SWARTLAND MUNICIPALITY

ASSET MANAGEMENT POLICY

REVIEWED AND AMENDED MAY 2025

Contents

PREAMBLE

Whereas sections 14 and 63 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services, and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued,

- and whereas the Municipal Council of Swartland Local Municipality wishes to adopt a policy to guide the municipal manager in the management of the municipality's assets,

- and whereas the Municipal Manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets,

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

- now therefore the Municipal Council of the Swartland Local Municipality adopts the following asset management policy:

ABBREVIATIONS AND DEFINITIONS

AM	Asset Management
AMS	Asset Management System
AR	Asset Register
CFO	Chief Financial Officer
CRR	Capital Replacement Reserve
GRAP	Standards of Generally Recognised Accounting Practice
IA	Intangible Assets
IAR	Infrastructure Asset Register
IDP	Integrated Development Plan
IIMM	International Infrastructure Management Manual
IP	Investment Property
LM	Local Municipality
MFMA	Municipal Finance Management Act
MSA	Municipal Services Act
NT	National Treasury

OHSA	Occupational Health and Safety Act
PPE	Property, Plant and Equipment
SARS	South African Revenue Service
SDBIP	Service Delivery and Budget Implementation Plan

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

Assets are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

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

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

Biological Assets are defined as living animals or plants.

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

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

Cash-generating assets are assets used with the objective of generating a commercial return.

Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

Commercial Return means that positive cash flows are expected to be significantly higher than the cost of the asset.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, where applicable, the amount

attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Current replacement cost is the cost the entity would incur to acquire the asset on the reporting date.

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

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

Fair Value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. The fair value of items of plant and equipment is usually their market value determined by appraisal, while the fair value of land and buildings is usually determined from market-based evidence by appraisal.

Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

GRAP are standards of Generally Recognised Accounting Practice.

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

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

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

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

Involuntary Disposals is the act of accounting for an asset that was lost, stolen, destroyed, or any other form of unplanned alienation, including natural disasters and damage suffered from riot or strike action, without consent, or intention of management or council. There is no intention or decision to generate a profit, discharge a liability or recuperate the value of an asset no longer in use or retired, and there was no exchange of resources.

Land is defined as a class of PPE when the land is held for purposes such as administration and provision of services. Land therefore excludes Investment properties and Land Inventories.

Living resources are defined as any living animal or plant that undergoes biological changes naturally.

MFMA refers to the Local Government: Municipal Finance Management Act (Act no. 56 of2003).

Movable Assets are defined as assets that are not fixed and utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Non-cash-generating assets are assets other than cash generating assets.

Non-living resources are those resources that occur naturally and have not been extracted. Minerals, oil, water and land are examples hereof.

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

Property, Plant and Equipment (PPE) are tangible assets that:
(a) Are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
(b) Are expected to be used during more than one period.

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

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

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

Revalued amount is the fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

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

Voluntary Disposal is the act of taking a decision to dispose of an asset to generate a profit, discharge a liability or recuperate the value of an asset no longer in use or retired.

Write-off includes the sale, loss, theft, destruction, decommissioning, derecognition or any other form of alienation that is the result of loss of control of the asset in question.

OBJECTIVE

The MFMA was introduced with the objective of improving accounting in the municipalities sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, but since the adoption of GRAP, entities are required to prepare financial statements using the accrual basis of accounting per GRAP 1.

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

According to the MFMA, the Accounting Officer in the Municipality should ensure:

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

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

a) consistently applies asset management principles;
b) applies accrual accounting;
c) complies with the MFMA, GRAP and other related legislation;
d) safeguard and control the assets of the municipality; and
e) optimises asset usage.

MSCOA has been implemented in the financial function of Swartland Municipality. The implementation of mSCOA will result in the consistent application of the municipal accountability cycle from planning, budgeting, implementation, monitoring and reporting and ultimately improved service delivery.

LEGISLATIVE FRAMEWORK

1) LEGAL FRAMEWORK

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

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

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

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

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

The accounting officer of the municipality is responsible and accountable for, among others, all assets of the municipality (section 55(2) of the MSA).
The accounting officer must take all reasonable steps to ensure, among others, that the resources of the municipality are used effectively, efficiently and economically (section 62(1) of the MFMA).

2) RATIONALE FOR MANAGEMENT OF ASSETS

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

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

In terms of the section 63 of the MFMA, the accounting officer is responsible for managing the assets and liabilities of the municipality, including the safeguarding and maintenance of its assets.

The MFMA further requires the accounting officer to ensure that:

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

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

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

The core principles of infrastructure asset management are:

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

POLICY FRAMEWORK:

3) POLICY OBJECTIVE

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

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

a) Moveable assets – controlling acquisition, location, use, and disposal (over a relatively short-term lifespan)
b) Immovable assets – lifecycle management (over a relatively long-term lifespan).

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

4) POLICY PRINCIPLES

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

4.2.1 Effective Governance

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

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

4.2.2 Sustainable Service Delivery

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

- Identify levels and standards of service that conform to statutory requirements and rules for their application based on the long-term affordability to the municipality;
- Identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- Identify current and future demand for services, and demand management strategies;
- Set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose assets, where applicable in line with national targets;
- Apply a risk management process to identify service delivery risks at asset level and appropriate responses;

- Prepare and adopt an immovable (infrastructure) asset management strategy and immovable (infrastructure) asset management plans to support the achievement of the required performance;
- Prepare and adopt an immovable (infrastructure) asset maintenance strategy and immovable (infrastructure) asset maintenance plans to execute maintenance timeously;
- Allocate budgets that take cognisance of the full life cycle needs of existing and future assets;
- Implement its Tariff and Credit Control and Debt Collection Policies to sustain and protect the affordability of services by the community.

4.2.3 Social and Economic Development

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

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

4.2.4 Custodianship

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

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

4.2.5 Transparency

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

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

- Continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

4.2.6 Cost-effectiveness and Efficiency

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

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

ASSET RECOGNITION

5) CLASSIFICATION OF CAPITAL ASSETS

General

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

1. Property, Plant and Equipment (GRAP 17)
    - Land (land not held as investment property)
    - Infrastructure Assets (immovable assets that are used to provide basic services)
    - Community Assets (resources contributing to the general well-being of the community)
    - Owner Occupied Housing Assets (occupied by employees which are required as part of their employment to be located in a specific area)
    - Movable Assets (non-fixed operational resources)
    - Other Assets (ordinary operational resources, mainly buildings)

2. Investment Property (GRAP 16)

3. Intangible Assets (GRAP 31)

4. Living and non-living resources (GRAP 110) (Agriculture in terms of GRAP 27 is not applicable to Swartland Municipality)

5. Heritage Assets (GRAP 103)

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

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

Further asset classification has not been defined in GRAP. The examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks. Current classifications used for infrastructure are limited and do not represent all asset types. To facilitate the practical management of infrastructure assets and asset register data, infrastructure assets have been further classified. The recommended classifications are provided in Annexure A.

Policy
The asset classification specified by GRAP shall be adhered to as a minimum standard. The extended asset classification specified in Annexure A shall be adopted. The CFO shall ensure that the classifications adopted by the municipality are adhered to.

6) IDENTIFICATION OF ASSETS

General
An asset identification system is a means to uniquely identify each asset in the municipality in order to ensure that each asset can be accounted for on an individual basis. Movable assets are usually identified using a barcode system by attaching a barcode to each item. Immovable assets are usually identified by means of an accurate description of their physical location. For this purpose, a Geo-spatial identification system (GIS) is used as far as possible resulting in a GIS-ID.

In exceptional cases, where it is impractical to barcode assets, barcodes will not be used to verify assets, but rather the location of the asset. This exception is only allowed for equipment where the barcodes are expected to fall off during the use of the asset, interfere with the working of the asset/s (e.g. notice boards, jackhammers or impact tools) and for fixtures where barcoding is not required in order to identify the asset (i.e. an air-conditioning unit in an office or for signage). Where barcodes have fallen off the assets, the asset unit should be promptly notified. Barcodes that has fallen off must at least be replaced during the annual verification.

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

7) ASSET REGISTER

General

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

Data	Land	Movable	Infrastructure / building
Identification			
•Unique identification number or asset mark	✓	✓	✓
•Unique name	✓	✓	✓
•Internal Classification	✓	✓	✓
•Descriptive data (make, model, etc.)	✓	✓	✓
•Erf/Registration number	✓	✓	✓
Location	✓	✓	✓
•Title deed reference	✓		
Accountability			
•Department	✓	✓	✓
Performance			
•Age		✓	✓
•Condition		✓	✓
•Remaining Useful life		✓	✓
•Expected Useful Life		✓	✓
Accounting			
•Historic cost	✓	✓	✓
•Take-on value	✓	✓	✓
•Take-on date	✓	✓	✓
•Re-valued amount (where assets were re-valued)	✓	✓	✓
•Valuation difference (for purposes of revaluation reserve and depreciation)	✓	✓	✓
•Depreciation method		✓	✓

Data	Land	Movable	Infrastructure / building
•Depreciation portion that should be transferred from Revaluation reserve to accumulated depreciation (where assets were re-valued)		✓	✓
•Depreciation charge for the current financial year		✓	✓
•Accumulated Depreciation	✓	✓	✓
•Impairment losses in the current year		✓	✓
•Reversal of impairment losses in the current year			
•Accumulated depreciation		✓	✓
•Carrying value	✓	✓	✓
•Residual value		✓	✓
•Source of financing	✓	✓	✓

Assets remain in the asset register for as long as they are in physical existence or until being written off. The fact that an asset has reached the end of its original useful life, or is impaired, is not in itself a reason for writing-off such an asset. The asset register does not include assets that belong to other third parties. These assets may be included as separable entities for control purposes.

When assets are listed as security for borrowings, the asset register needs to include a reference to the loan/borrowing for purposes of identification of the loan.

Policy

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

8) RECOGNITION OF CAPITAL ASSETS: INITIAL MEASUREMENT

General

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

- The entity has control of the asset;
- It is probable that future economic benefits or potential service delivery associated with the item will flow to the municipality;

- The cost or fair value of the item to the municipality can be measured reliably;
- The cost is above the municipal capitalisation threshold (if any); and
- The item is expected to be used during more than one financial year.

Spare parts and servicing equipment are usually carried as inventory in terms of GRAP 12 on Inventories and are recognised in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Where an asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Further guidance for the recognition of assets is provided below:

Capitalisation Threshold

The capitalisation threshold is a policy decision of the municipality and determines which assets are capitalised and reported in the financial statements as tangible or intangible capital assets as opposed to being expensed in the year of acquisition. As a result, the threshold has an impact on the size of the asset register and the complexity of asset management. Asset management is a costly exercise. As part of the municipal objective to deliver effective and efficient services, the use of a capitalisation threshold will resolve that only those assets and asset components which warrants separate asset management incurs the appropriate asset management costs. The capitalisation threshold should be determined annually by comparison against materiality and must be determined at a level that will ensure that the municipality does not deviate materially from the requirements of GRAP 17. The municipality's decision to utilise a capitalisation threshold is based on ASB's Guideline on the application of materiality of financial statements supported by GRAP 1: Presentation of Financial Statements.

