

ASSET MANAGEMENT POLICY

2026/2027



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ABBREVIATIONS

AM	Asset Management
AMS	Asset Management System
CFO	Chief Financial Officer
GIS	Geographical Information System
GRAP	Generally Recognised Accounting Practice
FAR	Fixed Asset Register
MFMA	Municipal Finance Management Act
OHSA	Occupational Health and Safety Act
O&M	Operation and Maintenance
R	Rand
SDBIP	Service Delivery and Budget Implementation Plan
SCM	Supply Chain Management
TOR	Terms of Reference
VAT	Value Added Tax

1 BACKGROUND

1.1 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 fixed assets 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 Occupational Health and Safety Act (OHSA) requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its assets safe.

1.2 ACCOUNTING STANDARDS

The MFMA requires municipalities to comply with the Standards of Generally Recognised Accounting Practice (GRAP), in line with international practice. The Accounting Standards Board (ASB) has approved a number of Standards of Generally Recognised Accounting Practice (GRAP). When compiling a Fixed Asset Register in accordance with the accounting standards, the requirements of GRAP 17 cannot be seen in isolation. Various other accounting standards impact on the recognition and measurement of assets within the municipal environment and should be taken into account during the compilation of a GRAP compliant asset register. The following Standards of GRAP significantly impacts on the recognition and measurement of assets within the municipal environment: -

GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases (deemed finance leases);
GRAP 16	Identification of items to be treated as Investment Properties
GRAP 17	Property Plant and Equipment
GRAP 21	Impairment of non-cash generating assets
GRAP 26	Impairment of cash generating assets
GRAP 101	Agriculture
GRAP 102	Intangible assets
GRAP 103	Heritage assets
GRAP 100	Discontinued Operations

2 OBJECTIVES

The objective of this policy is to:

- implement accrual accounting in terms of prevailing accounting standards; and
- apply asset management practice in a consistent manner and in accordance with legal requirements and recognised good practice.

3 APPROVAL AND EFFECTIVE DATE

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

4 KEY RESPONSIBILITIES

Municipal Manager

The Municipal Manager is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

The Municipal Manager shall ensure that:

- An Asset Management Committee is established, through which all asset processes and procedures will be implemented.
- The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The municipality's assets are valued in accordance with the standards of generally recognised accounting practice (GRAP);
- The municipality has and maintains a system of internal control of assets, including an asset register; and
- The Senior Managers and their teams comply with this policy.

As Accounting Officer of the municipality, the Municipal Manager shall be the principal custodian of all the municipality's fixed assets, and shall be responsible for ensuring that this policy is effectively applied upon adoption by Council. To this end, the Municipal Manager shall be responsible for the preparation, in consultation with the CFO and Senior Managers, of procedures to effectively and efficiently apply this policy.

Chief Accounting Officer

The Chief Financial Officer (CFO) is responsible to the Municipal Manager to ensure that the financial investment made in the municipal assets is safeguarded and maintained.

The CFO, as one of the Senior Managers of the municipality, shall also ensure, in exercising his/her financial responsibilities, that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;

- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- All revenue due to the municipality is collected, for example rental income relating to assets;
- The systems, procedures and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of the Auditor-General;
- Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- The Senior Managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- This policy and support procedures are established, maintained and effectively communicated.

The CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed. The CFO shall be the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained. No amendments, deletions or additions to the fixed asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

Asset Management Committee

The Asset Management Committee (AMC) shall ensure that:

- The Asset Management Policy is reviewed on an annual basis to ensure alignment with legislative and prescriptive guidelines;
- The process and procedure guidelines are reviewed on an annual basis to address any shortcomings and incorporate guidance received from the internal and external auditors;
- The Policy and Procedure Guidelines are adhered to;
- The Committee meets at least quarterly;
- A detailed action plan is developed for the annual review/verification of all assets; and that this action plan is effectively followed.
- Consider the submission by the CFO of all asset to be written off / disposed of and make recommendations to the council for adoption

The Asset Management Committee (AMC) must consist of at least one Senior Manager and six Managers of the municipality which must include:

