time frame.

At final project completion (end of defect liability period), an Addendum is added to the Project Close-out Report providing details of the final inspection, any defects that were rectified and the final completion certificate.

**Table 1: Required Outputs for Various Acquisition Options for Immovable Assets within one months of practical/works completion**

#	Title	Description	Outputs
	Buy	An immovable asset is purchased such as: <ul style="list-style-type: none"> <li>• Land.</li> <li>• A building.</li> <li>• Equipment that is installed.</li> </ul>	The following documents are required as outputs: <ul style="list-style-type: none"> <li>* A purchase agreement with transfer document, title deeds and location.</li> <li>* A delivery note for the asset component(s), installation location and installation/commissioning certificate.</li> </ul>
	Develop	An immovable asset is developed through a design and construction process.	The following documents are required as outputs: <ul style="list-style-type: none"> <li>* Signed contract(s).</li> <li>* Final bill of quantities.</li> <li>* Payment Certificate at Works Completion.</li> <li>* As-built plans.</li> <li>* Practical/Works Completion Certificate.</li> </ul>

<sup>2</sup> The GRAP Standard require an asset to be recognised from the point in time when the owner has usage of that asset. This proposed policy gives a 1-month lee-way on that requirement for practical purposes, which needs to be justified to the Auditor-General otherwise it will be a finding.

#	Title	Description	Outputs
			<ul style="list-style-type: none"> <li>* Project Close-Out Report as at Practical/Works Completion.</li> <li>* Componentisation List for Financial Asset Register.</li> <li>* Operation and Maintenance Plan.</li> </ul>
	Transfer	An immovable asset is transferred to the FDDM from a third party, such as a developer or another tier of government.	<p>The following documents are required as outputs:</p> <ul style="list-style-type: none"> <li>* Signed contract(s).</li> <li>* As-built plans.</li> <li>* Section 82 Certificate.</li> <li>* Componentisation List for Financial Asset Register.</li> <li>* Operation and Maintenance Plan.</li> </ul>

All acquisition work will be done in accordance with the latest version of the *Supply Chain Management Policy*.

For performance and financial purposes, a project will only be classed as complete when the supporting document documentation defined in **Error! Reference source not found.** has been approved and submitted to:

The Functional Head: Fezile Dabi's Asset Management Office;

### 10.3.2 Management of Work in Progress

All capital expenditure on projects during the acquisition phase shall be allocated to the project identifier and be classed as Work in Progress (WIP) until the acquired assets can be recognised and added to the Financial Asset Register. Recognition can only take place once all the relevant supporting documents defined in **Error! Reference source not found.** have been delivered, which should be within one (1) calendar month of the date of issue of the practical/works completion certificate (start of defects liability period).

On a quarterly basis, the Technical Services Director: Financial Reporting shall report to the CFO showing:

- The list of programmes and projects.
- The expected completion date of each project.
- The WIP balance per financial year per project.
- This report shall be discussed at the quarterly Management Meeting where:
- Completed projects shall be identified.
- Changes to the expected project completion date shall be identified.

If deemed necessary, there shall be physical verification, by carrying out a site visit, the status of a project.

### 10.3.3 Project Management Continuity

It is essential that human resources are managed during the acquisition phase in order to achieve project management continuity. It is understood that project personnel may change

but a project handover needs to take place to ensure the new person has the relevant information. This needs to be addressed by the Technical Services Director and monitored by the Fezile Dabi Project Management Office.

If project information is not available due to a change of personnel, or any other reason, the relevant Technical Services Director is still responsible and accountable for ensuring that the supporting documentation is delivered within the specified time frame.

#### **10.4 OPERATION AND MAINTENANCE PHASE**

The operation and maintenance phase is applicable to all immovable assets for the duration of their useful life. Therefore this will include reactive (un-planned) maintenance and scheduled (planned) maintenance as well as repairs, renewals and upgrades. Most of this work is classed as operational expenditure (Opex) but some of the repairs and renewals may be classified as capital expenditure (Capex) since it will extend the useful life of the asset. Upgrades will be Capex work since, by definition, this work entails an increase in the capacity and life of the asset concerned.

This phase in the life cycle commences with the formal handover of the acquired asset from the acquisition team to the operation and maintenance team, which must be accompanied by the as-built plans, component information and the operation and maintenance plan for each immovable asset. This asset information is used to extend the relevant Department's *Operation and Maintenance Plan* so that the personnel know how all assets must be operated and the planned maintenance that is required. This is essential input when staffing levels are determined with the associated annual operational budgets.

The Department's *Operation and Maintenance Plan* must also define how reactive (unplanned) maintenance will be addressed so that asset breakdowns can be dealt with in order to restore service delivery. In this regard, the Department's *Operation and Maintenance Plan* must define the response time to repair each type of break in service delivery that will be submitted to Council for approval by the end of June each year.

As the operation and maintenance work is implemented, each Department will gather data to enable the identification of the service reliability with operation and maintenance costs of their asset components.

The Asset Management Section at FDDM: Finance to conduct the annual GRAP Workshop in order to review:

FDDM's approved asset hierarchy in order to:

- \* Identify any new asset components that are used and must be added.
- \* Confirm the estimated useful life (EUL) and residual value (RV) of each asset component types that are listed in FDDM's approved asset hierarchy.
- \* Update the unit tariff that is applicable for the replacement of each asset component that is listed in FDDM's approved asset hierarchy.

FDDM's Financial Asset Register (FAR) in order to:

- \* Update the remaining useful life (RUL) of any asset in the register, where deemed to be necessary. This exercise will focus on all assets where the RUL is equal to or

less than 2-years so that the department can identify any renewal/upgrade work required.

- \* In the above task, if it is determined that an asset will not be renewed/upgraded then the asset component should be listed for derecognition from the register at the appropriate time.
- \* Review the asset impairment criteria and determine if any assets should be listed as impaired during the financial year.
- \* Confirm if any assets should be classified as heritage assets.
- \* Confirm the assets that will be managed by each Department in the next financial year.

Confirm the usage of all properties and facilities.

Confirm the Capex projects that will and will not be completed in the current financial year.

The output from the GRAP Workshop is the *GRAP Workshop Pack*. By 15 June each year, the Technical Services Department will submit their draft *GRAP Workshop Pack* to the Asset Management Section at FDDM: Finance for review. After review, each Department will submit their final *GRAP Workshop Pack* by 15 July each year to the Asset Management Section at FDDM: Finance.

All materials and service providers required for the operation and maintenance work will be acquired in accordance with the latest version of the *Supply Chain Management Policy*.

The day-to-day operations for the operation and maintenance work programmes will be managed in line with the Department's *Operation and Maintenance Plan*.

## **10.5 DISPOSAL PHASE**

All asset disposals will flow from the GRAP Workshops, where each Department will identify assets that need to be renewed/upgraded or to be derecognised.

If an asset is to be renewed/upgraded, then the associated planning work must define the action to be taken with the old asset, which includes:

In accordance with the Supply Chain Management Policy, obtaining written approval for the disposal of the immovable asset from the Council or from the relevant person to whom the authority has been delegated.

Either the removal of the old asset(s) or for the old asset(s) to be decommissioned and left *in-situ* depending on cost estimates.

The transfer of any assets that are removed from site to FDDM's store with an instruction for disposal through the next auction.

Derecognition of all old asset(s), whether decommissioned or removed, in the Financial Asset Register through the completion of a Derecognition Form.

If an asset is to be derecognised, the Department will complete and submit a Derecognition Form to the Asset Management Section at FDDM: Finance that:

Instructs the Asset Management Section at FDDM: Finance to derecognise the asset in the Financial Asset Register; and,

Defines the action required on site to decommission the asset component, which may include the physical removal from site. Any assets that are removed from site will be transferred to FDDM's store with an instruction for disposal through the next auction.

