



**BUFFALO CITY METROPOLITAN MUNICIPALITY**

**MOVABLE ASSET POLICY**

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## **1. ABBREVIATIONS**

BCMM	Buffalo City Metropolitan Municipality
CFO	Chief Financial Officer
CM	City Manager
HOD	Head of Directorate
EUL	Estimated Useful Life
GRAP	Generally Recognised Accounting Practise
MFMA	Municipal Finance Management Act
MSA	Municipal Systems Act
PPE	Property, Plant and Equipment
RUL	Remaining Useful Life
RV %	RV % Residual Value Percentage
SCM	Supply Chain Management
CIDMS	City Infrastructure Delivery and Management System (National Treasury)

## **2 PURPOSE OF THIS DOCUMENT**

This document indicates the policy for the management of movable assets (Property, plant and equipment).

### **3 BACKGROUND**

#### **3.1 LEGAL FRAMEWORK**

Accordingly, the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner in terms of section 62 (1)(a).

#### **3.2 ACCOUNTING STANDARDS**

Accounting Standards Board was established by the Public Finance Management Act (Chapter 11), to set standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.

The MFMA requires municipalities to comply with the Standards of Generally Recognised Accounting Practice (GRAP), in line with international practice, on section 122 (3).

Key changes include the recognition of depreciation of assets as an expense, and conditional grants as revenue when it is utilised.

As a high capacity municipality, BCMM was required to convert to applicable standards of GRAP on 1 July 08.

### **4 OBJECTIVES**

The objective of this policy is for the municipality to:

- implement prevailing accounting standards; and
  - apply asset management practice in a consistent manner and in accordance with legal requirements and recognised good practice.
  - ensure that all responsible parties are aware of their roles and responsibilities regarding the assets of the municipality.
  - prescribe the administrative guidelines and internal control procedures to be followed by persons in control of BCMM's assets with regard to management and accounting of those assets.
  - comply with current legislation, in particular the Municipal Finance Management Act plus standards specified by the Accounting Standards Board
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## **5 APPROVAL AND EFFECTIVE DATE**

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

## 6 KEY RESPONSIBILITIES

### ***City Manager***

In terms of section 63 (1)(a) of the MFMA the City Manager (CM) is responsible for the management of the movable assets of the municipality, including the safeguarding and the maintenance of those assets.

The City Manager shall ensure in terms of MFMA section 63 (2) that:

- the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality
- that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and
- that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed

As Accounting Officer of the municipality, the City Manager shall be the principal custodian of all municipality's movable assets, and shall be responsible for ensuring that this policy is effectively applied on adoption by Council. To this end, the City Manager shall be responsible for the preparation, in consultation with the Chief Financial Officer (CFO) and Head of Directorates, of procedures to effectively and efficiently apply this policy.

The CM may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

The CM must ensure that the Head of Directorates and their teams comply with this policy.

### ***Chief Financial Officer***

The Chief Financial Officer (CFO) is responsible to the CM to ensure that the financial investment in the municipalities' movable assets are safeguarded and maintained.

The CFO, as one of the Head of Directorates of the municipality, shall also ensure, in exercising his financial responsibilities, that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the municipality are utilized effectively, efficiently, economical and transparently;
- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- All revenue due to the municipality is collected, for example rental income relating to movable assets;
- The systems, procedures and registers required to substantiate the financial values of the municipalities' movable assets are maintained to standards sufficient to satisfy the requirements of the Auditor-General;
- Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- The City Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of movable assets; and
- This policy and support procedures are established, maintained and effectively communicated.

In terms of section 82 read with section 81(1)(e) of the MFMA the CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are

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performed. The CFO shall be the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained. No amendments, deletions or additions to the fixed asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

**Head of Directorates** Head of Directorates are managers who report directly to the CM.

Head of Directorates shall ensure that:

- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- Procedures are adopted and implemented in conformity with this policy to produce reliable data to be input to the municipal fixed asset register;
- Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
- The asset management system, processes and controls can provide an accurate, reliable and up to date account of movable assets under their control;
- They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives; and
- Manage the movable PPE life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.
- All movable assets are correctly budgeted for within the capital budget according to Table 1 (Classification of movable assets) and that all assets are purchased using this capital budget.

Head of Directorates may delegate or otherwise assign responsibility for performing these functions but they shall remain accountable for ensuring these activities are performed.



