ANNEXURE 11

Mogale City

Local Municipality

ASSET MANAGEMENT POLICY

MAY 2019

SUMMARY OF CHANGES TO THE ASSET MANAGEMENT POLICY

The following are changes to the Policy due to changes in Generally Recognised Accounting Principles(GRAP):

New definitions were inserted in GRAP and the changes are marked in red in the pages below which were extracted from the Asset Management Policy.

An asset hierarchy is adopted for PPE which enables separate accounting of parts (or 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. Componentization of assets is based on part of an asset significant cost in relation to the total cost.

PPE: Infrastructure

Infrastructure assets are immoveable assets which are part of a network of similar assets.

PPE: Community Property

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

PPE: Building Property

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

Heritage assets

Heritage assets are assets of cultural, historic or environmental 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 municipality must use its 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 PPE.

Intangible assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. Examples are licenses/rights, (such as water licenses), servitudes, and software.

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.

However servitudes that are created through acquisition (including by way of expropriation or agreement) are recognised as an intangible asset at cost. The municipality may include the cost of the servitude in the cost of the PPE if it is essential to the construction or operation of the asset (such as in the case of pipes).

Investment property

Investment property is defined as property (land and/or a building, or a part thereof) held (by the owner or 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 administration purposes or sale in the ordinary course of operations). An example of investment property is office parks that are rented out. There is no asset hierarch

IMPAIRMENT

Definition and rules

Impairment

Impairment is defined as the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. At initial recognition the Muncipality shall designate:

(a) An asset as non cash generating or

(b) An asset or cash generating unit as cash generating

The designation is made on the basis of the Municipality's objective of using the asset.

Indications of impairment

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

I. 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; or
- 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.

- 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.

II. Internal sources of information:

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

III. Other indications, such as loss of market value.

cost to sell. In such cases the municipality may use the asset's value in use as its recoverable service amount. The value in use of a non-cash generating unit/asset is defined as the present value of the asset's remaining service potential. This can be determined using any of the following approaches:

the Depreciated Replacement Cost (DRC) approach (and where the asset has enduring and material over-capacity, for example in cases where there has been a decline in demand, the Optimised Depreciated Replacement Cost (ODRC) approach may be used);

the restoration cost approach (the Depreciated Replacement Cost less cost of restoration) – usually used in cases where there has been physical damage; or

The service unit's approach (which could be used for example where a production unit's model of depreciation is used).

Where the present value of an asset's remaining service potential (determined as indicated above) exceeds the carrying value, the asset is not impaired – this will normally be the case unless there has been a significant event.

Cash-generating unit

Cash-generating units are those assets used with the objective of generating a commercial return. Commercial return means that positive cash flows are expected to be significantly higher than the cost of the asset. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Managing an asset to generate a "commercial return" indicates that an entity intends to generate positive cash inflows from the asset (or from part of the cash-generating unit of which the asset is a part) and earn a commercial return that reflects the risk involved in managing the asset. The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction. If there is no binding sale agreement but an asset is traded in an active market, fair value is the asset's market price. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that the municipality could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties. In the case of specialised buildings (such as community buildings) and infrastructure where there is no such active and liquid market, a depreciated replacement cost (DRC) approach is generally used to identify the fair value. Costs to sell are the costs directly attributable to the disposal of the asset (for example agents fees, legal costs), excluding finance costs and income tax expenses. The value in use is determined by estimating the future cash inflows and outflows from the continuing use of the asset and net cash flows to be received or (paid) for the disposal of the assets at the end of its useful life, including factors to reflect risk in the respective cash-flows and the time value of money.

Judgement

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

Recognition of impairment

- The Asset register administrator should 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.
- The CFO shall report changes made to the carrying values of these assets in the asset register to the Accounting Officer and Council.

DE-RECOGNITION

Definition and rules

Disposal

"Disposal" in relation to a capital asset, includes -

- the demolition, dismantling or destruction of the capital asset; or
- 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;

Exempt assets

Capital assets transferred to another municipality or to a municipal entity or to a national or provincial organ of state in circumstances and in respect of categories of assets approved by the National Treasury, provided that such transfers are in accordance with a prescribed framework in terms of the Municipal Asset Transfer Regulations.

Non-exempt assets

Assets other than exempt assets.

De-recognition

Assets are derecognised on disposal (including disposal through a non-exchange transaction) or when no future economic benefits or service potential are expected from its use or disposal. Where assets exist that have reached the end of their useful life yet they pose potential liabilities, the assets will not be derecognised until the obligations under the potential liabilities have been settled. When to recognise and derecognise land is based on control, not only legal title.

The carrying amount of the asset and the net disposal proceeds (or cost of de-commissioning and/or disposal of the asset) shall be included in the surpluses or (deficits) for the year when the item is derecognised.

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

Government Gazette no.31346, Municipal asset transfer regulations, sets out the regulations regarding municipal asset transfers and disposals, for example type of assets that need approval to be disposed or transferred, timeframes, possible public participation requirements, considerations in approving the transfer or disposal and Council approval. Read in conjunction with the Municipal Finance Management Act (MFMA) it is clear that a municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services unless that transfer is to an organ of state, and the following conditions must be met:

- Ownership in the capital asset (including replacements, upgrading and improvements made by the organ of state) must immediately revert to the municipality should the organ of state for any reason cease to or is unable to render the service;
- The organ of state may not without the written approval of the municipality: