

Metsimaholo Local Municipality

Asset Management Policy



2023/2024

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Definitions and Abbreviations

Item	Description
Asset	An asset is a resource, tangible or intangible, controlled by the entity which is expected to last more than twelve months and from which future economic benefits or service potential will flow.
Asset management	Management of the assets of the municipality as required by municipal legislation which <i>inter alia</i> includes the compilation of a fixed asset register
Capital Asset	<i>Means</i> (a) <i>any immovable asset such as land, property or buildings; or</i> (b) <i>any movable asset that can be used continuously or repeatedly for more than one year in the production or supply of goods or services, for rental to others or for administrative purposes, and from which future economic or social benefit can be derived, such as plant, machinery and equipment;</i>
Carrying Amount	The amount at which an asset is included in the statement or financial position after deducting any accumulated depreciation and any impairment losses thereon.
CFO	Chief Financial Officer or the official acting in that capacity
Cost	The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.
Depreciation	This is the systematic allocation of the cost of use of an asset over its useful life.
Depreciable	The cost of an asset, or other amount substituted for cost in the

amount	financial statements, less its residual value.
Disposal	<i>in relation to capital asset, includes-</i> (a) <i>the demolition, dismantling or destruction of the capital asset; or</i> (b) <i>any other process applied to a capital asset which results in loss of ownership of the capital asset otherwise than by way of transfer of ownership;</i>
Encumbrance	<i>in relation to a capital asset, means a right to the capital asset that is held by a third party that limits the owner's use of the asset;</i>
Exempted Capital Asset	<i>Means a municipal capital asset which is exempted by section 14 (6) or 90 (6) of MFMA from the other provisions of that section;</i>
Fair Value	The amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.
FAR	Fixed Assets Register preferably in computerized format and maintained strictly in accordance with this document, which shall reflect all the assets of the municipality.
GRAP	Standards of Generally Recognized Accounting Practice
IAS	International Accounting Standards
Impairment	An asset is impaired when the carrying amount exceeds its recoverable amount
Municipal Capital Asset	<i>Means a capital asset of which a municipality or municipal entity is the owner;</i>
Non-Exempted Capital Asset	<i>Means a municipal capital asset which is not exempted by section 14 (6) or 90 (6) of MFMA from the other provisions of</i>

	<i>that section;</i>
Organ of state	<i>Means-</i> (a) <i>a national department or national public entity;</i> (b) <i>a provincial department or provincial public entity;</i> (c) <i>a municipality or municipal entity; or</i> (d) <i>any other organ of state within the meaning assigned to “organ of state” in section 239 of the Constitution;</i>
PPE	Property, Plant & Equipment – These are tangible assets that: • are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and • are expected to be used during more than one reporting period
Residual value	The estimated amount that the municipality would currently obtain from disposal of the asset after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
Recoverable amount	The estimated amount, which the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.
SCM	Supply Chain Management
Transfer	<i>In relation to a capital or subsidiary asset, means transfer of ownership in the asset as a result of a sale or other transaction.</i>
Useful life	Useful life is either: • The period over which an asset is expected to be available for use by the municipality, or • The number of production or similar units expected to be obtained from the asset by the municipality.
Value in use	Is the present value of estimated future cash flows expected to

	arise from the continuing use of an asset and from its disposal at the end of its useful life
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Section 1

Objective of the Asset Management Policies and Procedures

The Asset Management Policy provides direction for the management, accounting and control

of Property, Plant & Equipment (Fixed Assets) owned or controlled by the municipality.

This document indicates the policy framework for the management of Municipal movable and immovable Property Plant and Equipment (Property Plant and Equipment), investment property, intangible, biological assets and heritage assets.

Section 2:

DELEGATIONS AND KEY RESPONSIBILITIES

Role of the Municipal Manager

As accounting officer of the municipality, the Municipal Manager shall be the principal custodian of all the municipality's fixed assets and shall be responsible for ensuring that the fixed asset management policy is scrupulously applied and adhered to.

In terms of the MFMA, the accounting officer is responsible for the effective, efficient, and economical use of the resources of the municipality, and for managing the assets 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 Municipal Manager or his duly delegated representative is responsible to:

- Ensure implementation of the approved Asset Management Policy as required in terms of section 63 of the Municipal Finance Management Act (MFMA).
- Verify assets in possession of the Council annually, during the course of the financial year.
- Keep a complete and balanced record of all assets in possession of the Council.
- Report in writing all asset losses, where applicable, to Council.
- Ensure that assets are valued and accounted for in accordance with applicable GRAP standards.
- Ensure that assets are properly maintained and safeguarded.
- Ensure that assets are optimally utilized for the benefit of the citizens
- Ensure that all donated assets are reported to the council
- That the municipality has and maintains a system of internal control for assets, including an asset register; and
- The senior managers (Directors) and their teams comply with this policy.

In accordance with the MFMA, the Accounting officer (AO) of the municipality and all designated officials are accountable to him / her. The AO is therefore accountable for all transactions entered into by his/ her delegates. The overall responsibility of asset management lies with the AO. However, the day to day handling of assets will be the responsibility of all officials in terms of delegated authority reduced in writing. The AO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed. All delegations in terms of this policy must be recorded in writing.

Section 3

Role of the Chief Financial Officer (CFO)

The CFO shall be the custodian of the fixed asset register of the Municipality, and shall ensure that a complete, accurate and up-to-date computerized 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.

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the municipality are utilised effectively, efficiently, economical and transparently;
- Any unauthorised, 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 immovable assets;
- The systems, procedures and registers required to substantiate the financial values of the municipality's assets are maintained to standards sufficient to satisfy the requirements of the Accounting Standards;
- Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilised through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- The CFO shall indicate a fixed annual date for the review of any impairment that may have occurred on assets under the control of the respective HODs.
- The CFO shall review any impairment on the Property Plant and Equipment under the control of HODs or Senior Managers 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 HOD/ Director 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 CFO shall report changes made to the carrying values of these assets in the asset register to the AO and Council.
- Ensure that the AO is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- Ensure that all HODs and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of 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 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.

3.1 Asset Control Section

- Shall ensure that complete records of asset items are kept, verified and balanced regularly.
- Shall ensure that all movable assets are properly tagged and accounted for. (see also 23.1)
- Shall conduct an annual audit inventory by scanning selected movable assets and compare this inventory with the Departments asset sign offs. (see also 23.2)
Replace annual audit inventory with monthly audit inventory and be read as:
- *Shall conduct monthly audit inventory by scanning selected movable assets and compare this inventory with the Departments asset sign offs in order to identify discrepancies on time. (see also 23.2)*
- The asset verification report shall reflect any discrepancies between the

articles found during verification and the record referred to in the point above;

- Shall ensure adequate bar codes to exercise the function relating to asset control are available at all times.
- Shall provide the AG or its personnel, on request, with the financial records relating to assets belonging to Council as recorded in the Fixed Asset Register.
- Shall ensure that all audit queries are resolved in a timely manner.
- Shall ensure that the relevant information relating to the calculation of depreciation is obtained from the departments and provided to the Finance department in the prescribed format.
- Shall ensure that asset acquisitions are allocated to the correct asset code.
- Shall ensure that, before accepting an obsolete or damaged asset or asset inventory item, a completed asset disposal form, counter signed by the Asset Control Section, is presented.
- Shall ensure that a verifiable record is kept of all obsolete, damaged and unused asset or asset inventory items received from the departments.
- Shall compile a list of the items to be auctioned in accordance with their guidelines in the Supply Chain Management (SCM) Policy.
- Shall compile and circulate a list of unused movable assets to enable other departments to obtain items that are of use to them.
- Shall ensure that the Procurement section is notified of any auctioning or disposing of written-off asset or asset inventory items.
- Update the fixed asset register with the information received, relating to the impairment, from the financial management system where the impairment journals have been processed.

3.2 The Manager: Budgets

- Shall ensure that the capital budget as submitted by the departments is approved. A clear description of the funding source is also required.
 - Shall release capital funds only after receiving written authority and a clear and concise description of the item to be purchased as well as an allocated responsible
-

person for this asset.

- Shall ensure that any changes in the capital budget, concerning funds transferred or project description changes are communicated to the Asset Control Section.

3.3 The Assistant Manager: Expenditure section

- Shall ensure that invoices authorised for payment are matched to the goods received note / proof before processing such payment.
- Shall if any doubt exists as to whether the invoice is in accordance with policy, query the payment with the relevant department and shall not process a payment until the invoice meets the policy criteria.
- Shall ensure that Asset Section is notified of payment processed for capital item/ asset.

3.4 Procurement Section

- Shall dispose of assets via auction or public tender or other approved method in accordance with the provisions in the Supply Chain Management (SCM) Policy.
- The Bid Adjudication, Evaluation and Bid Specification Committee must comply with and be constituted in accordance with the procurement SCM policy.

3.5 Financial Statements and Asset Management Section

- Shall ensure that the Fixed Asset Register is balanced annually with the general ledger and the financial statements.
- Shall ensure that the relevant accounting policies are in line with the approved asset management policy of the municipality.
- Shall verify that the accounting treatment of all asset related transactions is in line with the approved policy and the relevant accounting standard annually.
- Shall ensure that the approved asset policy is annually reviewed and updated with any changes to the applicable accounting standards.
- Ensure that all the relevant information required for disclosure on the face and

in the notes to the financial statements is contained, updated, and verified in the FAR.

3.6 Manager Project Management Unit

- Shall prepare, verify and analyze retention register for all capital contracts.
- Shall provide assets section with a list of work-in-progress capital project at each reporting date.
- Shall provide asset section with practical completion certificate/Handover certificate for all completed at each reporting date.
- Shall prepare and provide commitment register to asset section.

Section 4

Role of other departments

4.1 Human Resources Department

The Human Resources Department:

- Shall ensure that no monies are paid out on termination of service without receiving the relevant asset resignation form signed off by the relevant department. (See also 25.6)
- Shall ensure that every asset resignation form is counter signed by the Asset Control Section before processing the termination of service.