- Manager directly accountable to the Municipal Manager / Delegated Official
- Manager Energy Services
- Manager Water and Sanitation
- Manager Roads and Storm water
- Manager Fleet Management
- Manager Facilities
- Manager Assets Management

Senior Manager

Senior Managers (the managers directly accountable to the Municipal Manager) shall ensure that:

- Appropriate systems of physical management and control are established and carried out for all fixed assets;
- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- Procedures are adopted and implemented in conformity with this policy to produce reliable data to be captured into the municipal asset register;
- Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
- The asset management system, processes and controls can provide an accurate, reliable and up to date account of assets under their control;
- They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives; and
- Manage the asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.

The Senior Managers may delegate or otherwise assign responsibility for performing these functions but they shall remain accountable for ensuring these activities are performed.

5 POLICY AMENDMENT

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

6 RELATIONSHIP WITH OTHER POLICIES

This policy, once effective, will replace the pre-existing Asset Management Policy.

This policy needs to be read in conjunction with other relevant policies of the municipality, including the following adopted documents:

- Delegations Register
Identifying the processes surrounding the establishment of delegated authority.
- SCM policy
Regulating all processes and procedures relating to acquisitions.
- Budget policy
The processes to be followed during the budget process as well as pre-determined prioritisation methodology,
- Accounting Policy

Governed by the Accounting standards, the accounting policy determines the basis recognition, measurement and recording of all transactions.

- Risk Management Policy

The policy promotes effective and efficient asset utilisation.

7 POLICY FOR FIXED ASSET ACCOUNTING

7.1 FIXED ASSET RECOGNITION

(a) *Definitions and rules*

Asset

An asset is defined as a resource controlled by an entity as a result of past events and from which future economic benefits or service potential associated with the item will flow to the entity.

Fixed Asset

A fixed asset is an asset with an expected useful life greater than 12 months.

Useful Life

Useful life is defined as the period over which an asset is expected to be available for use by an entity, or the number of production or similar units expected to be obtained from the asset by an entity.

Control

An item is not recognised as an asset unless the entity has the capacity to control the service potential or future economic benefit of 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

Past transactions or events

Assets are only recognised from the point when some event or transaction transferred control to an entity.

Probability of the flow of benefits or service potential

The degree of certainty that any economic benefits or service potential associated with an item will flow to the municipality is based on the judgement. The Municipal Manager shall exercise such judgement on behalf of the municipality, in consultation with the CFO and respective Senior Manager.

Economic benefits

Economic benefits are derived from assets that generate net cash inflows.

Service Potential

Assets have service potential if they have the capacity, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality, such as the provision of services.

Tangible assets

Tangible fixed assets can be either movable or immovable. Moveable assets are assets that can be moved (such as machinery, equipment, vehicles and furniture). Immoveable assets are fixed structures such as buildings and roads. 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 immoveable asset (though it may be temporarily removed for repair).

Intangible assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. Examples are licenses/rights, (such as water licenses), servitudes, and software. The assets must either be separable (able to be sold, transferred, or rented) or arise from contractual rights.

Leased assets

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. Leases are categorised into finance and operating leases. A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred (substance over form). Where the risks and rewards of ownership of an asset are substantially transferred, the asset in respect of that finance lease is recognised as a fixed asset. Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an operating lease and payments are expensed in the income statement on a systematic basis. (straight line basis over the lease term)

Asset custodian

The department that controls an asset, as well as the individual that is responsible for the operations associated with such asset in the department, is identified by the respective Senior Manager and will be responsible for the asset.

Reliable measurement

Items are recognised that possess a cost or fair value that can be reliably measured in terms of this policy.

(b) Policy

The municipality shall recognise all fixed assets existing at the time of adoption of this policy, and the development of new, upgraded and renewed fixed assets on an ongoing basis. Such assets shall be capitalised in compliance with prevailing accounting standards.

(c) Responsibilities

- The CFO, in consultation with the Municipal Manager and Senior Managers, shall determine effective procedures for the recognition of existing and new fixed assets.
- Every Senior Manager shall ensure that all fixed assets under their control are correctly recognised as fixed assets.