## **11. ROLES AND RESPONSIBILITIES**

### **11.1 ROLE OF MUNICIPAL MANAGER**

As the accounting officer of the Municipality (section 63 of the MFMA), the Municipal Manager shall be the principal custodian of all the Municipality's assets, and shall be responsible for ensuring that the asset management policy is meticulously applied and adhered to.

The Municipal Manager must ensure that:

- a) The Municipality has and maintains a policy and internal control system that accounts for the assets of the Municipality;
- b) The Municipality's assets are valued in accordance with standards of Generally Recognized Accounting Practice (GRAP);
- c) That the Municipality has and maintains a system of internal control of assets including the assets register; and,
- d) Functional Heads and their staff comply with this policy.
- e) The asset management policy is reviewed annually.

### **11.2 ROLES AND RESPONSIBILITIES OF OFFICERS BELOW THE MUNICIPAL MANAGER**

#### **11.2.1 *The Chief Financial Officer (CFO)***

The CFO shall be the asset registrar of the Municipality (section 79 of the MFMA), and shall ensure that a complete, accurate and up-to-date computerised assets register is maintained.

The CFO must ensure that:

- a) Appropriate systems of financial management and internal control are established and carried out diligently;
- b) The financial and other resources of the Municipality are utilized effectively, efficiently, economically and transparently;
- c) Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;

- d) The systems, processes and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of the Auditor-General;
- e) Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions;
- f) The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- g) The senior managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- h) The CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring that these activities are performed. The CFO has delegated this authority to the Finance Department.

### **11.2.2 Divisional Head: Financial Reporting**

Since the CFO has delegated the necessary authority to the specific individuals within the finance department to ensure effective and efficient implementation of this policy, in terms of section 82 of MFMA, the individuals must exercise due financial management in terms of section 78 of the MFMA.

The Finance Department shall keep an Assets Register in which all property, plant and equipment, heritage assets, intangible assets, investment property and other material assets owned or leased by the Municipality, together with their appropriate carrying amounts.

The Finance Department shall co-ordinate the submission of all integrated Portfolio items for the CFO to report in accordance with Municipal requirements.

### **11.2.3 Asset Management Section (AMS)**

The Head: Financial Reporting discharges his/her responsibility through Asset Management Section (AMS). This section consists of officials that operate at corporate level and some deployed at the Regional level. The AMS officials are a specialized team responsible for the centralized overall asset accounting management. The officials in this Asset Management Section are not accountable for physical assets that are dedicated to a specific Functional Head.

Some critical duties of AMS include the following tasks:

- a) Perform asset accounting in the Assets Register and programme tests for asset verification to ensure that assets in the Assets Register and physical assets present a true reflection of FDDM assets.
- b) To ensure that the asset information presented to any relevant Committee(s) is a correct representation of information in the Assets Register, to enable decisions taken on such asset items to be effected timeously.
- c) Render comments in relation to Departmental assets items.

d) Provide continuous support to Asset Controllers and Immovable Asset Controllers.

#### **10.2.4 Technical Services Director**

The Technical Services director is responsible and accountable for the custody, safeguarding, administration and maintenance of physical assets in accordance with the following criteria:

- a) In general, the Municipal Manager shall be responsible and accountable for the custody, safeguarding, administration and maintenance of:
  - All immovable assets in the District Municipality, unless delegated in writing to the relevant Manager but the Municipal Manager shall remain accountable for ensuring that these delegated activities are performed.
- b) The Technical Services Director shall be responsible and accountable for the custody, safeguarding, administration and maintenance of all physical assets in the areas delegated to them.

The Technical Services Director must ensure that:

- a) The appropriate physical asset management and control (including asset internal control processes) are established and carried out for assets in their area of responsibility.
- b) The municipal asset resources assigned to them are utilized effectively, efficiently, economically and transparently.
- c) Any unauthorized, irregular, fruitless or wasteful utilization, and losses resulting from criminal or negligent conduct, are prevented.
- d) Their asset management controls can provide an accurate, reliable and up to date account of assets under their control.
- e) They are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the Municipality's strategic objectives.
- f) They, or their nominated officials, perform physical verification, stocktaking of all assets bi-annually and submit the accountability report to the Finance Department, as at the 30<sup>th</sup> November and 31<sup>st</sup> May respectively. This must reach the CFO's office not later than 30 days after the due date; i.e. the report as at the 30<sup>th</sup> November must reach the CFO's office on or before the 30<sup>th</sup> December; and the report as at 31<sup>st</sup> May must reach the CFO's office on or before the 30<sup>th</sup> June. This has to be complied with, in order to adhere to the MFMA, section 126.
- g) They, or their nominated officials, complete and submit to FDDM's Finance Department their Department's annual *GRAP Workshop Pack* for immovable assets in accordance with the following dates:
  - Draft *GRAP Workshop Pack* by 15 June each year; and,
  - Final *GRAP Workshop Pack* by 15 July each year.

h) They use the *GRAP Workshop Pack* as the source information to notify the CFO by 30 July each year of any change to the status or value of any asset under the Functional Head's control. This notification will show assets that are missing, including assets that have been demolished, destroyed or damaged or any other event materially affecting assets values. This *Status Report for Immovable Assets* is to be compiled with the assistance of the following business units:

- i) **Asset Management Section (AMS)** for assistance with the accurate asset information contained in the assets register;
- ii) **Loss Control**, for assistance with the preparation of an FDDM loss report, that must include the South African Police Services (SAPS) case number and loss report that has to be obtained by the Functional Head's personnel;
- iii) **Internal Audit**, for verification of the extent of diminished/appreciated asset values (financial values) used in the report;
- iv) **Public Safety**, for assistance to determine if adequate security was in place at the building where the loss occurred.

#### **11.2.5 Asset Management Steering Committee and Associated Teams**

There is a major emphasis on the provision of new infrastructure to extend service delivery to those members of our community that are disadvantaged. At the same time, Parliament, National Treasury and CoGTA have all stressed that the existing infrastructure assets must be maintained so that they can continue to provide the existing services. The purpose of FDDM's Asset Management Steering Committee is to manage the asset life cycle in order to ensure that the existing infrastructure assets continue to provide a service whilst new infrastructure is created.

The objectives of the Asset Management Steering Committee is to:

- Specify the required Outcomes for asset management projects;
- Set the asset management timetable (schedule);
- Approve all asset management progress reports;
- Identify and manage the implementation of the required organisational changes required to improve asset management; and,
- Ensure that asset management practices are being implemented across the Municipality.

The Asset Management Steering Committee should be convened at quarterly (three-monthly) intervals by the CFO to initially check the status of FDDM's asset management and thereafter to monitor the implementation of the life cycle phases as well as any changes that have been defined for execution. There should be four (4) members covering the following life cycle phases with a supporting secretariat:

- Planning, provided by the Planning Department, covering the planning phase of the asset management life cycle.

- Acquisition, provided by Fezile Dabi Project Management Office, covering the acquisition phase of the asset management life cycle.
- Operations and maintenance, provided by the Technical services Manager, covering the operations, maintenance and disposal phases of the asset management life cycle.
- Corporate support, provided by Corporate Services, to ensure that the necessary financial, supply chain, human resources and information systems are in place for the management of the asset life cycle.

Each member of the Asset Management Steering Committee shall have a Project Team to support him/her that will be responsible for coordinating the work in that life cycle phase as well as implementing any changes that are required. The Project Team shall meet on a quarterly basis to review progress with secretarial support. Each Project Team must address the following objectives for their life cycle phase(s):

- Involve multiple-disciplines;
- Coordinate asset management activities;
- Prepare financial forecasts;
- Monitor the delivery of asset management documentation in terms of the time schedule and quality; and,
- Define and implement management systems to assist with asset management delivery, which cover the process/procedure, information systems, databases, hardware and the availability of personnel with the required skill sets.