4.2 All Departments

Directors:

- Shall ensure that employees in their departments adhere to the approved Asset Management Policies.
- Shall ensure that an employee with delegated authority (*asset champion*) has been nominated to implement and maintain physical control over assets in the department. The Asset Control Section must be notified of who the responsible person is. Although authority has been delegated the responsibility to ensure adequate physical control over each asset remains with the director.
- Shall ensure that assets are properly maintained in accordance with their respective asset maintenance policies.
- Shall ensure that the assets of the Municipality are not used for private gain.
- Shall ensure that all their movable assets as reflected on the Fixed Asset Register are bar-coded where possible.
- Shall ensure that the Asset Control Section is notified of any changes in the status of the assets under the department's control. This must be done on the prescribed form and include the following:
 - Movements/Disposals which relate to the transfer of assets (inter departmental transfers).
 - Changes in the estimated useful lives of assets for depreciation purposes.
 - Changes in depreciation methods to best reflect an assets pattern of use.
 - The identification of impairment losses on assets by following the procedures as outlined in section 20 of this policy document.
- Shall certify in writing that they have assessed and identified impairment losses on all assets at year-end.
- Shall certify in writing that, with assistance from Asset Specialist, they have assessed and identified impairment losses on all assets at year-end.
- Shall ensure that all obsolete and damaged asset items, accompanied by the relevant asset form and attached disposal forms, are handed in to the Asset Control Section without delay.
- Shall notify, in writing, Asset section of all obsolete and damaged asset items,

and arrange with Supply Chain Management-Stores and Asset section for the transfer of all obsolete and damaged asset items.

- Shall ensure that the correct cost element and description are being used before authorising any requisitions.
- Shall not procure any asset until the asset number is obtained, asset number allocated and will ensure that assets are bar-coded by the Asset Control Section and insured by the Finance Department.
- Shall request, in writing, a list of department's asset items that are insured by the Finance Department and safely keep this record for insurance claim purposes.
- Shall ensure that all assets in their control are verified and that they provide a report of the verification annually before the close of the financial year-end.
- Shall ensure that **with assistance** from Asset section, all assets in their control are verified and that they provide a report of the verification annually before the close of the financial year-end.
- Shall retain accountability for all audit queries raised by the AG during the audit and will be responsible for the timeous response thereon.
- Shall ensure that Finance department, where applicable, is provided with a list of all Work-in-Progress projects for the financial year.
- Shall provide asset section with all necessary documents for all donation received by the municipality e.g. deed of donation, invoices and completion certificates.
- The detailed projects as created must be categorised and clearly identified as follows:

A. TANGIBLE ASSETS

Immovable Assets:

- Infrastructure assets
- Buildings
- Land
- Community assets
- Heritage assets
- Recreational Facilities
- Asset under construction (Only an asset after completion)
- Town Development
- Investment Properties

Movable Assets:

- Aircraft
- Bins and Containers
- Emergency Equipment
- Emergency Vehicles
- Furniture and Fittings
- Heritage.
- Motor Vehicles
- Office Equipment
- Plant and Equipment
- Watercraft
- Other

B. INTANGIBLE ASSETS (see clause 11)

- Copyright
- Patents
- Computer programs
- Licensing rights
- Servitudes
- Advertising rights
- Encroachment rights
- Other

C AGRICULTURAL ASSETS (see clause 10)

- Productive animals (poultry, cattle, fish, dairy etc.)
Productive plants (maize, wheat, forestry etc.)

4. 3 The asset champion must:

- Assist the Asset manager in performing his/her functions and duties in terms of asset management;

- The Asset manager must at each reporting date assess all assets under his/her control for impairment and review of useful lives and review of residual amounts in collaboration with the chief financial officer.
- The Asset manager must, on termination of an employee's services, ensure that the respective assets and inventory items lists indicating all items entrusted to the specific asset user, is confirmed to be existent and returned in good order, prior to the final salary payment being made to the employee.
- Ensure inventory lists are verified and kept updated in collaboration with the directorate financial services; and
- Identify obsolete and redundant assets and attractive items at least once per financial year, compile a report and obtain the necessary approval for the disposal thereof.

Section 5

Definition of an asset

5.1 Definition of an Asset

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

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

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

- The asset has future service potential or economic benefit for the municipality. The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the municipality. The potential may be a productive one that is part of the operating activities of the municipality. It may also take the form of convertibility into cash or cash equivalents or a capability to reduce cash outflows, such as when an alternative process lowers the costs of providing a service.
- Service potential is thus the capacity of an asset, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality.
- An asset held under a finance lease, if it meets the remaining criteria of a fixed asset, shall be so recognized, as the municipality has control over such an asset even though it does not own the asset.

5.2 Role of Assets

The role of assets is to support the delivery of a service to the public. Assets should exist to support program delivery.

Section 6

Format of the fixed asset register

6.1 Format

The fixed asset register shall be maintained in the format determined by the CFO, which format shall comply with the requirements of any accounting requirements which may be prescribed.

Without in any way detracting from the compliance criteria mentioned in the preceding paragraph, the fixed asset register shall reflect at least the following information:

- A brief but identifiable description of each asset
- Classification of each asset
- The date on which the asset was acquired for use
- The location of the asset
- The departments or cost centre within which the assets will be utilized
- The responsible person for this asset
- The title deed number, in the case of fixed property
- The stand number, in the case of fixed property
- Encumbrances or impediments upon fixed property such as servitudes, caveats, mortgages, etc.
- Status of the fixed property (land) in terms of the municipal town-planning scheme.

Where applicable, the identification number, as determined in compliance with 7.2, Below the original cost or fair value if no costs are available

- the (last) effective date of revaluation of the fixed assets subject to revaluation
- the revalued value of such fixed assets
- the valuer who did the (last) revaluation
- accumulated depreciation to date
- the carrying value of the asset
- whether this is a cash or non-cash generating asset
- the method and, where applicable, the rate of depreciation
- impairment losses
- impairment recovery
- the source of financing
- the current insurance arrangements
- whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
- maintenance plan referrals
- whether the asset is required to perform basic municipal services;
- the date on which the asset is disposed of
- the disposal proceeds
- the date on which the asset is retired from active use, and held for disposal
- the residual value of each asset

- measurement model
- Periods when the asset was idle and reason for the idleness.

All directors of departments under whose control any fixed asset falls shall promptly provide the CFO in writing of any information required to compile the fixed asset register, and shall promptly advise the CFO in writing of any material change which may occur in respect of such information.

A fixed asset shall be capitalised, that is, recorded in the fixed asset register, as soon as it is acquired and is available for use. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a fixed asset. Completion certificate shall be submitted on completed capital projects.

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

6.2 Different categories within FAR

The following is an outline of the requirements relating to the various types of asset categories that the municipality will maintain:

- The CFO is responsible for ensuring that complete records of asset items are kept, verified and balanced regularly.
- The Fixed Asset Register (FAR) for the Municipality will contain the following types of assets categorized as tangible assets (movable and immovable), intangible assets and agricultural assets

TANGIBLE ASSETS

Immovable Assets:

- Infrastructure assets:
 - Electricity assets
 - Water networks and related assets
 - Waste water networks and related assets
 - Roads, bridges and Storm water
- Land and Buildings
- Investment properties
- Community assets
- Heritage assets
- Other assets

Movable Assets:

- Office Equipment
- Furniture and Fittings
- Bins and Containers
- Emergency Equipment
- Motor Vehicles
- Aircraft
- Watercraft
- Plant and Equipment
- Other

INTANGIBLE ASSETS (see clause 11)

- Copyright
- Patents
- Computer programs
- Licensing rights
- Servitudes
- Advertising rights
- Encroachment rights
- Other

AGRICULTURAL ASSETS (see clause 10)

- Productive animals (poultry, cattle, fish, dairy etc.)
- Productive plants (maize, wheat, forestry etc.)
- The FAR will consist of all the asset master records of movable assets capitalised. These assets, except for group assets, must be numbered with the approved barcode labels. This will be implemented with effect from 01st July 2015
- Immovable assets on the FAR will not be physically numbered with barcode labels but will have a unique asset master record number.
- Capital work-in-progress. Incomplete construction work is stated at historic cost. Depreciation only commences when the asset is available for use.

Section 7

Classification and identification of Property, Plant and Equipment (fixed assets)

7.1 Classification

In compliance with the requirements of National Treasury and accounting standards the CFO shall ensure that all fixed assets are classified under the following headings, and directors of departments shall in writing provide the CFO with such information and assistance as is required to compile a proper classification:

Fixed asset categories

- Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the municipality's operations) (GRAP 17)
- Land and Buildings (land and buildings not held as investment)
- Infrastructure Assets (immovable assets that are used to provide basic services)
- Community Assets (resources contributing to the general well-being of the community)
- Housing Assets (rental stock or housing stock not held for capital gain)
- Other Assets (ordinary operational resources)

- Intangible assets (GRAP 31);
- Heritage assets (GRAP 103);
- Biological assets (GRAP 101/27);
- Finance Lease assets (GRAP 13); and
- Investment property (GRAP 16
- Inventory GRAP 12
- Living and Non-living resources GRAP 110

Class of Property Plant and Equipment

A class of Property Plant and Equipment is defined as a group of assets of a similar nature or function. The total balance of each class of assets is disclosed in the notes to the financial statements.

Property Plant and Equipment Asset hierarchy

An asset hierarchy is adopted for Property Plant and Equipment which enables separate accounting of parts (components) of the asset that are considered significant to the municipality from a financial point of view, and for other reasons determined by the municipality, including risk management (in other words, taking into account the criticality of components) and alignment with the strategy adopted by the municipality in asset renewal (for example the extent of replacement or rehabilitation at the end of life). In addition, the municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognises the functional relationship of assets and components.

Property Plant and Equipment: Infrastructure

Infrastructure assets are immovable assets which are part of a network of similar assets that jointly provide service potential. These assets usually display some or all of the following characteristics:

- (a) they are part of a system or network;
- (b) they are specialised in nature and do not have alternative uses;
- (c) they are immovable; and
- (d) they may be subject to constraints on disposal.

Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

Property Plant and Equipment: Community Property

Community property is immovable assets contributing to the general well-being of the community, such as community halls and recreation facilities.

Property Plant and Equipment: Land and Buildings

Buildings that are used for municipal operations such as administration buildings and rental stock or housing not held for capital gain.