The capitalisation threshold should not be applied to the components of an asset, but should be applied to the capital asset as a whole. If the threshold is applied at component level, the asset register would be incomplete in the sense that an asset recorded as such would not be a complete asset. The municipality has taken the following into account when considering a capitalisation threshold:

- The impact of the threshold on the financial statements and the decisions/assessments the users of the financial statement may or may not make;
- The cost of maintaining financial and management information on assets when the threshold is very low;
- The impact on comparability and benchmarking cost of services may be difficult if different capitalisation thresholds are applied;

- The size of the municipality or the size of its service areas when setting a capitalisation threshold level. Municipalities vary greatly in size, so what is relevant to one may be immaterial to another.

The full threshold consideration is included as Annexure B.

Calculation of initial cost price

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the municipality is not allowed to claim input VAT paid on acquisition of such assets. In such an instance, the municipality should capitalise the cost of the asset together with VAT (e.g. Passenger Vehicles). Any trade discounts and rebates are deducted in arriving at the purchase price. If, rebates, discounts or refunds are received after payment, such shall be deducted insofar such is given within the same financial period in which the asset is recognised (capitalised). Discounts or rebates received after year-end will be considered revenue in such period, but will be considered an indicator for the revision of the useful life and impairments.

Listed hereunder are examples of directly attributable costs (not exhaustive list), of:

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

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

In exceptional cases, the initial cost price may have been negotiated to the point where the costs are determinable, only to discover at a later stage that additional expenditure is required on the same asset. If the asset has already been taken into use (e.g. owner occupation of a building has commenced with additional building alterations required), the additional costs must be assessed to determine whether those costs ought to have been known at the date of recognition in terms of a prior period error. If it was found that management had already incurred the additional costs (i.e. services has been rendered and that there was a reasonable expectation that those costs were due and approved), the initial costs must be revised. In those instances where services were rendered, but the cost associated with the additional services were not considered due, those costs that were approved at a later date would be added to the existing asset in the year during which the costs are paid. If additional costs are incurred (goods or services rendered) in a period subsequent to initial recognition those costs may be added to the existing asset (also see subsection for Subsequent Expenditure).

Component approach

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

- Significant cost in relation to the asset as a whole;
- Considerable difference in useful life;
- The frequency that the component is expected to be replaced; and
- The risk or significance of the component in relation to the usefulness of the asset as a whole;

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

Subsequent Expenses

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

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

Based on the component approach, if a component is replaced, it will be regarded as a capital expenditure. If part or a section of a component is replaced or renewed due to maintenance, such expenditure shall be regarded as operational. Major capital renewal projects would be material and therefore the component level approach would not be applicable to such projects (refer below).

Rehabilitation/Enhancements/Renewals of capital assets

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

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

The expenditure to restore the functionality of the capital asset to its original level is a maintenance or refurbishment expense and will not be capitalised to the carrying value of the capital asset. The rehabilitated or renewed separately depreciable part will be derecognised and the replacement will be recognised. Where the separately identifiable asset is rehabilitated or renewed, the amount incurred will be added to the carrying value of the asset.

Leased Assets

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

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

Policy

All capital assets shall be correctly recognised as assets and capitalised at the correct value in its significant components. The capitalisation threshold based on a list of items included in Annexure B, but the application thereof will be determined annually by the municipality.

All assets falling outside the capitalisation threshold and with an estimated useful life of more than one year shall be recorded on a Minor Assets Control List ("toolbox items"). The existence of items recorded on such a list shall be physically verified from time to time, and any amendments which are made to such lists pursuant to such asset verifications shall be retained for audit purposes.

The Council shall specify which kinds of leases the municipality may enter into. A lease register shall be maintained with all the information that is necessary for reporting purposes.

9) SUBSEQUENT REMEASUREMENT OF CAPITAL ASSETS

General

After initial recognition of Capital Assets, the municipality values its assets using the cost model, unless a specific decision has been taken to revalue a certain class of assets and in such instance the PPE will be valued using the revaluation model. When an item of PPE is revalued, the entire class of property to which that asset belongs, should be re-valued. The fair value of the assets will be revised at least annually, with reference to the valuation roll of the municipality.

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

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

10) RECOGNITION OF INVENTORY ITEMS (NON-CAPITAL ITEMS)

General

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

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

Examples of Inventories may include the following:

- Ammunition
- Consumable stores;
- Maintenance materials;
- Spare parts for plant and equipment other than those dealt with under PPE;
- Strategic stockpiles (e.g. Water reserves);
- Work in progress; and
- Land / Property held for sale or development (and where plans have been approved/council has resolved).

Cost of inventories shall comprise of all costs of purchase (i.e. purchase price, import duties, other taxes and transport, handling and other costs attributable to the acquisition of finished goods, materials and supplies), costs of development, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Trade discounts, rebates and other similarities are deducted. Taxes recoverable by the entity from the SARS may not be included.

Costs of development for housing or similar developments which are acquired or developed for resale will include costs directly related to the development – e.g. purchase price of land acquired

for such developments, surveying, conveyance costs and the provision of certain infrastructure. Infrastructure costs relating to extending the capacity of existing infrastructure are excluded. The costs of inventories of a service provider consisting of direct labour and other costs of personnel directly engaged in providing the service and other attributable overheads are included.

Where inventories are acquired at through a non-exchange transaction, their cost shall be measured at their fair value as at the date of acquisition.

The cost of inventories, shall be assigned by using the weighted average cost formula.

Policy

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

Inventories are recorded in a dedicated section of the Inventory Register and it is maintained for this purpose. The amount of cost of inventories is recognised and carried forward until related revenues are recognised.

The cost of inventories, shall be assigned by using the weighted average cost formula.

Inventories are measured at the lower of cost and current replacement cost where they are held for distribution at no charge or for nominal charge, or for consumption in the production process of goods to be distributed at no charge or for a nominal charge.

In cases where the above does not apply, inventories are measured at lower of cost and net realisable value.

The estimation of the water stock in the reservoirs is based on the measurement of water via electronic level sensors, where the level indicates the depth of the water in the reservoir, which is then converted into volumes based on the total capacity of the relevant reservoir. Furthermore, the length and width of all pipes are also taken into account in determining the volume of water on hand at year-end.

Water inventory is being measured by multiplying the cost per kilolitre of purified water by the amount of water in storage.

11) RECOGNITION AND DERECOGNITION OF LAND (IGRAP 18)

General

IGRAP 18 is applied in the recognition and derecognition of land.

IGRAP 18 is applied to clarify the treatment (whether or not the municipality should recognise or derecognise land) of land where the building is owned by another party including, but not limited to:

- Formal RDP houses
- Informal RDP houses (without council permission)
- Schools, clinics, churches and similar
- Private properties on municipal land

It will also assist in confirming the treatment of the following assets regardless of ownership of the land:

- Infrastructure assets (municipal infrastructure taken over and serviced by the public)
- Community assets
- Vacant stands registered at the title deeds office
- Vacant stands not registered at the title deeds office

(par the considerations of GRAP 32: Service Concession Arrangements)

Management assesses at each reporting date whether there are any changes in a binding agreement that could impact its assessment of internal control. In assessing whether the rights that have been granted to the municipality in a binding arrangement result in control of the land, it is important to distinguish between substantive rights and protective rights. Only substantive rights are considered in assessing whether the municipality controls land. Substantive rights grant the municipality the ability to make decisions about, and benefit from, certain rights and assets, such as how to use the land to provide services, and when to dispose of the land, to whom and at what price. For the right to be substantive, the holder of the right must have the present ability to exercise that right.

Where the municipality has been granted a right to use land, management needs to consider whether the right should be accounted for in terms of the Standard of GRAP on Leases (GRAP 13)

Policy

The control of land is evidenced by the following criteria:

(a) legal ownership; and/or

(b) the right to direct access to land, and to restrict or deny the access of others to land.

Substance over form determines that the land is controlled by the municipality that has the right to direct access to land, and to restrict or deny access of others to land. This is usually demonstrated by the following:

a. it can direct the use of the land's future economic benefits or service potential to provide services to beneficiaries;
b. it can exchange, dispose of, or transfer the land; and/or
c. it can use the land in any other way to generate future economic benefits or service potential.

When, after assessment of control per the criteria set out above, the municipality concludes that it controls the land, the land should be recognised as an asset in the statement of financial position and accordance with the relevant Standard of GRAP.

If the municipality concludes that it does not control the land, and is currently recognising the land, it should derecognise it in accordance with the relevant Standard if GRAP.

In assessing the control criteria, any binding arrangements over properties will be considered. Binding agreements can be in written form, a verbal agreement, court decision or the result of past practice.

The loss of control will result in the derecognition of the property, despite legal title, while assets over which the entity does not hold the legal title may be recognized as an asset if control over the property has been established.

ASSET TYPES

12) PROPERTY, PLANT AND EQUIPMENT: LAND (GRAP 17)

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

Policy
The municipality has selected the cost model as its accounting policy and shall apply this policy to an entire class of property, plant and equipment. After recognition as an asset, Land and Buildings shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses. The remaining useful life and residual value applied to Building assets shall be reviewed on an indication bases as per the guidance of GRAP 17.

Land is not depreciated as it is deemed to have an indefinite useful life. The municipality assesses at each reporting date if there is an indication of impairment.

13) PROPERTY, PLANT AND EQUIPMENT: INFRASTRUCTURE ASSETS (GRAP 17)

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

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

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

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

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

Policy

The infrastructure asset register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimising the risks of the municipality. Infrastructure assets are valued at cost (or, if acquired through a non-exchange transaction, the cost of the asset at recognition is measured as the fair value of the asset), less accumulated depreciation and accumulated impairment. If cost can however not be established, then infrastructure assets will be initially recognised at depreciated replacement cost. Depreciated replacement cost is an accepted fair value calculation for assets where there is no active and liquid market. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value applied to Infrastructure assets shall be reviewed on an indication base as per the requirements of GRAP 17.

Infrastructure Assets shall be recorded under the main categories listed in *Annexure A*;

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use. The municipality assesses at each reporting date if there is an indication of impairment.

14) PROPERTY, PLANT AND EQUIPMENT: COMMUNITY ASSETS (GRAP 17)

General

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

Policy
Community assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value applied to Infrastructure assets shall be reviewed on an indication base as per the requirements of GRAP 17.

15) PROPERTY, PLANT AND EQUIPMENT: HOUSING ASSETS

General

Housing Assets comprise residential property that does not meet the definition of Investment Property. (I.e. earn rentals or capital gains).

It further includes a specific exclusion in GRAP 16 based on housing that is provided solely to employees due to an operational requirement to be located in a specific area. This includes military and official personnel. The housing should be specifically intended for this purpose and private individuals should not be able to rent or occupy such property. Where the property may be let out to either an employee or a private person, the exclusion is not satisfied, and the classification of Investment Property should be applied.

Houses that have their origin from housing units erected in terms of the Housing Act, funded from loans granted by Government regardless whether it comprise rental stock or selling stock not held for capital gain, it should be measured against the definition criteria of GRAP 16 and the specific exclusions to determine classification.

Policy

Housing assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives.
Housing Assets shall be recorded under the following main categories;

- Rental Schemes; and
- Selling Schemes.

16) PROPERTY, PLANT AND EQUIPMENT: OTHER ASSETS

General
Other assets compromise buildings held (as owner or lessee under a finance lease) by the municipality to be used in the production or supply of goods or for administrative purposes. For this class of buildings there is no intention of developing or selling the property in the normal course of business.

