

# **JOE MOROLONG LOCAL MUNICIPALITY**



## **ASSET DISPOSAL POLICY**

## INDEX

## PAGE

### Contents

1.	INTRODUCTION .....	2
2.	OBJECTIVE.....	2
3.	LEGISLATIVE FRAMEWORK .....	3
4.	POLICY PRINCIPLES .....	3
5.	SCOPE .....	5
6.	DEFINITIONS .....	6
7.	DISPOSAL COMMITTEE .....	6
8.	PLANNING FOR DISPOSALS.....	7
9.	ASSESSING DISPOSALS.....	9
10.	APPROVAL OF DISPOSALS .....	11
11.	METHOD OF DISPOSAL .....	11
11.1	Auction .....	12
11.2	Tender.....	12
11.3	Procedures to be followed when disposing an asset.....	13
11.4	Free Disposal of municipality assets .....	14
12.	Lack of other possible purchasers .....	16
13.	FINAL AUTHORISATION OF DISPOSAL .....	16
14.	TRANSFER OF OWNERSHIP .....	17
15.	CALCULATION OF THE PROFIT AND LOSS ON DISPOSAL .....	17
16.	ACCOUNTING FOR THE DISPOSAL OF ASSETS .....	19
17.	UPDATING THE POLICY .....	19

## **1. INTRODUCTION**

The purpose of the Asset Disposal Policy is to provide a framework for the disposal of the municipality's assets that are not needed to provide the minimum level of basic municipal services and that are surplus to the municipality's requirements.

Section 14 of the Municipal Finance Management Act (Act No. 56, 2003) states:

“A municipality may not transfer ownership because of a sale or other transaction, or otherwise permanently dispose of any capital asset needed to provide a minimum level of basic municipal services.

A municipality may transfer ownership or otherwise dispose of a capital asset, other than an asset mentioned above, only after the disposal committee meeting:

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

## **2. OBJECTIVE**

The objectives of the Asset Disposal Policy are to:

- Ensure that only assets that do not provide the minimum level of basic municipal services are disposed of.
- Ensure that assets are not disposed when the disposal of the asset or the terms of the disposal of the asset could disadvantage the municipality or community financially or otherwise.
- Ensure that all disposals are, in terms of section 14 (5) of the Municipal Finance Management Act (Act No. 56, 2003), fair, equitable transparent, competitive, and consistent with the Supply Chain Management Policy of the municipality.

### **3. LEGISLATIVE FRAMEWORK**

In applying this policy, the Municipality will adhere to:

- Municipal Finance Management Act (Act no. 56 of 2003).
- Municipal Systems Act no 32 of 2000 as amended.
- Municipal Structures Act no 117 of 1998.
- Municipal Property Rates Act 2004
- Broad Based Black Economic Empowerment Act (Act No. 53 of 2003).
- Constitution of the Republic of South Africa, 1996.
- Development Facilitation Act (Act No. 67 of 1995).
- Extension of Security of Tenure Act (Act No. 62 of 1997).
- Municipal Asset Transfer Regulations (GN R878 in GG 31346 of 2008) (hereafter referred to as the Regulations).

### **4. POLICY PRINCIPLES**

- 4.1 Utilization of land and other immovable assets is guided by the Municipality' Integrated Development Plan (IDP), the Spatial Development Framework and the Asset Management Strategy.
- 4.2 Council may acquire, use, or dispose of any capital assets owned by the Municipality, unless it is precluded from so doing by law or the conditions under which such immovable assets were acquired by the Municipality.
- 4.3 The disposal of land and other immovable capital assets is subject to the following:
  - a) Preference for the disposal of land and other immovable capital assets will be given to HDI's, i.e. designated groups: youth, women, and people with disabilities, in accordance with the Supply Chain Management Policy of the Municipality.
  - b) The disposal of municipal land (particularly industrial and commercial) will be biased towards the HDI's. This is applicable in terms of both quantity (including size) and the value of land acquisition and alienation. This is subject to the following conditions:

