TSWELOPELE
LOCAL MUNICIPALITY
A MUNICIPALITY IN PROGRESS

ACCOUNTING POLICY FOR ASSETS

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ABBREVIATIONS

CFO	Chief Financial Officer
COGTA	Department of Cooperative Governance and Traditional Affairs
TLM	Tswelopele Local Municipality
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Standards of Generally Recognised Accounting Practice
IAMP	Infrastructure Asset Management Plan
IAS	International Accounting Standards
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act
OHSA	Occupational Health and Safety Act
PPE	Property, plant and equipment

1. PURPOSE OF THIS DOCUMENT

This document indicates the policy of Tswelopele Local Municipality (TLM) to account for its property, plant and equipment (PPE), and investment property. The policy commits the municipality to establish and maintain an asset register that complies with the latest accounting standards, and to account for the assets in a way that is aligned with the municipality's strategic objectives and recognised good practice.

2. BACKGROUND

2.1 CONSTITUTIONAL AND LEGAL FRAMEWORK

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

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

The manner in which a municipality manages its PPE is central to meeting the above challenges. Accordingly, the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal assets with the Municipal Manager.

The OHSA requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its immovable assets safe.

2.2 ACCOUNTING STANDARDS

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

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

The municipality, TLM had to convert to GRAP on 1 July 2008. GRAP 17 replaced GAMAP 17 through the publication of Government Gazette 31021. The TLM is adopting the latest revised GRAP 17 as from 1 July 2013.

2.3 MANAGEMENT OF INFRASTRUCTURE ASSETS

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

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

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

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

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

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

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

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

3. OBJECTIVES

The objective of this policy is for the municipality to:

- implement prevailing accounting standards; and
- provide a data platform that will support asset management practicein accordance with legal requirements and recognised good practice.

4. APPROVAL AND EFFECTIVE DATE

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

5. POLICY AMENDMENTS

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

6. REFERENCES

The following references were observed in compiling this document:

- Asset Management Framework, National Treasury, 2004
- Guidelines for Infrastructure Asset Management in Local Government, Department of Provincial and Local Government, 2006
- Municipal Finance Management Act, 2003
- Municipal Systems Act, 2000
- MFMA Circular 18 & 44
- Local Government Capital Asset Management Guidelines, National Treasury, 2008
- Government Gazettes (30013 & 31021)
- Generally Recognised Accounting Practice (GRAP 1, 3, 5, 13, 16, 17, 18,100, 102,103).
- International Accounting Standards (IAS 16)
- Exposure Drafts (ED 44-46)
- Municipal Transfer and Disposal Regulations, Government Gazette no.31346

7. CONSISTENCY OF ACCOUNTING POLICY

This accounting policy shall be applied consistently year to year and taking into account changes that may be made to this policy.

8. ACCOUNTING POLICY FOR PPE, AND INVESTMENT PROPERTY

8.1 DEFINITIONS

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

Asset Management Teamis a multi-disciplinary team appointed by the Municipal Manager to initiate, monitor and review the asset management practices improvement program, the development of Infrastructure Asset Management Plans and a Consolidated Municipal Infrastructure Plan consistent with the municipality's goals and objectives.

Asset Management Policyis a formal statement adopted by Council that indicates the municipality's policy objective, the policy principles, and how these will be pursued (including the establishment of an IAM Team, and aligned systems and planning).

Asset Management Information System is a combination of processes, data and software applied to provide outputs required for effective asset management.

Asset Performance is the performance of an asset that is measured in line with the applicable Level of Service.

Asset Registeris a record of information on each asset that supports effective financial and technical management of the assets, and meets statutory requirements.

Asset Utilisation is the extent to which an asset is being productively used – typically measured as a percentage of its capacity.

Borrowing costs are interest and other expenses incurred by the municipality in connection with the borrowing of funds.

Capital spares are considered to be spares that constitute an entire or significant portion of a component type, or a specific component, defined in the immovable asset hierarchy.

Carrying amount of PPE is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairments losses.

Carrying amount of Investment Property is the amount at which an asset is recognised in the statement of Financial Position

Cash flows are inflows and outflows of cash and cash equivalents.

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflow from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Class of property, plant and equipmentmeans a grouping of assets of a similar nature or function in the municipality'soperations, which is shown as a single item for the purpose of disclosure in the financial statements.

The commencement of the lease term (municipality as the lessee) is the date from which the municipality is entitled to exercise its right to use the leased asset. It is the date of initial recognition of the lease.

Community Facilities are discrete assets that provide a service directly to the community (such as parks, sports facilities, cemeteries, landfill sites etc).

Components are the elements of an asset.

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

Consolidated Municipal Infrastructure Plan is a plan that provides an holistic overview of existing service performance, a vision of future performance scenarios, the risks, priorities, funding and tariff implications, as a strategic input to the Integrated Development Planning process.

Cost of disposal is incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expenses. Examples of costs of disposal are stamp duty, legal costs, costs of removing the asset and incremental costs to bring the asset into a condition for its sale.

An entity is deemed to have control of an asset if it:
- has the capacity to benefit from the asset;
- • is able to deny or regulate access of others to that benefit; and
- • has the ability to secure the future economic benefit of that asset.

Critical Assets are assets for which the consequences of failure are sufficiently severe to justify pro-active inspection, maintenance and renewal. ("Important" Assets also justify pro-active inspection, maintenance and renewal, but not to the same level as "Critical" Assets).

Current Replacement Cost is a measure of replacement value – the cost of replacing an existing asset with a modern asset of equivalent capacity.

Demand Management is an active intervention to change the pattern of demand for a service eg to minimise or eliminate the need to upgrade assets, to address a limitation on bulk supply capacity, or minimise losses.

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

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

Depreciated replacement cost (DRC) is established by subtracting the residual value from the current replacement cost (CRC) and proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the expected useful life. The DRC approach requires information on the expected useful life (EUL), residual value (RV), current replacement cost (CRC) and remaining useful life (RUL) of each of the asset components.

Accordingly the following formula is used:
DRC= ((CRC-RV) x RUL/EUL) + RV

Replacement costs are "green fields", unless there is evidence of definite cost variance due to "brown-field" modifications. Capital unit costs vary from site to site and provision is made for site specific influencing factors e.g. topography. Capital unit costs are also influenced by macro-economic driving forces such as "supply and demand", financial markets and availability of contractors.

Disposal is the action required to effectively dispose, decommission, or transfer assets in terms of legal or organisational requirements.

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumptions of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

Entity-specific value is the present value or service potential of the benefitsthe municipality expects to arise from the continuing use of an asset and from its disposal at the end of its useful life or expects to incur when settling a liability.

Exempted capital assets are municipal capital assets to be disposed where National Treasury approved the disposal; therefore Council approval is not necessary.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Heritage assets are assets with cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

High value in relation to a capital asset of a municipality or municipal entity means that the fair market value of the capital asset exceeds any of the following amounts:
- R50 million;
- one per cent of the total value of the capital assets of the municipality or municipal entity, as determined from the latest available audited annual financial statements of the municipality or entity; or
- an amount determined by resolution of the council of the municipality or of the controlling municipality of the municipal entity which is less than R50 mil or one per cent of the total value.

Infrastructure assets usually have the following characteristics:
- they are part of a system or network;
- they are specialised in nature and do not have alternative uses,
- they are immovable; and
- theymaybe subject to constraints on disposals.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

Immovable assets are fixed structures such as buildings and roads. A plant that is built-in to the fixed structures and is an essential part of the functional performance of the primary asset is considered an immovable asset (though it may be temporarily removed for repair).

Impracticable is when the municipality cannot apply a requirement after making every reasonable effort to do so. For example; it is impracticable to apply a change in accounting policy for a prior period retrospectively if the effects of the retrospective application are not determinable.

Infrastructure Asset Management Plan is a plan developed for the management of Infrastructure Assets with the aim of providing specified levels of service in a cost-effective manner, now and in the future. Multi-disciplinary management techniques (including technical and financial) are combined to determine the aggregated asset life-cycle needs. A significant component of the plan is a long-term cash-flow.

The inception of a lease is the earlier of the date of the lease agreement and the date of commitment by the parties to the principal provisions of the lease.

As at this date:

- a lease is classified as either a finance lease or an operating lease, and
- in the case of a finance lease, the amounts to be recognised at the commencement of the lease term as determined.

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset with or without any further payments, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Level of Service is the defined parameters that characterise essential service delivery requirements for a particular service, against which performance may be measured. Criteria can relate to availability of the service, quality, quantity, reliability, responsiveness, environmental acceptability and cost. Measures are identified for each criteria and used for performance monitoring and reporting and as a departure point for risk management.

Lifecycle is the cycle of activities that an asset goes through – including planning and design, initial acquisition and construction, cycles of operation and maintenance and capital renewal, and finally disposal

An intangible asset is an identifiable non-monetary asset without physical substance.

Investment property is 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.

Classifications of investment property:

- Local government may own a building for the purpose of leasing on a commercial basis to external parties to generate funds, rather than to produce or supply goods and services. This property will also meet the definition of investment property.

- Investment property generates cash flows largely independently of the other assets held by the municipality. This distinguishes investment property from other land and buildings controlled by the municipality, including owner-occupied property. The production or supply of goods or services (or the use of property for administrative purposes) can also generate cash flows..

Investment property includes the following:

- 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;
- a building owned by the municipality and leased out under one or more operating leases on a commercial basis to external parties; or
- a property owned by the entity and leased out at below market rental.
- Property that is being constructed or developed for future use as investment property

When the municipality provides ancillary services to the occupants of a property it holds and the services are insignificant to the arrangement as a whole, the property will still be treated as investment property.
Maintenance is the action required for an asset to achieve its expected useful life. Maintenance can be planned or unplanned. Repairs are a form of unplanned maintenance after failure or damage.

Material omissions or misstatements of items are material if it could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The size or nature of the information item, or a combination of both, could be the determining factor.

Monetary assets are money held or assets to be received in fixed or determinable amounts of money.

Movable assets are not fixed structures and can be moved from one location to another location, for example computers and vehicles.

Non-monetary assets are assets other than monetary assets.

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

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

Non-exempted capital assets are municipal assets for which Council must approve disposals.