Land

The municipality have jurisdiction over the land within its boundaries. The land is identified through its Surveyor General Identification number. In most cases the land is also registered in the Deeds Office to a specific owner.

As described elsewhere the land that forms part of assets is disclosed separately from the structures on the land. This is to facilitate the depreciation of the structures.

All land owned and/ or controlled by the municipality should be recorded either as Property Plant and equipment, Investment property or Inventory.

The principle of substance over form acknowledges that the substance of transactions or other events is not always consistent with that which is apparent from their legal form. Legal ownership is one method to demonstrate control of land, but the ability to generate future economic benefits or the right to service potential, may exist without legal ownership of land. As a result, although the capacity of an entity to control benefits is usually the result of legal rights, an item may nonetheless satisfy the definition of an asset even when there is no legal ownership.

Control of land in terms of paragraph 16 of IGRAP 18 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

Legal ownership refers to the owner being the registered title deed holder of the land. Legal ownership also arises where the land is transferred from the legal owner to another entity or party, through legislation or similar means. For example, when a change in ownership is recorded by way of an endorsement on the existing title deed, rather than a formal transfer or change in ownership reflected on the title deed.

To demonstrate that the municipality has the right to direct access to land, and to restrict or deny the access of others to land, it considers whether it can:

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

The municipality should assess whether if it controls the land using the criteria above. At each reporting date, the municipality needs to assess whether there are any changes to the binding arrangement that may impact its assessment of control.

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The municipality should assess whether if it controls the land using the criteria above. At each reporting date, the municipality needs to assess whether there are any changes to the binding arrangement that may impact its assessment of control.

Property Plant and Equipment: Other Assets

Movable assets are by nature stand-alone assets which are not directly attached or associated with an item of immovable assets and are utilised in an enabling or assisting role on a day-to-day basis.

Heritage assets

Heritage assets are assets of cultural, environmental, historical, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations, such as monuments, nature reserves, and works of art. Some heritage assets have more than one purpose, e.g. an historical building which, in addition to meeting the definition of a heritage asset, is also used as office accommodation. The CFO, on behalf of the municipality, must use his / her judgement to make such an assessment. The asset should be accounted for as a heritage asset if, and only if, the definition of a heritage asset is met, and only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. If a significant portion is used for production, administrative purposes or supply of services or goods, the asset shall be accounted for in accordance with the Standard of GRAP on Property Plant and Equipment.

Investment property

Investment property is defined as property (land and/or a building, or part thereof) held (by the owner or the lessee under a finance lease) to earn rentals or capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operations). Examples of investment property are office parks that are rented out. There is no asset hierarchy for investment property; each functional item will be individually recorded. Land held for a currently undetermined use is recognised as investment property until such time as the use of the land has been determined.

Intangible assets

Identifiable non-monetary assets, without physical substance are intangible assets, for

examples licenses or rights (such as water licenses), servitudes and software.

An asset meets the criterion of being identifiable in the definition of an intangible asset when it:

(a) is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or
arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable and separable from the municipality or from other rights and obligations

Servitudes

Where municipalities establish servitudes as part of the registration of a township, the associated rights are granted in statute and are specifically excluded from the standard on intangible assets. Such servitudes cannot be sold, transferred, rented or exchanged freely and are not separable from the municipality. Consequently, such servitudes are not recognised in the asset register.

Servitudes that are created through acquisition (including by way of expropriation or agreement) can be recognised as *either intangible assets or Property Plant and Equipment* at cost. The municipality *may* include the cost of the servitude in the cost of the Property Plant and Equipment if it is essential to the construction or operation of the asset (such as in the case of pipes).

Inventory assets

The Standard of GRAP on *Inventories* (GRAP 12) defines inventories as those assets that are:

- 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.

Section 9 of the Housing Act requires every municipality, as part of its IDP to identify and designate land for a housing development. The identification and designation of the land in relation to the housing development is therefore within the mandate of municipalities.

Therefore, the land that has been designated for the purposes of a housing development meets the definition of inventory in accordance with GRAP 12 as it is held for distribution in the ordinary course of operations and requires reclassification to inventory until it is transferred to beneficiaries. The carrying amount of those inventories shall be recognised as an expense in the period in which it is transferred.

There are different roles and responsibilities that are attributable to each level of accreditation by National Human Settlements to administer housing programmes.

The municipality has a level one accreditation which requires the municipality to identify and plan local housing programmes and projects. This is done through the Municipal Human Settlements Plan (MHSP), which is integrated into the municipality's Integrated Development Plan (IDP).

The municipality undertakes transactions as a project manager in relation to the housing development and is not responsible for the construction of houses. The responsibility for appointing contractors and/or other service providers to construct the houses vests with the provincial Department of Human Settlements.

The transactions that a municipality undertakes with contractors and/or service providers include, amongst others:

- identifying potential contractors and/or other service providers that can be used for the housing development.
- preparing contracts and project agreements with contractors and/or other service providers in accordance with the prescripts in the Code.

- using the municipal inspectorate to monitor, certify and control the project construction to ensure that it meets acceptable and prescribed standards; and
- making payments to contractors and/or other service providers for work completed on instruction from the relevant provincial Department of Human Settlements based on milestones achieved.

The transactions that a municipality undertakes in relation to beneficiary management involve, amongst others:

- marketing of the stands by, for example, providing leaflets to the community and other forms of advertising
- receiving beneficiary application forms and submitting them to the relevant provincial Department of Human Settlements for approval.
- facilitating an arrangement between the provincial Department of Human Settlements and eligible beneficiaries that provides information to the beneficiaries.

7.2 Identification

The Municipal Manager shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its computerised fixed asset register.

The identification system shall be determined by the Municipal Manager, acting in consultation with the CFO and other directors of departments, and shall comply with any legal prescriptions, as well as any requirements of the Auditor-General, and shall be decided upon within the context of the municipality's budget.

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

7.3 Verification

The Asset Control Section shall at least once during every financial year provide all

directors of departments with a comprehensive list of assets which is registered under their control.

Every director of a department shall be responsible for verifying this list with the assets under their control and investigate any discrepancies arising out of the asset verification exercise. The director of each department will be required to sign and date a declaration stating that the list of assets verified for his/her department is complete & accurate except for the discrepancies as reported to the Asset Control Section.

7.4 Safekeeping

Section 63 of the Municipal Financial Management Act (Act no 56 2003) determines that the accounting officer of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

Section 78 of the Municipal Financial Management Act (Act no 56 2003) determines each senior manager of a municipality and each official of a municipality exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that the assets and liabilities of the municipality are managed effectively and that assets are safeguarded and maintained to the extent necessary. A senior manager or such official must perform the functions subject to the directions of the accounting officer of the municipality

Every director of a department shall be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question.

In exercising this responsibility, every director of a Department shall adhere to any written directives issued by the Municipal Manager to the Department in question, or generally to all Departments, in regard to the control of or safekeeping of the municipality's fixed assets.

Section 8

Heritage Assets

8.1 Definition

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. Examples are works of art, conservation areas, historical buildings and statues.

8.2 Recognition and Disclosure of Heritage assets

Initial measurement.

Heritage assets are initially recognized at cost

Where a heritage asset is acquired at no cost, or for a nominal cost, its cost is fair value at the date of acquisition.

Subsequent measurement

Subsequent to initial measurement heritage assets are carried at cost less any accumulated impairment losses

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

If the municipality is unable to determine fair value reliable due to market-determined prices or values that are unavailable and alternative estimates of fair value are determined to be clearly unreliable, the heritage asset shall be measured using the cost model.

Section 9

Donated/Bequeathed Assets

9.1 Definition

An item donated or bequeathed to the municipality or acquired by means of an exchange of assets between the municipality and one or more other parties shall be recorded in the fixed asset register only if it subscribes to the definition of an asset as set out in section 5 above.

9.2 Disclosure of Donated/Bequeathed Assets

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

9.3 Budgetary requirements

The same budget requirements as for other fixed assets are applicable.

Section 10

Agricultural Assets

10.1 Definitions

Biological assets are defined as living and productive animals or plants. Agricultural produce is the harvested product of the biological assets.

10.2 Measurement

A biological asset shall be measured on initial recognition and at each reporting date at its fair value less estimated point-of-sale costs, except for assets which market-determined prices or values are not available and for which alternative estimates of fair value are determined to be clearly unreliable which shall be measured at its cost less any accumulated depreciation and any accumulated impairment losses.

Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less estimated point-of-sale costs at the point of harvest.

Records of the details of agricultural assets shall be kept in a separate section of the fixed asset register or in a separate accounting record altogether and the municipality must provide a quantified description of each group of biological assets, distinguishing between consumable and bearer biological assets or between mature and immature biological assets, as appropriate.

10.3 General

- If any agricultural asset is lost, stolen or destroyed, the matter, if material, shall be reported in writing by the director of the department concerned in exactly the same manner as though the asset were an ordinary fixed asset.
- If the municipality's investment in agricultural assets does represent a material part of its financial activities, the CFO, in consultation with the director of the Department concerned, shall ensure that expert valuations are done at such more frequent intervals as the Council shall deem appropriate. Such valuations shall then account for losses, sales, acquisitions and other changes to the composition of the agricultural assets concerned.
- The Departments shall annually insure the municipality's agricultural assets, provided the Council considers such insurance desirable and affordable.

10.4 Living and Non-Living Resources

Accounting for living and non-living resources Living resources shall take place in accordance with the requirements of GRAP 110.

Living resources include living organisms, for example animals and plants that are used or held for:

- the delivery or provision of goods and services.
- research.
- conservation.
- recreation.
- agricultural activities.
- education or training; and
- rehabilitation or breeding purposes.

The definition of non-living resources includes land, and water, minerals, oils and gas and other non-regenerative resources which have not been extracted. The principles in GRAP

110 do, however, not apply to land and extracted water, minerals, oils and gas and other non-regenerative resources.

A living resource that qualifies for recognition as an asset shall be measured at its cost. Where a living resource is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

After recognition as an asset, a group of living resources shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses.

The Chief Financial Officer, in consultation with the head(s) of department concerned, shall ensure that the living resources are accounted for in accordance with the provisions of GRAP 110. Living resources Valuer

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

Records of the details of Living resources shall be kept in a separate section of the fixed assets register or in a separate accounting record, and such details shall reflect the information which the Chief Financial Officer, in consultation with the Head of Department concerned and the internal auditor, deems necessary for accounting and control purposes.