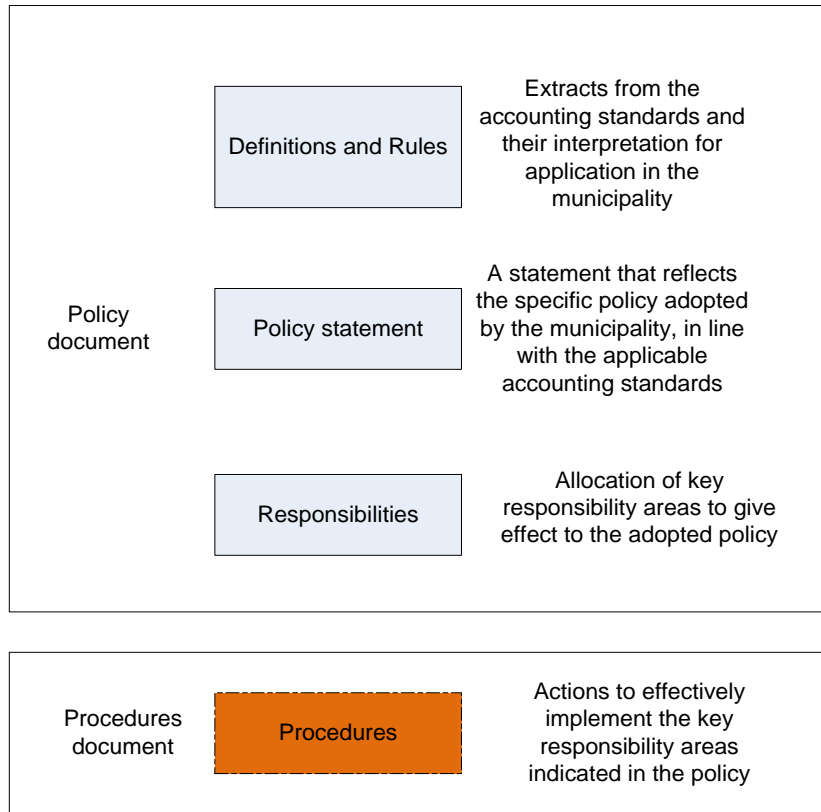
## **7 POLICY AMENDMENT**

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

## 8 POLICY FORMAT

**Figure 1** gives an overview to the format of presentation of this policy document, and how it links to a separate document that provides the procedures.

**Figure 1 - Interaction between the policy and the procedures**



## 9 POLICY FOR MOVABLE ASSET ACCOUNTING

### 9.1 ACQUISITION AND RECOGNITION

#### (a) Definitions and rules

##### Asset

A resource controlled by an entity, as a result of past events; future economic benefits or service potential associated with the item will flow to the entity.

##### Fixed Asset

A fixed asset (also referred to as a "non-current asset") is an asset with an expected useful life greater than 12 months.

##### PPE

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, for rentals to others, or for administrative purposes; and are expected to be used during more than one reporting period. This includes items necessary for environmental or safety reasons to leverage the economic benefits or service potential from other assets. Insignificant items may be aggregated. Property, plant and equipment are broken down into groups of assets of a similar nature or function in the municipality's operations for the purposes of disclosure in the financial statements.

##### Useful Life

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

##### Items used irregularly

Tangible items that are used in the production or supply of goods or services on an irregular basis (such as standby equipment) are recognised as items of PPE.

##### Control

An item is not recognised as an asset unless the entity has the capacity to control the service potential or future economic benefit of the asset, is able to deny or regulate access of others to that benefit, and has the ability to secure the future economic benefit of that asset. Legal title and physical possession are good indicators of control but are not infallible.

##### Past transactions or events

Assets are only recognised from the point when some event or transaction transferred control to an entity.

##### Probability of the flow of benefits or service potential

The degree of certainty that any economic benefits or service potential associated with an item will flow to the municipality is based on the judgement. The CFO shall exercise such judgement on behalf of the municipality, in consultation with the respective Head of Directorate.

##### Economic benefits

Economic benefits are derived from movable PPE that generate net cash inflows.

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### Service Potential

An asset has service potential if it has the capacity, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality, such as the provision of services.

### Leased assets

A lease is an agreement whereby the lessor conveys to the lessee (in this case, the municipality) the right to use an asset for an agreed period of time in return for a payment or series of payments. 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 not eventually be transferred (substance over form). Where the risks and rewards of ownership of the movable PPE are substantially transferred to the municipality, the lease is regarded as a finance lease and the asset recognised by the municipality as movable PPE.