An obligating event is an event that creates a legal or constructive obligation that results in an entity having no realistic alternative to settling that obligation.

constructive obligation is an obligation that derives from an entity's actions where:

- by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities; and
- as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

legal obligation is an obligation that derives from:

- a contract (through its explicit or implicit terms);

- legislation; or
- other operation of law.

Operations are the use of manpower and consumables (such as energy, chemicals and materials) required for an asset to operate to the required performance.

An operating lease is a lease other than a finance lease.

Organ of state means –

- a national department or national public entity;
- a provincial department or provincial public entity;
- a municipality or municipal entity;
- any other organ of state within the meaning assigned to "organ of state" in section 239 of the Constitution.

Owner-occupied property is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or administrative purposes.

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

Practices Improvement Plan is an action plan to improve the way infrastructure management is practiced in the municipality, based on an assessment of existing and target practice, and focussing on management processes, systems, data, and organisational arrangements. The initial Practices Improvement Plan may be prepared in the form of a Business Plan to be driven on a program basis.

Prior period errors are omissions from, and misstatements in, the municipality's financial statements for one or more prior periods arising from the failure to use, or misuse of, reliable information that:

- was available when financial statements for those periods were authorised for issue; and
- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Property, Plant and Equipment are tangible items that:

(a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and

(b) are expected to be used during more than one reporting period.

A provision is a liability of uncertain timing or amount.

Qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use of sale. Examples of qualifying assets are office buildings,infrastructure such as roads, bridges and power distribution facilities and property that will become self-constructed items of property, plant and equipment once construction is complete.

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

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

Rehabilitation is the works to rebuild or replace parts of an asset to enable it to the original capacity and performance, and materially extend its useful life (which may be a full or partial extension of life – ie less than its expected useful life).

Renewal is the replacement or rehabilitation of an asset.

Remaining useful life of an asset is the time remaining until an asset ceases to provide the required standard of performance or economic usefulness.

Reporting date means the date of the last day of the reporting period to which the financial statements relate.

Replacement is the complete replacement or reconstruction of an asset with one that performs to a similar standard of performance.

Residual value is the estimated amount that the municipality would currently obtain from disposal of the asset after deducting the estimated cost of disposal, if the asset wasalready of the age and in a condition expected at the end of its useful life.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Risk Management is the application of a formal process that identifies the exposure of a municipality to service performance risk and determines appropriate responses.

Upgrading is the replacement, augmentation, or alteration of an asset that results in a material improvement to capacity or performance.

Useful life is:

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

8.2 RECOGNITION

Policy statement

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

Recognition criteria according to the Accounting standards

The cost of an item of PPE, associated intangible assets and investment property shall be recognised as an asset if, and only if:

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

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

When heritage assets cannot be measured reliably:
If a heritage asset does not meet the recognition criteria on initial recognition because it cannot be measured reliably, relevant and useful information about the heritage asset shall be disclosed in the notes to the financial statements. If the heritage asset is not recognised because the asset cannot be measured reliably, any initial cost to assess the state of the heritage asset and any costs incurred subsequently shall be recognised in the surplus or deficit as incurred.

Scenario in which heritage assets are controlled:
Heritage assets will still be controlled by the municipality when it is able to generate future economic benefits or service potential from the assets, even though the municipality may be restricted from disposing these assets based on a stipulation imposed by, for example, the transferor.

8.3 CLASSIFICATION

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

Asset hierarchies shall be adopted for each of the immovable asset groups and associated intangible assets, separately identifying items of PPE at component level that are significant from a financial or risk perspective, and, where applicable, grouping items that are relatively insignificant.

8.4 MEASUREMENT AT RECOGNITION

Policy statement
An item of PPE which qualifies for recognition as an asset shall be measured at its cost. Investment property will be measured at cost and transaction costs will be included in the initial measurement.

In the case of intangible assets, expenditure shall be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

In cases where complete cost data is not available or reliable for use, the fair value of PPE, an associated intangible asset and investment property shall be used to recognise the asset.

Measurement at recognition according to the Accounting standards
Circumstances where fair value will be used at initial measurement:
Where an item of PPE, an associated intangible asset or an investment property is acquired at no cost or a nominal cost, its cost is the fair value as at the date of acquisition. Events that might lead to this accounting treatment are when an asset is contributed or gifted to the municipality, a power of sequestration was exercised, there are no records on the asset’s cost price, or the records cannot be linked to specific assets.

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

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

Elements of cost

- The cost price of PPE, associated intangible assets and investment property comprises of:
  - the purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
  - any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and
    - Examples of directly attributable costs are:
      - cost of employee benefits arising directly from the construction or acquisition of the item of PPE and associated intangibles;
      - cost for site preparation (in the case of PPE assets);
      - initial delivery and handling costs (in the case of PPE infrastructure, PPE community assets and PPE heritage assets);
      - installation and assembly costs,
      - cost of testing whether the PPE or associated intangible asset is functioning properly, after deducting the net proceeds from selling any item produced while bringing the asset to that location and condition;
      - professional fees (in the case of all asset classes); and
      - property transfer taxes (in the case of PPE heritage assets and investment property).
  - the initial estimate of cost dismantling and removing a PPE infrastructure asset and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.
    - Changes in the estimated decommissioning costs:
      - Provisions shall be reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision shall be reversed.
    - The following events can change the measurement of the provision:
      - a change in the estimated outflow of resources embodying economic benefits orservice potential required to settle the obligation;
      - a change in the current market-based discount rate(this includes changes in time value of money and the risks specific to the liability); and
      - an increase that reflects the passage of time.
    - Changes to provisions shall be applied as follows:
      - changes in the provision shall be added to or deducted from the asset's cost;
      - the amount deducted from the asset's cost price shall not exceed the carrying amount of the asset, the excess shall be recognised in the surplus or deficit; and
      - if the adjustment results in an addition to the cost price of the asset, the municipality shall consider whether this is an indication if the new carrying amount of the asset may not be fully recoverable. This may be an indication of an impairment.
- Elements of costs that are not part of the cost price are:
  - Cost of opening a new facility in the case of PPE infrastructure and PPE community assets;
  - costs of introducing a new product or service, including advertising costs, in the case of intangible assets and PPE infrastructure;

- costs of conducting business in a new location or with a new class of customers, including training costs, in the case of PPE infrastructure, PPE community assets, PPE heritage assets and intangible assets;
- administration and other general overhead costs in the case of PPE infrastructure, PPE community assets, PPE heritage assets and intangible assets;
- cost incurred while an item capable of operating in the manner intended by management has yet to be brought into use or is operated at less than full capacity, in the case of PPE infrastructures;
- operating losses incurred before the investment property achieved the planned level of occupancy;
- initial operating losses, such as those incurred while demand for the item's outputs build up in the case of PPE infrastructure;
- costs of relocating or reorganising part or all of the municipality's operations, in the case of PPE infrastructure;
- start-up costs in the case of investment property;
- abnormal amounts of wasted material, labour or other resources incurred in constructing or developing the investment property; and
- costs of opening the new exhibition regarding heritage assets, for example a new section at the museum.

Assets which assist other PPE to operate effectively

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

Spare parts and servicing equipment

Spare parts and equipment are usually carried as inventory in terms of the Standard on Inventories, GRAP 12, and recognised in surplus and deficit as consumed; this will apply to maintenance material and electricity stock. However, major spare parts and stand-by equipment qualify as PPE when the municipality expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of PPE, it is accounted for as property, plant and equipment. In some cases TLM will be required to apply judgement to the recognition criteria.

The municipality shall evaluate under this recognition principle all its PPE cost at the time it incurs. These costs include costs incurred initially to acquire or construct an item of PPE and cost incurred subsequently to upgrade the asset, replace part of the asset, or service it.

The cost of day-to-day servicing of an asset shall not be recognised as an item of PPE. These costs shall rather be recognised in the surplus or deficit as incurred. The cost of day-to-day servicing is primarily the costs of labour and consumables, and may include costs of small parts and maintenance material.

Replacement of components

Components of some items of PPE may require replacement at regular intervals, for example a pump. Items of PPE may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. The municipality recognises in the carrying value of an item of PPE the cost of the replacing part of such an item when that cost is incurred and if the recognition criteria are met. The carrying values of those parts that are replaced are derecognised in accordance with the de-recognition provisions of the Standard on Plant, Property and Equipment, GRAP 17 (REVISED), which are discussed later in this document.

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

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

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

8.5 EXCHANGE OF PHYSICAL ASSETS

Policy statement

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

Exchange of physical asset criteria according to the Accounting standards

One or more assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.
The cost of such an item of property, plant and equipment or investment property is measured at fair value unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset given up is reliably measured. If the acquired item is not measured at fair value, its cost is measured at the carrying value of the asset given up.

An exchange transaction has *commercial substance* if:

- the risks, timing and amount of the cash flows or service potential are expected to change as a result of the transaction, or
- the entity-specific value of the portion of the municipality’s operations affected by the transaction changes as result of the exchange, and
- the difference in the two statements above is significant relative to the fair value of the assets exchanged.

8.6 BORROWING COSTS

Policy statement

TLM shall capitalise borrowing costs to be part of the qualifying asset's cost price, except when it is inappropriate to do so; in which case the borrowing costs shall be expensed.

Borrowing cost criteria according to the Accounting standard

Borrowing costs may include:

- interest on bank overdrafts and short-term and long-term borrowings;
- amortisation of discounts or premiums relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- finance charges in respect of finance leases; and
- exchange differences arising from foreign currency borrowings to the extent thatit's regarded as adjustments to interest costs.

Recognition of borrowing costs

The municipality shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset, except when it is inappropriate to do so; in which case the borrowing cost will be treated as expenditure in the period in which it occurs.

When it is inappropriate to capitalise borrowing costs

- it is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirement of the municipality directly to the nature of the expenditure to be funded i.e. capital or current. In such case, the municipality shall expense those borrowing costs related to a qualifying asset directly to the statement of financial performance; or
- in exceptional cases the municipality is allowed to expense borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. It may be difficult for the municipality to identify a direct relationship between an asset and borrowing costs incurred because the financing activity is controlled centrally and it will not always be possible to keep track of the specific borrowing costs which will be allocated to the qualifying asset. As a result the reasonable effort and cost may outweigh the benefit of presenting the information, making it inappropriate to capitalise the borrowing cost.