#### **11.2.5 Internal Audit**

Functional Heads must liaise with the Internal Audit Department regarding verification of the list of assets to be written off and/or alienated. The resultant audit comments must be included in reports on asset items for distribution in accordance with municipal requirements.. The Internal Audit Department will then ensure that the damage to assets through negligence is reported to the respective departments and Loss Control Committee.

## **12. ACCOUNTING POLICY FOR PPE, ASSOCIATED INTANGIBLE ASSETS, HERITAGE ASSETS AND INVESTMENT PROPERTY**

### **12.1 RECOGNITION**

#### **Policy statement**

FDDM shall recognise all PPE, existing at the time of the adoption of the policy and any upgrades, new assets and renewals if the assets comply with the recognition criteria. Such assets shall be capitalised in compliance with prevailing accounting standards.

#### **Recognition criteria according to the Accounting standards**

The cost of an item of PPE, shall be recognised as an asset if, and only if:

it is probable that economic benefits or service potential associated with the item will flow to the municipality, and

the cost or fair value of the item can be measured reliably.

## 12.2 CLASSIFICATION

### Policy statement

The asset sub-categories and groups below shall be used as the classification structure for the immovable assets and associated intangible assets. The assets shall be disclosed in the financial statements at the category level.

Asset hierarchies shall be adopted for each of the immovable asset groups and associated intangible assets, separately identifying items of PPE at component level that are significant from a financial or risk perspective, and, where applicable, grouping items that are relatively insignificant. FDDM's approved asset hierarchy is shown in **Error! Reference source not found..**

Approved Asset Hierarchy						
Level 1	Level 2	Level 3	Level 4	Level 5	Level 6	Level 7
Accounting Group						
	Asset Category					
		Asset Sub-Category				
			Asset Group			
				Asset Type		
					Component Type	
						Descriptor Type

Figure 3: FDDM's Asset Hierarchy

The values to be used for each level in the asset hierarchy are listed in Annexures to this policy, where:

- a) Annexure A provides the list of currently approved values for Levels 1 to 6 in the Approved Asset Hierarchy.
- b) Each *Component Type* in the Approved Asset Hierarchy has one or more *Descriptor Types* and the approved values are listed in Annexure B together with the approved values for the following attributes for each *Descriptor Type*.
  - Descriptor Size.
  - Material: Size Measure.
  - Descriptor Class.
  - Descriptor: General.
  - Unit tariff for replacement of descriptor type.
  - Unit of measurement of tariff for replacement of descriptor type.
  - Year when tariff for replacement of descriptor type was defined.

- Estimated useful life (EUL).
- Residual value (%).

The values in Annexures A and B are to be reviewed annually by the Asset Management Section (AMS) and any required changes shall be submitted to the Asset Management Steering Committee for approval.

## 12.3 MEASUREMENT AT RECOGNITION

### **Policy statement**

An item of PPE which qualify for recognition as an asset shall be measured at its cost. In cases where complete cost data is not available or reliable for use, the fair value of PPE, shall be used to recognise the asset.

### **Measurement at recognition according to the Accounting standards**

#### Circumstances where fair value will be used at initial measurement:

Where an item of PPE is acquired at no cost or a nominal cost, its cost is the fair value as at the date of acquisition. Events that might lead to this accounting treatment are when an asset is contributed or gifted to the municipality, a power of sequestration was exercised, there are no records on the asset's cost price, or the records cannot be linked to specific assets.

According to Directive 7, if the fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using:

depreciated replacement cost at the measurement date for an item of property, plant and equipment;

depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialised nature that there is no market-based evidence of fair value; and

replacement cost at the measurement date for heritage assets.

Directive 7 can only be used to determine the cost of an asset that was acquired prior to the measurement date, 30 June 2009. For assets which cost data is not available and acquired after the measurement date, the use of deemed cost will result in a change of policy from the cost model to the revaluation model.

The measurement at recognition of an item of PPE, acquired at no or nominal cost, at its fair value does not constitute a revaluation.

#### Elements of cost

The cost price of PPE, comprises of:

- the purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
  - Examples of directly attributable costs are:

- cost of employee benefits arising directly from the construction or acquisition of the item of PPE and associated intangibles;
  - cost for site preparation (in the case of PPE assets);
  - initial delivery and handling costs (in the case of PPE infrastructure, PPE community assets and PPE);
  - installation and assembly costs,
  - cost of testing whether the PPE or associated intangible asset is functioning properly, after deducting the net proceeds from selling any item produced while bringing the asset to that location and condition;
  - professional fees (in the case of all asset classes); and
  - property transfer taxes (in the case of PPE).
- the initial estimate of cost dismantling and removing a PPE infrastructure asset and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
- Changes in the estimated decommissioning costs:
    - Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.
  - The following events can change the measurement of the provision:
    - a change in the estimated outflow of resources embodying economic benefits or service potential required to settle the obligation;
    - a change in the current market-based discount rate (this includes changes in time value of money and the risks specific to the liability); and
    - an increase that reflects the passage of time.
  - Changes to provisions shall be applied as follows:
    - changes in the provision shall be added to or deducted from the asset's cost;

- the amount deducted from the asset's cost price shall not exceed the carrying amount of the asset, the excess shall be recognised in the surplus or deficit; and
- if the adjustment results in an addition to the cost price of the asset, the municipality shall consider whether this is an indication if the new carrying amount of the asset may not be fully recoverable. This may be an indication of an impairment.

Elements of costs that are not part of the cost price are:

- Cost of opening a new facility in the case of PPE infrastructure and PPE, community assets;
- costs of introducing a new product or service, including advertising costs, in the case PPE infrastructure;
- costs of conducting business in a new location or with a new class of customers, including training costs, in the case of PPE infrastructure, PPE community assets;
- administration and other general overhead costs in the case of PPE infrastructure, PPE community assets;
- cost incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity, in the case of PPE infrastructures;
- operating losses incurred before the investment property achieved the planned level of occupancy;
- initial operating losses, such as those incurred while demand for the item's outputs build up in the case of PPE infrastructure;
- costs of relocating or reorganising part or all of the municipality's operations, in the case of PPE infrastructure;

#### Assets which assist other PPE to operate effectively

Costs may be required for safety or environmental reasons. Such costs, although not directly increasing the future economic benefits or service potential of any particular existing item of PPE, may be necessary for that PPE to obtain future economic benefits or service potential. Such costs qualify for recognition as PPE because they enable PPE to derive future economic benefits and/or service potential in excess of what could be derived had those costs not been acquired. For example, a certain PPE might only operate within six months' time if a specific licence/ permit is obtained.

#### Replacement of components

Components of some items of PPE may require replacement at regular intervals, for example a pump. Items of PPE may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. The municipality recognises in the carrying value of an item of PPE the cost of the replacing part

of such an item when that cost is incurred and if the recognition criteria are met. The carrying values of those parts that are replaced are derecognised in accordance with the Standard on Plant, Property and Equipment, GRAP 17 (REVISED), which are discussed later in this document.

#### Major inspections

A condition of continuing to operate an item of PPE may be performing regular major inspections for faults regardless of whether parts of the item are replaced, for example dam-safety inspections which happens every five years. When major inspections are performed, the inspection cost is recognised in the carrying amount of the item of PPE as a replacement if the recognition criteria are satisfied.

Any remaining carrying value of the cost of the previous inspection is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the estimated cost of a future similar inspection may be used as an indication of what the cost of the existing inspection component was when the item was acquired or constructed.