- Every Senior Manager shall keep an inventory of items that have a useful life of greater than one year.
- The Municipal Manager shall make recommendations to the Council as to the threshold monetary value for fixed assets for which accelerated depreciation shall apply.
- The CFO shall keep a lease register with the following minimum information: name of the lessor, description of the asset, fair value of the asset at inception of the lease, lease commencement date, lease termination date, economic useful life of the asset, lease payments, and any restrictions in the lease agreement.

7.2 CLASSIFICATION OF FIXED ASSETS

(a) *Definitions and rules*

Fixed asset categories

Fixed assets are grouped for accounting purposes, as follows:

1. Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the municipality's operations, that is shown as a single item for the purposes of disclosure in the financial statements);
2. Intangible assets;
3. Heritage assets; and
4. Investment property

Property, plant and equipment (PPE)

PPE are defined as tangible items that are held for use in the production or supply of goods or services, or for administration purposes and are expected to be used for more than one reporting period.

Reliability of measurement

In many cases the cost or value of an asset must be estimated; the use of a reasonable estimate is essential. Where a reasonable estimate cannot be made the asset should not be recognised.

Probability of the flow of benefits or service potential

The degree of certainty that any economic benefits or service potential associated with an item will flow to the municipality is based on the judgement. The Municipal Manager shall exercise such judgement on behalf of the municipality, in consultation with the CFO and respective Senior Manager. In the event that it is not probable that there will be an inflow, the asset should not be recognised.

Spares

Major spare parts are recognised as an item of PPE immediately when they are available for use (ex. in the stores). Dedicated spares (ones that can only be used for specific assets) are also recognised as PPE regardless of value.

Items used irregularly

Tangible items that are used in the production or supply of goods or services on an irregular basis (such as standby equipment) are recognised as items of PPE.

Class of PPE

A class of PPE is defined as a group of assets of a similar nature or function in the municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

PPE Asset hierarchy

An asset hierarchy is adopted for PPE which enables separate accounting of parts (or components) of an 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/materiality of components) and alignment with the strategy adopted by the municipality in asset renewal (for example the extent of replacement or rehabilitation at the end of life). In addition, the municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognises the functional relationship of assets and components.

Refer to the following annexures for the asset hierarchy/ level of componentisation:

Asset category/class	Annexure
Buildings	B
Electricity	C
Roads and stormwater	D
Sewerage	E
Water	F

PPE: Land

Land encompasses both undeveloped and developed land owned by the municipality.

PPE: Buildings

Buildings are immovable assets and structures other than infrastructure assets and include community assets, administrative buildings, residential, and non-residential dwellings.

PPE: Community assets

Community assets are immovable assets contributing to the general well-being of the community, such as community halls.

PPE: Infrastructure

Infrastructure assets are immovable assets which are part of a network of similar assets and are specialised in nature.

PPE: Other assets

Other assets are ordinary operational assets such as land, administration buildings, vehicles equipment as well as furniture and fittings.

PPE: Housing

Rental stock or housing not held for capital gain. This only applies to staff housing.

(Please note that the provision of housing rented to staff must form part of their employment conditions (Similar to military personnel) and should form part of their employment contracts and conditions. If not the AG will insist that these assets be classified as Investment Properties)

Intangible assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. Examples are licenses/rights, (such as water licenses), servitudes, and computer software. There is no asset hierarchy for intangible assets; each functional item will be individually recorded.

Heritage assets

Heritage assets are assets of cultural, historic or environmental significance, such as monuments, nature reserves, and works of art. The accounting treatment of heritage assets is regulated by GRAP 103.

Investment property

Investment property is defined as property (land and/or a building) held (by the owner or the lessee under a finance lease) to earn rentals or for capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operations). Examples of investment property are office parks, shopping centres or housing financed and managed by a municipality (or jointly with other parties). There is no asset hierarchy for investment property; each functional item will be individually recorded. Land held for a currently undetermined use is recognised as investment property until such time as the use of the land has been determined.