The municipality has chosen the cost model as its accounting policy and shall apply this policy to an entire class of property, plant and equipment.

Policy
Other assets are recognised and measured at cost (or, if acquired through a non-exchange transaction, at its fair value) less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Other assets are not re-valued. The remaining useful life and residual value of applied to other assets shall be reviewed using an indicator-based approach as per the requirements of GRAP 17. Other Assets shall be recorded under the main categories listed in *Annexure A*.

17) PROPERTY, PLANT AND EQUIPMENT: MOVABLE ASSETS

General
Movable Assets include machinery and equipment, furniture and office equipment, transport assets and computer equipment.

Policy
Movable assets are carried at cost (or, if acquired through a non-exchange transaction, at its fair value) less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Movable assets are not re-valued. The remaining useful life and residual value of applied to other assets shall be reviewed on an indication bases as per the guidance of GRAP 17.

Movable Assets (general assets) shall be recorded under the main categories listed in *Annexure A*.

18) HERITAGE ASSETS (GRAP 103)

General
Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations. Heritage assets include the following:

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

Policy
Heritage assets are stated at cost (or, if acquired through a non-exchange transaction, the cost of the asset at recognition is measured as the fair value of the asset) less accumulated impairment losses. Heritage assets are not re-valued. If an asset that might be regarded as a heritage asset cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes

to the financial statements. Heritage Assets are tested for impairment annually based on the indicator approach.

19) INTANGIBLE ASSETS (GRAP 31)

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

Servitudes

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

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

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

- They cannot be sold, transferred, rented or exchanged freely and are not separable from the entity.
- They arise from rights granted to the entity in statute and are specifically excluded from GRAP 31 as they are "internally generated rights".

Creation of servitudes through acquisition (including by way of expropriation or agreement)
An entity may need to acquire the rights associated with a specific piece of land, e.g. to span power cables related to an electricity distribution network. When an entity acquires rights associated with land, and registers a servitude, the landowner is usually compensated. Servitudes granted under these conditions are distinguished from those that are created through the exercise of legislation. These servitudes meet the definition of an "identifiable" intangible asset because they arise from contractual or other legal rights that are acquired through a specific arrangement, rather than through rights conferred on an entity in statute. In these instances, an entity would recognise the servitude as an intangible asset at cost. The cost of these servitudes on initial recognition is usually the transaction price, i.e. the compensation paid to the landowner and any other costs that can be capitalised to the cost of the asset in terms of GRAP 31.

Policy
Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset. If

an intangible asset is generated internally by the municipality, then a distinction should be made between research and development costs. Research costs should be expensed and development costs may be capitalised if all the criteria set out in GRAP 31 has been met.

20) INVESTMENT PROPERTY (GRAP 16)

General

Investment Property comprise of land or buildings (or parts of buildings) or both, held by the municipality as owner, or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both. Investment property does not include property used in the production or supply of service or for administration. It also does not include property that will be sold in the normal course of business. Typical investment properties include:

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

Policy

Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position.

Investment Property is recognised at cost. Transaction costs shall be included in this initial measurement. Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.

After initial recognition, all investment property shall be measured at cost less accumulated depreciation and accumulated impairment losses. Depreciation of buildings is calculated on cost, using the straight-line method over the useful life of the property. The remaining useful life and residual value applied to investment property shall be reviewed based on the indicator approach.

Land will not depreciate as it is deemed to have an indefinite useful life. The municipality assesses at each reporting date if there is an indication of impairment.

Vacant land parcels must be earmarked for own use or sale through a council decision (land parcels considered for service delivery or council decision to transfer the property). Until such time that a council decision has been approved, vacant land is considered to be held for capital appreciation (future undetermined use). No land parcels included in Investment Property shall be transferred to inventory unless such development of the vacant land has commenced (e.g. a service connection has been installed at our account).

Classification of assets as Investment Property or other asset class

The following classes of Municipal Property **will be classified** as Investment Property:

a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations which council intends to sell at a beneficial time in the future.
b) Land held for a currently undetermined future use.
c) A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases (market rental does not need to be charged).
d) A building that is currently vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.
e) Property that is being constructed or developed for future use as investment property.

The following classes of Municipal Property will **not be classified** as Investment Property:

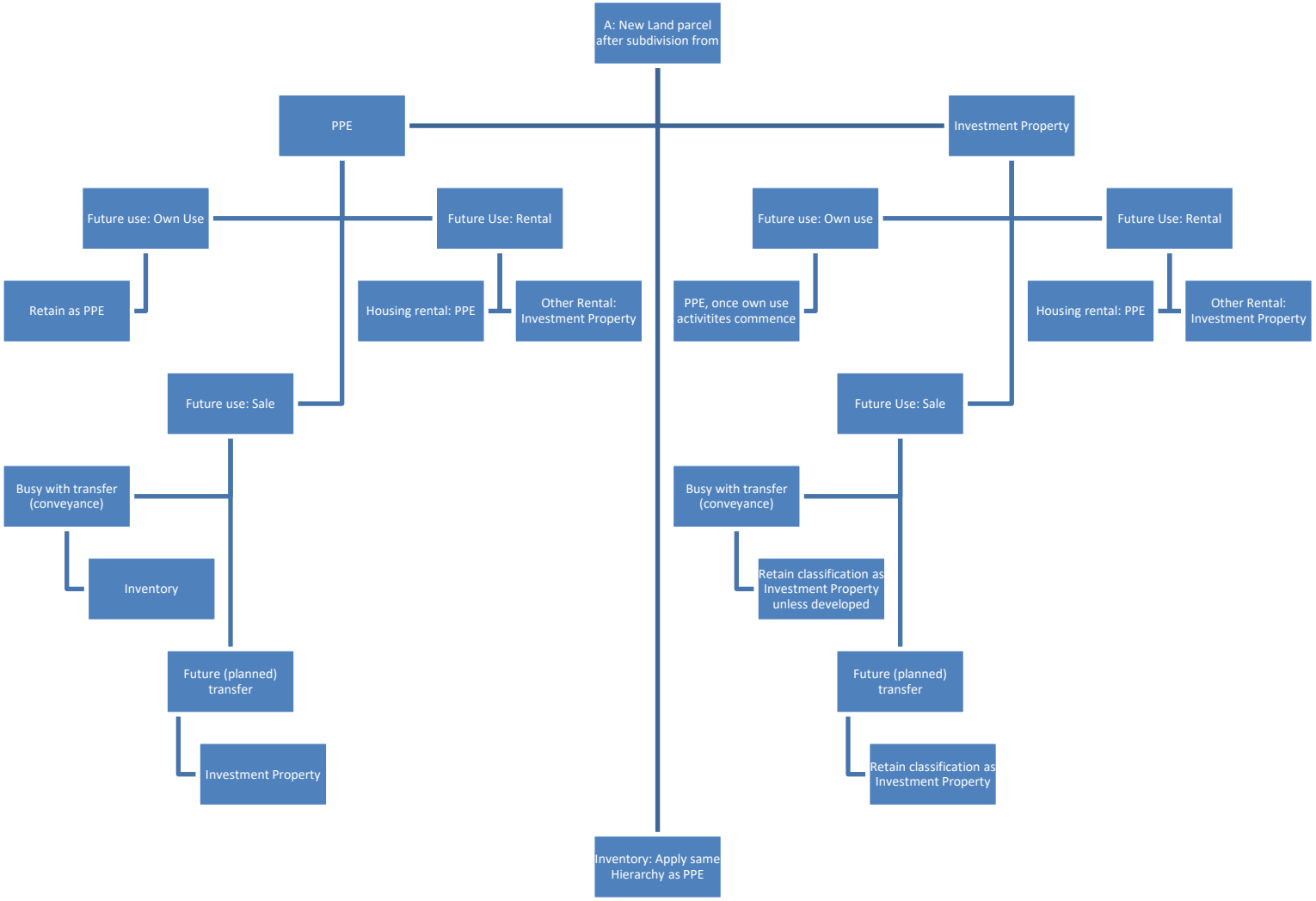
a) Property held for sale in the ordinary course of operations or in the process of construction or development for such sale. This property is treated as inventory.
b) Property being constructed or developed on behalf of the Provincial Government: Housing Department.
c) Owner-occupied property which is defined as property which is held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes as per definition criteria of GRAP 17 which includes all council buildings used for administration purposes.
d) Property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) are also regarded to be owner–occupied property.
e) Property that is leased to another entity under a finance lease.
f) Property held by council for strategic purposes or to meet service delivery objectives rather than to earn rental or for capital appreciation.
g) Where council has properties that are used both for administrative and commercial purposes and part of the properties cannot be sold separately these properties will not be classified as investment properties.

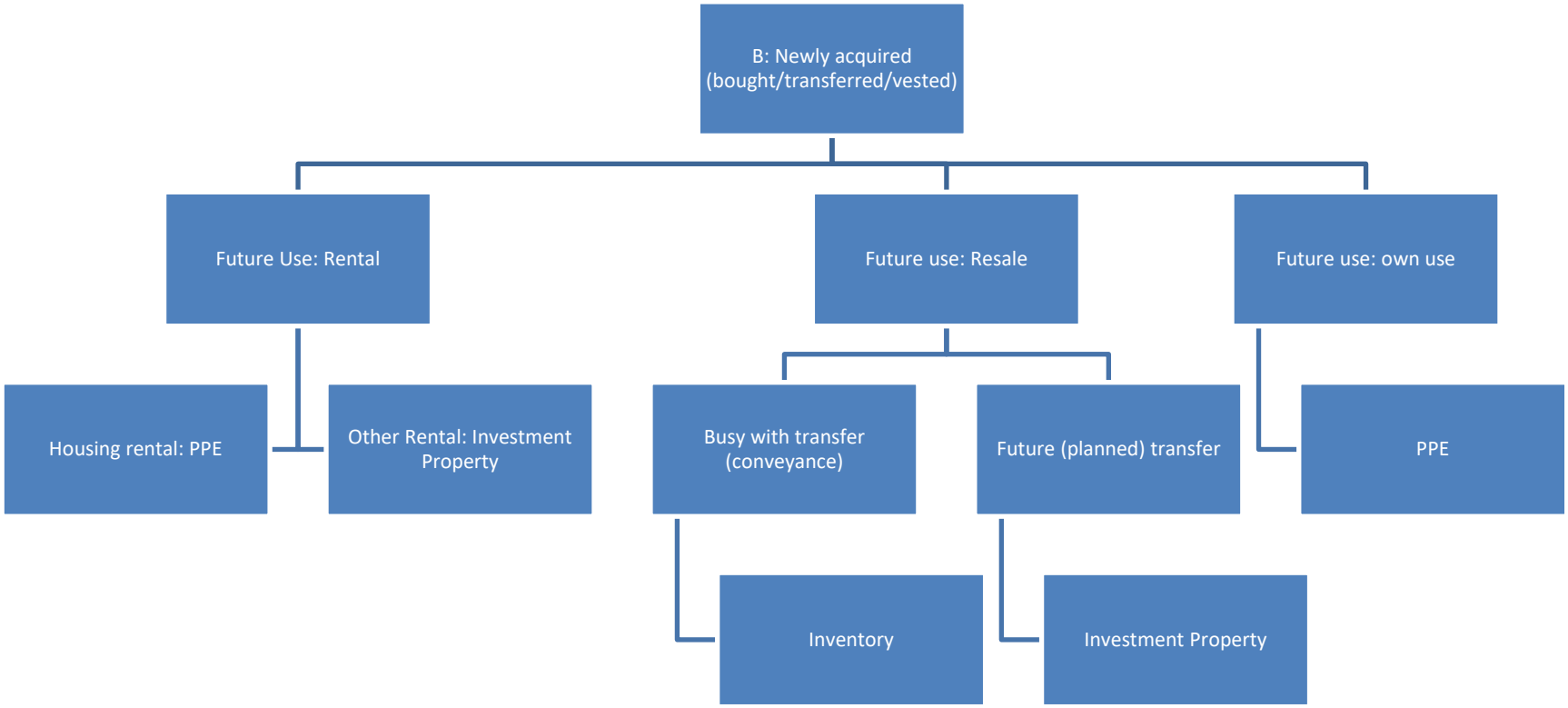
In the case of land, special considerations needs to be applied:

