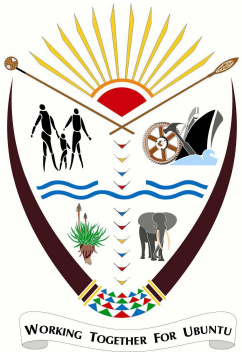
NELSON MANDELA BAY METROPOLITAN MUNICIPALITY



ASSET DISPOSAL POLICY

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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 as a result 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 metro.

3. SCOPE

The Asset Disposal Policy is applicable to all Business Units of the metro and assets owned by the metro except the assets dealt with in the following policies:

- Policy and Procedures for the Disposal of Immovable Assets
- Firearms Disposal Management for Official Institutions Operational Directive
- Asset Loss Policy

The disposal of some immovable assets e.g. land and firearms shall be governed by the policies of the respective Business Units as approved by Council.

4. DEFINITIONS

4.1 Asset

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.

4.2 Basic municipal service

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.

4.3 Carrying amount

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

4.4 Council

Council means the Municipal Council of the Nelson Mandela Bay Metropolitan Municipality, its legal successors in title and its delegates.

The Council shall establish a **Disposal Committee**. The Chairman of the Disposal Committee must be a senior independent official in Supply Chain Management that is not in control of any assets.

4.5 Disposal

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.

4.6 Fair value

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.

5. PLANNING FOR DISPOSALS

Business Units are responsible for the strategic planning for the disposal of assets that cause the municipality not to perform service delivery efficiently and effectively

Planning for disposals must be conducted by Business Units 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 Business Unit.

Surplus, obsolete or redundant assets include the following:

- Assets not required for the delivery of services, either currently, or over the longer planning period.
- Assets that have become uneconomical to maintain or to operate.
- Assets that are not suitable for service delivery.
- Assets that have a negative impact on the service delivery of the municipality, the environment or the community.
- Assets that no longer support a Business Unit's service objective due to a change in type of service being delivered or the delivery method.
- 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.
- Assets where the technology has been outdated.
- Assets which can no longer be used for the purpose originally intended.

Planning for disposals offers Business Units the means of disposal of surplus assets timed to minimise disruption to their service delivery and maximise returns by selecting appropriate time in the assets life cycle.

6. ASSESSING DISPOSALS

The Disposal Committee is responsible for assessing the disposals proposed by the Business Units of the metro. The Disposal Committee shall also consider the following factors:

- Whether there are net disposal benefits, either in financial or other forms.
- Whether there is secondary service obligations associated with the asset which dictates its retention.
- Whether a disposal can be carried out without adverse impacts on the physical environment.

In assessing the benefits of disposal, the advantages and disadvantages for the whole municipality, not just the controlling Business 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 Business Units.

The symbolic importance and the cultural significance of assets should also be considered when assessing the disposal of the asset.

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.

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

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.

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.

7. APPROVAL OF DISPOSALS

The Corporate Administration Business Unit shall prepare an item based on applications received from business units requesting assets to be disposed off or request for free donations from the non profit organisations 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 business units.

8. METHOD OF DISPOSAL

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

- The disposal should take place on an equitable basis. There should be an equal opportunity for all to purchase the asset.
- The best possible return for the municipality must be achieved.
- 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:

8.1 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.

8.2 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.

9. Procedures to be followed when disposing an asset.

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

- Asset(s) that are uneconomical to maintain or operate must be identified.
- Asset Disposal Form must be completed and signed by the Business Unit Manager

- The Disposal form must clearly motivate the reasons for the disposal of such asset(s)
- The application to dispose of an asset form must be completed and sent to Asset Management Silo for assessment.
- If the item is of a technical nature e.g. computer equipment, a request must be forwarded to IT division to check the status of the equipment and submit a report to Corporate Administration Business Unit
- Based on the reports and motivation submitted by the business unit managers a motivation will then be submitted to the Disposal Committee for approval to dispose of an asset.
- The disposal committee members will authorise the disposal of an asset by signing the (Authority to dispose of an asset form)
- The approved forms (Authority to dispose an asset forms) shall be forwarded to Budget and Treasury Business Unit: Stores and Purchasing Silo for disposal.
- In a case of disposing a uniform the business unit dealing with free donation of uniforms should adhere to the procedure below
- Disposal of immovable assets shall be dealt with in terms of the directives as detailed in the immovable asset disposal document approved by council.
- Disposal of Computer equipment,
- In the case of PC’s, only on the recommendation of the IT division will the item be disposed of.
- Preference shall be given to educational institutions, welfare and charitable organisations.
- Disposal of notebooks

- that Councillors and officials on termination 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 R250 (or as may be determined from time to time) Plus Value Added Tax at the applicable rate.
- due to the advancement in computers and inherent depreciation of the value of computers, obsolete laptops, notebooks and desktops PC's officials shall be granted the opportunity to purchase such equipment at the depreciated value.

10. Free Disposal of metro assets

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

The following types of organisations shall be considered for a free disposal of metro assets:

- Registered welfare or Charitable Organisations except for Community Chest Organisations.
- Schools catering for handicapped and disabled,
- Schools for special learners
- Educational institutions initiating programmes for the benefit of the community of the Nelson Mandela Bay municipality.

10.1 Free disposal of metro assets shall be applicable to the following assets:

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

- Used uniforms that are old but could be donated to needy organisations.

The following procedures shall apply on consideration of an application for a free disposal of assets except for uniforms and Computer equipment that will be dealt with under s 10.2 and 10.3 below.

- Applications shall be directed to Nelson Mandela Bay Municipality for the attention of the Business Unit Manager: Corporate Administration.
- The application shall be accompanied by the following:
- Motivation with reasons for requesting a free disposal of such a particular asset of the metro, or existence in the community
- Proof of registration of the organisation/ institution
- A copy of the applicants constitution

10.2 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 organisations in respect of: Computer equipment,

- Preference shall be given to educational institutions, welfare and charitable organisations as described below.

- Applications shall be directed to Nelson Mandela Bay Municipality for the attention of the Business Unit Manager: Corporate Administration.
- The application shall be accompanied by the following:
- Motivation with reasons for requesting a free disposal of such a particular asset of the metro, or existence in the community
- Proof of registration of the organisation/ institution
- A copy of the applicants constitution

10.3 Free donation of Used Uniform

The relevant Business Units dealing with uniforms shall identify needy organisations where the used and old uniform will be donated. The Business Unit concerned shall adhere to the following:

- All badges shall be removed before any donation takes place.
- No complete set of uniform shall be donated to one organisation.

11. Other method

Any other proposed method of disposal shall be communicated to the Corporate Administration Business 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 business unit.

12 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.

13. FINAL AUTHORISATION OF DISPOSAL

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

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

The fair value of the asset must be determined by the relevant Business 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, Diposal Committee must instruct Budget and Treasury Business 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 business units of the metro.

14. TRANSFER OF OWNERSHIP

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

- The Business Unit has received a notification from the Corporate Administration Business Unit that the Disposal Committee has approved the disposal of the asset in terms of Section 14 of the Municipal Finance Management Act (Act No. 56, 2003).
- The Business Unit 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.

15. 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 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.

16. ACCOUNTING FOR THE DISPOSAL OF ASSETS

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.

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 11.

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 pro rata basis based on completed months of ownership or use. No depreciation is calculated for the asset after the disposal date.

At the disposal date the asset being disposed of needs to be derecognised from the fixed asset register of the municipality.

Other accounting and disclosure matters discussed in the Asset Management Policy Document of the metro also need to be adhered to.

17. UPDATING THE POLICY

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