Borrowing costs eligible for capitalisation

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

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

To the extent that the municipality borrows*funds generally* and uses it for the purpose of obtaining a qualifying asset, the municipality shall determine the amount of borrowing cost eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the municipality that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that the municipality capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

Carrying value exceeds recoverable amount or recoverable service amount

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

Commencement of capitalisation

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

- it incurs expenditures for the asset. Itincludes technical and administrative work prior to the commencement of physical construction, such as the activities of obtaining permits;
- it incurs borrowing costs; and
- it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Suspension of capitalisation

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

Cessation of capitalisation

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

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

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

8.7 DEFERRED PAYMENT FROM AND TO TLM

Policy statement

If TLM negotiates to pay the cost price of an asset over a period, the total cost price shall be discounted to the asset's present value as at the transaction date. The present value is regarded the cost price of the asset and the difference between the total cost price and the present value will be regarded an interest expense.

If TLM negotiates to receive the net selling price from a disposal of an asset over a period in time, the total proceed amount shall be discounted to the present value as at the transaction date. The present value is regarded the net selling price of the asset and the difference between the total net selling price and the present value will be regarded interest income.

Deferred payments according to the Accounting standards

The cost of an item of PPE, intangible assets and investment property is the cash equivalent at the recognition date. If the payment of the cost price is deferred beyond normal credit terms, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit unless such interest is recognised in the carrying value of the asset in accordance with the allowed alternative treatment in the Standard on Borrowing Costs, GRAP 5.

The consideration receivable on disposal of an item of PPE, investment property or intangible asset is recognised initially at its fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent. The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue.

8.8 MEASUREMENT AFTER RECOGNITION

Policy statement

PPE (includes infrastructure assets, community assets and heritage assets)
All PPE is recognised at cost less accumulated depreciation and accumulated impairments, except for heritage assets and land.

Heritage assets are recognised at cost less accumulated impairments (if the value can be measured reliably), otherwise the heritage asset's information will only be disclosed.

Land is recognised at cost less accumulated impairments. Subsequent expenditure is capitalised when the recognition and measurement criteria are met.

Investment property
TLM subscribes to the cost model approach; therefore investment property will be accounted for at cost less accumulated depreciation and accumulated impairment in accordance with the Standards on Plant, Property and Equipment, GRAP 17 (REVISED).

TLM is required to determine the fair values of all the investment property, for the purpose of disclosure when using the cost model approach. TLM is encouraged to disclose the fair value of investment property when this is materially different from the carrying amount. TLM will determine the fair value of investment property on a basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Transfers from investment property to PPE shall only be made when there is a change in use of the property.

Intangible assets
TLM subsequently recognises intangible assets at cost less accumulated amortisationand accumulated impairment. Servitudes are rightsin perpetuity; therefore there will be no depreciation.

Measurement after recognition according to the Accounting standards
Accounting standards allow measurement after recognition as follows:

- PPE: Either cost model or the revaluation model.
- Intangible assets: Either cost model or revaluation model.
- Investment Property: Either cost model or the fair value model.

Different models can be applied, providing the treatment is consistent per asset class.

Cost model

When the cost model is adopted, the PPE (except land and heritage assets), associated intangible assets and investment property are carried at its cost less any accumulated depreciation and any accumulated impairment losses. Heritage assets (if reliably measured) and land shall be carried at cost less accumulated impairment losses.

Revaluation model

After recognition as an asset, an item of PPE (except land and heritage assets) 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 accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying value does not differ materially from that which will be determined using fair value at the reporting date.

After recognition as an asset, *heritage assets and land*, forwhich fair value can be measured reliably, shall be carried at a fair value amount, being its fair value at the date of revaluation less any subsequent impairment losses. Where no evidence is available to determine the market value in an active market of a heritage asset, a suitable valuation technique maybe used to determine the fair value of the heritage asset.

The fair value of items of land and buildings is usually determined from market-based evidence by appraisal. The fair value of items of plant and equipment is usually their market value determined by appraisal. An appraisal of the value of the asset is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification.

If no evidence is available to determine the market value in an active and liquid market of an item of property, the fair value of the item may be established by reference to other items with similar characteristics, in similar circumstances and location. For example, the fair value of vacant land that has been held for a long period during which time there have been few transactions may be estimated by reference to the market value of land with similar features and topography in a similar location for which market evidence is available. In the case of specialised buildings and other man-made structures, TLM may need to estimate fair value using a depreciated replacement cost approach. In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market.

In the case of specialised buildings and other man-made structures (including heritage assets), the fair value will be estimated by using the depreciated replacement cost approach. In many cases, the depreciated replacement cost of an asset can be established by reference to the buying price of a similar asset with similar remaining service potential in an active and liquid market. In some cases, an asset's reproduction cost will be the best indicator of its replacement cost. The restoration cost or the reproduction cost approach may be the best indicator of the replacement cost in the case of heritage assets. If there is no market-based evidence of fair value because of the specialised nature of the item of plant and equipment, the municipality may need to estimate fair value using either reproduction cost or depreciated replacement cost.

The frequency of revaluations depends upon the changes in the fair values of the items of PPE being revalued. When the fair value of a revalued asset differs materially from its carrying value, a further revaluation is necessary. Some items of PPE experience significant and volatile changes in fair value, thus necessitating annual revaluation. Such frequent revaluations are unnecessary for items of PPE with only insignificant changes in fair value. Instead, it may be necessary to revalue the item of PPE only every three to five years. If an item of PPE is revalued, the entire class of PPE to which the asset belongs shall be revalued.

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

If the carrying amount of an asset is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly in net assets to revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised directly in net assets reduces the amount accumulated in net assets under the heading revaluation surplus.

If the heritage assets were accounted for using the revaluation approach and the market-determined prices and values are no longer available and alternative estimates of fair value are determined unreliable, the heritage assets shall be accounted for using the cost model approach from that date. The carrying value of the heritage asset shall be its revalued amount at the date of the last revaluation less any subsequent accumulated impairment losses.

The municipality shall continue to account for each of the remaining heritage assets using the revaluation model.

<u>Fair value model</u>

The fair value of investment property is the price at which the property could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value shall reflect the market conditions at the reporting date.

8.9 RESIDUAL VALUE

Policy statement

The residual values applicable to PPE associated intangible assets and investment property shall be reviewed at each reporting date.

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

Residual value criteria according to the Accounting standards

The residual value of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change shall be accounted for as a change in an accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3.

The residual value of a PPE asset, investment property or intangible assets may increase to an amount equal or greater that the asset's carrying value. If it does, the asset's depreciation charges will be zero unless and until its residual value subsequently decreases to an amount below the asset's carrying value.

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

- there is a commitment by a third party to purchase the asset at the end of its useful life; or
- there is an active market for the asset and:
    - residual value can be determined by reference to that market; and
    - it is probable that such a market will exist at the end of the asset's useful life.

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

8.10 USEFUL LIVES OF ASSETS

Policy statement

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

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

Criteria according to the Accounting standards

The useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change shall be accounted for as a change in accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3.

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

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

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

The useful life of an intangible asset that is not amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If it does not, the change in the useful life from indefinite to finite shall be accounted for as a change in accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3.

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

8.11 DEPRECIATION

Policy statement

All PPE and investment property, except heritage assets and land, shall be depreciated over their remaining useful lives. There is no depreciation on heritage assets because the estimated useful life cannot be estimated.Land is not depreciated because it is deemed to have an infinite life.An intangible asset with a finite useful life is amortised and the intangible asset with an indefinite life is not amortised, for example servitudes are not amortised.Depreciation and amortisation shall begin when the asset is available for use and in the condition and location intended by management for its use. Depreciation and amortisation shall cease at the earlier of the date that the asset is classified as held for sale, de-recognised or has come to the end of its estimated useful life.

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

Depreciation criteria according the Accounting standards

Depreciation of components

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

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

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

Where to account for depreciation and amortisation?

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

When does depreciation and amortisation begin?

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

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

When does depreciation or amortisation cease?

Depreciation and amortisation of an asset will cease at the earlier date that the asset is classified as held for sale in accordance with the Standard on Non-current Assets held for sale and discontinued operations, GRAP 100, and the date the asset is de-recognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

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

Depreciation relating to revaluations

The difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset’s original cost shall be transferred to the revaluation surplus as the asset is used by the municipality. This depreciation charge can then be transferred from the revaluation surplus to the accumulated surplus or deficit or remain in the revaluation surplus account until de-recognition of the asset.

8.12 DEPRECIATION AMOUNT AND DEPRECIATION PERIOD

Policy statement

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

Depreciation and amortisation shall be calculated as follows:

- *Asset existed for whole financial year*: [(Cost price or fair value – residual value)/EUL]
- *Asset was purchased during the year*: [(Cost price or fair value – residual value)/EUL] x Remaining days in the financial year from day after purchase/Total days in the financial year

Criteria according to the Accounting standards

<u>Determining the depreciable amount and depreciation</u>

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

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

<u>Treatment of accumulated depreciation during a revaluation</u>

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

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

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

The depreciation method or amortisation method used shall reflect the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. If that pattern cannot be determined reliably, the straight-line method shall be used.

<u>Change in pattern of consumption</u>

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

<u>Different depreciation methods include:</u>

- The straight-line method results in a consistent charge over the useful life if the asset's residual value does not change.
- The diminishing method results in a decreasing charge over the useful life.
- The unit of production approach method results in a charge based on the expected use or output.

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

8.13 IMPAIRMENT

Policy statement

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

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

Impairment criteria according to the Accounting standards

<u>Indicators of impairment</u>

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

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

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

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

Impairment on Work in process

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

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

- an intangible asset with an indefinite useful life;
- an intangible asset not yet available for use;

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

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

Materiality and enduring nature

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

Overview of cash-generating assets/ units

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

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

The extent to which the asset is held with the objective of providing a commercial return needs to be considered to determine whether the municipalityshall apply the provisions of an impairment of Cash-generating Assets. If the non-cash-generating component is an insignificant component of the arrangement as a whole, the municipalityshall apply the provisions of impairment for Cash-generating Assets.