a) If for example plans have drawn up to sell or rent the land only to discover that in terms of laws or other regulations (such as national heritage or preservation of natural reserves) such land may not be transferred, the land must be classified or reclassified as Property, Plant and Equipment or Heritage as it serves the strategic needs of the community rather than to generate a return to the municipality. If the land is marked as a nature reserve, only when objective evidence is available that the municipality has applied to the Department to transfer the land or exclude the land portion from the nature reserve status, may the classification as Investment Property be applied.
b) If for example, activities on a single land parcel comprise both commercial, rental and municipal use for service delivery, the land parcel needs to be assessed in order to determine whether a sub-division of land would allow the activities to be split. If found that a sub-division of land would appropriately resolve the mixed use into separate portions of owner-occupied and income generating, such land portion may be recorded as both Investment Property and

Property, Plant and Equipment, provided that accurate sizes are retained to allow each portion to be separately identifiable. This is often appropriate for municipal commonages where sections of the land may be sold or distributed with certain section of the same commonage which are already used as owner occupied property.

c) Some land parcels might be included in the asset register without those parcels being recorded in the Deeds Office. Classification will be determined based on the following diagrams:




B: Newly acquired (bought/transferred/vested)
Future Use: Rental
Future use: Resale
Future use: own use
Housing rental: PPE
Other Rental: Investment Property
Busy with transfer (conveyance)
Future (planned) transfer
PPE
Inventory
Investment Property

21) LAND AND INFRASTRUCTURE IN TERMS OF THE GUIDELINE ON ACCOUNTING FOR ARRANGEMENTS IN TERMS OF THE NATIONAL HOUSING PROGRAM(ME)

General

ASB's Housing Guideline (as it is commonly referred) primarily aims to describe the accounting for grants in terms of these housing arrangements. The guideline does however provide recommended accounting consequences for the classification of land and accounting for infrastructure.

The key element to consider when determining the classification of land is whether the agreement with the department has already been entered. For Swartland, there would be an overall agreement to establish a housing project, but at the time that funds are released for purposes of funding the acquisition of land, the detailed project scope would not yet be approved. For example, land might be acquired to establish 3400 serviced sites, but at the time that the land is funded, phase 1 (e.g. 340 serviced sites) might not yet have commenced or signed. At the time Swartland becomes the owner of the land, such land portion might far exceed the town planning and current feasibility study of the housing project (mutually exclusive). As such, at the time that the land is to be recognised, a very small portion of the land parcel might be considered to be for a housing project, (e.g. 340 of 3400 = 10%) with the remaining extent of the land earmarked for housing without a specific future determined use (e.g. the project might end after phase 1). As the housing projects run in phases and funding is only secured for each phase at a time, the municipality had to adapt the guidelines recommendation to meet its obligations in terms of GRAP.

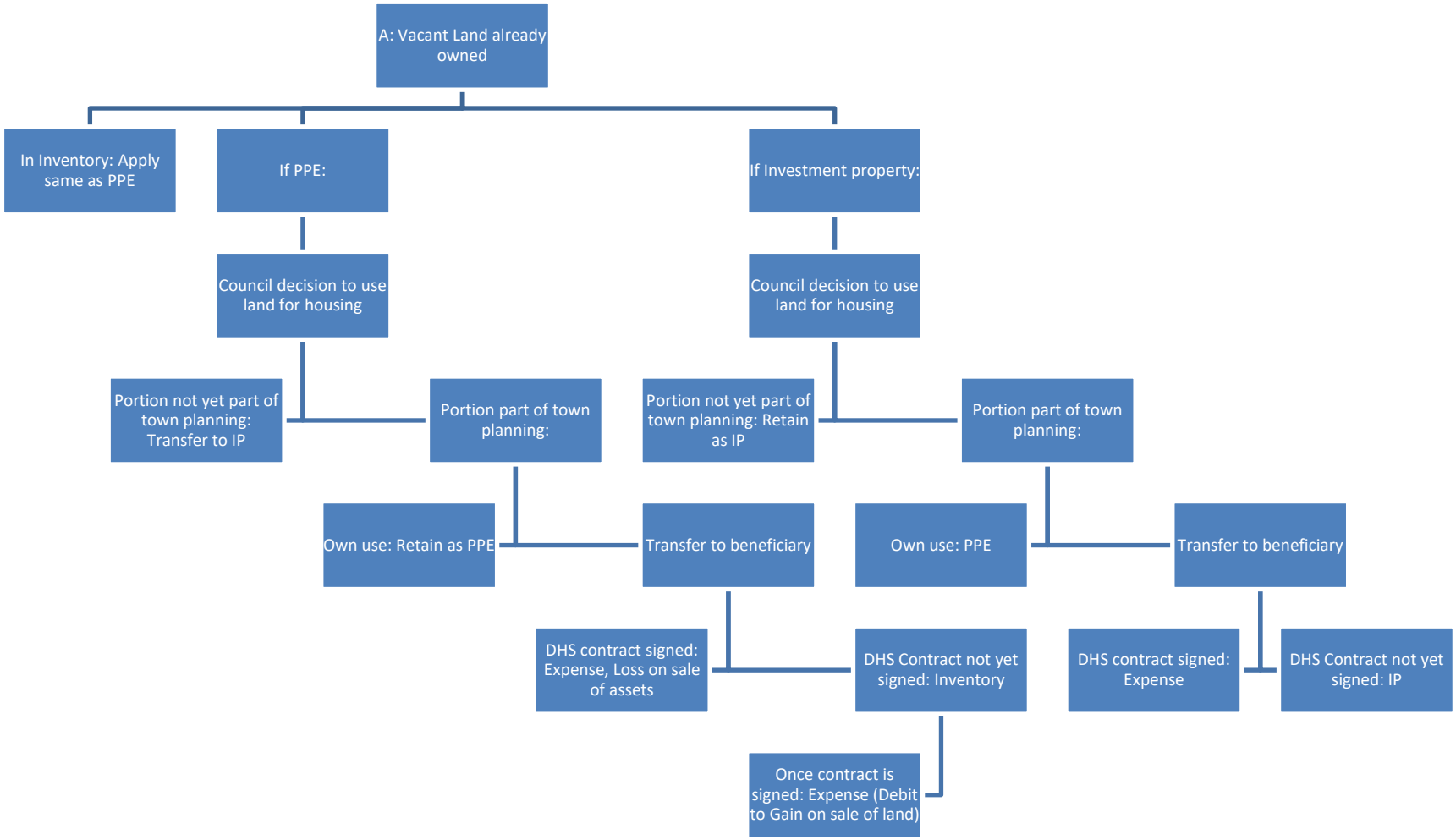
As there is historic evidence of Land purchased for purposes of housing upon which the housing projects were not commenced or completed, Swartland has opted to have Investment Property as the default classification for housing land where detailed town planning is not yet available at initial recognition. If at initial recognition, a portion of town planning is available, such town planning will be used to determine:

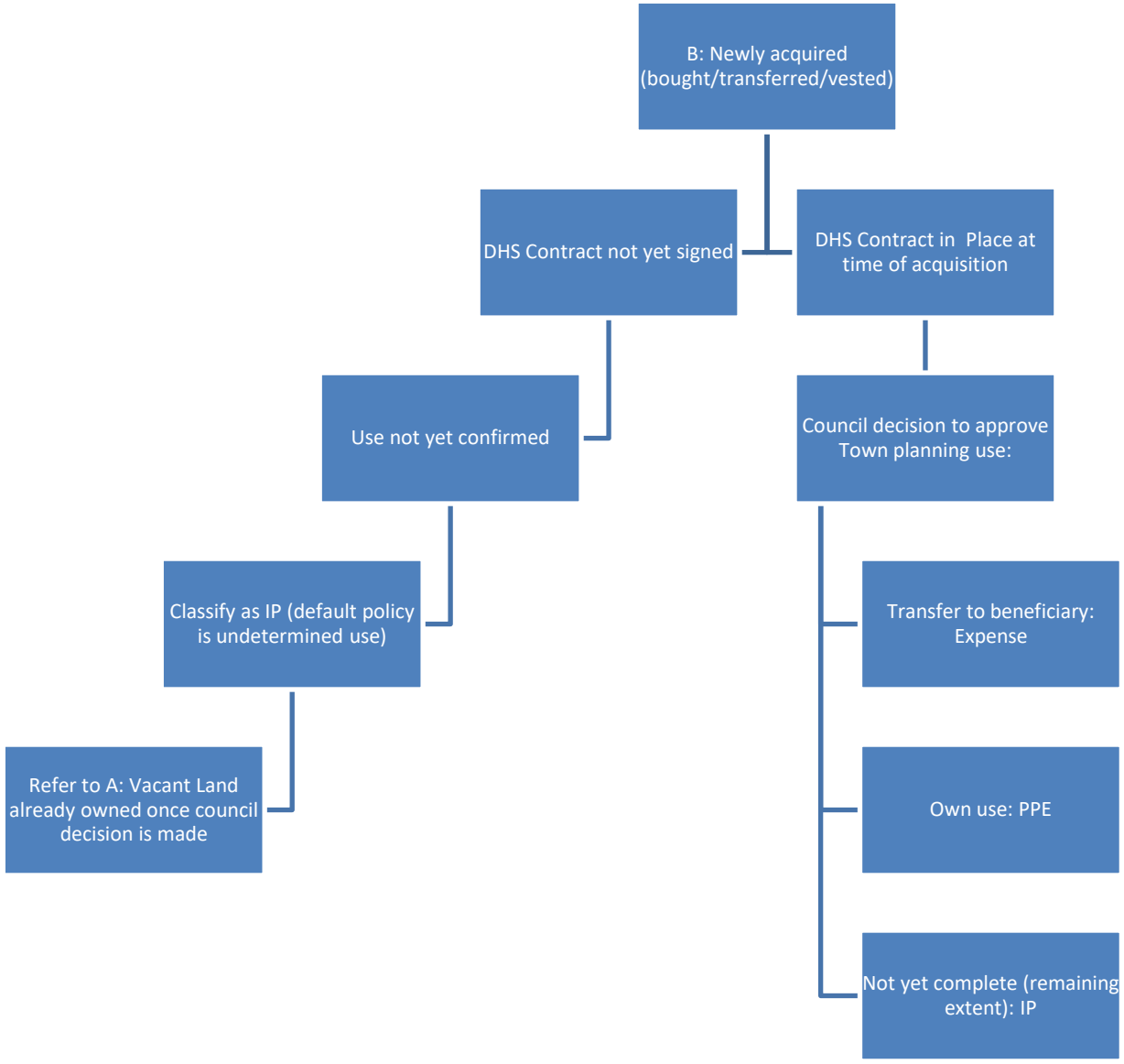
a) Land portions that will not be recognised (recorded as Inventory Consumed (Expense)
b) Land portions that will be used for infrastructure
c) Land portions that will be used for commercial purposes (sold as inventory)
d) Land portions that will be rented for commercial purposes

The remaining portion of the land for which the Town Planning has not yet commenced will be regarded as Investment Property as Council has not yet determined the use (as per Town Planning)

For a housing project, the services (infrastructure) needs to first be installed. Once Town planning has drawn up the detailed plans in terms of the infrastructure development and such development is likely to proceed, the land portions upon which service delivery would be (including parks and public open spaces), will be transferred to Property plant and equipment.