Where there is no substantial transfer of risks and rewards of ownership to the municipality, the lease is considered an **operating lease** and payments are expensed in the income statement on a systematic basis (straight line basis over the lease term).

### Asset custodian

The department that controls a movable asset, as well as the individual (asset custodian) or post that is responsible for the operations associated with such asset in the department, is identified by the respective Head of Directorate, recorded, and communicated on recognition of the asset.

### **(b) Policy statement**

The municipality shall recognise all movable assets existing at the time of adoption of this policy and the purchase of new or replacement movable assets on an on-going basis. Such assets shall be capitalised in compliance with prevailing accounting standards.

### **(c) Responsibilities**

- The CFO, in consultation with the CM and Head of Directorates, shall determine effective procedures for the recognition of existing and new movable assets.
- Every Head of Directorate shall ensure that all movable assets under their control are correctly recognised as movable assets.
- The CFO shall keep a lease register with the following minimum information: name of the lessor, description of the asset, fair value of the asset at inception of the lease, lease commencement date, lease termination date, economic useful life of the asset, lease payments, and any restrictions in the lease agreement.

## **9.2 CLASSIFICATION OF MOVABLE ASSETS**

### **(a) Definitions and rules**

#### Movable asset accounting groups

- Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the municipality's operations);

#### Class of movable PPE

A class of movable PPE is defined as a group of assets of a similar nature or function.

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**(b) Policy statement**

The asset categories, sub-categories and groups illustrated in **Table 1** shall be used at the highest level of the classification structure:

**Table 1 - Asset categories, sub-categories and groups**

CATEGORY	SUB-CATEGORY	GROUP
Other Assets	Plant and Equipment	Bins and containers
		Compactors
		Compressors
		Cremators
		Electronic equipment
		Excavating equipment
		General – plant and equipment
		Generators
		Horticultural equipment
		Laboratory equipment
		Medical equipment
		Pumps
		Other emergency equipment
		Radio equipment
		Security equipment
		Survey equipment
		Telecommunication equipment
	Watercraft	
	Workshop equipment	
	Furniture and Fittings	Cabinets and cupboards
		General – furniture and fittings
		Tables and desks
	Motor vehicles	Vehicles – other
		Vehicles – trucks and specialised
	Office and Computer Equipment	Air conditioners
		Computer hardware
		Office machines
Leases	Leased equipment	
Intangible Assets	Intangible Assets	Computer software

PPE shall be disclosed in the financial statements at the sub-category level.

**(c) Responsibilities**

- The CFO shall ensure that the classification of movable assets adopted by the municipality complies with the statutory requirements.
- The CFO shall consult with the Head of Directorate responsible for movable PPE to determine an effective and appropriate asset hierarchy for each asset class of movable PPE to component level and record such in the asset register.
- Every Head of Directorate shall ensure that all movable assets under their control are classified correctly within the classification adopted by the municipality.
- Every Head of Directorate shall advise the CFO when assets should be re-classified.

### **9.3 IDENTIFICATION**

#### **(a) Definitions and rules**

##### Asset coding

An asset coding system is the means by which the municipality is able to uniquely identify each movable asset (at the lowest level in the adopted asset hierarchy) in order to ensure that it can be accounted for on an individual basis.

Vehicle registration number is also an acceptable method of identifying assets.

#### **(b) Policy statement**

A coding system shall be adopted and applied that will enable each asset of movable assets to be uniquely and readily identified.

#### **(c) Responsibilities**

- The City Manager shall develop and implement a movable asset coding system in consultation with the CFO and other Head of Directorates to meet the policy objective.
- Head of Directorates shall ensure that all the movable assets under their control are correctly coded with a barcode/serial number or unique identifier where applicable.
- Head of Directorates shall ensure that all the movable assets under their control are correctly recorded on the financial fixed asset register.