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

Annual review of impairment

The municipality shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality shall estimate the recoverable service amount in the case of a non-cash-generating asset/ unit or the recoverable amount in the case of a cash-generating asset/ unit.

Measuring recoverable service amount

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

- fair value less cost to sell; and
- its value in use.

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

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

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

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

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

- the most recent recoverable service amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and
- based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable amount calculation, the likelihood that a current recoverable amount determination will be less than the asset's carrying amount is remote.

Fair value less cost to sell

The best evidence of an asset's fair value less cost to sell is a price in a binding sales agreement in an arm's length transaction. If there is no binding sales agreement but an active market, fair value less cost to sell is the asset's market price less the disposal costs. The appropriate market price is the current bid price. If there is no sales agreement or an active market for an asset, the fair value less cost to sell is based on the best information available to reflect the amount the municipality could obtain, at reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties. The outcome of recent transactions for similar assets in the same industry will be considered. In the case of specialised buildings and man-made structures, the municipality may need to estimate the fair value using the depreciated replacement cost approach.

Value in use (Non-cash-generating asset)

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

- The depreciable replacement cost approach – The present value of the remaining service potential of an asset is determined as the depreciated replacement cost of the asset. The replacement cost of the asset is the cost to replace the asset's gross service potential. The cost is depreciated to reflect the asset in its used condition. An asset may be replaced through replacement of its gross service potential (this method is used in the case of production assets rendering a service) or reproduction (this method is used in the case of a historical, cultural asset). The depreciated replacement cost is measured as the reproduction or replacement cost of the asset less accumulated depreciation calculated on a basis of such cost, to reflect the already consumed or expired service potential of the asset.
- The optimised depreciable replacement cost approach – The rationale is that the municipalitywill not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. The determination of the replacement cost in the case of production assets or reproduction cost in the case of historical and cultural assets,on an optimised basis, reflects the service potential required of the asset.
- Restoration cost approach – The present value of the remaining service potential of an asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing in the remaining service potential of the asset before impairment. The latter cost is usually determined as the depreciable replacement cost in the case of production assets or the reproduction cost in the case of historical and cultural assets. (Used when impairments are identified from physical damage).
- Service units approach– The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform with the reduced number of service units expected from the asset in its impaired state. The current replacement cost of the remaining service potential of the asset before impairment is usually determined as the depreciated replacement cost of the asset before impairment.

Value in use (Cash-generating assets)

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

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

Basis for estimates of future cash flows

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

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

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

Composition of estimates shall include:

- projections on cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset and can be directly attributed, or allocated on a reasonable and consistent basis to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

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

The future cash flows shall not include:

- cash inflows or outflows from financing activities; or
- income tax receipts or payments.

Discount rate:

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

- the time value of money, represented by the current risk-free rate of interest; and
- the risk specific to the asset for which the future cash flow estimates have not been adjusted.

Impairment of an individual asset

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

Impairment of a cash-generating unit

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

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

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

- its fair value less cost to sell (if determinable);
- its value in use (if determinable); and
- Zero.

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

Reversal of impairment

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

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

- External sources of information
  - resurgence of the demand or need for services provided by the asset.
  - significant long-term changes with a favourable effect on the municipality have taken place during the period, or will take place in the near future, in the technological, legal or government policy environment in which TLM operates.
- Internal sources of information
  - significant long-term changes with a favourable effect on the municipality have taken place during the period, or are expected to take place in the near future, to the extent that, or manner in which, the asset is used or is expected to be used. (These changes include costs incurred during the period to improve or enhance an asset's performance or restructure the operation to which the asset belongs).
  - a decision to resume construction of the asset that was previously halted before it was completed or in an usable condition.
  - evidence is available from internal reporting that indicates that the service performance of the asset is, or will be, significantly better than expected.

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

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

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

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

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

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

- its recoverable amount (if determined); and

- the carrying amount that will have been determined (net of the amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

Compensation from third parties

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

- impairment of any asset shall be accounted for in accordance with the International Accounting Standard IAS 36.
- de-recognition of items of PPE, whether retired or disposed of is determined in accordance with the Standard on Property, Plant and Equipment, GRAP 17 (REVISED).
- compensation from third parties for items of PPE that were impaired, lost or given up is included in determining surplus or deficit when it becomes receivable.
- the cost of the item of PPE restored, purchased or constructed as a replacement is determined in accordance with the Standard on Property, Plant and Equipment, GRAP 17 (REVISED).

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

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

8.14 DE-RECOGNITION

Policy statement

PPE, investment property and intangible assets for which no future economic benefits or service potential are expected shall be identified and methods of de-recognition and the associated cost considered by Council. Assets to be sold, and the associated selling prices and selling costs, need to be approved by Council. The carrying amount of the asset shall be de-recognised when no future economic benefits or service potential are expected from its use or if the asset is disposed and it was the Council’s decision.Gains or losses arising from de-recognitions shall be recognised in surplus or deficit.

De-recognition criteria according to the Accounting standards

The carrying value of an item of PPE, investment property and intangible assets shall be de-recognised:

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

The gain or (loss) arising from de-recognitions shall be included in surplus or (deficit) when it is de-recognised. The gain or (loss) arising from the de-recognition of an item of PPE, investment property or intangible assets shall be determined as the difference between the net disposal proceeds, if any, and the carrying value of the item. Exempted and non-exempted capital assets can be de-recognised.

PPE that are associated with the provision of basic services cannot be disposed without the approval of Council.The policies and processes of approval by Council regarding transfers and disposals are indicated in ***Annexure B.***

8.15 DISCLOSURES

Policy Statement

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

<u>Other Disclosures</u>
The financial statements shall also disclose for each class of property, plant and equipment recognised in the financial statements:

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

<u>Disclosure for revalued amounts</u>
If items of property, plant and equipment are stated at revalued amounts, the following shall be disclosed:
(a) the effective date of the revaluation;
(b) whether an independent valuer was involved;
(c) the methods and significant assumptions applied in estimating the items' fair values;
(d) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;
(e) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.

<u>Disclosures for users of financial Statements</u>
TLM shall disclose the following information to users of financial statements for their relevant needs.
(a) the carrying amount of temporarily any item of property, plant and equipment that was not used for any period of time during the reporting period that significantly impacted the delivery of goods and services of TLM;
(b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
(c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations; and
(d) when the cost model is used, the fair value of property, plant and equipment when this is materially

different from the carrying amount.
Therefore, TLM should disclose these amounts.

8.16 LEASES

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

8.16.1 Finance lease – As lessee

Initial recognition

At the commencement of the lease term, TLM shall recognise 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 in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct cost of the lessee is added to the amount recognised as an asset.

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

8.16.2 Operating lease – As lessee

Lease payments under an operating lease shall be recognised as an expense in the statement of financial performance on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of TLM's benefit.

8.16.3 Finance lease – As lessor

Initial recognition

TLM shall recognise lease payments receivable under a finance lease as assets in the statement of financial position. TLM shall present such assets as a receivable at an amount equal to the net investment in the lease.

Subsequent measurement The recognition of finance revenue shall be based on a pattern reflecting a constant periodic rate of return on TLM's net investment in the finance lease.

8.16.4 Operating lease – As lessor

TLM presents assets subject to operating leases in theStatement of Financial Position according to the nature of the asset.

Lease revenue from operating leases shall be recognised as revenue on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which benefit derived from the leased asset is diminished.

Initial direct costs incurred by TLM in negotiating and arranging an operating lease shall be added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The depreciation policy for depreciable leased assets shall be consistent with TLM's normal depreciation policy for similar assets, and depreciation shall be calculated in accordance with the Standard on Property, Plant and Equipment, GRAP 17 (REVISED).

8.17 Non-current assets held for sale and discontinued operations

Classification of non-current assets as held for sale

TLM shall classify a non-current asset (or a disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Criteria for classifying a non-current asset as held for sale

- The asset must be available for immediate sale; and
- the asset must immediately be available for sale in its present condition; and
- the sale must be highly probable.

For a sale to be highly probable, management must be committed to a plan to sell the asset (or disposal group), and an active programme to locate a buyer and completion of the plan must have been initiated. The asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale will be expected to qualify for recognition as a completed sale within one year from the date of classification, except as permitted in the paragraph below. Actions required to complete the plan will indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Events or circumstances may extend the period to be completed within one year. An extension of the period required to complete the sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond TLM's control and there is sufficient evidence that TLM remains committed to its plan to sell the asset (or disposal group).

Sale transactions include exchanges of non-current assets for other non-current asset when the exchange has commercial substance. If TLM acquires a non-current asset exclusively for the purpose of selling it, it shall be classified as a non-current asset (or disposal group) held for sale at its acquisition date only if all requirements are met.

If the criteria are only met after the reporting date, the municipality shall not classify the non-current asset (or disposal group) as held for sale in those financial statements when issued. However, when those criteria are met after the reporting date but before the authorisation date for the financial statements to be issued, the municipality shall disclose the following:

- a description of the non-current asset;
- a description of the facts and circumstances of the sale, or leading to the expected disposal, and the expected manner and timing of disposal; and
- if applicable, the segment in which the non-current asset (or disposal group) is presented.

Non-current assets held for sale shall be shown as a current asset on the face of the statement of financial position.

Non-current assets that are to be abandoned

TLM shall not classify as held for sale a non-current asset (or disposal group) that is to be abandoned. This is because the carrying amount will be recovered principally through continuing use.

If a disposal group to be abandoned is a separate major line of activity or geographical area of operations, part of a single co-ordinated plan to dispose of a separate major line of activity or geographical areas of operations or is a controlled entity exclusively acquired for the purpose of resale, TLM shall present the results and cash flows of the disposal group as discontinued operations at the date on which it ceases to be closed rather than sold. TLM shall not account for a non-current asset that has been temporarily taken out of use as if it had been abandoned.

Measurement of non-current assets classified as held for sale

TLM shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less cost to sell.