Also refer the diagrams below for the interpretation of the accounting treatment for land in terms of housing projects.


A: Vacant Land already owned
In Inventory: Apply same as PPE
If PPE:
If Investment property:
Council decision to use land for housing
Council decision to use land for housing
Portion not yet part of town planning: Transfer to IP
Portion part of town planning:
Portion not yet part of town planning: Retain as IP
Portion part of town planning:
Own use: Retain as PPE
Transfer to beneficiary
Own use: PPE
Transfer to beneficiary
DHS contract signed: Expense, Loss on sale of assets
DHS Contract not yet signed: Inventory
DHS contract signed: Expense
DHS Contract not yet signed: IP
Once contract is signed: Expense (Debit to Gain on sale of land)


B: Newly acquired (bought/transferred/vested)
DHS Contract not yet signed
DHS Contract in Place at time of acquisition
Use not yet confirmed
Council decision to approve Town planning use:
Classify as IP (default policy is undetermined use)
Transfer to beneficiary: Expense
Refer to A: Vacant Land already owned once council decision is made
Own use: PPE
Not yet complete (remaining extent): IP

Policy
Land parcels purchased by means of receipts from the Provincial Department are assessed in terms of IGRAP 18: Recognition and Derecognition of Land. The portions of the expenditure that will remain under the control of the municipality is capitalised as Property, Plant and Equipment when the future use is determinable. When such future use cannot be determined, such land will be accounted for as Investment Property based on the municipal policy to only classify vacant land for which the use is determined as Property, Plant and Equipment. The portion of land expenditure that will be transferred to the beneficiaries are expensed once the contract is signed. The expense and receipts pertaining to land transactions are included under Loss on sale of Property, Plant and Equipment or Other Materials and Gains on Sale of Land, respectively.

All infrastructure and land that arises from Housing Arrangements are included under Property, Plant and Equipment or Investment Property as appropriate. Land acquired by means of Housing Arrangements for which the future use is not yet determined, is accounted for as Investment Property when the municipality is unable to determine the future use of the Land.

Once the use is determined or determinable in terms of Town Planning, the land will be transferred to Property, Plant and Equipment or Inventory or disposed as per the requirements of the Guideline. History has shown that some Land portions could be purchased and retained indefinitely resulting in a different accounting treatment than that outlined by the Guideline.

Only once the use of vacant land has been determined in terms of a Council decision, may vacant land accounting entries be made to record the asset as Property, Plant and Equipment, or Inventory or Disposed through the statement of Financial Performance.

22) LIVING RESOURCES (GRAP 110)

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

The cost of a living resource comprises:
(a) its purchase price, including import duties and non-refundable purchase taxes; and
(b) any costs directly attributable to bringing the living resource to the location and condition necessary for it to be capable of operating in the manner intended by management.

Policy
Living resources are initially measured at cost. However, when obtained through a non-exchange transaction, it shall be measured at the fair value at the date of acquisition.

Living resources, such as livestock and crops, are valued annually at cost less accumulated depreciation and accumulated impairment. Living resources are valued annually at cost less

accumulated depreciation and accumulated impairment. (if held for longer than 12 months). If living resources are held for less than 12 months, it shall be measured in accordance with GRAP 12 - inventory.

Living resources shall only be accounted for when the cost or fair value of the asset can be measured reliably.

23) INVENTORY PROPERTY (GRAP 12)

General
Inventory Property comprises any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business.

Policy
Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the municipality's asset register or Statement of Financial Position. Inventory property shall be valued annually at reporting date at the lower of carrying value or net realisable value, except where they are held for:

a) distribution at no charge or for a nominal charge, or
b) Consumption in the production process of goods to be distributed at no charge or for a nominal charge, then they shall be measured at the lower of cost and current replacement cost.

Inventory properties shall be recorded in the Inventory register.

When inventories are sold, exchanged or distributed the carrying amount of those inventories shall be recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories shall be recognised as an expense in the period the write-down or loss occurs.

The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, shall be recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

24) MINOR ASSETS (CAPITAL ASSETS BELOW APPROVED THRESHOLD)

General
Minor Assets comprise movable assets not capitalised in terms of the threshold policy of the municipality. However, these assets must still be controlled, safeguarded and verified by the

municipality. They are not capitalised for the number of assets compared to their value does not warrant the complex procedures applicable to asset management, rendering a manageable asset register by concentrating on what is material and significant to the municipality's operation.

Policy
Minor assets shall be expensed in the Statement of Financial Performance and not be capitalised. These assets shall not be depreciated or tested for impairment and shall not generate any further transactions, except in the cases where losses are recovered by means of insurance claims or recoveries from disciplinary actions.

25) NON-LIVING RESOURCES (GRAP 110)

General
Non-living resources are those resources that occur naturally and have not been extracted. Minerals, oil, water and land are examples hereof. Living resources are only disclosed when:

- Management intervenes in the processes as part of the municipal mandate in order to deliver goods or services.
- This intervention must be at the point before extraction while the resource is still in its natural state. Intervention must be proceeded by either extraction or utilisation of the resource.

Management only identified water resources as none of the other resources mentioned are prevalent within our jurisdiction.

Water contained in reservoirs and pipes are considered to be extracted and is therefore accounted for as Inventory in terms of GRAP 12.

Water can occur naturally, but it could also be retained in man-made structures such as reservoirs or dams. In the case of aquafers and borehole extraction, the municipality does not initiate any control over the groundwater and therefore these resources do not meet the definition on a non-living resource.

Similarly, reservoirs contain purified extracted water. The contents of a reservoir does not meet the definition of a non-living resource, but rather water inventory.

Water in man-made dams could meet the definition of non-living resources provided that management intervenes in the processes to monitor and maintain the water's quantity and quality. In some instances, the control over the resource (such as a dam wall) are located in jurisdiction of another municipality. In this case, the municipality would disclose the resource despite another Municipality's activities to extract the water.

All other types of natural resources, such as minerals and oil are assessed against the definition on the same principles as water. Land shall be excluded from non-living resources.

Policy

The municipality shall disclosed all non-living resources is the annual financial statements provided that some intervention is performed/planned in order to utilise such resource. The existence of such a resource without any intention to utilise or preserve the resource would fail to meet the requirement to disclose such resource as the definition of a non-living resource is not fully met.

ASSET ACQUISITION

26) ACQUISITION OF ASSETS

General

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing. The date of acquisition of assets is deemed to be the time when control passes to the municipality.

Policy

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

- The purpose for which the asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it;
- The asset meets the definition of a Capital Asset (as defined in GRAP 16, GRAP 17, GRAP 31, GRAP 110 and GRAP 103)
- The asset has been budgeted for;
- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
- The asset is appropriate to the task or requirement and is cost-effective over the life of the asset.
- The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
- Space and other necessary facilities to accommodate the asset are in place;
- Adequate audit support is kept regarding incomplete construction works in order to meet the disclosure requirements of GRAP 17 pertaining to assets in the process of being constructed or developed (work-in-progress); and
- The most suitable and appropriate type, brand, model, etc. has been selected.

27) CREATION OF NEW INFRASTRUCTURE ASSETS

General

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

Policy

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

Work in progress shall be flagged (indicated) as such in the asset register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and

the asset is in the condition necessary for it to operate in the manner intended by management. Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Work in progress shall also be assessed to identify if there are any indicators for impairment.

Audit evidence is kept pertaining to assets in the process of being constructed or developed. Such information shall at a minimum contain:

a) Support obtained from the Engineering Department, such as completion certificates and bills of quantities.
b) The cumulative expenditure recognised in the carrying value of property, plant and equipment. These expenditures shall be disclosed in aggregate per class of asset.
c) The carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected, including reasons for any delays.
d) The carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s). The entity shall also disclose reasons for halting the construction or development of the asset and indicate whether any impairment losses have been recognised in relation to these assets.

The above disclosures will be aggregated to the main categories disclosed in the annual financial statements (Movable assets, Infrastructure, Community, Other assets).

28) SELF-CONSTRUCTED ASSETS

General

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

Policy

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

29) DONATED ASSETS

General

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

Policy

Donated assets shall be recognised at fair value, reflected in the asset register, and depreciated as normal assets. All donated assets shall be approved by the Municipal Manager and ratified by Council as part of acceptance.

ASSET MAINTENANCE

30) USEFUL LIFE OF ASSETS

General
Useful Life of assets is defined in “ABBREVIATIONS AND DEFINITIONS” of the Policy and is basically the period or number of production units for which an asset can be used economically by the municipality.

Although National Treasury (NT) guidelines exist that includes directives for useful lives of assets, municipalities must use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for particular classes of assets. The calculation of useful life is based on a particular level of planned maintenance.

Policy
The remaining useful life of assets shall be reviewed using an indicator-based approach as per the guidance of GRAP. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3. During annual physical verification of movable assets, an assessment of condition and use shall determine the appropriateness of the remaining useful lives, while for infrastructure assets, the useful lives shall be deemed to be appropriate unless an event has occurred or conditions of use have changed, which may have an effect on the remaining useful lives of these assets. Please refer to Annexure A. A memo with regards to a condition assessment and remaining useful life must be circulated on a yearly basis and the memo must be signed by the directors.

31) RESIDUAL VALUE OF ASSETS

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

The residual values of most assets are however considered to be insignificant and therefore immaterial in the calculation of the depreciable amount. The reason is that the majority of assets are hardly ever recovered through sale, but rather through use of the asset until the end of its useful life, after which insignificant amounts, if any, are expected to be obtained, as these assets will most probably be replaced in its entirety.

Assets typically not sold by the municipality are land, buildings, infrastructure and community assets, which assets will have a residual value of zero, allowing the asset to be fully depreciated over its useful life cycle. Residual values will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor

vehicles. Past experiences of municipal auctions held revealed that furniture, computer equipment and other movable assets does not reach selling prices that are material.

Policy
Residual values shall be determined upon initial recognition of assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. The basis of the residual value estimates shall be determined by the results of past sales of vehicles at auctions when it reaches the end of its useful lives. The residual value of assets shall be reviewed using an indicator-based approach as per the requirements of GRAP. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

32) DEPRECIATION OF ASSETS

General
Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value. The depreciation method used must reflect the pattern in which economic benefits or service potential of a Capital Asset is consumed by the municipality. The following are the allowed alternative depreciation methods that can be applied by the municipality:

a. Straight-line;
b. Diminishing Balance; and
c. Sum of the Units.