The Chief Financial Officer shall annually ensure the municipality's Living resources, in consultation with the head(s) of department concerned, provided the Council of the municipality considers such insurance desirable and affordable.

Section 11

Intangible Assets

11.1 Definition

Items belonging to the category 'intangible' do not have a physical form and meets the identification criterion in the definition of an intangible asset when it:

- is separable, i.e., is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- Arises from contractual or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

Examples of intangible items are:

- Mineral exploration rights
- Computer software (not operational software)
- Licensing rights.
- Servitudes
- Copy and patent rights
- Advertising rights
- Encroachment rights

11.2 Recognition and measurement

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

After initial recognition, the municipality shall choose either the cost model or the revaluation model as its accounting policy.

If an intangible asset in a class of revalued intangible assets cannot be revalued because there is no active market for this asset, the asset shall be carried at its cost less any accumulated amortization and impairment losses.

Cost model

An intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Revaluation model

An intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortization and any subsequent accumulated impairment losses.

11.3 Useful life

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

An intangible asset with a finite useful life is amortised and an intangible asset with an indefinite useful life is not.

11.4 Retirements and disposals

An intangible asset shall be de-recognized:

- on disposal; or
- when no more future economic benefits or service potential are expected from its use or disposal.

11.5 Review of useful life assessment

The useful life of an intangible asset that is not being amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset.

Section 12

Capitalisation criteria

12.1 All asset acquisitions that complies with the definition of PPE.

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

12.2 Group Assets

Are assets of a similar nature and usually purchased as a group.

Group items identified are:

- Water and electricity meters;
- Chairs for community centres and the city hall.

All group asset purchases will not be tagged but must be capitalised on the Fixed Asset Register as a group and provided for on the capital budget.

Section 13

Calculation of capitalization cost of assets

13.1 Initial Cost

An item of property, plant and equipment that qualifies for recognition as an asset should initially be measured at its cost. The cost of an item of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, and any directly attributable costs of bringing the asset to working condition for its intended use. Any trade discounts and rebates are deducted in arriving at the purchase price. Examples of directly attributable costs are:

- The cost of site preparation,
- Initial delivery and handling costs,
- Installation and assembly costs, and
- Professional fees such as for architects and engineers that is directly applicable to the project;
- Feasibility studies will only be capitalised as cost if the capital project, for which this study was applied, will be executed. Up to the starting time of this capital project, the cost of this study will be carried as work in progress. If no capital project will flow from this study the cost will be adjusted to the accumulated surplus account.
- The initial estimated costs of dismantling and removing the item and restoring the site on which it is located, to the extent that it is recognised as a provision.
- Administrative and other general overhead costs are only a component of cost if it can be directly attributed to the acquisition or construction of the asset without which the asset could not have been brought to working condition.
- Interest on external loans that are directly attributable to the acquisition, construction or production of a qualifying asset are that interest that would have been avoided if the expenditure on the qualifying asset had not been made.

13.2 Costs incurred on existing PPE subsequent to the initial recording of the cost price

Assets are often modified during their life. There are two main types of modification:

Enhancements / Rehabilitation:

This is where work is carried out on the asset that increases its service potential. Enhancements normally increase the service potential of the asset, and or may extend an asset's useful life and result in an increase in value.

These expenses are not part of the life cycle of the asset. These costs normally become necessary during the life of an asset due to a change in use of the asset or technological advances.

Disbursements of this nature relating to an asset, which has already been recognized in the financial statements, should be added to the carrying amount of that asset. The value of the asset is thus increased when it is probable that future economic benefits or service potential will flow to the municipality over the remaining life of the asset.

To be classified as capital spending, the expenditure must lead to at least one of the following economic effects:

- Modification of an item or plant to extend its useful life, including an increase in its capacity.
- Upgrading machine parts to achieve a substantial improvement in the quality of output.
- Adoption of new production processes enabling a substantial reduction in previously assessed operating costs.
 - Extensions or modifications to improve functionality such as installing computer cabling or increasing the speed of a lift;
- Improve the performance of the asset;
- Increase the capacity of the asset;
- Prolong the expected working life of an asset,

- Increase the size of the asset; or
- Change the shape of the asset

Maintenance / Refurbishment:

Expenditure related to repairs or maintenance of property, plant and equipment are made to restore or maintain the future economic benefits or service potential that a municipality can expect from the asset.

Refurbishment of works does not extend functionality or the life of the asset but are necessary for the planned life to be achieved. In such cases, the value of the asset is not affected, and the costs of the refurbishment are regarded as operating expense in the statement of financial performance.

Thus, if the improved performance or extended life of an asset is not beyond what has originally been estimated for the asset and the expenditure is only to bring performance back to the level that is normally expected for the asset the expenditure will be considered an operating expense.

13.3 RECOGNITION OF MAJOR SPARE PARTS

An Asset manager, with agreement of the chief financial officer, treat specified major components of an item of property, plant and equipment as a separate asset for the purposes of this policy.

These major components may be defined by its physical parameters (e.g. reservoir roof) of its financial parameters (e.g. road surface).

In agreeing to these treatments, the chief financial officer must be satisfied that these components:

- Have a significantly different useful life or usage pattern to the main asset.
- Align with the asset management plans.
- The benefits justify the costs of separate identification.
- The municipality has gained control over the asset.
- The cost is above the recognition threshold; and

- The asset is expected to be used during more than one (1) financial year.

Once a major component is recognized as a separate asset, it may be acquired, depreciated and disposed of as if it were a separate asset.

All other replacements, renewals or refurbishments of insignificant components will be expensed.

13.4 RECOGNITION OF NETWORK ASSETS

A network asset is a collection of assets and their subsequent components, which operates as a whole to deliver a specified service or economic benefit, e.g., electrical network, roads network, IT system network, etc.

It should be possible to identify a network asset with all its different components on the asset register.

The Asset manager is accountable for the management of the registers required to financially verify the value of a network asset.

Section 14

Residual Values

14.1 Definition

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.

14.2 Determine residual value

Residual value will be determined on PPE where practicable in terms of the definition as stated above.

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

The residual value and an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in an accounting estimate

Section 15

Depreciation of assets

15.1 Definition

Depreciation is the accounting process used to allocate the cost to particular accounting periods of 'using up' the service potential of the asset over its useful life.

Note: depreciation is not a method of financing the replacement of assets and is necessary even when assets are revalued every year (excluding valuation of biological assets).

15.2 Which assets must be depreciated.

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

Although typically disclosed together, land and buildings are separable assets and because land normally has unlimited life it is not depreciated whilst buildings are. Heritage assets such as works of art, historical buildings and statues are also not normally depreciated. The reason is that these assets have cultural significance and as such are likely to be preserved for the benefit of future generations. It should therefore be impossible to determine their useful lives.

15.3 Determining useful lives of assets

The CFO shall assign a useful operating life to each depreciable asset recorded on the municipality's Fixed Asset Register. In determining such a useful life, the CFO shall adhere to the useful lives set out in the annexure to this document (refer Annexure A).

The useful lives in Annexure A will be determined considering all the following factors:

- Expected usage of the asset. Usage is assessed by reference to the asset's expected capacity or physical output.
- Expected physical wear and tear, which depends on operational factors such as the number of shifts for which the asset is to be used and the repair and maintenance programme, and the care and maintenance of the asset while idle.
- Technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset.
- Legal or similar limits on the use of the asset, such as the expiry dates of related leases.
- The recommendation of the heads of the departments involved.

In the case of a fixed asset which is not listed in this annexure, the CFO shall determine a useful operating life, if necessary in consultation with the director of the department who shall control or use the fixed asset in question, and shall be guided in determining such useful life either by the useful lives assigned in the annexure to the fixed asset most closely comparable to the asset in question or by any appropriate statement of generally recognised accounting practice (GRAP).

The useful life of an asset shall be reviewed at least at each reporting date.

The amortisation period for an intangible asset with a finite useful life shall be reviewed at least

at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortisation period shall be changed accordingly.

Only the CFO may amend the useful operating life assigned to any item of property, plant and equipment, and when any material amendments occurs the CFO shall inform the Council of such amendments.

The CFO shall amend the useful operating life assigned to any asset –after recommendation from the affected Department - if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life cycle will not be attained.

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

The additional depreciation expenses shall be debited to the Department's expense vote controlling or using the fixed asset in question.

15.4 Depreciation calculation

Tangible assets

The municipality applies three methods of depreciation to best reflect the pattern of use of an asset. These methods are:

- The straight-line depreciation method whereby items of property, plant and equipment are depreciated on a constant or uniform amount over their estimated useful life. For example, if a vehicle is purchased and has an estimated useful life of 5 years, each month 1/60th of the vehicle will be depreciated. The municipality adopts the straight-line depreciation method.
- The sum of units' method whereby units consumed against total unit consumable for

an asset are reflected as depreciation. For example, 50 graves have been sold for the month in the cemetery which can produce 1000 graves. The depreciation will then be 50/1000 times the cost of the cemetery capitalised.

- The diminishing balance method whereby a percentage of the cost will be depreciated every year. For example, an asset is to be depreciated at 10% per period on the carrying value.

Depreciation is an expense both calculated and debited on a monthly basis against the appropriate line item in the Department or vote in which the item of property, plant and equipment is used or consumed and should be recognised as such.

Depreciation shall be charged from the calendar month following the month in which an item of property, plant and equipment is available for use and will continue until the accumulated depreciation equals the cost or valuation amount of the respective item of property, plant and equipment or the item is disposed or written off.

When depreciation is calculated, a corresponding accumulated depreciation account is created. The accumulated depreciation account is a statement of financial position item (it is an asset provision). This account balance reflects the depreciation charge that has been expensed or capitalised since the asset was available for use. The balance on the accumulated depreciation account can never exceed the cost or valuation of the specific item of property, plant and equipment to which it relates.