(b) Policy

The following categories and sub-categories shall be used at the highest level of the fixed asset classification structure:

Category	Sub category
PPE	Land
	Buildings
	Infrastructure
	Assets under construction
	Other (Movables)
Intangible assets	Computer software
	Other
Heritage assets	Heritage assets
Investment Properties	Rented properties

	Land with undetermined use

PPE shall be disclosed in the notes of the financial statements at the sub-category level. In Appendix B to the financial statements, PPE will be disclosed at asset class level:

Sub category	Asset class
Land	Developed land
	Undeveloped land
Buildings	Residential buildings (Housing)
	Community assets – (Library books and Facilities)
	Operational buildings
Infrastructure assets	Electricity
	Roads
	Stormwater
	Sewerage
	Solid waste
	Water
Assets under construction	Infrastructure
	Buildings
	Other
Other	Computer equipment
	Finance leased assets
	Furniture and office equipment
	Machinery and equipment
	Transport assets
Heritage assets	Heritage assets

Asset hierarchies shall be adopted for each of the PPE sub-categories, separately identifying items of PPE that are significant from a financial or risk perspective, and, where applicable, grouping items that are relatively insignificant.

(c) Responsibilities

- The CFO shall ensure that the classification of fixed assets adopted by the municipality complies with the statutory requirements.
- The CFO shall consult with the Senior Managers responsible for fixed assets to determine an effective and appropriate asset hierarchy for each asset class of PPE.
- Every Senior Manager shall ensure that all fixed assets under their control are classified correctly.

7.3 IDENTIFICATION OF FIXED ASSETS

(a) Definitions and rules

Asset coding

An asset coding system is the means by which the municipality is able to uniquely identify each fixed asset (at the lowest level in the adopted asset hierarchy) in order to ensure that it can be accounted for on an individual basis.

(b) Policy

A coding system shall be adopted and applied that will enable each fixed asset (at the lowest level in the adopted asset hierarchy) to be uniquely and readily identified. Each moveable fixed asset shall be marked with its respective code.

(c) Responsibilities

- The Municipal Manager shall develop and implement a fixed asset coding system in consultation with the CFO and other Senior Managers to meet the policy objective.
- Senior Managers shall ensure that all the fixed assets under their control are correctly coded.
- Senior Managers shall ensure that the respective asset codes are fixed to all moveable assets under their control.

7.4 FIXED ASSET REGISTER

(a) Definitions and rules

Fixed asset register

A fixed asset register is a database of information relating to each fixed asset (at the lowest level in the fixed asset hierarchy). The fixed asset register is structured in line with the adopted classification structure. The scope of data in the register is sufficient to facilitate the application of the respective accounting standards for each of the asset classes, and the strategic and operational asset management needs of the municipality.

Updating data in the asset register

The fixed asset register is updated by an Asset Management Accountant only when authorised to do so by the CFO. The Asset Management Accountant is precluded from being a custodian of any assets.

(b) Policy

A fixed asset register shall be established to provide the data required to apply the applicable accounting standards, as well as other data considered by the municipality to be necessary to support strategic asset management planning and operational management needs. The fixed asset register shall be updated and reconciled to the general ledger on a monthly basis.

(c) Responsibilities

- The CFO shall define the format of the fixed asset register in consultation with the Municipal Manager and the Senior Managers, and shall ensure that the format complies with the prevailing accounting standards and disclosure requirements.
- Senior Managers shall provide the CFO with the data required to establish and update the asset register in a timely fashion.
- The CFO shall establish procedures to control the completeness and integrity of the asset register data.
- The CFO shall ensure proper application of the control procedures.

7.5 MEASUREMENT AT RECOGNITION

(a) Definitions and rules

Measurement at recognition of PPE

An item of PPE that qualifies for recognition is measured at cost. Where an asset is acquired at no or nominal cost (for example in the case of donated or developer-created assets), its cost is deemed to be its fair value at the date of acquisition. In cases where it is impracticable to establish the cost of an item of PPE, such as recognising fixed assets for which there are no records, or records cannot be linked to specific assets, its cost is deemed to be its fair value.