#### **(d) Procedure to be followed when a movable asset is purchased and delivered**

- Budgeting: Movable assets are to be budgeted for on capital votes, as they are capital in nature
- When a requisition is filled for a movable asset, a capital vote with sufficient funds is to be completed on the requisition form that is sent to supply chain
- Proper SCM policies are to be followed when a movable asset item is purchased
- When an asset is delivered, it is the responsibility of the user department to inform asset section of the delivery, either by telephone or email.
- An asset additions form will then be sent to the user department.
- A clerk will be dispatched to barcode/tag the asset and collect the asset additions form, which should be accompanied by an invoice of the asset in question

### **9.4 ASSET REGISTER**

#### **(a) Definitions and rules**

##### Asset register

A movable asset register is a database with information relating to each movable asset. The movable asset register is structured in line with the adopted classification structure. The scope of data in the register is sufficient to facilitate the application of the respective accounting standards for each of the asset classes, and the strategic and operational asset management needs of the municipality.

##### Information to be Included in an Asset Register

The type of information required in an asset register should include information on the following aspects, at minimal;

- Unique item identification number of the asset
  - The erf number, in the case of fixed property
  - Date on which asset was acquired; or,
  - Date on which the asset was available for use
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- Description of the asset
- Location of the asset
- Useful life of the asset
- Estimated residual value of the asset
- Classification of the asset
- Original cost of the asset
- Depreciation for the year charged against the cost of the asset
- Accumulated depreciation to date for the asset
- Impairment losses recognised during the year on the asset
- Accumulated impairment losses recognised to date for the asset
- Depreciation method used
- Carrying value of the asset
- Date the asset is disposed of retired from use
- Transfer, disposal and write off details
- Whether the asset has been used to secure any debt, and if so the nature and duration of such security arrangements

Updating data in the asset register

The fixed asset register is updated by the Asset Division annually.

**(b) Policy statement**

An asset register shall be established to provide the data required to apply the applicable accounting standards, as well as other data considered by the municipality to be necessary to support strategic asset management planning and operational management needs. The asset register shall be updated and reconciled to the general ledger on a regular basis, which will be reconciled to the financial statements at year end.

**(c) Responsibilities**

- The CFO shall define the format of the fixed asset register in consultation with the CM and the Head of Directorates, and shall ensure that the format complies with the prevailing accounting standards and disclosure requirements.
- Head of Directorates shall provide the CFO with the data required to establish and update the asset register in a timely fashion.
- The CFO shall establish procedures to control the completeness and integrity of the asset register data.
- The CFO shall ensure proper application of the control procedures.

**9.5 MEASUREMENT AT RECOGNITION**

**(a) Definitions and rules**

Measurement at recognition of movable PPE

The item of Movable PPE that is initially recognised is measured at cost. Where an asset is acquired at no or nominal cost (for example in the case of donated assets), its cost is deemed to be its fair value at the date of acquisition. In cases where it is impracticable to establish the cost of an item of movable PPE, such as on recognising movable PPE for which there are no records, or records cannot be linked to specific assets, its cost is deemed to be its fair value.

Fair value

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market based evidence by appraisal can be used where there is an active and liquid market for movable. In the case where there is no such active and liquid

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market, a depreciated replacement cost (DRC) approach may be used to identify the fair value. The appraisal of the fair value of assets is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualifications and appropriate knowledge and experience in valuation of the respective assets.

Replacement cost

*Replacement cost* is the amount which is needed in current terms to replace an asset.

Depreciated replacement cost

The depreciated replacement cost (DRC) approach requires information on the expected useful life (EUL), residual value (RV), current replacement cost (CRC), and remaining useful life (RUL) of each of the asset components. The CRC is the product of a unit rate and the extent of the component and represents the cost of replacing the asset, and in cases where the existing asset is obsolete, the replacement with a modern equivalent. The depreciable portion of an asset is determined by subtracting the residual value from the CRC. The depreciated replacement cost (DRC) is established by proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the expected useful life.

Accordingly, the following formula is used:

$$\mathbf{DRC = ((CRC - RV) \times RUL/EUL) + RV}$$

Finance leases

At the commencement of a lease term, the municipality (the lessee) shall recognise a finance lease as an asset and liability in the statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease contract, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct cost of the lessee is added to the amount recognised as an asset.

Exchanged PPE assets

In cases where assets are exchanged, the cost is deemed to be the fair value of the acquired asset and the disposed asset is de-recognised. If the acquired asset is not measured at its fair value, its cost price will be the carrying amount of the asset given up.

**(b) Policy statement**

Movable PPE that qualifies for recognition shall be initially capitalised **at cost**.