If a newly acquired asset (or disposal group) meets the criteria to be classified as held for sale, it shall be measured at fair value less cost to sell. When the sale is expected to occur beyond one year, TLM shall measure the cost to sell at their present value. Any increase in the present value of the selling cost that arises from the passage of time shall be presented in surplus or deficit as a financing cost.

Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amountto the asset (or all the assets and liabilities in the group) shall be measured in accordance with the applicable Standard of GRAP.

On subsequent re-measurement of a disposal group, the carrying amount of any assets and liabilities that are not within the scope of the measurement requirements, but are included in the disposal group classified as held for sale, shall be remeasured in accordance with the Standard of GRAP before the fair value less cost to sell of the disposal group is remeasured.

Recognitions of impairment losses and reversals

TLM shall recognise impairment for any initial or subsequent write-down of the asset (or disposal group) to fair value less cost to sell to the extent that it has not been recognised during remeasurement. TLM shall recognise a gain for any subsequent increase in fair value less cost to sell of an asset (or disposal group), but not in excess of the cumulative impairment loss that has been recognised.

The impairment loss (or any subsequent gain) recognised for a disposal group shall reduce (or increase) the carrying amount of the non-current assets in the group. Any gain or loss not previously recognised by the date of the sale of a non-current asset (or disposal group) shall be recognised at the date of de-recognition.

Depreciation

TLM shall not depreciate (or amortise) a non-current asset while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest or other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised.

Changes to the plan of sale

If TLM has classified an asset (or disposed group) as held for sale, but the criteria for assets (or disposed groups) to be held for sale, are no longer met, TLM shall cease to classify the asset (or disposed group) as held for sale.

TLM shall measure a non-current asset that ceases to be classified as held for sale (or ceases to be included in a disposal group classified as held for sale) at the lower of:

- its carrying amount before the asset (or disposal group) was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, or
- its recoverable amount or recoverable service amount at date of the subsequent decision not to sell.

TLM shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in revenue of the continuing operations in the period in which the criteria to be held for sale are no longer met. TLM shall present that adjustment in the same statement of financial performance caption used to present a gain or loss.

If TLM removes an individual asset or liability from a disposal group classified as held for sale, the remaining assets and liabilities of the disposal group to be sold shall continue to be measured as a group only if the group meets the criteria to be held for sale. Otherwise, the remaining non-current assets of the group that individually meets the criteria to be classified as held for sale shall be measured individually at the lower of their carrying amount and fair values less cost to sell at that date. Any non-current asset that does not meet the criteria to be held for sale shall cease to be classified as held for sale.

9. RECONCILIATION

Reconciliation between the Statements of Financial Performance and budget shall be included in the financial statements where the financial statements and the budget are not accounted for on the same basis.

10. SAFEGUARDING

Policy statement

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

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

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

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

ANNEXURE A:
EXPECTED USEFUL LIVES AND RESIDUAL VALUES OF PPE

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Air conditioning			20	0
Anchored wall			50	0
Auxiliary Equipment	HV substation control infrastructure (AC, DC, cabling etc)		60	0
Auxiliary Equipment	Prepaid vending master stations		10	0
Auxiliary Equipment	QoS equipment		20	0
Baler	Baler		15	0
Ballast				
Batteries	Rechargeable		3	0
Battery Charger			10	0
Billboards			15	0
Bin / Container	Open top skip		10	0
Bowling green			20	0
Carports	Shade net		7	0
Channel	Lined open (lined area)		50	0
Channel	Unlined open		5	0
Chemical Toilet			10	0
Circuit Breaker Panel	Bus-section panel		50	0
Circuit Breaker Panel	Feeder panel		50	0
Circuit Breaker Panel	Indoor switch in switchboard		45	0
Circuit Breaker Panel	Incomer panel		50	0
Communal standpipe - Pedestal			10	0
Communal standpipe - Tap			5	0
Commuter shelter			15	0
Compactor			15	0
Compressor	Workshop type - fixed		10	0
Control Cable			50	0
Control Panel	Equipment control panel		50	0
Culvert			60	0
Current Transformer			45	

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Doser			15	
Earth Structure			50	50
Earthworks		Arterial / Distributor Road	50	50
Earthworks		Canals	100	50
Earthworks		Collector / Access Road	100	50
hEarthworks		Construction platform	100	50
Electrical installation			30	0
Electrical service connection	LV Overhead		50	0
Electrical service connection	LV Underground		45	0
Electricity Meter	Credit meter		20	0
Electricity Meter	Prepayment meters		10	0
Electricity Meter	Remote meters		10	0
Engine	Petrol / diesel		15	0
Erosion Protection	Gabions		50	0
Erosion Protection	Rip Rap		20	0
External furniture	3 seater concrete bench		20	0
External furniture	Children's play equipment (jungle gym)		20	0
External furniture	Concrete table (rectangular)		20	0
External furniture	Large planter pot (> 1m diameter)		20	0
External furniture	Medium planter pot (< 1m diameter)		20	0
External furniture	Playground equipment		20	0
External furniture	Water feature (small)		20	0
External furniture	Water feature - park		20	0
External lighting	Bollard-type		45	0
External lighting	Floodlights		30	0
External lighting	Streetlight with its network		45	0
Fabricated steel	Galvanised steel		20	0
Fabricated steel	Mild steel	Aggressive exposure	10	0
Fabricated steel	Mild steel	Mild exposure	20	0
Fabricated steel	Stainless steel	Aggressive exposure	20	0
Fabricated Steel	Stainless steel	Mild exposure	40	0
Fibre	Backhaul Backbone		50	0

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Filter media	Silica sand		10	0
Finishes, fixtures & fittings			15	0
Fire protection			20	0
Floor	Suspended		60	0
Floor	Surface Bed		60	0
Fuse			5	0
Gas installation			20	0
Gearbox	Drive motor		15	0
Generator			20	0
Golf course			50	0
Guard rail	Steel		20	0
Guard rail	Wood		15	0
High mast			45	0
HV Busbar Indoor	Copper bar		60	0
HV Busbar Indoor	GIS bus ducting		50	0
HV Busbar Outdoor	Strung conductor (m)		60	0
HV Busbar Outdoor	Tubular Conductor		50	0
HV Cable			50	0
HV Overhead Line Conductor			50	0
HV Power Transformer			50	0
HV Switchgear - Circuit Breaker	Indoor		50	0
HV Switchgear - Circuit Breaker	Outdoor		50	0
HV Switchgear - Isolating Link			50	0
Hydrant			20	0
IP Phone			5	0
Irrigation	Automatic sprinkler system		10	0
Kerb		Arterial / Distributor	20	0
Kerb		Collector / Access	50	0
Kerb Inlet			20	0
Land			NA	0
Landscaping	Flower beds, shrubs & trees		30	0
Landscaping	Lawns		50	0

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Lifts			30	0
Lining - landfill			50	0
Load Control Set			20	0
Load Shed Relay	Load control Controllers		20	0
Local Transformer			45	0
LV Cable			60	0
LV Overhead Line			45	0
Masonry Structure	General		50	0
Mini round-about			20	0
Mini-Sub			45	0
Motor	sewer		15	0
Motor	water		15	0
MV Busbar Indoor	Copper bar		60	0
MV Busbar Outdoor	Strung conductor (m)		60	0
MV Busbar Outdoor	Tubular Conductor		50	0
MV Cable			50	0
MV Overhead line			45	0
MV Power Transformer			45	0
MV Switchgear - Breakers			45	0
MV Switchgear - Circuit Breaker			45	0
MV Switchgear - Isolating Link			30	0
MV Switchgear - Isolators			30	0
Paving	Paved area		20	0
Pedestrian bridge substructure			50	0
Pedestrian bridge superstructure			50	0
Perimeter Protection	1.8m high brick wall		30	0
Perimeter Protection	1.8m high diamond mesh		15	0
Perimeter Protection	Concrete palisade fencing		30	0
Perimeter Protection	Precast concrete wall		30	0
Perimeter Protection	Steel palisade fencing		30	0
Pilot cables			50	0
Pipe - sewer	Clay		100	0
Pipe - sewer	Concrete		40	0

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Pipe - sewer	uPVC		80	0
Pipe - stormwater	Concrete		50	0
Pipe - water	AC		40	0
Pipe - water	GRP		80	0
Pipe - water	HDPE		80	0
Pipe - water	Steel		80	0
Pipe - water	uPVC		80	0
Plumbing	standard installation		20	0
Points (rail)			30	0
Pole Transformer	Pole transformer		45	0
Power factor equipment	Capacitor bank		50	0
Power factor equipment	three phase, 20 min battery back-up		30	0
Pump - hand			15	0
Pump - sewer			15	0
Pump - submersible			10	0
Pump - water			15	0
Radio			50	0
Rail bridge abutments			80	0
Rail bridge side barrier			80	0
Rail bridge sub-structure			80	0
Rail bridge super-structure			80	0
Rail lines			50	0
RC Structure			50	0
Retaining wall			60	0
Ring Main Unit			45	0
Road bridge abutments			80	0
Road bridge side barrier			80	0
Road bridge sub-structure			80	0
Road bridge super-structure			80	0
Road marking			5	0
Road reserve		Agricultural holdings	NA	0
Road structural layer		Access	80	0

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Road structural layer		Arterial / Distributor	30	0
Road structural layer		Collector	50	0
Road surface	Bituminous (Medium)	Collector	9	0
Road surface	Bituminous (Thick)	Arterial / Distributor	12	0
Road surface	Bituminous (Thin)	Access	7	0
Road surface	Concrete		20	0
Road surface	Gravel		3	0
Roof	Sheet metal		30	0
Roof	Thatch		40	0
Roof	Tiled		40	0
Roof	flat concrete (170mm thick)		40	0
Router	3825-IPVOICE-M		10	0
Router	Cisco 1200 Pnode 10 slot		10	0
Router	Cisco 1721		5	0
Router	Cisco 2621		5	0
Router	Cisco 3640		5	0
Router	Cisco 3661 Ac		5	0
Router	Cisco 3725		10	0
Router	Cisco 3745		5	0
Router	Cisco 7606		5	0
Router	Cisco 7609		10	0
Router	Cisco VG 248		10	0
Security Device	AGM(Anomaly Guard Module)		10	0
Security Device	AIP-SSM		10	0
Security Device	AS5400XM		10	0
Security Device	ASA(Adaptive Security Appliance)		10	0
Security Device	C3825		10	0
Security Device	CS-MARS		5	0
Security Device	Cisco 3845		10	0
Security Device	IDSM2(intrusion detection service module)		10	0
Security system	Security and access control		10	0
Septic Tank			40	0
Server			5	0
Servitude			NA	0
Sign - general			15	0

