

ITEM 72 (107)

SEC 80: FIN, MC, WRDM

BUDGET AND TREASURY: REDUNDANT AND IRREPARABLE ASSETS

5/1

PURPOSE:

The purpose of the report is to request approval from Council to dispose of all redundant and irreparable assets in line with Council approved policy.

BACKGROUND:

Section 14 of the Local Government Municipal Finance Management Act (Act No 56 of 2003) (MFMA) provides for the disposal of capital assets. The section *inter alia* provides:

- (1) A municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipality services.
- (2) A municipality may transfer ownership or otherwise dispose of a capital asset other than one contemplated in subsection (1), but only after the municipal council in a meeting open to the public –
 - (a) has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal service, and
 - (b) has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- (3) A decision by a municipal council that a specific capital asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset has been sold, transferred or otherwise disposed of.
- (4) A municipal council may delegate to the accounting officer of the municipality its power to make the determinations referred to in subsection (2)(a) and (b) in respect of movable capital assets below a value determined by the council.

- (5) Any transfer of ownership of a capital asset in terms of subsection (2) and (4) must be fair, equitable, transparent, competitive and consistent with the supply chain management policy which the municipality must have and maintain in terms of section 111.

The Supply Chain Management Regulation provides that the Supply Chain Management Policy of the municipality must provide for an effective system of disposal management for the disposal or letting of assets, including, unserviceable, redundant or obsolete assets, subject to sections 14 and 90 of the Act.

DISCUSSION

The West Rand District Municipality (WRDM) has appointed a service provider for the conditional assessment of assets for a period of three (2) years. The conditional assessment processes includes identifying any assets that may be impaired or that are no longer required to offer the minimum service delivery as required by Generally Recognized Accounting Principles (GRAP) for purposes of preparation and presentation of financial statements.

Individual departments were further consulted to identify all redundant and irreparable assets in the municipality.

The Asset Management Policy provides as follows:

“7.4 Disposal

Where assets have been identified as under-performing, or no longer functionally suited for basic service-delivery needs, consideration shall be given to the possible alternatives to disposal.

Reasonable grounds for determining that a capital asset is not required for the provision of the minimum level of basic municipal services shall include the following:

- *The asset was acquired specifically for resale or distribution*
- *The asset is impaired (in respect of which the asset custodian can provide evidence).*
- *The municipality no longer performs the function for which the asset was purchased,*
- *It is an immovable asset no longer located close to where the service is required.*
- *The asset has been replaced.*
- *The asset no longer performs the required level of service.*

The following standing requirements shall apply regarding disposal of capital assets:

- *The municipality shall not permanently dispose of a capital asset needed to provide the minimum level of basic municipal services:*
- *Where the council has resolved that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset has been sold, transferred or otherwise disposed of.*

To ensure that a disposal is fair, equitable, transparent and competitive, the following shall happen:

- *The fair market value for different types of assets identified for disposal shall be determined:*
- *The disposal process shall be open to the public and public scrutiny and consistent with the municipality's supply chain management policy;*
- *Consideration shall be given to the fair market value of the asset and to the economic and community value to be received in exchange for the asset.*
- *Reasonable efforts shall be made to ensure that an appropriately competitive process for disposal is adopted;*
- *All assets identified for disposal shall be efficiently and properly secured to avoid the risk of theft or misappropriation while waiting for disposal processes to be initiated.*

The municipal manager may approve the disposal of an item of property, plant and equipment as delegated by the municipal council. The delegations to approve the disposal of an item of property, plant and equipment are stated in the Supply Chain Management Policy.

7.4.1 Asset disposal methods

Assets can be disposed of in the following methods;

- *Transfer*
- *Auctions;*
- *Bidding;*
- *Donations;*
- *Destruction; and*
- *Scrapping”*

A list of all assets identified as redundant and/or irreparable in terms of Council approved policy, are herewith attached as *Annexure*.

RECOMMENDATION THAT:

1. The draft redundant & irreparable assets as reflected in the attached *Annexure* are disposed of in compliance with the WRDM Asset Policy.
2. Council mandate the Finance Portfolio Committee to undertake an *in-loco* inspection of the redundant and irreparable assets.
3. A public auction be arranged and advertised in order to dispose such assets.