These methods are all acceptable, but the municipality elected to only apply the straight-line basis so as to apply a consistent approach across all assets. The alternative options are not feasible for all asset types.

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

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

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

The residual value and useful life of an asset shall be reviewed on an annual basis based on the indicator approach defined in the relevant GRAP standards.

Any changes in depreciation methods and depreciation rates shall be accounted for in terms of the requirements of GRAP 3: Accounting Policies, Changes in Accounting Estimates and Errors as well as the municipal materiality assessment for the year.

33) IMPAIRMENT LOSSES

General

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

- During routine physical inspection of the asset there was evidence of physical damage (or obsolescence);
- The asset is not being used, or access to the asset is restricted, due to structural damage.
- The asset is not able to perform at the planned or required level and as a result is not meeting service delivery targets.
- During routine physical inspection of the asset it was identified that the asset deteriorated faster than expected, or was subject to damage, which will result in replacement or significant maintenance earlier than expected.
- Due to technological advances or environmental requirement, the asset may need to be taken out of service.
- A decision to halt the construction of the asset before it is complete or in an unusable condition.

All assets will be designated at recognition as either non-cash generating or cash generating in accordance with GRAP 21.

Designation is based on the municipality's objective of using the asset at initial recognition (when obtaining/acquiring the asset) for:

- Delivery of service (service assets) or
- Generating commercial return (profit assets)

It is expected that some assets may have a dual-purpose.
A dual-purpose asset is only classified as cash-generating (profit assets) if the purpose to create a profit clearly stands out and the service delivery aspect is incidental. If the purpose is not clear, the assets are presumed to be non-cash-generating (service assets).

The designation may be done on an asset or group of assets, where a group of assets is a unit of assets operating together. In the designation process assets are first designated using a group of

assets and any remaining assets are then designated on an individual asset basis. The designation is applied to individual assets. An asset could comprise a group of assets that are part of a system or network, that is, infrastructure assets.

Examples of a “group of assets”:

- Administrative / owner-occupied assets
- Infrastructure – Roads
- Infrastructure – Water
- Infrastructure – Electricity
- Infrastructure – Sewer
- Infrastructure – Waste Management
- Community Assets – Community Hall

For non-cash generating assets GRAP 21 will be applied.
For cash generating assets GRAP 26 will be applied.

The impairment amount is calculated as the difference between the carrying value and the recoverable value.

Non-cash generating assets

The recoverable value is the higher of the asset’s value in use or its fair value less cost to sell.
Value in use of a non-cash-generating asset is the present value of the asset’s remaining service potential. A temporary decline does not have to be accounted for as an impairment, but only if evidence can be provided that the decline is temporary in nature.

Cash generating assets

The recoverable value is the higher of the asset’s value in use or its fair value less cost to sell.
Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

Where the recoverable amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at re-valued amount.

If the asset is carried at a re-valued amount the impairment should be recorded as a decrease in the revaluation reserve. Where immovable property, plant and equipment surveys are conducted, the recoverable service value is determined using the depreciated replacement costs method by assessing the remaining useful life.

Policy

Assets shall be reviewed annually for all assets with impairment indicators. Impairment of assets shall be recognised as an expense. The reversal of a previous impairment losses recognised as an expense is recognised as a gain rather than income. A memo with regards to the measurement of

potential impairment losses must be circulated on a yearly basis and the memo must be signed by the directors.

Any impairment losses shall be recommended to council for approval.

34) MAINTENANCE OF ASSETS AND THE ASSET REGISTER

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

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

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

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

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

35) RENEWAL OF ASSETS

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

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

36) REPLACEMENT OF ASSETS

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

Policy
Assets that are replaced shall be derecognised at their carrying value. The replacement asset shall be accounted for as a separate new asset. Costs incurred to replace the asset shall be split between costs to dispose of the old asset, which shall be expensed as part of the derecognition, and costs to install the new asset, which shall be capitalised against the new asset.

ASSET DISPOSAL

37) TRANSFER OF ASSETS

General

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

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

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

Policy

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

38) EXCHANGE OF ASSETS

General

According to GRAP 16 an item of IP and GRAP 17 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

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

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

Policy

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

39) ALIENATION / DISPOSAL OF ASSETS

General

Alienation / Disposal is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality, or no owner in the case of destruction of the asset. This includes voluntary and involuntary disposals.

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

Specifically:

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

In addition, the MFMA section 75 (1)(h) requires that the accounting officer of a municipality places on the municipality's website an information statement containing a list of assets over a prescribed value that have been disposed of in terms of section 14(2) or (4) during the previous quarter.

Policy

The disposal of an item of property, plant or equipment must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management and the Supply Chain Management Policy of the municipality.

Different disposal methods will be necessary for different types of assets. Before deciding on a particular disposal method, the following shall be considered:

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

Appropriate means of disposal may include:

- Public auction
- Public tender

- Transfer to another institution
- Sale to another institution
- Letting to another institution under finance lease
- Trade-in
- Controlled dumping (for items that have low value or are unhygienic)

Other means of alienation include:

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

All involuntary disposals should be reported to the Chief Financial Officer on a regular basis. This report should include the investigation into the reason for the involuntary disposal per asset and advise if any remediation or recovery could be made. The involuntary disposal of assets, together with the supporting investigations should be presented to council to determine if the involuntary disposal was due to negligence, and if so, to instruct recoveries where possible. Where the involuntary was not due to negligence, council shall determine if there is a correcting or mitigating control that may be put in place to ensure future losses are limited.

Once the fixed assets are disposed, the asset shall be removed from the accounting records and the asset register. All gains and losses realised on the disposal of assets shall be accounted for as revenue or expense in the Statement of Financial Performance.

40) SELLING OF ASSETS

General

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

Given the strategic risks pertaining to laptops, laptops will not be placed on external auction. Instead, given the risks, the laptops will only be made available for sale internally to employees or councillors. The employee or councillor procuring the laptop, will purchase it as-is and the municipality will not be liable for any support, repair or maintenance of the laptop.

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

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

Sold assets shall be derecognised in the asset register once control and all rights and obligations of the asset has been transferred.

41) WRITING-OFF OF ASSETS

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

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

All involuntary disposals should be reported to the Chief Financial Officer on a regular basis. This report should include the investigation into the reason for the involuntary disposal per asset and advise if any remediation or recovery could be made. The involuntary disposal of assets, together with the supporting investigations should be presented to council to determine if the involuntary disposal was due to negligence, and if so, to instruct recoveries where possible. Where the involuntary was not due to negligence, council shall determine if there is a correcting or mitigating control that may be put in place to ensure future losses are limited.

Policy
All assets identified for write-off shall be presented to council by the responsible manager detailing reasons for writing off assets, other than the sale of such assets during the process of alienation, shall be the loss, theft, destruction or decommissioning of the asset in question.

PHYSICAL CONTROL (MOVABLE ASSETS)

42) PHYSICAL CONTROL / VERIFICATION

General
Movable assets require physical control and verification of existence.

Assets that cannot be physically verified may indicate loss of control of the asset and as such, should be treated in line with paragraph 8.5 of this policy for the disposal of assets.

Policy
All movable assets shall be actively controlled, including an annual verification process. Annual physical inspections of assets shall be performed to identify items which are missing, damaged, not in use or are obsolete due to changed circumstances, to ensure that they are appropriately repaired, impaired, written off or disposed of.

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

43) INSURANCE OF ASSETS

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

Policy
Refer to the municipality policy for insurance.

44) SAFEKEEPING OF ASSETS

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

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

ASSET FINANCIAL CONTROL

45) CAPITAL REPLACEMENT RESERVE (CRR)

General

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

Policy

Refer to the Funding and Reserves policy.

46) BORROWING COSTS (GRAP 5)

General

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of premiums or discounts associated with such borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance charges in respect of finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as an adjustment to interest costs.

Policy

Borrowing cost shall be recognised as an expense in the period in which they are incurred.

47) FUNDING SOURCES

General

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

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

Policy

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

48) DISASTER

General

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

- death, injury or disease;
- damage to property, infrastructure or the environment; or
- disruption of life of community; and
- is of a magnitude that exceeds the ability of those affected by the disaster to cope with its effects using only their own resources.

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

Policy

The Municipality will correspond with the Provincial organs to gain funds for repairing assets damaged in disaster events. The municipality must adhere to the disaster management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster.

ANNEXURE A: ASSET CATEGORY AND USEFUL LIFE

Community assets	Community facilities	Cemeteries / crematoria	15 - 50 years
Community assets	Community facilities	Clinics / care centres	5 - 50 years
Community assets	Community facilities	Halls Centres	5 - 50 years
Community assets	Community facilities	Libraries	5 - 50 years
Community assets	Community facilities	Markets	15 - 50 years
Community assets	Community facilities	Museums	15 - 50 years
Community assets	Community facilities	Parks, Public Open Spaces	5 - 50 years
Community assets	Community facilities	Public ablution facilities	5 - 50 years
Community assets	Community facilities	Taxi ranks / bus terminals	15 - 50 years
Community assets	Community facilities	Traffic Testing Stations	10 - 50 years
Community assets	Sport and recreation facilities	Sportsgrounds / Swimming Pools / Harbours	5 - 50 years
Heritage assets	Heritage assets	Historical Buildings	Not depreciated
Heritage assets	Heritage assets	Paintings and Works of Art	Not depreciated
Heritage assets	Heritage assets	Monuments	Not depreciated
Infrastructure assets	Electrical infrastructure	LV networks	10 - 45 years
Infrastructure assets	Electrical infrastructure	MV networks	15 - 50 years
Infrastructure assets	Electrical infrastructure	MV substations	10 - 50 years
Infrastructure assets	Electrical infrastructure	MV switching stations	15 - 45 years
Infrastructure assets	Electrical infrastructure	HV substations	10 - 50 years

Infrastructure assets	Roads infrastructure	Road furniture	15 - 30 years
Infrastructure assets	Roads infrastructure	Road structures	25 - 50 years
Infrastructure assets	Roads infrastructure	Roads	10 - 50 years
Infrastructure assets	Sanitation infrastructure	Municipal Office	15 years
Infrastructure assets	Sanitation infrastructure	Reticulation	60 years
Infrastructure assets	Sanitation infrastructure	Rising Mains	10 - 60 years
Infrastructure assets	Sanitation infrastructure	Sewer Pump Stations	10 - 50 years
Infrastructure assets	Sanitation infrastructure	Waste water treatment works (WWTW)	10 - 50 years
Infrastructure assets	Solid waste infrastructure	Landfill sites	10 - 50 years
Infrastructure assets	Solid waste infrastructure	Recycling facilities	10 - 50 years
Infrastructure assets	Solid waste infrastructure	Waste transfer stations	10 - 50 years
Infrastructure assets	Storm-water infrastructure	Storm-water conveyance	50 years
Infrastructure assets	Storm-water infrastructure	Attenuation	50 years
Infrastructure assets	Storm-water infrastructure	Drainage collection	50 years
Infrastructure assets	Water supply infrastructure	Boreholes	10 - 50 years
Infrastructure assets	Water supply infrastructure	Bulk mains	15 - 60 years
Infrastructure assets	Water supply infrastructure	Dams weirs	15 - 50 years