#### Self-constructed assets

The cost of a self-constructed PPE community asset, PPE infrastructure asset, is determined using the same principles as for an acquired asset. If the municipality makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale. Therefore, any internal surpluses are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of waste material, labour or other resources incurred in self-constructing an asset is not included in the cost of an asset.

#### Internally generated goodwill

Internally generated goodwill must not be recognised as an asset.

## 12.4 EXCHANGE OF PHYSICAL ASSETS

### **Policy statement**

If FDDM is able to determine reliably the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received unless the fair value of the asset received is more clearly evident.

### **Exchange of physical asset criteria according to the Accounting standards**

One or more assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

The cost of such an item of property, plant and equipment or investment property is measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measured. If the acquired item is not measured at fair value, its cost is measured at the carrying value of the asset given up.

An exchange transaction has commercial substance if:

the risks, timing and amount of the cash flows or service potential are expected to change as a result of the transaction, or

the entity-specific value of the portion of the municipality's operations affected by the transaction changes as result of the exchange, and

the difference in the two statements above is significant relative to the fair value of the assets exchanged.

## 12.5 BORROWING COSTS

### **Policy statement**

FDDM shall expense all borrowing costs in the period in which they are incurred

### **Borrowing cost criteria according to the Accounting standard**

#### **Borrowing costs may include:**

Interest expenses calculated using the effective interest method as described in the Standard of GRAP on Financial Instruments;

finance charges in respect of finance leases; and

exchange differences arising from foreign currency borrowings to the extent that it's regarded as adjustments to interest costs.

#### **Recognition of borrowing costs**

##### **Benchmark treatment – Borrowing cost is expensed**

A municipality shall recognise all borrowing costs as an expense in the period in which they are incurred.

##### **Allowed alternative treatment - When borrowing costs is capitalised**

An entity shall recognise borrowing costs as an expense in the period in which they are incurred, except to the extent that they are capitalised.

An entity shall recognise borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset as part of the cost of that asset. The amount of borrowing costs eligible for capitalisation shall be determined in accordance with this Standard.

Under the allowed alternative treatment, borrowing costs that are directly attributable to the acquisition, construction, or production of an asset are included in the cost of that asset. Such borrowing costs are capitalised as part of the cost of the asset when (a) it is probable that they will result in future economic benefits or service potential to the entity, and (b) the costs can be measured reliably. Other borrowing costs are recognised as an expense in the period in which they are incurred.

##### **Borrowing costs eligible for capitalisation**

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are those borrowing costs that will have been avoided if the expenditures on the qualifying asset had not been made.

To the extent that the municipality borrows *funds specifically* for the purpose of obtaining a qualifying asset, the municipality shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that the municipality borrows *funds generally* and uses it for the purpose of obtaining a qualifying asset, the municipality shall determine the amount of borrowing cost eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the municipality that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing

costs that the municipality capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

Carrying value exceeds recoverable amount or recoverable service amount

When the carrying value or the expected ultimate cost of the qualifying asset exceeds its recoverable amount or recoverable service amount or net realisable value, the carrying amount is written down or written-off in accordance with the requirements on Impairments. Refer to the section on impairments.

Commencement of capitalisation

The municipality shall begin capitalising borrowing costs as part of the cost of a qualifying asset on the commencement date. The commencement date for capitalisation is the date when the municipality first meets all of the following conditions:

it incurs expenditures for the asset. It includes technical and administrative work prior to the commencement of physical construction, such as the activities of obtaining permits;

it incurs borrowing costs; and

Suspension of capitalisation

The municipality shall suspend capitalisation of borrowing costs during extended periods in which it suspends active development of a qualifying asset. However, the municipality does not normally suspend capitalising borrowing costs during a period when it carries out substantial technical and administrative work. The municipality also does not suspend capitalising borrowing costs when a temporary delay is a necessary part of the process of getting the asset ready for its intended use, such as when high water levels delay the construction of a bridge.

Cessation of capitalisation

The municipality shall cease capitalising borrowing cost when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

When the municipality completes the construction of a qualifying asset in parts and each part is capable of being used while construction continues on other parts, the municipality shall cease capitalising borrowing costs associated with a part of the asset when substantially all the activities necessary to prepare that part for its intended use or sale is completed.

An office development comprising several buildings, each of which can be used individually, is an example of a qualifying asset for which each part is capable of being used while construction continues on other parts. An example of a qualifying asset that need to be completed before any part can be used includes the pump and motor set within a water pump station, without which the pump station cannot fulfil its key function.

## 12.6 RESIDUAL VALUE

**Policy statement**

The residual values applicable to PPE, shall be reviewed at each reporting date.

Most assets have no residual values. Assets with residual values are indicated in **Annexure A**.

**Residual value criteria according to the Accounting standards**

The residual value of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change shall be accounted for as a change in an accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3. The change will occur prospectively which means that the change will have an effect in the current and future periods.

The residual value of a PPE asset, investment property or intangible assets may increase to an amount equal or greater than the asset's carrying value. If it does, the asset's depreciation

charges will be zero unless and until its residual value subsequently decreases to an amount below the asset's carrying value.

The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

there is a commitment by a third party to purchase the asset at the end of its useful life; or

there is an active market for the asset and:

- residual value can be determined by reference to that market; and
- it is probable that such a market will exist at the end of the asset's useful life.

The residual values of assets are shown in the form of percentages in **Annexure A**. In the case of assets measured after recognition on the cost model, the residual value is calculated by multiplying the residual value percentage with the initial cost of acquisition. In the case of assets measured after recognition on the revaluation model, the residual value is calculated by multiplying the residual value percentage with the modern equivalent replacement value.

## 12.7 USEFUL LIVES OF ASSETS

### **Policy statement**

The estimated useful lives and remaining useful lives of all assets shall be reviewed at each reporting date, taking into account any changes in asset lifecycle strategies as described in the Municipality's asset management plans, the availability of funding to implement lifecycle strategies, changes in operating conditions and other relevant factors such as the availability of comparative asset data.

The estimated useful lives of assets are indicated in **Annexure A**.

### **Criteria according to the Accounting standards**

The useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change shall be accounted for as a change in accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3. The change will occur prospectively which means that the change will have an effect in the current and future periods.

Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and landfill sites, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of a building.

The municipality shall assess whether the useful life or service potential of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, will be the elements used to estimate the useful life. An intangible asset shall be regarded by the municipality as having an indefinite life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential for the municipality.

The useful life of an intangible asset that arises from contractual rights or other legal rights shall not exceed the period of the contractual or other legal right, but may be shorter depending on the period over which the municipality expects to use the asset. If the contractual rights or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period only if there is evidence to support renewal by the municipality without significant cost.

The useful life of an intangible asset that is not amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If it does not, the change in the useful life from indefinite to finite shall

be accounted for as a change in accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3.

The remaining useful life of all depreciable immovable assets at initial recognition is the same as the estimated useful life indicated in **Annexure A**. These figures have been established using available information on industry norms, experience of local influencing factors (such as climate and operational conditions), life-cycle strategies of the municipality, potential technical obsolescence and any legal limits on the use of the immovable asset.

## 12.8 DEPRECIATION

### **Policy statement**

All PPE shall be depreciated over their remaining useful lives. Land is not depreciated because it is deemed to have an infinite life.

Depreciation and amortisation shall begin when the asset is available for use and in the condition and location intended by management for its use. Depreciation and amortisation shall cease at the earlier of the date that the asset is classified as held for sale, derecognised or has come to the end of its estimated useful life.

All depreciation and amortisation charges shall be recognised in surplus or deficit.