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Sign - regulatory			7	0
Small building / enclosure	Brick, block walls & concrete roof slab		50	0
Small building / enclosure	Brick, block walls & other roof		50	0
Small building / enclosure	Steel		20	0
Speed hump			50	0
Sports field	Cricket		30	0
Sports field	Netball / basketball		15	0
Sports field	Rugby / soccer		30	0
Squash court	Regulation size - indoor		15	0
Stadium			50	0
Storage Area Network			10	0
Street Light			45	0
Sub-soil drain	Dewatering sub-soil drain		50	0
Surge Arrestor			15	0
Swimming pool			20	0
Switch			10	0
Tank	Galvanised steel panel		30	0
Tank	Plastic		15	0
Telemetry			15	0
Tennis court	Floodlit		15	0
Timber structure			15	0
Traffic island			30	0
Traffic signal			15	0
Transformer			45	0
UPS	APC UPS 40 - 80 KVA		40	0
UPS	American Power Conversion Corp.		20	0
Valve	Air release		15	0
Valve	Butterfly		20	0
Valve	Non-return		15	0
Valve	Pressure Reducing		15	0
Valve	Resilient seal		20	0
Vending Station			30	0
VIP Latrine	Double		15	0
VIP Latrine	Single		5	0
Voltage Transformer			45	0

Component Type	Descriptor Type	Descriptor Class	EUL (yrs)	Residual Value (%)
Walls	Complete building (internal and external)		60	0
Walls	Face brick		60	0
Walls	Fibre cement board, timber frame, plaster board		60	0
Walls	Metal sheet , plaster board		30	0
Walls	Plastered brick		60	0
Walls	Semi-face brick		60	0
Water Meter	Mechanical		10	0
Weigh bridge			15	0
Well	Well & lining		30	0
Wireless Access Point			5	0

OFFICE EQUIPMENT	**EUL (YEARS)**
COMPUTER HARDWARE	5
COMPUTER SOFTWARE	3
OFFICE MACHINES	3
AIR CONDITIONERS	5
FURNITURE AND FITTINGS	EUL (YEARS)
CHAIRS	7
TABLES AND DESKS	7
CABINETS AND CUPBOARDS	7
FURNITURE AND FITTINGS OTHER	7
BINS AND CONTAINERS	EUL (YEARS)
HOUSEHOLD REFUSE BINS	5
BULK CONTAINERS	10
EMERGENCY EQUIPMENT	EUL (YEARS)
FIRE EQUIPMENT	15
AMBULANCE EQUIPMENT	5
FIRE HOSES	5

OFFICE EQUIPMENT	EUL (YEARS)
EMERGENCY LIGHTS	5
MOTOR VEHICLES	EUL (YEARS)
FIRE ENGINES	20
BUSES	15
MOTOR VEHICLES	5
MOTOR CYCLES	3
TRUCKS AND BAKKIES	5
AIRCRAFT	15
WATERCRAFT	15
PLANT AND EQUIPMENT	EUL (YEARS)
GRADERS	10
TRACTORS	10
MECHANICAL HORSES	10
FARM EQUIPMENT	5
LAWNMOWERS	2
COMPRESSORS	5
LABORATORY EQUIPMENT	5
RADIO EQUIPMENT	5
FIRE ARMS	5
TELECOMMUNICATION EQUIPMENT	5
PLANT AND EQUIPMENT GENERAL	5
CABLE CARS	15
IRRIGATION SYSTEMS	15
CREMATORS	15
LATHES	15
MILLING EQUIPMENT	15
CONVEYORS	15

OFFICE EQUIPMENT	**EUL (YEARS)**
FEEDERS	15
TIPPERS	15
PULVERISING MILLS	15

ANNEXURE B:
MUNICIPAL ASSET TRANSFER REGULATIONS

Transfer or disposal of non-exempted capital assets - Decision-making process for municipalities

- The municipality may transfer or dispose of a **non-exempted capital asset** only after –
  - the accounting officer has conducted a public participation process to facilitate the determinations the council must make (the determinations are that council must decide on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services and consider the fair market value of the asset and the economic and community value to be received in exchange for the asset); and
  - the municipal council –
    - has made the determinations; and
    - has as a consequence of those determinations approved in principle that the capital asset may be transferred or disposed of.

The accounting officer may only conduct the public participation process if the capital asset is a high value capital asset or if the combined value of any capital assets a municipality intends to transfer or dispose of in any financial year exceeds five per cent of the total value of its assets, as determined from its latest available audited annual financial statements.

  - Only the municipal council may authorise the public participation process.
  - A request to the municipal council for authorisation of a public participation process must be accompanied by an information statement stating –
    - the value of the capital asset to be transferred or disposed of and the method of valuation used to determine that valuation (the value must be determined in accordance with the accounting standards that the municipality is required by legislation to apply in preparing its annual financial statements);
    - the reason for the proposal to transfer or dispose of the capital asset;
    - any expected benefits to the municipality that may result from the transfer or disposal;
    - any expected proceeds to be received by the municipality from the transfer or disposal; and
    - any expected gain or loss that will be realised or incurred by the municipality arising from the transfer or disposal.

◦ The municipal council may delegate to the accounting officer its power to make the determinations and approve the transfer or disposal in respect of movable capital assets below a value determined by the municipal council.

- Public participation process for municipalities
  - If the municipal council authorised the accounting officer to conduct a public participation process in connection with any proposed transfer or disposal of a high value capital asset or assets with a total value which exceeds five per cent of the total value of its assets, as determined from its latest available audited annual financial statements, the accounting officer must at least 60 days before the meeting of the council at which the determinations are to be considered –
    - in accordance with section 21A of the Municipal Systems Act make public the proposal to transfer or dispose of the capital asset together with the information statement; and
    - invite the local community and other interested persons to submit comments or representations in respect of the proposed transfer or disposal to the municipality.
  - Request the views and recommendations of the National Treasury and the relevant provincial treasury on the matter.
- Consideration of proposals to transfer or dispose of non-exempted capital assets

◦ When considering any proposed transfer or disposal of a non-exempted capital asset, the municipal council must consider the following:
  - whether the capital asset may be required for the municipality's own use at a later date;
  - the expected loss or gain that is expected to result from the proposed transfer or disposal;
  - the extent to which any compensation to be received in respect of the proposed transfer or disposal will result in a significant economic or financial cost or benefit to the municipality;
  - the risks and rewards associated with the operations or control of the capital asset that is to be transferred or disposed of in relation to the municipality's interest;
  - the effect that the proposed transfer or disposal will have on the credit rating of the municipality, its ability to raise long-term or short-term borrowings in the future and its financial position and cash flow;
  - any limitations or conditions attached to the capital asset on the transfer or disposal of the asset, and the consequences of any potential non-compliance with those conditions;
  - the estimated cost of the proposed transfer or disposal;
  - the transfer of any liabilities and reserve funds associated with the capital asset;
  - any comments or representations on the proposed transfer or disposal received from the local community and other interested persons;
  - any written views and recommendations on the proposed transfer or disposal by the National Treasury and the relevant provincial treasury;
  - the interest of any affected organ of state, the municipality's own strategic, legal and economic interests and the interest of the local community; and
  - compliance with the legislative regime applicable to the proposed transfer or disposal.

Transfer or disposal of non-exempted capital assets - Decision-making process for municipal entities

• The municipal entity may transfer or dispose of a **non-exempted capital asset** only after –

◦ the accounting officer of the entity has conducted a public participation process to facilitate the determinations the council of the controlling municipality of the entity must make (the determinations are that the council of the controlling entity shall decide on reasonable grounds that the capital asset is not needed to provide the minimum level of basic municipal services and consider the fair market value of the asset and the economic and community value to be received in exchange for the capital asset); and

◦ the council of the controlling municipality of the municipal entity –
  - has made the determinations; and
  - has as a consequence of those determinations approved in principle that the capital asset may be transferred or disposed of.

The accounting officer may only conduct a public participation process if the capital asset is a high value capital asset or if the combined value of any capital assets a municipal entity intends to transfer or dispose of in any financial year exceeds five per cent of the total value of its assets, as determined from its latest available audited annual financial statements.

◦ Only the council of the controlling municipality of the municipal entity may authorise the public participation process.

◦ A request to the municipal council for authorisation of a public participation process must be accompanied by an information statement approved by the board of directors of the municipal entity stating –
  - the value of the capital asset to be transferred or disposed of and the method of valuation used to determine that valuation (the value must be determined in accordance with the accounting standards that the municipal entity is required by legislation to apply in preparing its annual financial statements);

- the reason for the proposal to transfer or dispose of the capital asset;
- any expected benefits to the municipal entity that may result from the transfer or disposal;
- any expected proceeds to be received by the municipal entity from the transfer or disposal; and
- any expected gain or loss that will be realised or incurred by the municipal entity arising from the transfer or disposal.

◦ The council of the controlling municipality of a municipal entity may delegate to the accounting officer of the entity its power to make the determinations and approve the transfer or disposal in respect of movable capital assets below a value determined by the municipal council.