Infrastructure assets	Water supply infrastructure	Distribution	30 - 60 years
Infrastructure assets	Water supply infrastructure	Municipal office	15 years
Infrastructure assets	Water supply infrastructure	PRV stations	30 - 50 years
Infrastructure assets	Water supply infrastructure	Pump stations	10 - 50 years
Infrastructure assets	Water supply infrastructure	Reservoirs	10 - 60 years
Infrastructure assets	Water supply infrastructure	Water treatment works	10 - 50 years
Intangible assets	Intangible assets	Computer software	Specific to software
Intangible assets	Intangible assets	Websites	5 – 10 years
Intangible assets	Intangible assets	Rights	Not depreciated
Intangible assets	Intangible assets	Systems (annual license)	Not capitalised
Investment property	Investment property: Land	Investment property: Undeveloped	Not depreciated
Investment property	Investment property: Land	Investment property: Developed	Not depreciated
Investment property	Investment property: Buildings	Investment property: Developed	20 – 30 years
Land	Land	Land	Not depreciated
Land	Quarry	Quarry	Per expert report
Movable assets	Computer equipment	Computer equipment	3 – 10 years
Movable assets	Computer equipment	Laptops	5-6 years with a 10% residual value
Movable assets	Furniture and office equipment	Furniture and office equipment	5 – 10 years

Movable assets	Furniture and office equipment	Audio equipment and music instruments	15 – 20 years
Movable assets	Machinery and equipment	Bulk containers	30 years
Movable assets	Machinery and equipment	Machinery and equipment	3 – 10 years
Movable assets	Transport assets	Motorcycles and bicycles	10 years
Movable assets	Transport assets	Commercial and passenger vehicles	10-12 years
Movable assets	Transport assets	Industrial vehicles (Heavy, Tractors, earthmoving equipment and Refuse Compactors)	9-12 years
Movable assets	Transport assets	Busses and fire engines	15 - 20 years
Other assets	Housing	Social, Staff Housing	10 - 50 years
Other assets	Operational buildings	Depots / Stores / Workshops / Yards	5 - 50 years
Other assets	Operational buildings	Municipal offices	5 - 50 years

ANNEXURE B: CAPITALISATION THRESHOLD

1) INTRODUCTION

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

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

Management of assets within an asset register is a costly exercise and certain assets economic benefits have been noted to be exceeded by the annual cost to maintain these assets within the register. Furthermore, many movables to do constitute future economic benefits or service potential, but rather comfort staff performing their duties. For such items, the cost to conduct annual impairment or change in useful life testing would already be more than the expected benefit for the public from holding the assets. This does not imply that the expenditure is fruitless, it merely implies that economic benefits are consumed immediately after the item is taken into use. For this reason, the municipality has taken an approach to identify assets that fall within this category where the management cost of the assets exceeds their economic benefits or service potential.

Different types of assets were identified that require amendment in the approach due to the revised capitalisation approach. Items with useful lives of less than 12 months must be expensed immediately.

2) ITEMS THAT ARE CONSUMED WITHIN 12 MONTHS (ITEMS NOT BARCODED)

Characteristics of asset type

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

OR

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

OR

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

OR

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

For control purposes, these items are not barcoded and will be purchased through an expense account.

The approved listing of items that forms part of this category is listed in annexure 1.

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

- All stationery items excluding heavy duty versions thereof (any item titled machine, would not fall within this category e.g. Mechanical Binding Machine, Laminating Machine) including calculators and other small items
- Any boxes, and containers designed to retain stationary (such as buddy drawers, pen holders, paper racks)
- All bins and disposal containers
- Any camp site bedroom furniture such as beds and bedding
- Small appliances such as kettles, toasters, fans with a warrantee of 1 year

- Any computer accessories such and keyboards, mouse, laptop bags, dongles (UPS's and external hard drives are excluded from this)
- Other peripheral devices that cannot function without being connected to another asset (such as decoders, power supplies, etc).
- Fire extinguishers as their service interval requires exchanging of these items several times a year
- Hand tools that are normally transported in bulk (i.e. small tools that would be transported with other tools in toolboxes)
- Cleaning items such as buckets, mops, brooms etc.
- Safety equipment that are frequently replaced, similar to helmets, goggles, gloves etc.
- Crockery, cutlery and other kitchen utensils

3) DECISION TREE

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

4) MATERIALITY

The full cost price of all asset additions that would not be included in the AFS as at 30 June 2021 was extracted and compared to materiality. The accumulative cost of all these assets listed in annexure 1 amounted to less 3% of materiality and thus accepted as reasonable. Materiality was based on the 2020 operating expenditure as utilised by the auditors during the audit of 2020/21.

5) ANNEXURE B1: ITEMS CONSUMED WITHIN 12 MONTHS

The following list of items is approved to only be purchased via the operational vote for expenditure and these items will not be barcoded:

Items often classified as stationery and of operational nature
- Buddy Systems
- Waste Bins
- Money Boxes
- Staplers (Heavy Duty)
- Punches (Heavy Duty)
- Calculator
- Stamps and daters
Items of operational nature of which the guarantee is 1 year or less if used by a business entity
- Fans
- Heaters
- Kettles/Toasters and Urns
- Mops and Mop buckets and similar cleaning tools and equipment
- Torches
- 2-Plate Stoves (Ovens are assets)
- Towel/paper/aerosol dispensers
- 3G or similar Internet Dongles
- Back Support
- Battery
- Beds at campsites
- Hand Binder
- External Harddrives
- Fire Arm Holster / Mag pouches
- First Aid Kit
- Floor Polisher
- Foot rests
- Guillotine
- Hat and Coat Stand
- Knapsack
- Kitchen utensils
- Ladder
- Laptop bags
- Loose standing power supply
- Mat, Carpet or Floor protectors (beneath chairs)
- Post Boxes and similar document storage solutions
- Pots and pans
- Small kitchen Appliances, Scales, Kettles, Mixer bowls
- Testers (Small less 1 year warrantee or less)
- Tape Measure
- Trolleys
- Vacuum cleaners
- Visitors' Chair/Plastic

- Wall Clocks
- Water dispensers
- Wheelbarrow
- Extension leads or cables
Items of operational nature and refilled – the contents of which can only be used over 1 reporting period
Fire Extinguisher
Non-electrical hand tools of operational nature
Hand Tools (eg. Pliers, screwdrivers, sockets, etc. and not limited to)

ANNEXURE C: ASSET UNBUNDLING METHODOLOGY

Section 1: Background

The objective of this document is to recommend a standardised approach to unbundling for Swartland Municipality going forward, together with required backup documentation demonstrating adherence to best practise, guidelines, legislation and applicable standards.

The unbundling of assets refers to the component approach of recognising assets. The component approach is a GRAP-supported approach where complex assets can be split into significant parts for recording. Once an item is identified as a separately depreciable part it can be treated as a separate capital asset for depreciation, recognition and derecognition purposes. In the asset register a component is linked to a main asset.

Section 2: Standards and guidelines

The following standards and guidelines have been considered in developing the asset unbundling methodology:

- Accounting Standards Board's (ASB) Generally Recognised Accounting Practice (GRAP)
- National Treasury's Guide on Local Government Capital Asset Management
- Swartland Local Municipality Asset Management Policy
- The Department of Provincial and Local Government's guidelines for infrastructure asset management as published by COGTA

SECTION 3: Methodology

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

- Significant cost in relation to the asset as a whole;
- The risk or significance of the component in relation to the usefulness of the asset as a whole;
- Considerable difference in useful life; and
- Components that are separately maintained or replaced.

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

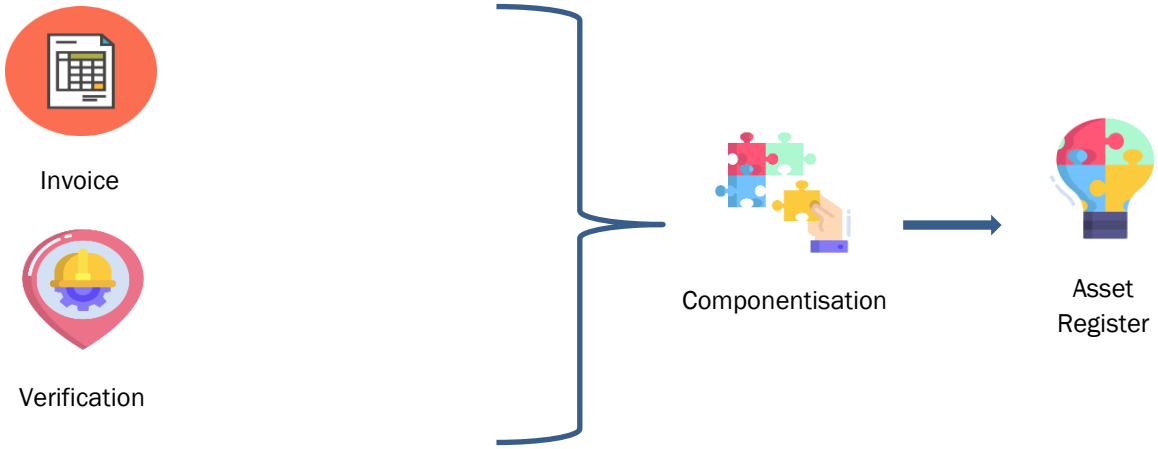
The components should satisfy the needs of all stakeholders, without a cost that outweighs the benefit, these include but are not limited to:

- Technical managers
- Asset managers
- Finance function
- Auditors
- Engineers

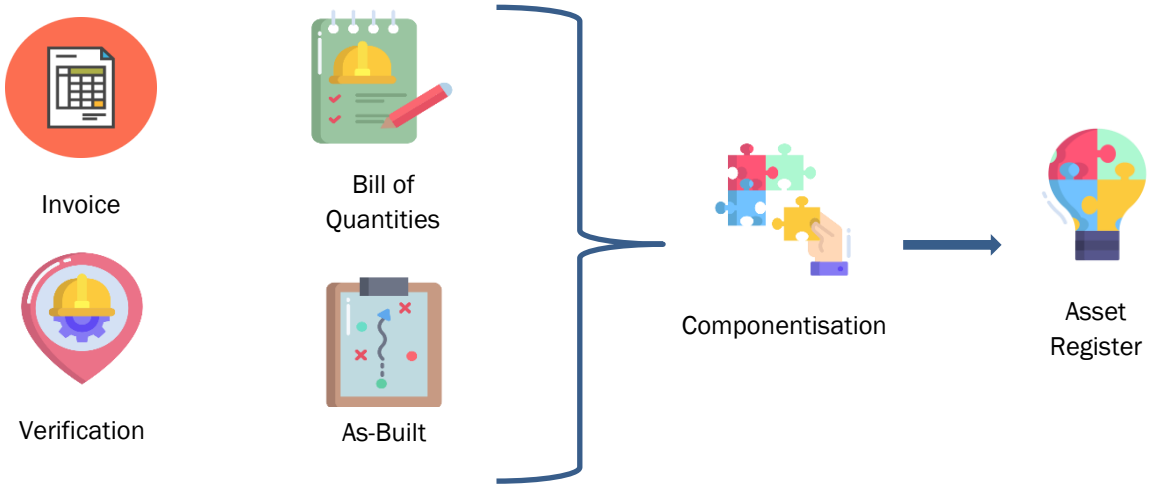
- **3.1 Project to asset**

After the needed budget has been secured to source an asset the appropriate Supply Chain Channels are followed to procure the asset.