- i. Any disposal of municipal capital assets shall not unfairly discriminate against individuals not defined as HDIs.
    - ii. In a bid for municipal land or other immovable capital assets, where bidders are equally competitive; preference will be given to HDIs, in accordance with the Supply Chain Management Policy of the Municipality.
    - iii. Special affirmative measures towards HDI's may be applied by the Municipality to ensure fairness in the disposal process of land or other immovable capital assets in accordance with the Preferential Procurement Regulations.
  - c) Preference will be given to bids that support economic development initiatives on a macro scale, including tourism initiatives.
  - d) Land for residential purposes will be alienated, whilst land for non-residential purposes such as commercial and industrial erven may be leased or sold at the discretion of the council.
  - e) Land may be disposed of as collateral for major development investment in pursuance of Public-Private Partnerships (PPPs) as envisaged in section 120 of the MFMA.
  - f) Council will set aside some parcels of land to be utilized at its own discretion, and the rest may be alienated to the public.
  - g) Council reserves the right not to dispose of any portion of land.
- 4.4 The implementation of these policy principles will be used to enhance and not stifle economic development.
- 4.5 The Council may dispose of land or other immovable capital assets only once it is satisfied that such an asset is not needed to provide the minimum level of basic municipal service, in accordance with section 14(1) of the MFMA and Council has complied with subsections (2) to (6) thereof.
- 4.6 A decision by the 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.
- 4.7 Council reserves the right to limit the number of acquisitions per bidder in the disposal

process.

- 4.8 Unless otherwise expressly provided for in any other law and whereas, various legislation provide for the disposal of land at market related prices, land or other immovable capital assets can only be disposed of at less than the market related value, subject to approval by Council upon consideration of the following factors:
- a) Whether the immovable capital asset is surplus to requirements and may not be needed for its own requirements at a later date.
  - b) The envisaged purpose or use of the capital assets.
  - c) Current market value (details of how arrived at) and the value to be received in exchange for the disposal.
  - d) Comparison of disposal methods.
  - e) Examination of costs and benefits of each disposal method and
  - f) If disposal is envisaged by way of an offer to purchase, all documentation (including minutes of meeting/s held) pertaining to said offer must be submitted to Council prior to conclusion of such an offer.
- 4.9 Should Council consider it desirable not to accept the highest bid or decide to accept a particular development proposal in which the amount of the bid is not the highest offer, the reasons for this decision must be fully set out and recorded in the minutes of the Council meeting in question. Such a decision must be consistent with paragraph 13(2) of the Regulations.
- 4.10 In assessing bids, Council may take cognizance of the total cash and developmental value of the packages offered by the bidders where such packages are permissible in terms of the conditions of the bid
- 4.11 The Municipality may elect to link the sale or development of land within a single transaction to the development of municipal infrastructure or any other public infrastructure.

## **5. SCOPE**

The Asset Disposal Policy is applicable to all Departments of the municipality and

assets owned by the municipality.

## **6. DEFINITIONS**

<b>Asset</b>	An asset shall mean any resource controlled by the municipality, from which the municipality expects to derive economic benefits or use for service delivery to the general public over a period extending beyond one financial year.
<b>Basic municipal service</b>	Basic municipal service means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment.
<b>Carrying amount</b>	Carrying amount is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
<b>Council</b>	Council means the Municipal Council of the Joe Morolong Local Municipality, its legal successors in title and its delegates.
<b>Disposal</b>	Disposal means a process of preparing, negotiating and concluding a written contract where necessary which involve the alienation of an asset no longer needed by the municipality by means of a sale, a lease or a donation.
<b>Fair value</b>	The fair value of an asset is the amount obtainable from the sale of the asset in an arm's length transaction between willing parties less the selling costs.