### **Depreciation criteria according the Accounting standards**

#### Depreciation of components

Each part of an item of PPE with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The municipality allocates the amount initially recognised in respect of an item of PPE to its significant parts and depreciates separately each such part.

A significant part of an item of PPE may have a useful life and a depreciation method that are the same as the useful life and the depreciation method as other significant parts of that same item. Such parts may be grouped together in determining the depreciation charge.

If some parts of an item of PPE are depreciated separately, it also depreciates separately the remainder of the item. The remainder consists of all the parts of the item that are individually not significant. If the municipality has varying expectations for these parts, approximation techniques may be necessary to depreciate the remainder in a manner that faithfully represents the consumption pattern or useful lives of the parts. Investment property will be treated in the same way because it is treated according to GRAP 17 (REVISED).

#### Depreciation on capital spares

The production unit cost depreciation method is used for capital spares. This means that the depreciation charge will be zero while the capital spares remain in the stores and once capital spares are implemented at a location the depreciation method change from production method unit to the straight-line unit. The change in estimate will affect the current and future periods because of the prospective treatment performed.

#### Where to account for depreciation and amortisation?

Depreciation and amortisation charges for each period shall be recognised in the surplus or deficit unless it is included in the carrying value of another asset.

#### When does depreciation and amortisation begin?

Depreciation and amortisation of an asset begins when it is available for use, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation will be calculated on a monthly basis except for the month in which the asset was purchased or an asset was completed and ready for use, then depreciation will start from the day the asset is available for use; therefore depreciation charged at a pro-rate basis.

#### When does depreciation or amortisation cease?

Depreciation and amortisation of an asset will cease at the earlier date that the asset is classified as held for sale in accordance with the Standard on Non-current Assets held for sale and discontinued operations, GRAP 100, and the date the asset is derecognised. Therefore,

depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Amortisation of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated or is classified as held for sale in accordance with the Standard on Non-current Assets Held for Sale and Discontinued Operations, GRAP 100.

#### Depreciation relating to revaluations

If the municipality decides to realise the revaluation reserve by usage of the asset, the portion of the revaluation reserve that is realised may be disclosed as realised, while the remaining balance remains unrealised. This realised portion may either be transferred from the revaluation surplus to the accumulated surplus or deficit or remain in the revaluation surplus account until derecognition of the asset.

## **12.9 DEPRECIATION AMOUNT AND DEPRECIATION PERIOD**

### **Policy statement**

The depreciation method and amortisation method shall be reviewed in each reporting period. The straight-line method shall be used in all cases unless Council determines otherwise. Depreciation and amortisation shall be calculated as follows:

*Asset existed for whole financial year:*  $[(\text{Cost price or fair value} - \text{residual value})/\text{EUL}]$

*Asset was purchased during the year:*  $[(\text{Cost price or fair value} - \text{residual value})/\text{EUL}] \times$   
Remaining days in the financial year from day after purchase/Total days in the financial year

### **Criteria according to the Accounting standards**

#### Determining the depreciable amount and depreciation

The depreciable amount of an asset is determined after deducting its residual value. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The depreciable amount of any PPE (except heritage assets and land) or investment property shall be allocated on a systematic basis over its useful life. The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life.

#### Treatment of accumulated depreciation during a revaluation

When an item of PPE is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

Restated proportionately with the change in gross carrying value of the asset so that the carrying value of the asset after the revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to its depreciated replacement cost, or

eliminated against the gross carrying value of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.

The amount of the adjustment arising on the restatement or elimination of accumulated depreciation forms part of the increase or decrease in carrying value that is accounted for in the revaluation reserve.

The depreciation method or amortisation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the

municipality. If that pattern cannot be determined reliably, the straight-line method shall be used.

#### Change in pattern of consumption

The depreciation method of PPE and the amortisation method and amortisation period of an intangible asset with a finite life shall be reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the changed pattern. Such a change shall be accounted for in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3. The change will occur prospectively which means that the change will have an effect in the current and future periods.

#### Different depreciation methods include:

The straight-line method results in a consistent charge over the useful life if the asset's residual value does not change.

The diminishing method results in a decreasing charge over the useful life.

The unit of production approach method results in a charge based on the expected use or output.

The method that most closely reflects the expected pattern of consumption of the future economic benefits or service potential embodied in the asset shall be used. The method shall be applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential.

## **12.10 IMPAIRMENT**

### ***Policy statement***

Impairment of PPE, shall be recognised as an expense in the Statement of Financial Performance when it occurs. Assets shall be reviewed for impairment on an annual basis. Ad-hoc impairments shall be identified as part of normal operational management as well as scheduled annual inspections of assets.

If an impaired asset's primary purpose is to generate income, the impairment shall be calculated using the cash generating method. If an impaired asset's primary purpose is not to generate income, the non-cash generating method shall be used to calculate the impairment.

### ***Impairment criteria according to the Accounting standards***

#### Indicators of impairment

The municipality must assess at each reporting period or when one of the indicators below occurs, whether there is any indication that an asset has been impaired. In assessing whether there is an indication that an asset must be impaired, the municipality shall consider as a minimum the following indicators (for all assets except heritage assets):

#### External sources of information

- Cessations, or near cessations, of the demand or need for services provided by the asset.
- Significant long-term changes with an adverse effect on the municipality have taken place during the period or will take place in the near future, in the

technological, legal or government policy environment in which the entity operates.

- During the period, an asset's market value has declined significantly more than would be expected as a result of normal passage of time.
- Market interest rates have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

#### Internal sources of information

- Evidence is available of physical damage of an asset.
- Significant long-term changes with an adverse effect on the municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is completed or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.
- Significant higher costs of operating or maintaining the asset, compared with those originally budgeted; and
- Significantly lower service or output levels provided by the asset compared with those originally expected due to poor operating performances.
- Direct quantitative evidence of an impairment may be indicated by a significant long-term fall in the expected service or output levels provided by the asset.

The municipality should consider the following indicators as a minimum when assessing for impairments on heritage assets:

#### External sources of information

- During the period, a heritage asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- The absence of an active market for a revalued heritage asset.

#### Internal sources of information

- Evidence is available for physical damage or deterioration of a heritage asset.

- A decision to halt the construction of the heritage asset before it is completed or in a usable form.

The demand or need for services may fluctuate over time, which will affect the extent to which non-cash-generating assets are used in providing those services, but negative fluctuations in demand are not necessarily indicators of impairment. Where demand for services ceases, or nearly ceases, the assets used to provide those services may be impaired.

In assessing whether impairment has occurred, the municipality needs to assess changes in service potential over the long term.

#### Impairment on Work in process

In assessing whether a halt in construction will trigger an impairment test, it shall be considered whether construction has simply been delayed or postponed, whether there is an intention to resume construction in the near future or whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work in progress and is not considered as halted.

Irrespective of whether there is any indication of impairment, the municipality shall also test:

an intangible asset with an indefinite useful life;

an intangible asset not yet available for use;

For impairment annually by comparing its carrying value with its recoverable service amount or recoverable amount. This impairment test may be performed at any time during the reporting period, provided it is performed at the same time every year. Different intangible assets may be tested for impairment at different times. However, if such an asset was initially recognised during the current reporting period, that intangible asset shall be tested for impairment before the end of the current reporting period.

The ability of an intangible asset to generate sufficient future economic benefits or service potential to recover its carrying value is usually subject to greater uncertainty before the asset is available for use than after it is available for use; therefore the carrying value of intangible assets not yet available for use shall be tested each year.