Intangible assets

Amortisation period and amortisation method

Finite useful life

The depreciable amount of an intangible asset with a finite useful life shall be allocated on a systematic basis over its useful life. Amortisation shall begin when the asset is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Amortisation shall cease at the earlier of the date that the asset is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date that the asset is derecognised. The amortisation method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the municipality. If that pattern cannot be determined reliably, the straight-line method shall be used. The amortisation charge for each period shall be recognised in profit or loss unless another Standard permits or requires it to be included in the carrying amount of another asset.

Infinite useful life

No amortisation will take place.

- The amortisation method for an intangible asset with a finite useful life shall be reviewed at least at each financial year-end. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortisation method shall be changed to reflect the changed pattern.

15.5 Budget requirement

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

In calculating this provision, the following must be taken into consideration:

Assets in commission with useful life that will span the budget period or a portion thereof:

- Full 12 months per budget year unless fully depreciated before the final budget year;
- Expected assets that will be commissioned in the current year of operations:
 - full 12 months per budget year unless fully depreciated before the final budget year;
 - Expected assets that will be commissioned in the ensuing three years:
 - Pro rata for commission year and full 12 months for ensuing years on commission year.
- For ensuing years 1 January of each year will be regarded as date of commissioning.

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 property, plant and equipment.

15.6 Disclosure requirements

In the accounting policy notes

- The depreciation methods used and the depreciation rates or useful lives.

On the Statement of Financial Position

- The depreciation is part of the Net Property, Plant and Equipment amount.

On the Statement of Financial Performance.

- The depreciation charged in arriving at the net surplus or deficit disclosed in the income statement.

In the notes to the statements

- The gross carrying amount and the accumulated depreciation at the beginning and end of the period in respect of each class of property, plant and equipment, together with all the other movements on the asset accounts.

In Annexure B and C to the financial statements

- These Annexures disclose a more detailed analysis of the various classes of assets (Annexure B) as well as a detailed analysis on the allocation of assets to the various departments and functions (Annexure C). These Annexures must show a reconciliation of the carrying amount at the beginning and end of the period showing:
 - Additions
 - Disposals
 - Acquisitions through business combinations
-

- Increases or decreases resulting from revaluations
- Reductions in carrying amount (impairment losses)
- Depreciation
- Other movements

When property, plant and equipment are disposed of by selling or when it is destroyed the asset values must be offset against the proceeds, if any. If this item was previously revalued and there is still a balance left regarding this item on the Revaluation reserve, this balance must then be transferred to the Accumulated Surplus/Deficit account.

Section 16

Revaluation of fixed assets

The municipality must adopt the cost or revaluation method at re-measuring PPE. The municipality adopts the cost model. If the Municipality opted to use the revaluation method in future, the following will be relevant:

16.1 Revaluation process

In adopting the revaluation method, a class of PPE, after initial recognition, whose fair value can be measured reliably, shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

16.2 Revaluation Reserve

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

16.3 Depreciation of revalued property

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

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

16.4 Disclosure of revalued property

Revalued PPE shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation.

Section 17

Disposal of assets

17.1 Disposal

Disposal of property, plant and equipment

The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a noncurrent asset needed to provide the minimum level of basic municipal services, subject to stipulations in the municipal asset transfer regulations.

The municipality may transfer ownership or otherwise dispose of a non-current asset other than one contemplated above, but only after the council, in a meeting open to the public:

- Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
- Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

The decision that a specific non-current asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset has been sold, transferred or otherwise disposed of.

The Accounting Officer may approve the disposal of an item of property, plant and equipment as per the approved delegations of authority.

The disposal of an item of property, plant and equipment must be fair, equitable, transparent, competitive and cost effective and consistent with the municipality's supply chain management policy.

Transfer of assets to other municipalities, municipal entities, national departments or provincial departments is excluded from these provisions but must be done in accordance with a prescribed framework (municipal asset transfer regulations).

Disposal and alienation of assets must be done in accordance with the municipal supply chain management policy and Municipal Asset Transfer Regulations.

Asset Manager is responsible to prepare a list of redundant or obsolete assets and/or inventory items at least once per annum which such directorate wishes to alienate by public auction. Such list must be submitted to the directorate finance that will consolidate and prepare a report to council.

The criteria for the disposal of letting of assets, including unserviceable, redundant or obsolete assets, subject to section 14 of the act, are as follow:

(a) Movable assets:

- (i) the asset is uneconomical to repair;
- (ii) the asset is irreparable;
- (iii) the relevant department has no further use for the assets; and
- (iv) no other department requires the asset.

(b) Immovable assets:

- (i) the relevant department has no further use for the asset;
- (ii) no other department requires the asset;

- (iii) a member of the public wishing to acquire the asset can utilize the asset to the advantage of the community; and
- (iv) where created specifically for sale or rental to public.

The disposal of assets must:

- (a) be one of the following methods:
 - (i) transferring the asset to another organ of state in terms of a provision of the act enabling the transfer of assets;
 - (ii) transferring the asset to another organ of state at market related value or, when appropriate for a lesser amount or free of charge; (iii) selling the asset; or (iv) destroying the asset.
- (b) provided that -
 - (i) immovable assets may be sold at not less than market related prices except when the public interest or the plight of the poor demands otherwise, by means of public tenders, public auction or over the counter on a first come first serve basis;
 - (ii) movable assets may be sold either by way of written price quotations, public tenders, public auction whichever is the most advantageous;
 - (iii) in the case of the free disposal of computer equipment, the provincial Department of Education must first be approached to indicate within thirty (30) days whether any of the local schools are interested in the equipment; and
 - (iv) in the case of the disposal of firearms, the National Conventional Arms Control Committee has to approve any sale or donation of firearms to any person or institution within or outside the Republic.
- (c) furthermore, ensure that -

- (i) immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise; and
- (ii) all fees, charges, rates, tariffs, scales of fees or other charges relating to the letting immovable property are annually reviewed.

- (d) ensure that where assets are traded in for other assets, the highest possible trade-in price is negotiated.

The disposal of immovable assets is further subject to the following principles:

- (a) payment of the full purchase price and all estimated costs pertaining to the transaction upon signature of the deed of sale, in cash; and
- (b) all costs (advertising, rezoning, obtaining of a valuation, etc.) pertaining to the transaction shall be borne by the purchaser.

Once the fixed assets are disposed of or alienated the directorate finance shall de-recognize the asset from the accounting records and the fixed asset register. All gains and losses realized on the alienation of fixed assets shall be accounted for.

Asset Disposal Committee

To enhance control over the disposal of assets, a two-tier asset disposal committee structure be formed as follows:

- (i) Assets with carrying amount up to R30 000,00
- This committee should comprise of the following members:

- relevant executive director or director;
- executive director financial services; at least one (1) member of the relevant department.
- Asset Manager
- at least one (1) member from directorate financial services; and
- asset champion of relevant department.

Responsibilities of Asset Disposal Committee:

- (i) ensure that the items identified to be written off, are indeed redundant and/or obsolete;
- (ii) ensure that the written off items are stored safely and separately from assets in use;
- (iii) ensure proper control over such items at the date of delivery to the auction storage room;
- (iv) ensure proper record keeping takes place to transfer the assets to the auction storage room;
- (v) prepare item to council to write off the items; and
- (vi) timeously resolve any other issues which might result in discrepancies during the disposal process.

Loss, theft, destruction and impairment of fixed assets

Asset manager must ensure that all incident of loss, theft, destruction, or material, impairment of any fixed asset controlled or used by the department in question is promptly reported in writing to the chief financial officer and in cases of suspected theft or malicious damage to the South African Police Service.

Upon confirmation after an internal investigation all cases of loss, theft, and destruction must be reported to council.

17.2 Other write offs

A fixed asset even though fully depreciated shall be written off only on the recommendation of the director of a department controlling or using the asset concerned, and with the final approval of Council.

Every director of a department shall annually report to the CFO on any fixed assets which such director of a department wishes to have written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports and shall promptly submit a recommendation to the Council on the fixed assets to be written off. All write offs must be done by the asset department. All other departments must list all assets that are to be disposed, and the Asset department must arrange approval for the write offs.

The only reasons for writing off fixed assets, other than the disposal of such fixed assets, shall be the loss, theft, destruction, incorrect capitalisations or material impairment of the fixed asset in question.

17.3 Proceeds /Gain or Loss on disposal of assets

When assets are disposed of whether by disposal or written off the asset values needs to be readjusted and offset against the proceeds. If the proceeds of the disposal are less than the carrying value recorded in the fixed asset register, such difference shall be recognized as a loss in the cost centre of the Department concerned. If the proceeds of the disposal, on the other hand, are more than the carrying value of the fixed asset concerned, the difference shall be recognized as a gain in the cost centre of the Department concerned.

If this asset has an outstanding balance on the Revaluation Reserve this balance must be transferred to the Accumulated Surplus.

17.4 Disclosure of assets disposed of

The carrying value of the asset disposed of is removed from the records and will not reflect on the Statement of Financial Position as part of the balance on Property, Plant and Equipment under Non - Current assets

The gain or loss will be reflected in the Statement of Financial Performance as a gain under Revenue or as a loss under Expenditure.

Section 18

Recognition of assets in the financial statements

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

Assets are classified into categories as set out in section 7 (Classification of Assets) and the information for each category summarized in a table format is disclosed as:

- a note to the financial statements;
- with a detailed disclosure as an annexure reflecting the movements for the financial year by category and subcategory;
- movements are also reflected on an annexure per Department;
- the net value (carrying value at year-end), for all categories is added together and reflected as a single line item in the statement of financial position.

The failure to recognize such items is not rectified by disclosure of the accounting policies used,

or by notes or explanatory material.

To be able to assess the utilisation of assets all assets should be listed once the recognition criteria are met.

An asset item should be recognized in the financial statements if it meets the:

- Probability criteria (it is probable that any future economic benefits or service potential associated with the asset will flow to the municipality);
- Measurement criteria (the asset has a cost or value that can be measured with reliability).

In many cases, cost or value must be estimated. In these circumstances the use of reasonable estimates is an essential part of the preparation of financial statements and does not undermine their reliability. When, however, a reasonable estimate cannot be made, the item is not recognized in the Statement of Financial Position or Statement of Financial Performance.

An item that possesses the essential characteristics of an asset but fails to meet the criteria for recognition may nonetheless warrant disclosure in the notes, explanatory material or in supplementary schedules. This is appropriate when knowledge of the item is considered to be relevant to the evaluation of the financial position, performance and changes in financial position of the municipality by the users of financial statements.