## **7. DISPOSAL COMMITTEE**

- a) The disposal management system requires the accounting officer to establish and appoint the Disposal committee in writing. The committee consists of :
- (i) Manager Supply Chain Management (Chairperson)
  - (ii) Manager Expenditure

- (iii) Manager IT
- (iv) Senior Legal Advisor
- (v) Asset Management Officer (Secretariat for the Disposal Committee)

b) Meeting of the committee

- (i) The disposal committee is required to meet at least twice a year, or as when the need arises.
- (ii) There shall be a quorum of (50% + 1) before the commencements of the proceedings.
- (iii) All meetings must be recorded for audit purposes.

## **8. PLANNING FOR DISPOSALS**

- a) Departments are responsible for the strategic planning for the disposal of assets that cause the municipality not to perform service delivery efficiently and effectively.
- b) Planning for disposals must be conducted by Departments on an annual basis and revised on quarterly basis and must be submitted to the Disposal Committee for approval. The planning should involve a detailed assessment of assets identified as surplus, redundant or obsolete by the Departmental Unit.



- c) Surplus, obsolete or redundant assets include the following:
- d) Assets not required for the delivery of services, either currently, or over the longer planning period.
  - e) Assets that have become uneconomical to maintain or to operate.
  - f) Assets that are not suitable for service delivery.
  - g) Assets that have a negative impact on the service delivery of the municipality, the environment or the community.
  - h) Assets that no longer support a Departmental Unit's service objective due to a change in type of service being delivered or the delivery method.
  - i) Assets where the use has become uneconomical to continue due to the limited availability of spares or the cost of replacement parts exceed the reasonable value of the item.
  - j) Assets where the technology has been outdated.
  - k) Assets which can no longer be used for the purpose originally intended.
- l) Planning for disposals offers Departments the means of disposal of surplus assets timed to minimize disruption to their service delivery and maximize returns by selecting appropriate time in the asset's life cycle.

Fleet management unit is fully responsible for the correct procedures to be followed in the event of a vehicle being sold via tender or auction and must ensure that:

- m) Vehicles classified as unserviceable, obsolete or redundant must be kept in a safe and secure building until such time of the disposal.
- n) All copies of the change of ownership and documents must be filed in the vehicle file.

- o) All vehicle disposal forms are completed and signed by the responsible person in the Finance Department who will in return remove the vehicle details from the asset register and insurance schedules; and
- p) All vehicle details be removed from the fleet listing and re-allocate the unique number to the next new vehicle purchased.

## **9. ASSESSING DISPOSALS**

- a) The Disposal Committee is responsible for assessing the disposals proposed by the Departments of the municipality. The Disposal Committee shall also consider the following factors:
  - i. Whether there are net disposal benefits, either in financial or other forms.
  - ii. Whether there is secondary service obligations associated with the asset which dictates its retention.
  - iii. Whether a disposal can be carried out without adverse impacts on the physical environment.

- b) In assessing the benefits of disposal, the advantages and disadvantages for the whole municipality, not just the controlling Departmental Unit, must be considered. Assets that have been identified as surplus may need to be retained due to heritage, social, environmental considerations or requirements of other Departments.
- c) The symbolic importance and the cultural significance of assets should also be considered when assessing the disposal of the asset.
- d) The Disposal Committee should consider the advantages of engaging experts if their experience in disposal activities is infrequent or not core business to assist with the activities in the disposal cycle.
- e) Not all assets identified as surplus will be able to be sold at a value greater than its carrying amount. In such circumstances, the advantages of disposing the asset must be weighed against the costs of continued ownership.

Examples of cost of ownership include:

- Insurance
  - Maintenance
  - Storage costs
  - Operating costs
  - Staffing costs
- f) Retaining such assets in service when they no longer effectively support service delivery will expend resources that could otherwise be used elsewhere and could effectively constrain investment in more suitable and economic assets.
  - g) Disposals need not always be for a financial gain. Other opportunities and gains should also be taken into consideration, for example:

- Swapping one asset for another
- Construction of a facility for the municipality in return for the asset.