In cases where complete cost data is not available or cannot be reliably linked to specific assets:

- The fair value of PPE shall be adopted on the basis of depreciated replacement cost;

**(c) Responsibilities**

- The CFO shall determine effective procedures for the capitalisation of movable assets on recognition.
  - Every Head of Directorate shall ensure that all movable assets under their control are correctly capitalised by ensuring that all movable assets are verified for completeness and correctness during the FAR Certificate process whereby they confirm that all assets under their control are recorded on the FAR.
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## **9.6 DEPRECIATION**

### **(a) Definition and rules**

#### Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its remaining useful life, and therefore reflects the consumption of economic benefits or service potential of the asset.

#### Depreciable amount

The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

#### Residual value

The residual value 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.

#### Remaining useful life

The remaining useful life (RUL) of a depreciable movable PPE asset is the time remaining until an asset ceases to provide the required standard of performance or economic usefulness.

#### Annual review of remaining useful life

The remaining useful lives of depreciable movable PPE are reviewed every year at the reporting date, since changes may be required as a result of new, updated or more reliable information being available. Movable assets nearing the end of their useful life (< 12 months) and where no additional information is available at reporting date and application for replacement has not been made by the relevant dept, the asset is assumed to be in use for an additional 6-18 months depending on the value and nature of the asset and/or until the asset is replaced, de-recognised, impaired or written off in the next reporting period. Changes may also be required as a result of impairments. Depreciation charges in the current and future reporting periods are adjusted accordingly and are accounted for as a change in an accounting estimate.

#### Depreciation method

A range of depreciation methods exist and can be selected to model the consumption of service potential or economic benefit (for example the straight line method, diminishing amount method, fixed percentage on reducing balance method, sum of the year digits method, production unit method). The approach used should reflect the consumption of future economic benefits or service potential, and should be reviewed annually where there has been a change in the pattern of consumption.

Currently PPE is depreciated on the straight line basis over their expected useful lives to their estimated residual value except furniture and fittings, which are depreciated using the diminishing balance method at 10% per annum.

#### Depreciation charge

Depreciation starts once an asset is available for use, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an assets ceases at the earlier of the date that the asset is classified as held for sale (in accordance with the standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations) and the date the asset is derecognised.

#### Carrying amount

The carrying amount is the cost price / fair value amount after deducting any accumulated depreciation and accumulated impairment losses. The carrying amount of an asset is the amount included in the statement of financial position.

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Finance lease

Depreciable assets financed through a finance lease will give rise to a depreciation expense and finance cost which will occur for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with the policy of depreciable owned assets, and the depreciation recognised shall be calculated in accordance with the Standard on Property, Plant and Equipment, GRAP 17. If there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. If there is certainty that the municipality will obtain ownership by the end of the lease term, the asset will be fully depreciated over the asset's useful life.

**(b) Policy statement**

All movable PPE, shall be depreciated over their remaining useful lives. The method of depreciation shall be reviewed on an annual basis.

**(c) Responsibilities**

- The CFO shall ensure that a budgetary provision is made for the depreciation of the movable PPE in the ensuing financial year, in consultation with the Head of Directorates.
- The CFO shall indicate a fixed annual date for the review of the remaining useful life of movable PPE under the control of the respective Head of Directorates.
- Every Head of Directorate shall annually review the estimated useful life and residual values stated in the **table 1** above and the depreciation method of movable PPE that are under their control and motivate to the CFO any adjustments if, in the judgement of the Head of Directorate, such are not considered appropriate.
- The CFO shall ensure that depreciation charges are debited on a monthly basis and that the fixed asset register is reconciled with the general ledger.

**9.7 IMPAIRMENT**

**(a) Definition and rules**

Impairment

Impairment is defined as 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.

*Impairment* is when the recoverable amount of an asset is less than the carrying value of such an asset.

Indications of impairment

The municipality must review assets for impairment when one of the indicators below occurs or at least at the end of each reporting period. In assessing whether there is any indication that an asset may be impaired, an entity shall consider as a minimum the following indicators:

- evidence of physical damage;
  - evidence of obsolescence;
  - significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or a manner in which, an asset is used or is expected to be used, including an asset becoming idle, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;
  - cash flow for acquiring an asset or maintenance cost thereafter is higher than originally budgeted;
  - the actual net cash flow or operating profit or loss flowing from an asset are significantly worse than those budgeted;
  - a significant decline in budgeted net cash flow or operating profit, or a significant increase in the budget loss, flowing from the asset; or
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- operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

*Significant*

The municipality must only record impairments that are significant. The events and circumstances in each instance must be recorded. Where there are indications of impairment, the municipality must estimate the recoverable service amount of the asset and also consider adjustment of the remaining useful life, residual value, and method of depreciation.