No asset is recognized in the Statement of Financial Position for expenditure incurred where it is improbable that economic benefit or service potential will flow to the municipality beyond the current financial year. Where the probability is low, such a transaction will result in the recognition of an expense in the Statement of Financial Performance.

Where the expenditure has been incurred in connection with an asset already recognized, consideration should be given to the probability that the expense will result in an extension of the

asset's estimated useful life. If the probability is high the expense will be added to the value of the asset in the Statement of Financial Position and written off by way of depreciation over the *remaining life* of the asset.

Expenditure incurred on an existing asset that will not extend the useful life or the functionality of the asset, will be reflected in the Statement of Financial Performance as an expense (maintenance).

Assets may be acquired for safety or environmental reasons. The acquisition of such assets, while not directly increasing the future economic benefits or service potential of any particular existing asset, may be necessary in order for the municipality to obtain the future economic benefits or service potential from its other assets. When this is the case, such acquisitions of assets qualify for recognition as assets, in that they enable future economic benefits or service potential from related assets to be derived by the municipality in excess of what it could derive if they had not been acquired. However, such assets are only recognized to the extent that the resulting carrying amount of such an asset and related assets does not exceed the total economic benefits or service potential that the municipality expects to recover from their continued use and ultimate disposal.

Section 19

Funding Sources

The main sources of finance utilized to acquire assets are:

- Government and other conditional grants.
- Finance leases
- Conditional grants, Subsidies and Public Contributions and Donations
- External Loans
- Reserves created and ring fenced in surplus for the replacement of assets
- Cash surplus.

The sources of finance that may be utilized to finance assets are utilized in accordance with the provisions of Section 19 of the Municipal Finance Management Act.

19.1 Government and other conditional grants

Whenever a conditional government or other grant for the acquisition of an asset is received a grant creditor is created on receipt of the funds. Once the asset is bought, an amount equal to the cost of the asset is transferred from the unspent grant creditor to the Statement of Financial Performance as revenue.

Unspent conditional grants are reflected on the Statement of Financial Position under current liabilities as Unspent Conditional Grants. These funds always have to be backed by cash. The following conditions are set for the creation and utilisation of these funds:

- The cash which backs up the grant is invested until it is utilized.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If the conditions are silent on investment interest it is recognized as interest earned in the Statement of Financial Performance and might be allocated, through the Statement of Changes in Net Assets, in part or fully to the unspent portion of the grant if it is so stated in the accounting policy.
- Whenever an asset is acquired from a conditional grant an amount equal to the cost of the asset is transferred from the Unspent grant creditor to the Statement of Financial Performance as revenue.
- The amount spent from this grant, meeting the condition, is transferred to an operational revenue account and reflected on the Statement of Financial Performance. It will then increase the surplus for the year and the accumulated surplus representing an offset depreciation surplus.

Once the asset is available for use, it is included in the FAR and depreciation is calculated based on the relevant useful life of the asset. Depreciation on the asset is then charged to the Statement of Financial Performance as an expense.

19.2 Finance leases

A lease is classified as a finance lease if it meets the recognition requirements as per GRAP 13 (Annexure C) Finance leases are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the municipality and reflected as such in the FAR.

It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement. The asset is then depreciated over its expected useful life.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due. Assets held under operating leases.

Finance leases are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee. Assets held under finance leases are capitalized by the municipality and reflected as such in the FAR.

It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement. The asset is then depreciated over its expected useful life.

Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due. Assets held under operating leases are not accounted for in the asset registers of the municipality.

At the commencement of the lease term, the municipality shall recognize finance leases as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property 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 to the lease, if this is practicable to determine. If it is not determinable, the municipality's incremental borrowing rate shall be used. Any initial direct costs of the municipality are added to the amount recognised as an asset.

19.3 Donations/Bequests /Exchange

Where an item of property, plant and equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the non-current asset register, if the fair value is greater than the recognition threshold and receipts of the transfer will be allocated to the accumulated surplus account.

Once the asset is available for use, it is included in the FAR and depreciation is calculated based on the relevant useful life of the asset. Depreciation on the asset is then charged to the Statement of Financial Performance as an expense. Where an item of property, plant and equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of

acquisition and included in the non-current asset register, if the fair value is greater than the recognition threshold and receipts of the transfer will be allocated to the accumulated surplus account.

Once the asset is available for use, it is included in the FAR and depreciation is calculated based on the relevant useful life of the asset. Depreciation on the asset is then charged to the Statement of Financial Performance as an expense.

19.4 Surplus cash

If there are sufficient surplus cash available assets can be financed directly by allocating this cash for the acquisition of assets. Depreciation charges on these assets will not be offset.

Section 20

Impairment Losses

20.1 Impairment

Impairment of assets is treated according to:

- Non-cash generating assets - GRAP 21

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

- Cash generating assets – GRAP 26

Cash generating assets are assets that are held to generate a commercial return. Holding an asset to generate a non commercial return implies that assets are being deployed in a manner that is consistent with that adopted by a profit orientated entity, hence generating positive cash inflows from the assets.

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.

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. The recoverable amount is the higher of the fair value less costs to sell and its value in use.

Indications of impairment

The carrying amount (book value) of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying 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.

When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognized as an expense immediately, unless it reverses a previous revaluation on properties in which case it should be charged to the Revaluation Reserve.

The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification work is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to

make an assessment of recoverable amount.

The following may be indicators that an asset has become impaired:

External sources of information:

- decline or cessation in demand;
- significant long-term changes in the technological, legal or government policy environment;
- the carrying amount of the net assets of the entity is more than its market capitalisation;
- market interest rates have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially; or
- a halt in construction could indicate an impairment. Where construction is delayed or postponed to a specific date in the future, the project may be treated as work in progress and not considered as halted.

Internal factors or sources of information

- 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 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
- operating losses or net cash outflows for the asset, when current period amounts are aggregated

with budgeted amounts for the future.

Impairment of projects under construction

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

Intangible assets

The municipality must test all intangible assets associated with immovable Property Plant and Equipment not yet available for use or which have an indefinite useful life for impairment. This impairment test may be performed at any time during the reporting period provided it is performed at the same time every year.

Investment property on the fair value model

Investment property that is measured at fair value is specifically excluded from the scope of GRAP 21 and GRAP 26 (impairment standards). Any impairment would be reflected in the annual review of fair value.

20.2 Example:

An example of where the Municipality has suffered an impairment loss is the purchase of land for an amount of R 5,000,000. The land will be utilised for new subsidized housing developments. If at year-end the expectation is that the Municipality will receive only R 1,000,000 by way of

subsidies an impairment loss of R 4,000,000 needs to be recognized. The recoverable amount (R 1,000,000) is calculated as being the larger of:

- Net Selling Price of the land which is the amount obtainable from the sale of the market in an arm's length transaction between knowledgeable, willing parties, less the cost of disposal.
- Value in use of the land which is the present value of the estimated future net cash inflows expected from the continuing use of the asset and from its disposal at the end of its useful life.

20.3 Disclosure of impairment losses

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 de-recognised 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 Property Plant and Equipment, 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.

All impairment losses must reflect on the Statement of Financial Performance. The financial statements should also disclose, in the reconciliation of the carrying amount at the beginning and end of the period for each class of property, plant and equipment recognized in the financial

statements any impairment losses recognized in the statement of financial performance during the period and impairment losses reversed in the statement of financial performance during the period.

Material impairment losses need to be disclosed in the notes to the income statement as a separately disclosable item.

20.4 Reversal of an Impairment Loss

- The same procedures as for the identification of impaired assets are followed if there is an indication that impairment may have been decreased or reversed. If so, the recoverable amount must be added to the carrying value of the asset.
- The life cycle must be adjusted.
- The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been if the impairment had not been recognised.
- Reversal of an impairment loss is recognised as income in the income statement.
- Depreciation must be adjusted for the remaining life cycle.

Section 21

Investment Property

21.1 Definition of Investment Property

Investment Property is defined as:

Property (land or a building — or part of a building — or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- Use in the production or supply of goods or services or for administrative purposes; or
- Sale in the ordinary course of operations.
- Investment Property generates cash flows largely independently of the other assets of the municipality.

Investment property is held to earn rentals or for capital appreciation or both.

The following are examples of investment property:

- Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations;
- Land held for a currently undetermined future use. (If the municipality has not determined that it will use the land for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation);
- A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis; and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following are examples of items that are not investment property:

- Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Own-occupied property, including (among other things) property held for future

use as own-occupied property, property held for future development and subsequent use as own-occupied property, property occupied by employees such as housing (whether or not the employees pay rent at market rates) and own-occupied property awaiting disposal;

- Property that is being constructed or developed for future use as investment property. GRAP 17 applies to such property until construction or development is complete, at which time the property becomes investment property. However, existing investment property that is being redeveloped for continued future use as investment property remains investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, for example, a housing department may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purposes for which the property is held. Such property is not considered an “investment property” and would be accounted for in accordance with GRAP 17; and
- Property held for strategic purposes which would be accounted for in accordance with GRAP 17.
- Where a property is utilized partly in the ordinary course of operations and partly to generate rentals or for capital appreciation it will only be classified as investment property if a significant portion is utilized to generate investment income.

21.2 Initial measurement of Investment Property

- Investment property is measured initially at its cost (including transaction costs). Where an investment property is acquired at no cost (for example donated assets), or for a nominal cost, its cost is its fair value as at the date of acquisition.
 - The cost of a purchased investment property comprises its purchase price and any directly attributable expenditure, such as, professional fees for legal services, property transfer taxes and other transaction costs.
-

- The cost of a self-constructed investment property is its cost at the date when the construction or development is complete. Until that date, the municipality applies the GRAP standard on accounting for PPE (GRAP 17). At the completion date, the property becomes investment property and the Standard on investment property applies (GRAP 16).
- Investment property is only recognized as an asset when it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality and the cost or fair value of the investment property can be measured reliably.

21.3 Measurement of Investment Property subsequent to initial measurement

Subsequent expenditure relating to an investment property that has already been recognized should be added to the carrying amount of the investment property when it is probable that future economic benefits or service potential over the total life of the investment property, in excess of the most recently assessed standard of performance of the existing investment property, will flow to the municipality. All other subsequent expenditure should be recognized as an expense in the period in which it is incurred.