## **10. APPROVAL OF DISPOSALS**

The Corporate Administration Departmental Unit shall prepare an item based on applications received from departments requesting assets to be disposed off or request for free donations from the nonprofit organizations and educational institutions to Disposal Committee for approval.

Disposal Committee shall be responsible for the approval of the disposal of any assets after:

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

Disposal Committee shall be responsible to meet on a quarterly basis to assess and approve disposals submitted by Corporate Administration Unit on behalf of the departments.

## **11. METHOD OF DISPOSAL**

11.1 Disposal of an asset should be performed in a manner which satisfies the following objectives:

- a) The disposal should take place on an equitable basis. There should be an equal opportunity for all to purchase the asset.
- b) The best possible return for the municipality must be achieved.
- c) Any adverse environmental impacts should be avoided.

The municipality should document a clear stipulation of the basis on the decision taken to dispose of an asset.

The following methods of disposal could be used to achieve the objectives mentioned above:

**(i) Auction**

Benefits of an auction are as follows:

- Process is more straightforward.
- Process is open to public scrutiny.
- In some circumstances an auction may generate a higher price.

Joe Morolong Local Municipality will not be held liable for any loss or damage if the purchaser failed to remove the purchased item(s) within 10 days.

**(ii) Tender**

This method of disposal is preferred where more control over the actual disposal of the asset is required or where the credentials of the purchaser need to be assessed in detail.

This method is preferable if an objective of the disposal is to achieve black economic empowerment by the transfer of the asset.

**(iii) Donations**

**(iv) Public auction**

Benefits of an auction are as follows:

- a) Process is more straightforward.
- b) Process is open to public scrutiny.

- c) In some circumstances an auction may generate a higher price.

## **12. PROCEDURES TO BE FOLLOWED WHEN DISPOSING AN ASSET.**

When an asset of the municipality is no longer in use, the following procedures must be followed:

- (a) Asset(s) that are uneconomical to maintain or operate must be identified.
- (b) Asset Disposal Form must be completed and signed by the Departmental Unit Manager. The Disposal form must clearly motivate the reasons for the disposal of such asset(s)
- (c) The application to dispose of an asset form must be completed and sent to Asset Management Silo for assessment.
- (d) If the item is of a technical nature e.g., computer equipment, a request must be forwarded to IT Unit to check the status of the equipment and submit a report to Corporate Administration Departmental Unit.
- (e) Based on the reports and motivation submitted by the Departmental Unit managers a motivation will then be submitted to the Disposal Committee for approval to dispose of an asset.
- (f) The disposal committee members will authorise the disposal of an asset by signing the (Authority to dispose of an asset form)
- (g) The approved forms (Authority to dispose an asset forms) shall be forwarded to Budget and Treasury Departmental Unit: Stores and Purchasing Silo for disposal.
- (h) In a case of disposing a uniform the Departmental Unit dealing with free donation of uniforms should adhere to the procedure below
- (i) Disposal of immovable assets shall be dealt with in terms of the directives as detailed in the immovable asset disposal document approved by council.
- (j) Disposal of Computer equipment,
- (k) In the case of PC's, only on the recommendation of the IT division will the item be disposed of.
- (l) Preference shall be given to educational institutions, welfare and charitable organizations.

(m) Disposal of notebooks:

*(i) that Councillors on termination/ expiration of the terms of service with Council, may purchase the notebook computers allocated to them at the written- down value thereof (this value to be determined on a straight-line depreciation basis over five years) Plus any handling fee of R150 (or as may be determined from time to time) Plus Value Added Tax at the applicable rate.*

## **12.1 Free Disposal of municipality assets**

### **12.1.1 Criteria to be used in a case of a free disposal of an asset**

The following types of organizations shall be considered for a free disposal of municipality assets:

- Registered welfare or Charitable Organizations except for Community Chest Organizations.
- Schools catering for handicapped and disabled,
- Schools for special learners
- Educational institutions initiating programmes for the benefit of the community of the Joe Morolong Local Municipality.