*Impairment loss*

An impairment loss of a non-cash-generating unit or asset is defined as the amount by which the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount is the higher of the fair value less costs to sell and its value in use.

An impairment loss of a cash-generating unit (smallest group of assets that generate cash inflows) or asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

*Recoverable amount*

*Recoverable amount* is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal. It is the higher of the fair value less costs to sell and its value in use.

*Fully Depreciated Movable Assets*

PPE Movable assets fully depreciated but still in use are carried at a nominal amount in the FAR, until they are de-recognised, disposed or written off according to the disposal policy and rules.

### Non-cash generating unit

Non-cash-generating units are those assets (or group of assets) that are not held with the primary objective of generating a commercial return. This would typically apply to assets providing goods or services for community or social benefit. The recoverable service amount is the higher of the asset's fair value less cost to sell and its value in use. It may be possible to determine the fair value even if the asset is not traded in an active market. If there is no binding sales agreement or active market for an asset, the fair value less cost to sell is based on the best information available to reflect the amount that an entity could obtain. However, sometimes it will not be possible to determine the fair value less cost to sell because there is no basis for making reliable estimates of the amount obtainable. For non-cash generating assets which are held on an on-going basis to provide specialised services or public goods to the community, the value in use of the assets is likely to be greater than the fair value less cost to sell. In such cases the municipality may use the asset's value in use as its recoverable service amount. The value in use of a non-cash generating unit/asset is defined as the present value of the asset's remaining service potential. This can be determined using any of the following approaches:

- the Depreciated Replacement Cost (DRC) approach (and where the asset has enduring and material over-capacity, for example in cases where there has been a decline in demand, the Optimised Depreciated Replacement Cost (ODRC) approach may be used);
- the restoration cost approach (the Depreciated Replacement Cost less cost of restoration) – usually used in cases where there has been physical damage; or
- the service units approach (which could be used for example where a production units model of depreciation is used).

Where the present value of an asset's remaining service potential (determined as indicated above) exceeds the carrying value, the asset is not impaired.

### Cash-generating unit

Cash-generating units are those assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a "commercial return" indicates that an entity intends to generate positive cash inflows from the asset (or from part of the cash-generating unit of which the asset is a part) and earn a commercial return that reflects the risk involved in holding the asset. When the cost model is adopted, fair value is determined in accordance with the rules indicated for measurement after recognition. Costs to sell are the costs directly attributable to the disposal of the asset (for example agents fees, legal costs), excluding finance costs and income tax expenses. The value in use is determined by estimating the future cash inflows and outflows from the continuing use of the asset and net cash flows to be received or (paid) for the disposal of the assets at the end of its useful life, including factors to reflect risk in the respective cash-flows and the time value of money.

### Judgement

The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the asset is a cash generating or non-cash generating asset. An asset may be held with the primary objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset even though it may be breaking even or generating a commercial return during a particular reporting period. In some cases it may not be clear whether the primary objective of holding an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that the asset is a non-cash-generating- or a cash-generating asset. Judgement is needed in these circumstances.

### Recognition of impairment

The impairment loss is recognised as an expense when incurred (unless the asset is carried at a re-valued amount, in which case the impairment is carried as a decrease in the Revaluation Reserve, to the extent that such reserve exists). After the recognition of an impairment loss, the depreciation charge for the asset is adjusted for future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

When no future economic benefit is likely to flow from an asset, it is derecognised and the carrying amount of the asset at the time of de-recognition, less any economic benefit from the de-recognition of the asset, is debited to the Statement of Financial Performance as a "Loss on Disposal of Asset".

In the event of compensation received for damages to an item of movable PPE, the compensation is considered as the asset's ability to generate income and is disclosed under Sundry Revenue; and the asset is impaired/ de-recognised.

#### Reversing an impairment loss

The municipality must assess each year from the sources of information indicated above whether there is any indication that an impairment loss recognised in previous years may no longer exist or may have decreased. In such cases, the carrying amount is increased to its recoverable amount (providing that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods).

#### **(b) Policy statement**

Impairment of movable assets shall be recognised as an expense in the Statement of Financial Performance when it occurs. Ad-hoc impairment shall be identified as part of normal operational management as well as scheduled annual inspections of the assets.