#### Materiality and enduring nature

A change in parameter such as demand for the service, extent or manner of use, legal environment or government policy environment would indicate impairment only if such a change was significant and had or was anticipated to have a long term adverse effect (significant and enduring). The events and circumstances in each instance must be recorded. Where there are indications of impairment, the municipality must estimate the recoverable service amount of the asset when using the non-cash generating method or the recoverable amount of the asset when using the cash generating method and also consider adjustment of the remaining useful life, residual value and the depreciation method.

#### Overview of cash-generating assets/ units

Cash-generating assets are assets 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. Holding an asset to generate a commercial return indicates that the municipality intends to generate positive cash flows from the asset (or from a cash-generating unit of which the asset is a part) and earns a commercial return that reflects the risks involved in holding the asset. An asset may be held with the primary objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be non-cash generating even though it may be breaking even or generating a commercial return during a particular reporting period.

#### Use of judgement to determine whether an asset/ unit are cash – or non-cash generating

The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the municipality shall apply the provisions of an

impairment of Cash-generating Assets. If the non-cash-generating component is an insignificant component of the arrangement as a whole, the municipality shall apply the provisions of an impairment for Cash-generating Assets.

In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such a case it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows, in this case judgement shall be used. The municipality shall develop criteria so that it can exercise judgement consistently.

#### Annual review of impairment

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 service amount in the case of a non-cash-generating asset/ unit or the recoverable amount in the case of a cash-generating asset/ unit.

#### Measuring recoverable service amount

The recoverable service amount is the higher of an asset's:

fair value less cost to sell; and

its value in use.

It is not always necessary to determine both an asset's fair value less cost to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

It may not be possible to determine the fair value less cost to sell because there is no basis for making a reliable estimate of the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In this case, the municipality may use the asset's value in use as its recoverable service amount.

If the asset's value in use does not exceed the fair value less cost to sell materially, the asset's fair value less cost to sell can be used as its recoverable service amount. In the case of non-cash-generating assets which are held on an on-going basis to provide specialised services or public goods to the community, the value in use of the asset is likely to be greater than its fair value less cost to sell.

#### Measuring the recoverable service amount of an intangible asset with an indefinite useful life:

The most recent detailed calculation of such an asset's recoverable service amount in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

the most recent recoverable service amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and

based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination will be less than the asset's carrying amount is remote.

#### Fair value less cost to sell

The best evidence of an asset's fair value less cost to sell is a price in a binding sales agreement in an arm's length transaction. If there is no binding sales agreement but an active market, fair value less cost to sell is the asset's market price less the disposal costs. The appropriate market price is the current bid price. If there is no sales agreement or an active market for an asset, the fair value less cost to sell is based on the best information available to reflect the amount

the municipality could obtain, at reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties. The outcome of recent transactions for similar assets in the same industry will be considered. In the case of specialised buildings and man-made structures, the municipality may need to estimate the fair value using the depreciated replacement cost approach.

Value in use (Non-cash-generating asset)

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The remaining service potential of the asset is determined using one of the following approaches:

The depreciable replacement cost approach – The present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of the asset is the cost to replace the asset's gross service potential. The cost is depreciated to reflect the asset in its used condition. An asset may be replaced through replacement of its gross service potential (this method is used in the case of production assets rendering a service) or reproduction (this method is used in the case of a historical, cultural asset). The depreciated replacement cost is measured as the reproduction or replacement cost of the asset less accumulated depreciation calculated on a basis of such cost, to reflect the already consumed or expired service potential of the asset.

The optimised depreciable replacement cost approach – The rationale is that the municipality will not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. The determination of the replacement cost in the case of production assets or reproduction cost in the case of historical and cultural assets, on an optimised basis, reflects the service potential required of the asset.

Restoration cost approach – The present value of the remaining service potential of an asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing in the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciable replacement cost in the case of production assets or the reproduction cost in the case of historical and cultural assets. (Used when impairments are identified from physical damage).

Service unit's approach– The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. The current replacement cost of the remaining service potential of the asset before impairment is usually determined as the depreciated replacement cost of the asset before impairment.

Value in use (Cash-generating assets)

The following elements shall reflect in the calculation of the value in use amount:

an estimate of future cash flows the entity expects to derive from the asset;  
expectations about possible variations in the amount or timing of those future cash flows;  
the time value of money, represented by the current market risk-free rate of interest;  
the price of bearing the uncertainty inherent in the asset; and  
other factors, such as liquidity, that market participants would reflect in pricing the future cash flows the municipality expects to derive from the assets

Basis for estimates of future cash flows

Cash flow projections shall be based on reasonable and supportable assumptions that represent management's best estimate of a range of economic conditions that will exist over the remaining useful life of the asset. (External information will weigh greater)

Cash flows shall be based on the most recent financial budgets/ forecasts approved by management, but shall exclude any estimated future cash inflows and cash outflows expected to arise from future restructuring or from improving or enhancing the asset's performance. (These cash flows will actually cover a maximum of five years unless a longer period can be justified).

Cash flow projections beyond the periods covered by the recent budgets/ forecasts shall be estimated by extrapolating the projections based on the budgets/ forecasts using a growth rate which can be justified.

Composition of estimates shall include:

projections on cash inflows from the continuing use of the asset;

projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset and can be directly attributed, or allocated on a reasonable and consistent basis to the asset; and

net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Future cash flows shall be estimated for an asset in its current condition.

The future cash flows shall not include:

cash inflows or outflows from financing activities; or

income tax receipts or payments.

Discount rate:

The discount rate is a pre-tax rate that reflects current market assessments of:

the time value of money, represented by the current risk-free rate of interest; and

the risk specific to the asset for which the future cash flow estimates have not been adjusted.

Impairment of an individual asset

If the carrying amount is higher than the recoverable amount or the recoverable service amount, impairment is incurred. The impairment amount will be the difference between the carrying amount and the recoverable amount or recoverable service amount. This impairment loss shall be recognised in surplus or deficit in the Statement of Financial Performance in the financial year it is incurred and the asset's value shall be decreased with the impairment amount. An impairment loss of a revalued asset shall be treated as a revaluation decrease.

Impairment of a cash-generating unit

If there is any indication that an asset may be impaired, the recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality shall determine the recoverable amount of the cash-generating unit to which the asset belongs.

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets shall be identified as a cash-generating unit even if some of the units are used internally.

For an **impairment loss for a cash-generating unit** the carrying amount shall be reduced to the highest of:

its fair value less cost to sell (if determinable);

its value in use (if determinable); and

Zero.

The amount of the impairment loss that will otherwise have been allocated to the asset shall be allocated pro rata to the other cash-generating assets of the unit. Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset shall be allocated to the carrying amount of that cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit. The carrying amount of the non-cash-generating asset shall reflect any impairment losses at the reporting date which have been determined under the requirements of impairments of Non-cash-generating assets.

#### Reversal of impairment

The municipality shall assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the municipality shall estimate the recoverable service amount in the case of non-cash-generating assets/ units and recoverable amount in the case of cash-generating assets/ units.

In assessing whether there is any indication that an impairment loss recognised in prior periods for an asset may no longer exist or may have decreased, the municipality shall consider, as a minimum, the following indications:

#### External sources of information

- Resurgence of the demand or need for services provided by the asset.
- Significant long-term changes with a favourable effect on the municipality have taken place during the period, or will take place in the near future, in the technological, legal or government policy environment in which FDDM operates.
- The market value has increased significantly.
- Market interest or other market rates of return on investments have decreased during the period, and those decreases are likely to affect the discount rate used in calculating the asset's value in use and increase the asset's recoverable amount materially.

#### Internal sources of information

- significant long-term changes with a favourable effect on the municipality have taken place during the period, or are expected to take place in the near future,

to the extent that, or manner in which, the asset is used or is expected to be used. (These changes include costs incurred during the period to improve or enhance an asset's performance or restructure the operation to which the asset belongs).