• Consideration of proposals to transfer or dispose of non-exempted capital assets

◦ When considering any proposed transfer or disposal of a non-exempted capital asset, the council of the controlling municipality must consider the following:

- whether the capital asset may be required for the municipality or the municipal entity under the municipality's sole or shared control at a later date;
- the expected loss or gain that is expected to result from the proposed transfer or disposal;
- the extent to which any compensation to be received in respect of the proposed transfer or disposal will result in a significant economic or financial cost or benefit to the municipality or municipal entity;
- the risks and rewards associated with the operations or control of the capital asset that is to be transferred or disposed of in relation to the interest of the municipality or the municipal entity;
- the effect that the proposed transfer or disposal will have on the credit rating of the municipality entity, its ability to raise long-term or short-term borrowings in the future and its financial position and cash flow;
- any limitations or conditions attached to the capital asset on the transfer or disposal of the asset, and the consequences of any potential non-compliance with those conditions;
- the estimated cost of the proposed transfer or disposal;
- the transfer of any liabilities and reserve funds associated with the capital asset;
- any comments or representations on the proposed transfer or disposal received from the local community and other interested persons;
- any written views and recommendations on the proposed transfer or disposal by the National Treasury and the relevant provincial treasury;
- the interest of any affected organ of state, the strategic, legal and economic interest of the municipality and the municipal entity and the interest of the local community; and
- compliance with the legislative regime applicable to the proposed transfer or disposal.

Provisions applicable to both the municipality and municipal entities

• Conditional approval of transfer or disposal of non-exempted capital assets.

◦ An approval in principle that a non-exempted capital asset may be transferred or disposed of, may be given subject to any conditions, including conditions specifying –

- the way in which the capital asset is to be sold or disposed of;
- a floor price or minimum compensation for the capital asset;
- whether the capital asset may be transferred or disposed of for less than its fair market value, in which case the municipal council must first consider:

› the interest of State and the local community

› the strategic and economic interest of the municipality or municipal entity;

› the constitutional rights and legal interest of all affected parties;

› whether the interest of the parties to the transfer will carry more weight than the interest of the local community, and how the individual interest is weighed against the collective interest; and

›whether the local community will be better served if the capital asset is transferred at less than its fair market value, as opposed to a transfer of the asset at fair market value.

- A framework within which direct negotiations for the transfer or disposal of the capital asset must be conducted with another person, if transfer or disposal is subject to direct negotiations.

• Transfer or disposal of non-exempted capital assets to be in accordance with the disposal management system.

◦ If approval has been given that a non-exempted capital asset may be transferred or disposed of, the municipality or municipal entity may transfer or dispose of the asset only in accordance with its disposal management system, irrespective of-

– the value of the capital asset; or

– whether the capital asset is to be transferred to a private sector party or an organ of state.

◦ The disposal management system of a municipality or municipal entity does not apply to the transfer of a non-exempted capital asset if –

– the municipality – reviews in terms of Chapter 8 of the Municipal Systems Act its service delivery mechanisms of the performance of a municipal service;

– appoints a private sector party through a competitive bidding process as the service provider for the performance of that municipal service; and

– transfers the capital asset as an integral component of the performance of that municipal service to that service provider; or

◦ the municipality or municipal entity –

– appoints a private sector party or organ or state through a competitive bidding process as the service provider for the performance of a commercial service, and

– transfers the capital asset as an integral component of the performance of that commercial service to that service provider.

◦ the municipality or municipal entity may negotiate directly with the selected service provider regarding the transfer of a capital asset.

◦ A municipality or municipal entity may not commence with the transfer and disposal of capital assets unless approval in principle has been given that the relevant capital asset may be transferred or disposed of.

◦ In applying the process of transfer and disposal of capital assets the municipality or municipal entity must consider the gain or loss that will –

– result from the transfer or disposal of the relevant capital asset; and

– be recorded in the accounting records of the municipality or municipal entity.

• Compensation for transfer of non-exempted municipal capital assets.

◦ the compensation payable to a municipality or municipal entity for the transfer of a non- exempted capital asset must:

- be consistent with criteria applicable to compensation set out in the disposal management system of the municipality or municipal entity; and

- if the municipality or municipal entity appoints a private sector party or organ or state through a competitive bidding process as the service provider for the performance of a commercial service, and transfers the capital asset as an integral component of the performance of that commercial service to that service provider, reflect the fair market value.

• Preconditions for transferring non-exempted capital assets as part of appointment of service providers for performance of municipal or commercial services.

- ◦ If a municipality or municipal entity intends to transfer to a private sector party or organ of state a non-exempted capital asset following the selection through a competitive bidding process of a service provider for the performance of a municipal service or for the performance of a commercial service;
  - all assets needed or directly related to the performance of that service must be properly identified to distinguish those assets from the other assets of the municipality or municipal entity;
  - all decisions that has been made regarding the determinations required and the approval of a transfer or disposal of in principle, must be taken as an integral part of the broader decision-making process on the appointment of a service provider for the performance of that service; and
  - all documents prepared for that purpose of those decisions, must be taken into account in any feasibility study conducted to determine the financial and other implications of appointing a service provider for the performance of that service.

- Transfer of municipal assets to service providers appointed through competitive bidding
  - ◦ If a service provider is appointed for the performance of a municipal service or for the performance of a commercial service; the municipality or municipal entity may, as may be agreed with the service provider and subject to section 14(1) of the MFMA Act, transfer to that service provider all capital assets, including subsidiary assets, essential to the performance of that service.
  - ◦ Capital and subsidiary assets that may be transferred as essential to the performance of the service may include –
    - Land, property and buildings and other immovable structures used for or in connection with that service, irrespective of whether the land, property, buildings or other immovable structures are classified as investment property in the accounting records of the municipality or municipal entity;
    - Intangible assets recorded in the accounting records of the municipality or municipal entity as an integral part of that service.
- Discharge of borrowings on assets transferred or disposed.
  - ◦ The proceeds from the transfer or disposal of an asset must be used to discharge any borrowing against the asset as at its redemption date, or another date as may be negotiated with the lender.
  - ◦ Municipalities and municipal entities may negotiate with the private sector party or organ of state to whom the asset is transferred, to discharge borrowings made against the asset by the municipality or municipal entity, as part of the compensation payable to the municipality or entity.
- Transfer of agreements
  - ◦ A municipality or municipal entity may transfer assets approved for transfer to a private sector party or organ of state, only by way of a written transfer agreement concluded between the transferring municipality or entity and the receiving private sector party or organ of state.
  - ◦ A transfer agreement must set out the terms and conditions of the transfer, including, as a minimum-
    - a sufficient description of the capital asset being transferred in order to identify the asset;
    - particulars of any subsidiary assets that are transferred with the capital asset;
    - particulars of any liabilities transferred with the asset;
    - the amount of the compensation payable to the municipality of municipal entity for the transfer of the asset or assets, and the terms and conditions of payment; and
    - the effective date from which the risk and accountability for the asset or assets is transferred to the receiving private sector party or organ of state.
  - ◦ If a capital asset is transferred following the selection through a competitive bidding process of a service provider for the performance of a municipal service or for the performance of a commercial service; the transfer agreement –
    - must contain provision for –

› contract termination in the case of non-or underperformance;

› dispute resolution mechanisms to settle disputes between the parties; and

› a periodic review of the agreement once every three years, in the case of an agreement for longer than three years; and

- may be incorporated into any service delivery agreement or procurement contract to be concluded with the service provider.

• Access to transfer agreements

◦ An agreement in terms of which a municipality or municipal entity transfers a non-exempted capital asset:

- must be made available in its entirety to the council of the municipality or the council of the controlling municipality of the municipal entity; and
- may not be withheld from public scrutiny except as provided for in terms of the Promotion of Access to Information Act, 2000 (Act No. 2 of 2000).

The above section on non-exempted assets does not apply to:

◦ *Non-exempted capital assets in terms of public-private partnerships; or*

◦ *housing on municipal land and the transfer of that municipal land for the poor to beneficiaries of such housing.*

Transfer of Exempted Capital Assets

• Circumstances in which transfer of municipal capital assets to organs if state is exempted from sections 14 and 90.

◦ Section 14(1) to (5) and section 90(1) to (5) of the MFMA Act does not apply if a municipality or municipal entity transfers a capital asset to an organ of state in any of the following circumstances:

- when transfer of a capital asset emanates from a review by a municipality of its service delivery mechanisms for the performance of a municipal service in terms of Chapter 8 of the Municipal Systems Act and the municipality appoints another organ of state as the preferred option for the performance of the service;
- when transfer of a capital assets emanates from a reorganisation of powers and functions between a parent municipality and its municipal entity, including asset transfers contemplated in section 84 of the Act;
- when transfer of a capital asset emanates from an assignment of any of the powers or functions of a municipality to another organ of state by national legislation or in terms of a power contained in national legislation, including an assignment of powers or functions following-

› an adjustment of the division of powers and functions between a district municipality and local municipalities within the district in terms of section 85 of Municipal Structures Act;

› an authorisation in terms of section 84(3) of the Municipal Structures Act; or

› a re-demarcation of municipal boundaries in terms of the Municipal Structures Act;

- when municipal housing or land is transferred to a national or provincial organ of state for housing for the poor or in terms of a national or provincial housing policy;
- when transfer of a capital asset to an organ of state is required or permitted in terms of national legislation and that legislation determines the conditions of the transfer; or
- any other circumstances not provided in paragraph (a) to (c), provided that –

› the capital asset to be transferred is determined by resolution of the council to be not needed for the provision of the minimum level of basic municipal services and to be surplus to the requirements of the municipality; and

› if the capital asset is to be transferred for less than fair market value, the municipality takes into account-

- whether the capital asset may be required for the municipality or a municipal entity under the municipality's sole or shared control at a later date:
- the expected loss or gain that is expected to result from the proposed transfer;
- the extent to which any compensation to be received in respect of the proposed transfer will result in a significant economic or financial cost or benefit to the municipality;
- the risks and rewards associated with the operation or control of the capital asset that is to be transferred in relation to the interests of the municipality or municipal entity;
- the effect that the proposed transfer will have on the ability of the municipality or municipal entity to raise long-term or short-term borrowings in the future;
- any limitations or conditions attached to the capital asset or the transfer of the asset, and the consequences of any potential non-compliance with those conditions;
- the estimated cost of the proposed transfer;
- the transfer of any reserve funds associated with the capital asset;
- the interests of any affected organ of state, the municipality's own strategic, legal and economic interest and the interest of the local community; and
- compliance with the legislative regime applicable to the proposed transfer.

◦ Any transfer of a municipal capital asset to an organ of state may be effected only in accordance with this section on transfers of exempted capital assets and any other legislation specifically regulating the transfer of the asset, but in the event of any inconsistency between a provision of this section and such other legislation, that other legislation prevails.