The municipality considers electricity, water, sanitation and solid waste services to be cash generating. All assets relating to these services are held with the primary objective of generating a commercial return. Consequently the municipality adopts the impairment treatment for cash generating units in the impairments of its movable PPE and associated intangible assets that relate to electricity, water, sanitation and solid waste services.

The municipality considers all other services (other than electricity, water, sanitation and solid waste) to be services whose primary objective is to provide goods and services for community or social benefit, and where positive cash flows are generated, these are with the view to support the primary objective rather than for financial return to equity holders. Consequently the municipality adopts the impairment treatment for non-cash generating units in the impairments of its movable PPE and associated intangible assets that relate to services other than electricity, water, sanitation and solid waste.

#### **(c) Responsibilities**

- The CFO shall indicate a fixed annual date for the review of any impairment that may have occurred on movable assets under the control of the respective Head of Directorates.
  - The Head of Directorates shall review any impairment on the movable PPE under their control at the annual review date, and from time to time as a result of any events that come to their attention that may have a material negative effect on the performance of these assets. The Head of Directorate shall motivate to the CFO proposed changes to the performance of such assets and the necessary impairments that needs to be recognised on such assets.
  - The Head of Directorate should evaluate all the movable PPE for impairment, taking into consideration any discussions with the operating managers.
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- The Asset Division in the CFO's office should update the fixed asset register with the information received, relating to the impairment, from the financial accounting system where the impairment journals have been processed.
- The CFO shall report changes made to the carrying values of these assets in the asset register.

## **9.8 DISPOSAL AND DE-RECOGNITION**

### **(a) Definition and rules**

#### De-recognition

Movable assets are derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal. Where assets exist that have reached the end of their useful life yet they pose potential liabilities, the assets will not be derecognised until the obligations under the potential liabilities have been settled.

The gain or loss arising from the de-recognition of an item of movable assets shall be included in surplus of deficit when the item is derecognised.

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

#### Disposal Management System

An effective system of disposal management for disposal or letting of assets, including unserviceable, redundant or obsolete assets, must be provided for in the Supply Chain Management Policy. This must specify the ways in which assets may be disposed of, including by –

- transfer the asset to another organ of state in terms of a provision of the MFMA enabling the transfer of assets;
- transferring the assets to another organ of state at market related value or, when appropriate, free of charge;
- selling the asset; or
- destroying the asset.

### **(b) Policy statement**

Movable assets for which no future economic benefits or service potential are expected shall be identified and methods of disposal and the associated costs or income considered by Council. The carrying amount of the asset shall be derecognised when no future economic benefits or service potential are expected from its use or its disposal.

Where an asset being de-recognised was previously revalued, the revaluation surplus is transferred to the Accumulated Surpluses/ (Deficits) Account on de-recognition of an asset.

### **(c) Responsibilities**

- Movable assets shall be derecognised/disposed only on the recommendation of the Head of Directorate of the department controlling the asset, and with the approval of the CM.
  - Every Head of Directorate shall report to the Asset Disposal Committee on movable assets which such Head of Directorate wishes to have derecognised, stating in full the reason for such recommendation, indicating whether or not the assets are associated with the provision of basic services. The Asset Disposal Committee shall consider the submission and make recommendations to the CM for approval.
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- Movable assets that are replaced in the nominal course of the life-cycle renewal should be derecognised and removed from the asset register.

**(d) Procedure to be followed when disposing movable assets**

- Users are to complete an asset disposal form. The fully signed form is to be forwarded to asset section
- Each Directorate is to prepare a consolidated report of all assets to be disposed, and submit this report to asset section
- Assets section will call a disposal committee meeting, present all disposal items for consideration.
- The Disposal Committee makes recommendations on a report which is sent to the City Manager.
- City Manager reports disposals to council
- Council approves/declines disposals, in terms of section 14 of the MFMA. Council has the right to delegate this function to the City Manager
- When approved, Assets section with SCM will make arrangement to pick up all items approved for disposal, to a point of sale or scrapping.

## **9.9 INSURANCE**

**(a) Definition and rules**

Insurance is a risk transfer agreement whereby the responsibility for meeting losses passes from one party (the Insured) to another (the Insurer) on payment of a premium.

It is the responsibility of senior managers and officials to ensure that all the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary. Insurance is one of the tools used in the safeguarding of municipal assets.