For example: If a municipality purchases a building as an investment property and will incur renovation costs, the renovation cost may be capitalised if it improves the condition of the asset over its most recently assessed standard of performance. Assume that before the renovation the building can earn R5, 000 per month rental income, but after the renovation it will earn R7 000 per month rental income. In this case the renovation cost will be added to the carrying amount of the investment property.

- After initial recognition of the investment property the municipality may choose to reflect the investment property at fair value or at cost less accumulated depreciation.
- The fair value of investment property is usually its market value. Fair value is measured as the most probable price reasonably obtainable in the market at the reporting date in keeping with the fair value definition. It is the best price reasonably obtainable by the seller

and the most advantageous price reasonably obtainable by the buyer. After initial recognition, a municipality that chooses the fair value model should measure all of its investment property at its fair value at each Statement of Financial Position date. A gain or loss arising from a change in the fair value of investment property should be included in net surplus/deficit for the period in which it arises. No depreciation will be calculated on this property.

For Example: The municipality purchases four houses at a cost of R200 000 each for purposes of leasing them out to senior managers of the municipality at market related rates. The legal fees and transport duties relating to the transaction amount to R16 000. At the end of the financial year the fair value of the houses is determined to be R900 000. This means that the municipality will recognise a fair value gain in the Statement of Financial Performance for the year of R84 000. (R900 000 – R816 000).

- If, after initial recognition, the municipality chooses the cost model it should measure all of its investment property using the guidelines for normal assets that is, at cost less any accumulated depreciation and accumulated impairment losses.

21.4 Transfers and disposals of investment properties

Transfers

Transfers to, or from, investment property should be made when, and only when, there is a change in use, evidenced by:

- Commencement of own-occupation, for a transfer from investment property to own-occupied property;
 - Commencement of development with a view to sale, for a transfer from investment property to inventories;
 - End of own-occupation, for a transfer from other classified property to investment property;
-

- Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property; or
- End of construction or development, for a transfer from property in the course of construction or development to investment property.

For a transfer from investment property carried at fair value to own-occupied property or inventories, the property's cost for subsequent accounting under the relevant GRAP on PPE (GRAP 17) or inventories should be its fair value at the date of change in use.

If an own-occupied property becomes an investment property that will be carried at fair value, a municipality should apply GRAP 17 up to the date of change in use. The municipality should treat any difference at that date between the carrying amount of the property and its fair value in the same way as a revaluation under GRAP 17 by crediting a reserve.

For a transfer from inventory to investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognized in net surplus/deficit for the period.

When the municipality completes the construction or development of a self-constructed investment property that will be carried at fair value, any difference between the fair value of the property at that date and its previous carrying amount should be recognized in net surplus/deficit for the period.

Disposals

On disposal or permanent withdrawal from use of investment property:

- An investment property should be removed from the Statement of Financial

Position;

- Gains or losses arising from the retirement or disposal of investment property should be determined as the difference between the net disposal proceeds and the carrying amount of the asset. For the purposes of display in the financial statements, the gain or loss should be included in the Statement of Financial Performance as an item of revenue or expense.

21.5 Budget implications relating to Investment Property.

The following amounts will have to be budgeted for in the operating budget relating to investment properties:

- Gains on the disposal of investment properties that are intended to be sold during the next financial year.
- Fair value gains that are expected to be obtained on investment properties that will be held during the next financial year.
- Depreciation on investment properties that are intended to be transferred to own-occupied properties during the next financial year.
- The effect of reduced depreciation on own-occupied properties that are intended to be transferred to investment properties during the next financial year.
- Revenue through operating lease income; and
- Fair value gains where the intention to sell a building (inventory) is changed and the inventory is held as an investment property on which rental income and capital appreciation will be earned by the municipality in the next financial year.

21.6 Disclosure

The disclosure requirements relating to information on investment property is to be done in accordance with the requirements as per the relevant GRAP statement.

Section 22

Replacement Strategy

The Municipal Manager, in consultation with the CFO and other directors of Departments shall formulate strategies and standards for the replacement of all operational property, plant and equipment. Such strategies and standards shall be incorporated in a formal policy, which shall be submitted to the Council for approval. This policy shall cover the replacement of infrastructure and operational movable vehicles and equipment.

This strategy should take into consideration:

- The nature of the asset
- The usage of the asset
- Priorities
- Available funding
- Operational and maintenance costs
- Operational skills
- Future expected developments
- Technology
- Outsourcing
- Private sector partnerships

Section 23

Asset Risk Management

23.1 Insurance

Departments are responsible for managing the risks associated with their activities.

The ultimate decision taken by a municipality relating to appropriate risk management will depend on the types of risks it is exposed to, the amount of excess it is willing to carry, budgetary constraints and all relevant factors peculiar to the municipality.

Comprehensive property, plant and equipment identification and valuation may prevent the municipality from being over or under insured. Specific supportable insurable values as defined in the insurance policy of the municipality should be reviewed regularly. In some instances, an in-house estimate of cost or insurable value may not be sufficient to substantiate the amount of a loss and, an appraisal by an independent third party may be required.

23.2 Other risk reducing methods

Department regulations or "operating policies" can also reduce risks. Department managers should investigate their operations and set operating policies as to how personnel should operate and use property, plant and equipment to minimize risk. Examples are as follows:

- Only authorised personnel should be allowed in areas where expensive equipment is kept;
- Only authorised personnel should be allowed to operate plant or vehicles;

- The keys for office vehicles should be controlled in a central office during the day, and employees should sign when they take the keys;
- Ensure that drivers or operators have the necessary qualifications and licenses;
- It should be part of service conditions that employees incur personal liability if they drive while under the influence of alcohol, drugs, medication, and so forth; or if they leave the vehicle unattended and unlocked;
- Physical access to buildings, or areas within buildings, should be restricted, especially after hours.

Section 24

Maintenance of assets

24.1 Maintenance plans

Regular maintenance can prevent or minimize unplanned and expensive breakdowns. Maintenance plans must therefore be drawn up to ensure minimum maintenance standards and execution to achieve the optimum use of assets as planned.

Every director of a Department shall ensure that a maintenance plan in respect of infrastructural asset is prepared and submitted to the Council of the municipality for approval.

If so directed by the Municipal Manager, the maintenance plan shall be submitted to Council prior to any approval being granted for the acquisition or construction of new infrastructural assets.

The director of a Department controlling or using the infrastructure asset in question, shall budget for the executing of the approved plan and will annually report to Council, not later than 31 March,

on the extent to which the relevant maintenance plan has been complied with, and on the likely effect which any non-compliance and / or budgetary constraints may have on the useful operating life of the asset concerned.

24.1 Deferred Maintenance

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructural asset (see 18 above), the CFO shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements. Such note shall also indicate any plans which the Council has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the Director of a Department controlling or using such asset shall re-determine the useful operating life of the fixed asset in question, if necessary in consultation with the Asset Control Section, and the latter shall recalculate the annual depreciation expenses accordingly.

24.2 General maintenance

Every director of a Department shall be directly responsible for ensuring that all assets in his/her care are properly maintained and in a manner which will ensure that such assets attain their useful operating lives.

Section 25

General Requirements

25.1 Tagging

Tagging means to place a control number on a piece of equipment or property.

All movable assets must be tagged if possible.

The primary purpose of tagging is to maintain a positive identification of assets.

Tagging is important to:

- Provide an accurate method of identifying individual assets
- Aid in the annual taking of physical inventory
- Control the location of all physical assets
- Aid in maintenance of fixed assets

Fixed property and plant is not tagged; such as:

- Buildings (record legal description in asset record),
- Land (record legal description in asset record),
- Infrastructural assets.

Consistently place asset tags in the same location on each similar type asset. If possible, the tags shall be accessible for viewing. Place the tag where the number can be seen easily and identified without disturbing the operation of the item, which will aid in taking inventory.

25.2 Physical inventory of all movable assets

The Asset Control Section will conduct a physical inventory of movable assets annually. They will require the cooperation of departmental personnel in accomplishing the physical inventory task and will attempt to minimize the time demanded of them.

The designated officials in the different Departments within the Municipality must execute the

functions listed below.

- Ensure that the bar code number and location number are reflected on the asset movement form by the relevant official on the receipt of the asset. Where applicable, the serial number or registration number should be included.
- Complete the asset movement form when transfers occur and forward the completed original form to Asset Control Section.
- Ensure that a completed asset disposal form is submitted when an asset item is disposed of after the necessary approval has been obtained.
- Asset Control Section must be notified by the relevant Department within 14 days of any of the following possible movements:
 - Donations
 - Additions / Improvements
 - Departmentally manufactured items
 - Loss or damage
 - Transfers
 - Terminations
 - Land Sales

25.3 Acquisition

In making the decision to acquire an asset the following fundamental principles should be carefully considered:

- The purpose for which the fixed asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it.
 - The fixed asset has been budgeted for.
 - The purchase is absolutely necessary as there is no alternative municipality
-

asset that could be upgraded or adapted.

- The fixed asset is appropriate to the task or requirement and is cost effective over the life of the asset.
- The fixed 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 and sufficient.
- The most suitable and appropriate type, brand, and model etc. has been selected.

25.4 Asset management responsibilities

- Utilisation - All assets should be used for the purposes they were acquired.
- Asset performance should be regularly reviewed to identify under-utilized and under-performing assets. The reasons for this should be critically examined and appropriate action taken.
- Disciplinary action must be taken against individuals if there is an indication of misuse of the municipality's assets.

25.5 Additions / Improvements

Depending upon the type of addition or improvement to a specific asset the responsible official in the Department must notify the Asset Control Section of the change in status. The asset master record will be amended on receipt of the required asset acquisition form from the responsible Department.

When capital expenditure is incurred for any enhancement/improvement of an asset, the Department shall complete the necessary asset acquisition form and forward it to the Asset

Control Section.

When any changes to vacant land or land and buildings are effected such as subdivision, transfer to another Department, extent or holders title, the current custodian or department must complete the relevant asset movement form and forward it to the Asset Control Section.