### **12.1.2 Free disposal of municipality assets shall be applicable to the following assets:**

- a) Obsolete furniture and redundant equipment
- b) Computer equipment
- c) Computer notebooks (in a case where the user of the notebook did not exercise the purchase option)

The following procedures shall apply on consideration of an application for a free disposal of assets except for Computer equipment that will be dealt with under s 12.1.3 below.

- a) Applications shall be directed to Joe Morolong Local Municipality for the attention of the Budget and Treasury Office- Asset Management Unit.
- b) The application shall be accompanied by the following:
- c) Motivation with reasons for requesting a free disposal of such a particular asset of the municipality, or existence in the community.
- d) Proof of registration of the organization/ institution
- e) A copy of the applicants' constitution

#### 12.1.3 Free Donation in respect of computer equipment

Where computer equipment is to be disposed of, the relevant Department Education should be approached to make arrangements for free transfer of such items to educational institutions. Note that no computer equipment may be disposed of unless the matter was referred to the Internal Information Technology Committee, for its written recommendations.

The following criteria must apply when donating assets to outside organizations in respect of: Computer equipment,

12.1.4 Preference shall be given to educational institutions, welfare and charitable organizations as described below.

12.1.5 Applications shall be directed to Joe Morolong Local Municipality for the attention of the Corporate Services Director.

12.1.6 The application shall be accompanied by the following:

- i) Motivation with reasons for requesting a free disposal of such particular asset of the municipality, or existence in the community.



- ii) Proof of registration of the organization/ institution
- iii) A copy of the applicants' constitution

#### 12.1.7 Other method

Any other proposed method of disposal shall be communicated to the Asset Management Unit for submission to the disposal committee for approval. It is preferable that the method of disposal be included in the disposal plan for each Departmental Unit.

### 13. Lack of other possible purchasers

Disposal of assets by direct negotiations with one possible interested party should be the exception rather than the rule. When sale by auction or tender has failed due to lack of demand or unacceptable offers were received and established further efforts indicate that efforts to dispose of the asset by auction or tender is unlikely to succeed, direct possible negotiations with one possible interested party shall be allowed.

### 14. FINAL AUTHORISATION OF DISPOSAL

Before any asset is disposed of, the Departmental Unit under whose control the relevant asset will be responsible to prepare a disposal authorisation document that will detail the following information:

- a) Fixed asset register information of the asset to be disposed of.
- b) Results of the asset disposal method.
- c) Proposed terms and conditions of the purchase agreement.
- d) The recommended purchase price.
- e) The fair value of the asset.

The fair value of the asset must be determined by the relevant Asset Management Unit. Experts can be used to determine the assets fair value.

Assets may not be disposed of at a value that is less than its fair value unless the Disposal Committee determines that there is a mitigating reason to dispose the asset at the lesser value. If a Disposal Committee approves a disposal at a value less than its fair value, Disposal Committee must instruct Budget and Treasury-Asset Management Unit to publish the details of the disposal as a public notice in a widely distributed media.

The final approval of the disposal shall be conducted at a meeting in terms of the Municipal Finance Management Act (Act No. 56, 2003) and decisions taken shall be documented for future reference by the departments of the municipality.

### **13. TRANSFER OF OWNERSHIP**

The Departmental Unit shall be allowed to transfer ownership of the asset only after the following events have occurred:

- a) Disposal Committee has approved the disposal of the asset in terms of Section 14 of the Municipal Finance Management Act (Act No. 56, 2003).
- b) The municipality has received payment in full or partial payment in terms of the terms and conditions of the purchase agreement where necessary.

At transfer of ownership of the asset, the purchaser must sign an acknowledgement of receipt form as evidence that the purchaser has received the asset according to the terms and conditions of the purchase agreement and in the expected physical condition.