**(b) Policy statement**

The CFO shall decide on insurance cover for movable assets each financial year based on the recommendation from the Insurers after consultation with the Asset division. A cost versus benefit analysis will be conducted by the asset section prior to insuring assets that are deemed to be of high risk by the insurer.

BCMM's insurance policy follows the BCMM Financial Fixed Asset Register (FAR), i.e. only assets that appear on the FAR will be covered by the insurance policy.

If an asset is not on the FAR there is a possibility and risk that the asset is not insured and that the custodian responsible for that asset could be held accountable for any loss and/or damage to that asset.

**(c) Responsibilities**

- The CFO, in consultation with directorates, shall decide on which assets will be insured taking into consideration the budgetary resources of the municipality and, where applicable, asset classes shall be prioritised in terms of their risk exposure and value.
  - The City Manager shall advise Council on the insurance approach taken.
  - Every Head of Directorate shall ensure that all BCMM assets are recorded on the FAR to ensure that, in the event of a claim, the assets are insured.
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## **10 SAFEGUARDING**

### **(a) Definitions and rules**

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

The existence of movable assets is physically verified on an annual basis, and measures adopted to control their use.

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

### **(b) Policy statement**

The municipality shall ensure that all movable assets are safeguarded in accordance with S63(1)(a) and S78(1)(e) of the MFMA.

### **(c) Responsibilities**

- Each Head of Directorate shall prepare and submit to the CFO an annual asset FAR Certificate verifying the movable assets under the control of their respective departments.
- Each Head of Directorate shall report, within the time frame indicated by the CFO, the existence, condition, location and appropriate use of movable assets under the control of their respective departments at the review date.
- Malicious damage, theft, and break-ins must be reported to the Head of Directorate of Corporate Services and the CFO within the prescribed period of its occurrence or awareness by the respective Head of Directorate.
- Each Head of Directorate must report criminal activities to the South African Police Service.

## **11 POLICY IMPLEMENTATION**

Procedures shall be prepared and adopted by the City Manager, in consultation with the CFO and Head of Directorates, to give effect to this policy.

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**12. USEFUL LIFE**

**PROPERTY, PLANT AND EQUIPMENT**

	USEFUL LIFE IN YEARS	
	MIN	MAX
<b>OTHER MACHINERY AND EQUIPMENT</b>		
Audio-visual equipment	5	10
Building air conditioning systems	5	10
Domestic equipment (non-kitchen appliances)	3	7
Electric wire and power distribution equipment (compressors, generators & allied equipment)	5	7
Emergency/rescue equipment	5	10
Farm/Agricultural equipment	5	15
Fire Fighting equipment	3	5
Gardening equipment	2	4
Irrigation equipment (movable)	10	15
Kitchen appliances	5	10
Laboratory equipment - Agricultural	5	7
Laboratory equipment - Medical testing	5	7
Laboratory equipment - Roads and transport	5	7
Medical and allied equipment	5	10
Music instruments	10	15
Photographic equipment	5	7
Pumps, plumbing, purification and sanitation equipment	5	15
Radio equipment	5	7
Road construction and maintenance equipment	10	15
Security equipment/systems/ materials - Fixed	3	10
Security equipment/systems/ materials - Movable	3	5
Sport and recreational/resort equipment	5	10
Survey equipment	5	7
Telecommunication equipment	3	5
Tents, flags and accessories	5	10
Woodworking machinery and equipment	5	10
Workshop equipment and loose tools - Fixed	5	10
Workshop equipment and loose tools - Movable	3	5
<b>FURNITURE AND OFFICE EQUIPMENT</b>		
Advertising boards	3	5
Air conditioners (individual fixed & portable)	3	7
Office equipment	5	7
Non-Office Furniture (hotel/resort)	10	15
Office furniture	5	7

Paintings, sculptures, ornaments (home and office)	5	10
<b>COMPUTER EQUIPMENT</b>		
Computer hardware including operating systems	3	7
Data Centre Servers and Equipment	5	10
Network Equipment	5	10
<b>TRANSPORT ASSETS</b>		
Busses	10	15
Cycles	4	7
Emergency vehicles (Ambulances and fire engines)	5	10
Mobile clinics	10	15
Motor vehicles	4	7
Trailers and accessories	5	10
Trucks	5	10
<b>INTANGIBLE ASSETS</b>		
Capitalised development costs	2	10
Computer software	2	10