• Municipal decision-making processes for transfer of exempted capital assets.

◦ If an exempted capital asset is to be transferred to an organ of state in connection with the performance of a municipal service or a reorganisation of powers or functions:

- all decisions relating to the transfer of the capital asset must be taken by the municipality or municipal entity as an integral part of the broader decision-making process on the selection of a service provider for the performance of the municipal service or on the reorganisation of powers or functions in terms of the legislation applicable to that process;
- any document prepared by the municipality or municipal entity for the purpose of conducting a public participation process to involve the community in decision-making must include details of the proposed transfer of the capital asset; and
- the proposed transfer of the capital asset must be taken into account in any feasibility study conducted to determine the financial and other implications of the selection of a service provider for the performance of the municipal service or of the reorganisation of powers or functions.

◦ If a feasibility study indicates that there will be a significant increase in the costs of the municipality or municipal entity after the transfer of the capital asset to the organ of state, the municipality or the controlling municipality of the entity must demonstrate-

– how the costs can be minimised by considering the sharing of administrative, information technology or financial costs between the municipality or municipal entity and the organ of state;

– how much revenue can be generated by the organ of state of which will be available to the municipality of municipal entity to offset any increased costs it will incur as a result of the transfer; and

– the extent to which the municipality or municipal entity can rationalise its administrative, information technology and financial costs subsequent to the transfer.

◦ A municipality transferring a capital asset to an organ of state as the preferred option for the performance of the service; must take all reasonable steps to ensure that the transfer will result in the continuation of the municipal service concerned at least at the same or better level that would otherwise have been rendered by the transferring municipality had it not transferred the asset.

- Identification of exempted capital assets to be transferred to organs of state
  - Before transferring an exempted capital asset to an organ of state a municipality or municipal entity must –
  - properly identify the capital asset, including –
    - in the case of a transfer relating to the performance of service, all other assets needed for or directly related to, and staff associated with, the performance of the municipal service concerned;
    - in the case of a transfer relating to the reorganisation of powers, all other assets needed for or directly related to, and staff associated with, the exercise of the power or function concerned; or
    - in the case of a transfer being land or housing or permitted by legislation, all other assets needed for or directly related to that capital asset; and
  - distinguish that asset and staff from the other assets and staff of the municipality or municipal entity.
- Transfer of exempted capital assets needed to provide minimum level of basic municipal services
  - If a municipality or municipal entity transfers to an organ of state an exempted capital asset needed to provide the minimum level of basic municipal services, such transfer may only be effected on condition that –
    - ownership in the capital asset must immediately revert to the municipality or municipal entity should the organ of state for any reason cease to render the service or is unable to render the service: and
    - the organ of state may not without the written approval of the municipality or controlling municipality of the municipal entity –

      › transfer the capital asset to another person;
      › dispose of the capital asset;
      › grant a right to another person to use, control or manage the capital asset; or
      › encumber the capital asset in any way.
  - before transferring an exempted capital asset needed to provide the minimum level of basic municipal services, the municipality or municipal entity must be satisfied that the organ of state to which the asset is to be transferred can demonstrate ability to adequately maintain and safeguard the asset.
  - The transfer agreement, service delivery or other agreement between the municipality or municipal entity and the organ of state to whom the asset is to be transferred must reflect the conditions mentioned above.
  - If the organ of state replaces, upgrades or improves the capital asset transferred to it, the conditions remain applicable to the new, upgraded or improved capital asset as it were the original capital asset.
  - This regulation does not apply to a capital asset needed to provide the minimum level of basic municipal services which is transferred to an organ of state, where the transfer of capital assets come from the assignment of any of the powers or functions of the municipality or municipal land or housing is transferred in terms of the national or provincial housing policy.
- Transfer of exempted capital assets for a service to be performed by another organ of state or for the assignment of powers and functions.
  - If a municipality appoints an organ of state as the service provider for the performance of a municipal service or if a power or function of a municipality or municipal entity is assigned to an organ of state, the municipality or entity must, as may be agreed with the organ of state, transfer to

that organ of state all capital assets, including subsidiary assets, essential to the performance of that municipal service or the exercise of that power or function.

  - Capital and subsidiary assets that must be transferred include –
    - land, property and buildings and other immovable structures used for or in connection with that service, power or function, irrespective of whether the land, property and buildings or other immovable structures are classified as investment property in the accounting records of the municipality or municipal entity;
    - intangible assets recorded in the accounting records of the municipality or municipal entity as an integral part of that service, power or function;

- Transfer of borrowings
  - If a municipality or municipal entity transfers an exempted capital asset to an organ of state, any borrowings or other amounts owing by the municipality or entity specifically associated with the asset being transferred, or with its acquisition, operation or maintenance, must also be transferred to the organ of state.
  - If the transfer of an exempted capital asset by a municipality or municipal entity to an organ of state emanates from the appointment of an organ of state as the service provide for the performance of a municipal service, or the assignment of a power or function of a municipality or entity to an organ of state, any borrowings or other amounts owing by the municipality or entity specifically associated with the performance of that municipal service or the exercise of that power or function, must also be transferred to that organ of state.
  - In addition, a portion of the outstanding balance of general borrowings on capital expenditure by the municipality or municipal entity which is attributable or associated with the capital asset being transferred or with the performance of the relevant municipal service or with the exercise of the relevant power or function must also be transferred to the organ of state, in a ratio of total value of capital assets being transferred to the organ of state to the total value of all capital assets of the municipality or entity, as appears in the accounting records of the municipality or entity.
  - The requirements on transfer of borrowings only applies if –
    - the creditor to whom the amount is owed consents to the transfer to the organ of state of the amount owing; and
    - any legal, operational, administrative or other constraints do not prevent the transfer to the organ of state of the amount owing.
  - If borrowing or other amount owing is transferred to an organ of, the organ of state –
    - replaces the municipality of municipal entity as debtor in relation to the borrowing or amount owing; and
    - becomes liable for the borrowing or amount owing as fully and effectually as is it originally entered into the agreement with the creditor.
  - If for any reason a borrowing or other amount owing, is not transferred to the organ of state –
    - the municipality or municipal entity remains liable for the amount owing to the creditor; and
    - the municipality or municipal entity and the organ of state undertakes to compensate the municipality or entity for all payments made by it to the creditor.
  - A borrowing or other amount owing, must be identified and allocated to the organ of state on a reasonable basis.
- Transfer of staff associated with performance of functions assigned to organs of state.
  - If a municipality or municipal entity transfers an exempted capital asset to an organ of state and the transfer of that asset gives rise to the transfer to the organ of state of staff associated with the asset the staff transfer must be consistent with legislation regulating staff transfers in those circumstances, including any applicable labour legislation and legislation regulating the transfer of liabilities associated with such staff.
- Compensation for transfer of assets

- ◦ If a municipality or municipal entity transferring an exempted capital asset or any subsidiary assets to an organ of state may receive compensation for the value of those assets, as may be agreed with the organ of state.

- Transfer of agreements
  - ◦ A municipality or municipal entity may transfer assets and liabilities to an organ of state only in accordance with a written transfer agreement concluded between the municipality or entity and the organ of state.
  - ◦ A transfer agreement must set out the terms and conditions of the transfer, including, as a minimum –
    - – a sufficient description of the capital asset being transferred in order to identify the asset;
    - – particulars of any subsidiary assets that are transferred with the capital asset;
    - – details of all staff that will be affected and the legislation in terms of which such staff will be transferred;
    - – particulars of any liabilities transferred with the asset;
    - – the amount of any compensation payable to the municipality or municipal entity for the transfer of the asset, and the terms and conditions of payment;
    - – the effective date from which the risk and accountability for the asset or asset is transferred to the organs of state;
    - – in instances in which the organ of state is required or chooses to use the billing, information technology or any other administrative structure of the municipality or municipal entity in the operation of the asset, the terms and conditions of such usage together with basis of compensation for such usage and the financial risk exposure to the municipality or entity.
    - – details of any staff of the municipality or municipal entity that will be available to the organ of state on a temporary or defined basis in the operation of the asset, together with the basis of compensation for such staff and the financial risk exposure to the municipality or entity;
    - – where the asset is to be used by both the municipality or municipal entity and the organ of state, the basis of how the asset is to be shared as well as how the costs and benefits of the shared asset will be apportioned between parties;
    - – the value of the asset must be determined;
    - – appropriate evidence to support the valuation of the asset; and
    - – details of any encumbrances, rights and servitudes, applicable to the asset
    - – state that the transfer is affected on the basis of the provisions and that these provisions must for this purpose be regarded as forming part of the agreement; and
    - – be signed on behalf of the municipality or municipal entity and the organ of state.
  - ◦ If a capital assets is transferred following the appointment of an organ of state as the service provider for the performance of a municipal service, the transfer agreement must provide for–
    - – contract termination in the case of non- or underperformance, which must be linked to termination of any serviced delivery agreement entered into between parties;
    - – dispute resolution mechanisms to settle disputes between the parties;
    - – a periodic review of the agreement whenever the service delivery agreement to which it is linked is reviewed in terms of the Municipal Systems Act, but at least once every three years in the case of an agreement for longer than three years; and
    - – requirements for the organ of state to maintain and safeguard the asset for its intended purpose, taking into account the condition of the asset and its estimated remaining life at the date of transfer;
  - ◦ the transfer agreement may contain –
    - – limitations or restrictions on the use or subsequent transfer of the asset; and
    - – limitations and conditions by which an asset may be used for the provision of security over any borrowing of the organ of state; and

  - may be incorporated into any service delivery agreement to be concluded with the organ of state as service provider.
- Impact of asset transfers on financial interest of transferring municipalities and municipal entities
  - Before entering into a transfer agreement, a municipality or municipal entity must consider the effect that the transfer of an asset will have on –
    - its credit rating and ability to raise long-term or short-term funds in the future; and
    - its financial position and cash flow.
  - The above statement does not apply if the asset is transferred because of the assignment of a power or function, transfer of municipal land and housing for the poor or when a transfer is permitted according to national legislation.
- Due diligence
  - Before entering into a transfer agreement, the organ of state to whom a capital asset is to be transferred must undertake and document a due diligence review on the asset and any liabilities transferred to it.