- a decision to resume construction of the asset that was previously halted before it was completed or in a usable condition.
- evidence is available from internal reporting that indicates that the service performance of the asset is, or will be, significantly better than expected.

An impairment loss recognised in prior periods for an asset shall be reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable service amount or recoverable amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall be increased to the recoverable service amount or the recoverable amount. That increase shall decrease the impairment loss.

The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that will have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for an asset shall be recognised immediately in surplus or deficit unless the asset is carried at revalued amounts in accordance with GRAP 17 (REVISED). Any reversal of an impairment loss of a revalued asset shall be treated as a revaluation increase in accordance with GRAP 17 (REVISED).

After a reversal of an impairment loss is recognised, the depreciation charge/ amortisation of the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit shall be allocated to the cash-generating assets of the unit on the pro-rata basis according to the carrying amounts of those assets. These increases in carrying amounts shall be treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal shall be allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of impairment for a cash-generating unit, the carrying amount of an asset shall not be increased above the lower of:

its recoverable amount (if determined); and

the carrying amount that will have been determined (net of the amortisation or depreciation)

had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that will otherwise have been allocated to the asset shall be allocated pro-rata to the other assets of the unit.

#### Compensation from third parties

Compensation from third parties, for example insurance claims, for items of PPE that were impaired, lost or given up shall be included in surplus or deficit when the compensation is receivable and if any other actions occur it shall be treated in accordance with the accounting standard described below:

impairment of any asset shall be accounted for in accordance with the Standard on Impairment, GRAP 26 (Cash generating unit) or GRAP 21 (Non- cash generating unit).

derecognition of items, whether retired or disposed of is determined in accordance with the appropriate accounting standard;

compensation from third parties for items of PPE that were impaired, lost or given up is included in determining surplus or deficit when it becomes receivable.

the cost of the item restored, purchased or constructed as a replacement is determined in accordance with the appropriate accounting standard.

The municipality is required to test an intangible asset with an indefinite useful life for impairment by comparing its recoverable amount and recoverable service amount with its carrying amount annually and whenever there is an indication that the carrying amount exceeds the recoverable amount or the recoverable service amount; the intangible asset may be impaired.

Reassessing the useful life of an intangible asset as finite rather than indefinite is an indicator that the asset may be impaired. As a result, the municipality tests the asset for impairment by comparing its recoverable amount and its recoverable service amount to the carrying amount, and recognising any excess of the carrying value over the recoverable amount or recoverable service amount as an impairment loss.

## 12.11 DERECOGNITION

### **Policy statement**

PPE, for which no future economic benefits or service potential are expected shall be identified and methods of derecognition and the associated cost considered by Council. Information on assets that reached the end of their useful lives, or are in the process of being sold are identified during the GRAP Workshops held annually. Assets to be sold, and the associated selling prices and selling costs, need to be approved by Council. The carrying amount of the asset shall be derecognised when no future economic benefits or service potential are expected from its use or if the asset is disposed and it was the Council's decision.

All derecognitions/ disposals must be communicated to the Finance department through a completed derecognition form together with a copy of the approved council resolution. The derecognition form should be completed by the relevant asset custodian, and then reviewed, signed and dated by the Technical Services Manager. The Finance department should update the financial asset register accordingly when receiving the relevant documents.

### **Derecognition criteria according to the Accounting standards**

The carrying value of an item of PPE, shall be derecognised:

- on disposal (including disposal through a non-exchange transaction);
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or (loss) arising from derecognitions shall be included in surplus or (deficit) when it is derecognised.

The gain or (loss) arising from the derecognition of an item of PPE, investment property or intangible assets shall be determined as the difference between the net disposal proceeds, if any, and the carrying value of the item. Exempted and non-exempted capital assets can be derecognised.

PPE that are associated with the provision of basic services cannot be disposed without the approval of Council.

## 12.12 DISCLOSURES

### **Policy Statement regarding PPE**

In the financial statements, FDDM should disclose, for each class of property, plant and equipment recognised in the financial statements:

- (a) the measurement bases used for determining the gross carrying amount;
- (b) the depreciation methods used;
- (c) the useful lives or the depreciation rates used;
- (d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
- (e) a reconciliation of the carrying amount at the beginning and end of the period showing:
  - (i) additions;
  - (ii) disposal;
  - (iii) acquisitions through entity combinations;
  - (iv) increases or decreases resulting from revaluations (if any);
  - (v) impairment losses recognised in surplus or deficit in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets (if any);
  - (vi) impairment losses reversed in surplus or deficit in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets (if any);
  - (vii) depreciation;
  - (viii) other changes.

The financial statements should also disclose for each class of property, plant and equipment recognised in the financial statements:

- (a) the existence and amounts of restrictions on title and property, plant and equipment pledged as securities for liabilities;
- (b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;
- (c) the amount of contractual commitments for the acquisition of property, plant and equipment; and
- (d) if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.

If items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:

- (a) the effective date of the revaluation;
- (b) whether an independent valuer was involved;

- (c) the methods and significant assumptions applied in estimating the items' fair values;
- (d) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;
- (e) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.

FDDM should disclose the following information to users of financial statements for their relevant needs:

- (a) the carrying amount of any item of property, plant and equipment that was not used for any period of time during the reporting period that significantly impacted the delivery of goods and services of FDDM;
- (b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
- (c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations; and
- (d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount; therefore FDDM should disclose these amounts.

#### ***Policy Statement regarding Investment Property***

FDDM should disclose:

- (a) whether it applies the fair value model or the cost model;
- (b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;
- (c) when classification is difficult, the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;
- (d) the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;
- (e) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent

experience in the location and category of the investment property being valued.

If there has been no such valuation, that fact shall be disclosed;

- (f) the amounts recognised in surplus or deficit for:
  - (i) rental revenue from investment property;
  - (ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and
  - (iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;
  - (iv) the existence and amounts of restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal; and
  - (v) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

FDDM should also disclose the following information because the municipality applies the cost model:

- (a) the depreciation methods used;
- (b) the useful lives or the depreciation rates used;
- (c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
- (d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:
  - (i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;
  - (ii) additions resulting from acquisitions through entity combinations;
  - (iii) assets classified as held for sale or included in a disposal group classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations and other disposals;
  - (iv) depreciation;
  - (v) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with the Standard of GRAP on Impairment of Cash-generating Assets;
  - (vi) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
  - (vii) transfers to and from inventories and owner-occupied property; and
  - (viii) other changes.

Entities are encouraged to disclose the fair value of investment property when this is materially different from the carrying amount.

#### ***Policy Statement regarding impairments***

FDDM should disclose the criteria developed to distinguish non-cash-generating assets from cash-generating assets.

FDDM should disclose the following for each class of assets:

- (a) The amount of impairment losses recognised in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are included.
- (b) The amount of reversals of impairment losses recognised in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are reversed.
- (c) The amount of impairment losses on revalued assets recognised directly in net assets during the period.
- (d) The amount of reversals of impairment losses on revalued assets recognised directly in net assets during the period.

FDDM which reports segment information in accordance with the Standard of GRAP on Segment Reporting should disclose the following for each segment reported:

- (a) the amount of impairment losses recognised in surplus or deficit and directly in net assets during the period; and
- (b) the amount of reversals of impairment losses recognised in surplus or deficit and directly in net assets during the period.

FDDM should disclose the following for each material impairment loss recognised or reversed during the period:

- (a) the events and circumstances that led to the recognition or reversal of the impairment loss;
- (b) the amount of the impairment loss recognised or reversed;
- (c) the nature of the asset;
- (d) For FDDM which reports segment information in accordance with the Standard of GRAP on Segment Reporting, the reported segment to which the asset belongs, based on FDDM's reporting format;
- (e) whether the recoverable service amount of the asset is its fair value less costs to sell or its value in use;
- (f) if the recoverable service amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market); and
- (g) if the recoverable service amount is value in use, the discount rate(s) used in the current estimate and previous estimate (if any) of value in use.