### **14. CALCULATION OF THE PROFIT AND LOSS ON DISPOSAL**

Profits and losses on the sale of property, plant and equipment are calculated as follows, and are disclosed in total in the annual financial statements:

Proceeds	Sales value, trade-in value or proceeds received from insurance if the asset was damaged or stolen.
Less: Carrying value	Cost, or if valued, revaluation amount, less accumulated depreciation up to the date of sale or when the asset can no longer be used for its intended purpose.
Equals PROFIT or	If proceeds greater than carrying value, or
Equals LOSS	If proceeds less than carrying value.

## **15. ACCOUNTING FOR THE DISPOSAL OF ASSETS**

- a) When an asset is disposed of the cost of the asset and the accumulated depreciation recorded in the statement of financial position need to be reversed to the statement of financial performance a profit and loss on disposal of asset account. This will result in a debit in the statement of financial performance equal to the asset's carrying value.
- b) The total proceeds to be received from the disposal of the asset need to be credited to the profit and loss on disposal of asset account. The account will now reflect a debit or credit amount in the statement of financial performance equal to the profit and loss on disposal equal to the result of the calculation discussed in paragraph 15.
- c) Note that depreciation will need to be calculated up to the date of disposal. If the disposal date is during a financial year, the depreciation needs to be calculated on a prorata basis based on completed months of ownership or use. No depreciation is calculated for the asset after the disposal date.
- d) At the disposal date the asset being disposed of needs to be derecognized from the fixed asset register of the municipality.
- e) Other accounting and disclosure matters discussed in the Asset Management Policy Document of the municipality also need to be adhered to.

## **16. UPDATING THE POLICY**

It will be the responsibility of the Asset Management Unit to consider the provisions of this policy on an annual basis. The Asset Management shall request all Unit Managers to submit their proposed changes for submission to Council for approval.



*This form is to be used to document the disposal of both Major assets and Minor equipment. Completed form must be sent to Asset Management Unit*

## Annexure A

DEPARTMENT: \_\_\_\_\_

RECOMMENDED BY

APPROVED BY \_\_\_\_\_

SIGNATURE

DATE \_\_\_\_\_

SIGNATURE \_\_\_\_\_

DATE \_\_\_\_\_

ASSET UNIT

Processed/Filed

Signature

DATE \_\_\_\_\_

CONDITION CODE			REASON FOR DISPOSAL CODE			RECOMMENDED METHOD OF DISPOSAL CODE		
<b>P</b> - Poor	<b>E</b> - Excellent		<b>B</b> - Beyond economic repair	<b>D</b> - Damaged		<b>D</b> - Donation	<b>P</b> - Public Auction	<b>T</b> - Tender
<b>F</b> - Fair	<b>G</b> - Good	<b>N</b> - New	<b>O</b> - Obsolete	<b>R</b> - Replaced by upgrade	<b>T</b> - Theft	<b>T/IN</b> - Trade In	<b>Des</b> - Destruction	<b>S</b> - Scrapping



**JOE MOROLONG LOCAL MUNICIPALITY  
CONFIRMATION OF RECEIPT OF ASSETS FORM**

Asset Disposal Policy and procedures state that a confirmation of receipt of assets must be obtained after finalization of the disposal process.

Date of assets received:	_____	
	(dd-mm-yy)	
Receipt Number:	_____	
Purchaser Name:	_____	
Description of asset:	_____	

Your signature below acknowledges the receipt of assets.

(Receiving Signature)	(Phone Number)	
(Print Name)		

Other Comments:

**Approval & Certification:**

I hereby certify that the above asset has been received in a condition it was auctioned in.

(Approver's Signature)	(Phone Number)	
(Print Name)	(Department)	

Please attach the proof of payment and return completed form to Joe Morolong Local Municipality, D320 Cardington Rd, Churchill, for attention Asset Management Unit