25.6 Termination of employee's service

At the termination of an employee's service, the applicable Department representative must complete the asset resignation form and forward the original to the Asset Control Section. This form is a statement that the inventory and assets entrusted to the employee to execute his/her daily duties are in good order and handed in where necessary. A copy of this form is forwarded to the HR Business Section concerned or its relevant Department for further investigation in the case of missing assets.

25.1 Transfer of Assets

When a Department transfers an asset or inventory item within the Department, the asset movement form must be completed and forwarded to the Asset Control Section. The copy of this form must be forwarded to the party receiving the asset or inventory item.

When a department transfers an asset or inventory item to another Department, the transferring Department must approve the transfer. After approval has been granted the asset movement form must be completed and forwarded to the Asset Control Section.

Permanent transfers to another asset manager

Asset end user retains managerial accountability and control for a particular asset unless:

- Another asset Custodian agrees in writing in accordance with financial limits as laid down in the delegations of authority to accept responsibility for that asset.
- The new end user accepts all accountabilities of the previous asset custodian.
- The Chief Financial officer appropriately amends the fixed asset register for all approved transfers, whereafter such physical transfers are only permitted to take place.
- The new asset Custodian has made the necessary budget provisions to cater for the accompanying costs of the asset.

Reallocation or reassignment of property, plant or equipment

The Asset Manager or delegated official must ensure that the asset is appropriately safeguarded for loss, damage or misuse wherever it is located. Safeguarding includes ensuring reasonable physical restrictions and delegated management are implemented.

The Asset manager or delegated official must advise the chief financial officer whenever an asset is permanently relocated or reassigned from one location (or base) or cost centre recorded in the fixed asset register, to a different one.

The Asset Manager/ or delegated official must advise the chief financial officer whenever an asset is temporarily relocated or reassigned from the location (or base) or cost centre recorded in the fixed asset register to a different one. In this case, the asset manager must also advise

Permanent transfers to another asset manager

An Asset Manager retains managerial accountability and control for a particular asset unless:

- Another asset manager agrees in writing in accordance with financial limits as laid down in the delegations of authority to accept responsibility for that asset.
- The new asset manager accepts all accountabilities of the previous asset manager.
- The Chief Financial officer appropriately amends the fixed asset register for all approved transfers, whereafter such physical transfers are only permitted to take place.
- The new Asset manager has made the necessary budget provisions to cater for the accompanying costs of the asset.

Reallocation or reassignment of property, plant or equipment

The Asset Manager or delegated official must ensure that the asset is appropriately safeguarded for loss, damage or misuse wherever it is located. Safeguarding includes ensuring reasonable physical restrictions and delegated management are implemented.

The Asset manager or delegated official must advise the chief financial officer whenever an asset is permanently relocated or reassigned from one location (or base) or cost centre recorded in the fixed asset register, to a different one.

The Asset Manager/ or delegated official must advise the chief financial officer whenever an asset is temporarily relocated or reassigned from the location (or base) or cost centre recorded in the fixed asset register to a different one. In this case, the asset manager must also advise

25.2 Disposal of assets.

All Departments must submit the properly completed asset disposal forms together with copies of all relevant approvals for the disposal of assets to the Asset Control Section meeting with the requirement as prescribed by section 14 of the MFMA. (See annexure B)

Annexure A

Asset Useful Life Guide

Infrastructure Assets

The following is the list of infrastructure assets, with the estimated useful life in years indicated in brackets in each case.

- **Electricity**

Power stations	(50)
Cooling towers	(50)
Transformer kiosks	(40 - 50)
Meters	(15 - 20)
Load control equipment	(15)
Switchgear	(50)
Supply and reticulation networks	(30 - 50)
Mains	(50)
Substations	(50)
Festive Lighting	(10)

- **Roads**

Motorways	(15)
Other roads	(50)
Traffic islands	(25)
Traffic lights	(20)
Street lights	(25)
Overhead bridges	(30)

Storm water drains	(25)
Bridges, subways and culverts	(50)
Car parks	(20)
Bus terminals	(20)
Parking Meters	(15)
Parking Areas	(10)
Guidance Signs	(10)
Pedestrian Facilities	(10)
Sidewalks	(10)
Taxi Facilities	(20)

• **Water**

Mains	(50)
Supply and reticulation networks	(50)
Reservoirs and storage tanks	(50)
Rights (that is, the right to draw water from a particular source belonging to another party)	(20)
Meters	(15)
Water Treatment Works	(50)
Dams	(50)

• **Sewerage**

Sewer mains	(50)
Outfall sewers	(50)
Sewage purification works	(50)
Sewerage pumps	(15)
Sludge machines	(15)

• **Pedestrian Malls**

Footways	(20)
Kerbing	(50)
Paving	(25)

- **Security**

Access control systems	(5)
Security systems	(5)
Security fencing	(5)
Security lighting	(5)

- **Gas**

Meters	(15)
Mains	(15)
Storage tanks	(15)
Supply/reticulation	(15)

Community Assets

The following is a list of community assets, showing again the assigned or estimated useful lives in years in brackets:

- **Buildings and other assets– All buildings are on FAR as 50 years**

Agriculture	(50)
Ambulance stations	(50)
Aquariums	(50)
Beachfront developments	(50)
Care centres	(50)
Cemeteries	(50)
Civic theatres	(50)

Clinics and hospitals	(50)
Community centres	(50)
Fire stations	(50)
Game reserves and rest camps	(50)
Indoor sports	(50)
Libraries	(50)
Museums and art galleries	(50)
Parks	(50)
Public conveniences and bath houses	(50)
Recreation centres	(50)
Sports and related stadiums	(50)
Zoos	(50)

• **Recreational facilities**

Bowling greens	(50)
Tennis courts	(50)
Swimming pools	(50)
Golf courses	(50)
Jukskei pitches	(50)
Outdoor sports facilities	(50)
Organs (that is, pipe organs that are fixtures in a municipal hall or other centre)	(50)
Lakes and dams	(50)
Fountains	(50)
Floodlighting	(50)

Heritage Assets

The following is a list of at least some typical heritage assets encountered in the municipal

environment (no asset lives are given, of course, as no ordinary depreciation will be charged against such assets):

- Museum exhibits
- Works of art (which will include paintings and sculptures)
- Public statues
- Historical buildings or other historical structures (such as war memorials)
- Historical sites (for example, an Iron Age kiln, historical battle site or site of a historical settlement)

Investment Assets

It is not possible to provide an exhaustive list of investment assets, as the actual list will depend very much on the local circumstances of each municipality. However, the following will be among the most frequently encountered:

- Office parks (which have been developed by the municipality
itself or jointly between the municipality and one or more other parties) (50)
- Shopping centres (again developed along similar lines) (50)
- Housing developments (that is, developments
financed and managed by the municipality itself,
with the sole purpose of selling or letting such houses for profit) (50)

Other Assets

The following is a list of other assets, again showing the estimated useful life in years in brackets:

- **Buildings**
 - Abattoirs (50)
 - Asphalt plant (50)
-

Caravan parks	(50)
Compost	(50)
Compacting stations	(50)
General	(50)
Hawker Facilities	(50)
Hostels used to accommodate the public or tourists	(50)
Hostels for municipal employees	(50)
Housing schemes	(50)
Kilns	(50)
Laboratories	(50)
Fresh produce and other markets	(50)
Nurseries	(50)
Office buildings	(50)
Old age homes	(50)
Quarries	(50)
Recycling Centres	(50)
Tip sites	(50)
Training centres	(50)
Transport facilities	(50)
Waste Cells	(50)
Workshops and depots	(50)
Airports	
Aircraft	(15)
Aprons	(20)
Runways	(20)
Taxiways	(20)
Airports/Radio beacons	(20)

- **Office equipment**

Computer hardware	(3-10)
Computer software	(3-30)
Office machines	(3-30)
Air Conditioners	(3-30)
Tablets	(2- 5)

- **Furniture and fittings**

Chairs	(3-30)
Tables and desks	(3-30)
General	(3-30)
Cabinets and cupboards	(3-30)

- **Bins and containers**

Household refuse bins	(3-30)
Bulk refuse containers	(3-30)

- **Emergency equipment**

Fire hoses	(5)
Other fire-fighting equipment	(15)
Emergency lights	(5)

- **Motor vehicles**

Ambulances	(5-10)
Fire engines	(20)
Tankers	(20)
Mobile Libraries	(15)
Buses	(15)

Trucks and light delivery vehicles	(3-20)
Ordinary motor vehicles	(3-20)
Motor cycles	(3-20)

● **Plant and equipment**

Chlorination Equipment	(3-15)
Compactors	(3-15)
Electronic Equipment	(3-15)
Fire Hoses	(3-15)
General	(3-15)
Generators	(3-15)
Graders	(3-15)
Horticultural Equipment	(3-15)
Mobile Pumps	(3-15)
Other Fire Fighting Equipment	(3-15)
Pumps	(3-15)
Tractors	(3-15)
Trailers	(3-15)
Mechanical horses	(3-15)
Farm equipment	(3-15)
Lawn mowers	(3-15)
Compressors	(3-15)
Laboratory Equipment	(3-15)
Radio Equipment	(3-15)
Firearms	(3-15)
Telecommunication equipment	(3-15)
Irrigation systems	(3-15)
Cremators	(3-15)
Lathes	(3-15)

Conveyors	(3-15)
Feeders	(3-15)
Tippers	(3-15)
Workshop Equipment	(3-15)
Pulverising mills	(3-15)

Annexure B

Paraphrase of Section 14 of the Municipal Finance Management Act 2004

A municipality may not dispose of any capital asset required to provide a minimum level of basic municipal services.

A municipality may dispose of any other capital asset, provided that:

- The Council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services, and
- The Council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

Annexure C

GRAP 13 Definitions of Finance Leases

A lease must meet one of the following criteria to be classified as a finance lease:

- the lease transfers ownership of the asset to the lessee by the end of the lease term,
- the lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for the major part of the economic life of the asset even if title is not transferred,
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset,
- the leased assets are of a such a specialized nature that only the lessee can use them without major modifications, and
- the leased assets cannot easily be replaced by another asset.
- if the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee,
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease), and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

Document Version Control

Version	Author	Date	Pages/Sections affected	Remarks