Purchased Assets



Constructed Assets



3.1.1 Invoice

All invoices are reconciled to the general ledger to ensure all costs relating to the asset are recognised while testing the invoices to ensure only costs that can be included according to GRAP standards are included in the recognition cost of the asset. The invoice will further be scrutinised to ensure the expenditure relates to the asset, while the engineer will identify any elements that may assist in the unbundling process of the asset.

In the asset register, a component is linked to a main asset, and the value of the main asset is used to determine the value of the components. This implies that the total of the invoices should equal the total value of the components.

Invoice	Amount	Project	Component	Component Value
1	R100		A	R200
2	R500		B	R250
3	R300		C	R423
4	R400	R1300	D	R155
			E	R272
Total	**R1300**	**R1300**		**R1300**

All costs associated with infrastructure projects like Professional fees, Preliminary and General, Commissioning fees etc. were included in the total cost of the turnkey projects and apportioned to the individual components based on their contribution to the overall project cost.

Invoices are however limited on detail required to determine if the main assets consists of components that are significant when compared to the asset as a whole and if that component will depreciate at a considerably different rate.

All expenditure associated with infrastructure projects is included in the project's cost. The cost will be inclusive of the direct and indirect costs. The direct cost refers to the construction cost of the asset, where the cost can be directly linked to an asset component and will form part of the asset component cost. The indirect cost refers to the cost that cannot be directly linked to a specific asset component but can be linked directly to the asset or project. The indirect cost is apportioned to the individual asset components based on their contribution to the asset/project cost.

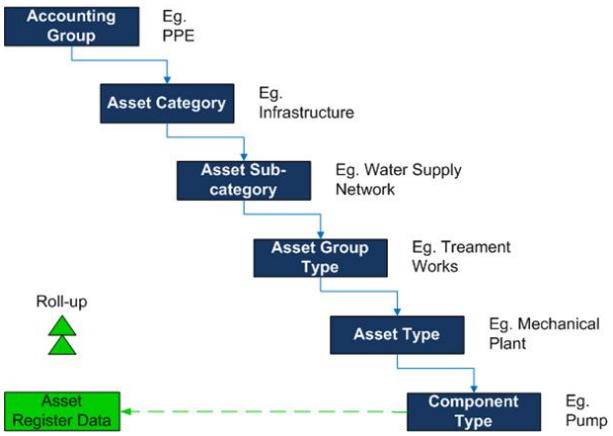
3.1.2 Verification

The verification of assets forms an integral part of the unbundling process.

During the verification process the field worker will:

- Identify components based on the asset hierarchy
- Collect specifications required by engineer to confirm separate components and different depreciation rate
- Confirm specific information as required by engineer
- Capture component location;
- Perform a component condition assessment;
- Collect component attributes required by the engineer to confirm separate components and different depreciation rates; and
- Confirm any additional specific information as required by the engineer

Asset Hierarchy



Above Ground Assets

Above ground assets refer to assets that can be accessed and inspected without the requirement of excavation of material to gain access to the asset or asset component. These types of assets are typical transformers, kiosks, water pump stations, sewer pump stations, reservoirs, network node assets, roads and stormwater channels.

Step 1: Preload all relevant datasets in the system:

- Available GIS data of facilities & roads. This allows the field worker to associate / link assets to road segments, crossings or facilities e.g. pump station. Each asset is therefore associated to a map feature which allows for location tracking.
- Asset hierarchy in order for the field worker comply to the unbundling and asset hierarchy guidelines in the asset management policy

Step 2: Field verification on mobile application:

- Identify different components
- Record asset details e.g. dimensions, make, model, material, serial number etc.
- Take a photo
- Capture component location and
- Perform a condition assessment.

Step 3: Quality assurance:

- The output from the software is an Excel worksheet which includes a web hyperlink to the photo as well as a GIS database to indicate location. The Engineers and Managers use this data on a day-to-day basis to perform quality checks in order to ensure data integrity. When the quality process is completed, the data is used in the componentisation process.

- The Manager or Engineer may also send the verifier back to the site to obtain additional information or verify missing components (if this is identified or required).

Underground Assets

Below-ground assets refer to assets that cannot be accessed and inspected without the requirement of excavation of material to gain access to the asset or asset component. These assets are typical network assets.

Below ground assets includes:

- Water pipes
- Sewer pipes
- Storm water pipes
- Electricity cables

As the verification of below ground assets cannot be performed through physical inspection it is done using the As-Built drawings and the technical knowledge of the technical department. This may include linking GPS co-ordinates to existing infrastructure to ensure accuracy, I.e. Additions to the sewer pipes are expected to originate in an area with developed stands and deploy into a sewage treatment plant.

3.1.3 Bill of quantities

A bill of quantities, or bill of material, is a document used in tendering in the construction industry in which materials, parts, and labour (and their costs) are itemized. It also (ideally) details the terms

and conditions of the construction or repair contract and itemizes all work to enable a contractor to price the work for which he or she is bidding. The quantities may be measured in number, area, volume, weight or time.

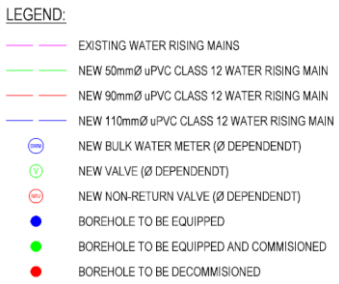
Although the bill of quantities may detail all the parts of a constructed asset it is limited in the unbundling process as:

- It is not detailed on a component level
- It is used in the tendering phase and actuals might not be reflected.

3.1.4 As-Built

As-built drawings are prepared by the contractor who installed the infrastructure and shows the final construction/layout of networks or facilities. As seen in the example below, the As-built drawing clearly indicates the layout of the water reticulation system as installed by the contractor.

The legend provides detail on the material and diameter used.



When the as-built drawings are georeferenced using the Municipality's GIS application with the Surveyor General of South Africa digital cadastral data as the reference data, the engineer is able to confirm the extent of the asset. Georeferencing is the process of aligning the As-built drawing to

that of a map coordinate system. This allows the user to view the data, query and analyse the data spatially.

3.1.5 Componentisation
Unbundling

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. (GRAP 17.48)

An entity allocates the amount initially recognised in respect of an item of property, plant and equipment to its significant parts and depreciates separately each such part. For example, in most cases, it would be required to depreciate separately the pavements, formation, curbs and channels, footpaths, bridges and lighting within a road system. (GRAP17.49)

National Treasury states in its guidance to capital asset management that the decision on what is to be treated as a separately depreciable part will depend on a municipality's judgement in terms of materiality and management or operational practices.

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

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

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

The preferred level of detail for the accounting and technical management of infrastructure is level 4 above. Similarly, a length of road would be split into sections that are expected to be maintained or refurbished together. For accounting purposes, the most appropriate level of unbundling would be the level where components of an asset can be recognised, replaced and derecognised without affecting the rest of the asset. As these changes are expected to happen on the maintenance level it is also the most appropriate level for accounting.

Refer to Section 6 for details on typical asset components.

Costing

The cost accountant uses the following information to determine the cost that should be associated to each component:

- The components as identified by the engineer
- The total cost as confirmed through the invoices
- The current replacement cost (CRC) of the separate components for cost allocation

Invoice	Amount	Project	Component	CRC	Apportion	Component Value
1	R100		A	R191	15%	R200
2	R500		B	R238	19%	R250
3	R300		C	R403	33%	R423
4	R400	R1300	D	R148	12%	R155
			E	R259	21%	R272
Total	R1300	R1300		R1240	79%	R1300

The above approach ensures all costs are included and that the value of the total components does not exceed the original costs incurred.

The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. GRAP 21 states the depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset. While GRAP 12 defines current replacement cost as the cost the entity would incur to acquire the asset on the reporting date. Current replacement cost would this be a depreciated replacement cost where there is no depreciation effect.

The term current replacement cost or replacement value refers to the amount that an entity would have to pay to replace an asset at the present time, according to its current worth.

3.1.6 Asset register

The final step is to update the asset register with the different components comprising the total project.

Each component would be added to the asset register with its own component ID, value, useful life and other characteristics, which allows the separate components to be accounted for, depreciated and managed separately.

3.1.7 Level of unbundling

GRAP 17.50 states that a significant part of an item of property, plant and equipment may have a useful life and a depreciation method that are the same as the useful life and the depreciation method of another significant part of that same item. Such parts may be grouped in determining the depreciation charge. Paragraph 51 further states that all remaining items (that were not significant) may be depreciated separately. This implies that the level of unbundling is only required up to the point where the components have separate estimated useful lives.

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

Element vs Component Cost

The total cost of an asset includes various component costs and may include but are not limited to:

- Raw materials
- Personnel costs
- Production costs
- Preliminary and General costs (P&G's)
- Engineering and design fees
- legislative requirements" (for example, where an Environmental Impact Assessment is done)
- Locations factor

In practice this implies that a window, an installed window, and window as part of a building project would all have different costs. It would thus not be appropriate to unbundle the asset to an element/part level without taking the component cost into account.

Section 4: Scope

Asset Class	Unbundled	Notes
Land	No	Land is not depreciated, but each land parcel is treated as an individual asset.
Movable Assets	Excluded	Excluded
Infrastructure	Yes	An infrastructure network should be broken down into “separately depreciable parts”, e.g. segment of road seal, length of pipe, or civil component of a pumping station.
Community Assets	Yes	Freestanding buildings should be treated as an individual asset. A complex comprising a number of buildings may need to be split according to the individual buildings. In additional features like parking areas and external perimeters will be recognised separately.
Other Assets	Yes	Other Assets like buildings should be treated as individual assets.
Investment Property	Yes	Investment property like buildings should be treated as individual assets.
Intangible Assets	Excluded	Excluded
Heritage Assets	No	Heritage assets are not depreciated

SECTION 5: FREQUENTLY ASKED QUESTIONS

5.1 How do I identify the components of each facility?

In the asset register each component is linked to a main asset. This is identified with a pre-fix in the description field.

5.2 When is a component considered significant?

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

5.3 Why is the level of bundling considered appropriate? Why is further unbundling not required?

Section 4.1.5 provides details on the level of unbundling.

The level of unbundling is a fine act of determining an appropriate level of unbundling where the cost of data management does not exceed the benefit to the stakeholders.

For accounting purposes, the maintenance level (current level of unbundling) satisfies both the requirement to separately depreciate items with significant costs and a significantly different useful life.

5.4 How should subsequent expenditure be treated for unbundling purposes?

Subsequent expenditure is capitalised when it increases the capacity or future economic benefit of the asset. This principal does not change when the asset has been unbundled.

A component with a shorter estimated useful life is expected to be replaced during the life cycle of the main asset. When this component is replaced, it is derecognised, and the new component is recognised. This is a perfect example of the appropriateness of unbundling up to the maintenance level.

Where expenditure that may be capitalised is incurred over more than one component, that cost must be allocated to the different components, where such information is not available the expense should be apportioned over the different components.

SECTION 6: Typical components

A vast number of components have been identified. The full list can be obtained from the asset management department. Annually, during the budgeting process of each year the various user departments will agree to the list.