Fair value

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market values obtained from a qualified valuer can be used where there is an active and liquid market for assets (for example land, non-specialised buildings such as offices, motor vehicles, and some types of plant and equipment). In the case of specialised buildings (such as community buildings) and infrastructure where there is no such active and liquid market, a depreciated replacement cost (DRC) approach may be used. Assessments of fair value are to be made by professionals with qualifications and appropriate knowledge and experience in valuation of the respective assets.

Cost of an item of PPE

The capitalisation value comprises (i) the purchase price and (ii) any directly attributable costs necessary to bring the asset to its location and condition necessary for it to be operating in the manner intended by the municipality, plus (iii) an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. VAT is

excluded (unless the municipality is not allowed to claim input VAT paid on purchase of such assets - in such an instance, the municipality should capitalise the cost of the asset together with VAT).

Directly attributable costs

Directly attributable costs are defined as:

- Employee costs arising directly from the construction or acquisition of the item of PPE
- Costs of site preparation;
- Initial delivery and handling costs;
- Installation and assembly costs;
- Commissioning; and
- Professional fees (for example associated with design fees, supervision, and environmental impact assessments).

Exchanged PPE assets

In cases where assets are exchanged, the cost is deemed to be the fair value of the acquired asset and the disposed asset is de-recognised.

PPE finance leases

Once a lease is deemed to be a finance lease, the asset is capitalised at the lower of the fair value of the asset or the present value of future lease payments, using the relevant discounting rate at the date of signing of the lease agreement.

Depreciated replacement cost

The depreciated replacement cost (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. The CRC is the product of a unit rate and the extent of the component and represents the cost of replacing the asset, and in cases where the existing asset is obsolete, the replacement with a modern equivalent. – This is not applicable in determining the DRC, but becomes valid once the asset has been recognised in the FAR. The depreciated replacement cost (DRC) is established by proportionately reducing the CRC on the fraction of the remaining useful life over the expected useful life. The remaining useful life is estimated based on the condition of the asset.

Accordingly, the following formula is used:

$$\text{DRC} = (\text{CRC} \times \text{RUL}/\text{EUL})$$

Replacement costs are "green field", 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", economy of scale, financial markets and availability of contractors, and the impact of these factors are reflected in the capital unit rates where applicable. Adjustments of rates for escalation to the valuation date are applied.

Self-constructed assets

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality. All assets that can be classified as fixed assets and that are constructed by the municipality should be recorded in the asset register and depreciated over its estimated useful life for that category of asset. Proper records are kept such that all costs associated with the construction of these assets are completely and accurately accounted for as capital under construction, and upon completion of the asset, all costs (both direct and indirect) associated with the construction of the asset are summed and capitalised as an asset.

Borrowing costs

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of premiums or discounts associated with such borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings; finance charges in respect of finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as an adjustment to interest costs. Borrowing costs shall be capitalised if related to construction of a qualifying asset to get ready for its intended use or resale and external funding is sourced to fund the project.

Investment property

Where available, initial recognition will take place on the cost model. Should relevant cost data not be available, a fair value determination will be made by appointing a valuer. Subsequent measurement and disclosure will be on fair value as determined by the valuer during the compilation of the valuation roll. This process is aligned with the compilation of the valuation roll cycle and on an annual basis the register will be updated with the amendments as per the supplementary valuation roll where applicable.

If the council of the municipality constructs or develops a property for future use as an investment property, such property shall in every respect be accounted for as Investment Property.

Intangible assets

An item of intangible asset acquired by the municipality is recognised at cost. Where an intangible asset is acquired at no or nominal cost (for example in the case of donated or developer-created), or reliable costs data is not available, its cost is deemed to be its fair value at the date of acquisition.

(b) Policy

Fixed assets that qualify for recognition shall be capitalised at cost.