FDDM should disclose the following information for the aggregate of impairment losses and aggregate reversals of impairment losses recognised during the period for which no information is disclosed:

- (a) the main classes of assets affected by impairment losses (and the main classes of assets affected by reversals of impairment losses); and,
- (b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.

FDDM should disclose in the notes information about the key assumptions used to determine the recoverable service amount of assets during the period that have a significant risk of causing a material adjustment to the carrying amounts of assets.

#### **Policy statement regarding borrowing costs**

The municipality shall disclose:

- (a) *The accounting policy adopted for borrowing cost;*
- (b) *The amount of borrowing cost capitalised during the period; and*
- (c) *The capitalisation rate used to determine the amount of borrowing cost eligible for capitalisation.*

#### **Policy statement regarding leases**

- (a) *For each class of asset, the net carrying amount at reporting date;*
- (b) *A reconciliation between the total of future minimum lease payments at reporting date and their present value for each of the following:*
  - (i) *Not later than one year;*
  - (ii) *Later than one year but not later than five years; and*
  - (iii) *Later than five years.*
- (c) *Contingent rent recognised as expense in the period;*
- (d) *The future minimum sublease payments to be received under a non-cancellable sublease at reporting date;*
- (e) *A general description of the lessee's material leasing arrangements, including:*
  - (i) *Basis on which contingent rent payable is determined;*
  - (ii) *The existence and terms of renewal or purchase options and escalation clause; and*
  - (iii) *Restrictions imposed by lease arrangements; and*
- (f) *The depreciation and finance charges relating to the leased asset.*

*Additional in the case of Finance leases of lessors:*

- (a) *Unearned finance revenue;*

- (b) *The unguaranteed residual value accruing to the benefit of the lessor;*
- (c) *Accumulative allowance for uncollectible minimum lease payments receivable;  
and*
- (d) *Contingent rents recognised as revenue in the period.*

### **12.13 RE-CLASSIFICATION OF HERITAGE ASSETS**

#### **Policy statement**

If heritage assets meet the definition of, and recognition criteria for, plant, property and equipment, FDDM should recognise the assets as PPE and not heritage assets.

FDDM uses the cost model, so transfers between heritage assets and inventory, PPE or intangible assets do not change the carrying amount of the assets transferred, or its cost for measurement or disclosure purposes.

#### **Re-classification criteria according to the Accounting standards**

Assets are reclassified if the nature or function of the asset changes.

### **13. RECONCILIATION**

#### Financial statements vs Budget

Where the financial statements and the budget are not prepared on a comparable basis (e.g. where the financial statements are on the accrual basis and the budget on the cash basis), the actual amounts presented on a comparable basis to the budget should be reconciled to the following actual amounts presented in the financial statements identifying separately any basis, timing and entity differences:

If an accrual basis is adopted for the budget, the total revenues, total expenses and net cash flows from operating activities, investing activities and financing activities to the actual amounts on the financial statements; or

If a basis other than the accrual basis is adopted for the budget, the net cash flows from operating activities, investing activities and financing activities.

It is important that users of the financial statements understand the link between the budget and financial statements and hold the municipality accountable for their actual activities against what was planned, and how allocated resources were utilised.

According to GRAP 24 the municipality should make its budgets publicly available to present a comparison in their financial statements between:

Last approved and final budget amounts (which includes changes made by management within the prescribed limits);

Budget and actual amounts on a comparable basis; and

Explanations of material differences between budget and actual amounts, except where explanations have been included in other documents published in conjunction with the financial statements and cross reference to these documents is made.

#### Technical systems vs Financial asset register

All technical systems should be aligned with the financial asset register. It is the responsibility of the various departments to provide the Finance department with new asset information, for which the Finance department is responsible for updating in the financial asset register with. This relates not only to new completed project information but any asset information that will result in completeness of the asset register, for example third party roads that were transferred to the municipality because of a border change, should be made available to the Finance department.

At the end of the financial year the responsible FDDM official from the Finance department should liaisons with the Technical services Director and ensure that the information in the financial asset register agrees to the information reflected in the technical system of each department.

## **14. CAPITALISATION OF PROJECTS**

### ***Policy Statement***

#### Capital expenditure vs operating expenditure

Project Managers must be trained on the difference between operating expenditure and capital expenditure. This will improve the budget planning process per department and overall in the municipality; the budget will provide a more accurate reflection of the actual income and expenditures of the municipality.

Knowledge of the different expenditure types will result in more accurate cost allocations to correct VOTE and Project numbers.

Capital expenditure will result in an inflow of economic benefits or service potential; for example the construction of a new reservoir, upgrade of a communication network to ensure more effective and efficient communication, and/ or replacement of a component with a similar type and size of component. When replacing a component the estimated useful life will increase.

Operating expenditure will result in a decrease of economic benefits or service potential, for example the replacement of any part of an asset smaller than a component will be classified as maintenance and repair work. Repair and maintenance will be expensed in the financial year is occurs and will not be capitalised. Repair and maintenance work should also not be budgeted for as capital expenditure or processed to a capital VOTE or Project by the Expenditure department. Maintenance work is done on an asset/ component to maintain the asset/ component in a good condition to reach the end of its estimated useful life, for example painting of a building.

#### Asset Capitalisation Certificate

The Asset Capitalisation Certificate (ACC) is a control document that must be completed by the responsible Project Manager when a project is completed. The ACC must be completed accurately, signed and dated. The ACC must then be filed with all relevant project documentation for record keeping.

#### Componentisation

The Project Manager will need to unbundle all completed projects in to assets and componentise assets according to the IMQS approved Asset Hierarchy. The relevant departments should arrange for all Project Managers to follow the skills transfer program where componentisation of assets is explained in detail.

Project Managers must use the following project documents to componentise assets accurately:

- Bill of Quantities
- Close out report
- Invoices

The components must be updated in the correct upload format for the Financial Asset Register (FAR) in MS Excel. When the components are updated in the correct upload format for the Financial Asset Register (FAR) the Project Manager should send the componentised project MS Excel file to the Finance department.

The Finance department will be responsible for the upload of the componentised project on to the IMQS financial asset register.

## 15. SAFEGUARDING

### **Policy statement**

An asset safeguarding plan should be prepared for all PPE, indicating measures that are considered effective to ensure that all PPE, under control of the municipality are appropriately safeguarded from inappropriate use or loss, including the identification of asset custodians for all assets. The impact of budgetary constraints on such measures shall be reported to Council. The existence, condition and location of these assets shall be verified annually (in line with the assessment of impairment).

The municipality applies controls and safeguards to ensure that PPE, are protected against improper use, loss, theft, malicious damage or accidental damage.

The existence of PPE, heritage assets and investment properties are physically verified from time-to-time, and measures adopted to control their use. Budgetary constraints may however constrain the measures adopted.

The municipality may allocate day-to-day duties relating to such control, verification and safekeeping to asset custodians, and record such in the asset register.

All project documents, derecognition forms and associated council resolutions must be kept safe in accordance with FDDM's Document Management Policy. Documents should be stored alphabetically so it can be easily found for audit or review purposes. Each department should have a central storage room where documents are kept in a dry and ventilated environment and locked away. Copies of all project documents should also be kept safe by the Monitoring Performance Management division and copies of all derecognition forms and associated council resolutions should be kept safe by the Finance department; this will insure that the documents still exist in the case of fire or water damage at one of the stores.