In cases where complete cost data is not available or cannot be reliably linked to specific assets, the fair value of fixed assets shall be adopted on the following basis:

- PPE infrastructure, community assets, other assets, staff housing (moveable and immoveable);: depreciated replacement cost;
- PPE land: values from the valuation roll (or in the event that such is not available, depreciated replacement cost);

- Heritage assets: no value shall be indicated.
- Investment property: values from the valuation roll; and
- Intangible assets: depreciated replacement cost.

(c) Responsibilities

- The CFO, in consultation with the Municipal Manager and Senior Managers, shall determine effective procedures for the capitalisation of fixed assets on recognition.
- Every Senior Manager shall ensure that all fixed assets under their control are correctly capitalised.

7.6 MEASUREMENT AFTER RECOGNITION

(a) Definitions and rules

Options

Accounting standards allow measurement after recognition on either a cost or revaluation model. Different models can be applied, providing the treatment is consistent per asset class.

Cost model

After recognition, an asset is carried at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation model

After recognition, an asset (whose value can be measured reliably) is carried at a revalued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. When revaluations are conducted, the entire class of assets should be revalued. Revaluation is to be executed by persons with suitable professional qualifications and experience. Any change to an asset's carrying amount as a result of revaluation, is credited (or deducted from any surplus from previous revaluations) in the Revaluation Reserve.

The revaluation surplus is transferred to accumulated surpluses/deficits on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such fixed asset before the revaluation in question is transferred from the revaluation reserve to the municipality's appropriation account. An adjustment of the aggregate transfer is to be made at the end of each financial year.

Statutory inspections

The cost of a regular major statutory inspection that is required for the municipality to continue to operate an asset is recognised at the time the cost is incurred, and any previous statutory inspection cost is de-recognised.

Expenses to be capitalised

Expenses incurred in the enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset), or in the material extension of the useful operating life of a fixed asset are capitalised. Such expenses are recognised once the municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) – prior to this, the expenses are recorded as work-in-progress. Expenses incurred in the maintenance or repair (reinstatement) of a fixed asset that ensures that the useful operating life of the asset is attained, shall be considered as operating expenses and are not capitalised, irrespective of the quantum of the expenses concerned.

Spares

The location of capital spares shall be amended once they are placed in service, and re-classified to the applicable PPE asset sub-category.

(b) Policy

Measurement after recognition shall be on the following basis:

- Immoveable PPE except land: Cost model
- Moveable PPE: cost model;
- PPE Land and Investment property: values established in each update of the Valuation Roll; and
- Intangible assets: cost model.

(c) Responsibilities

- The CFO, in consultation with the Municipal Manager and Senior Managers, shall determine effective procedures for the ongoing capitalisation of fixed assets after recognition.
- Every Senior Manager shall ensure that all capital expenses associated with fixed assets under their control are correctly capitalised.
- Every Senior Manager shall ensure that revaluations are conducted where applicable to fixed assets under their control.

7.7 DEPRECIATION

(a) Definition and rules

Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its remaining useful life. (The amortisation of intangible assets is identical).

Land, servitudes and heritage assets are considered to have unlimited life and are not depreciated.

Depreciable amount

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

Residual value

The residual value is the estimated amount that the municipality would currently obtain from disposal of the asset after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The residual values of assets are indicated in Annexure A in the form of a percentage. In the case of assets measured after recognition on the cost model, the percentage is of the initial cost of acquisition. In the case of assets measured after recognition on the revaluation model, the percentage is of the modern equivalent replacement value.

Depreciation method

Depreciation of PPE is applied at the component level. A range of depreciation methods exist and can be selected to model the consumption of service potential or economic benefit (for example the straight line method, diminishing amount method, fixed percentage on reducing balance method, sum of the year digits method, production unit method).

Remaining useful life

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

The remaining useful life of all depreciable fixed 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, geotechnical conditions, and operating conditions), the life-cycle strategy of the municipality, potential technical obsolescence, and any legal limits on the use of the asset. Where such are outside the guideline figures provided by National Treasury, motivation is required.

Depreciation charge

Depreciation starts once an asset is recognised and available for use and ceases when it is de-recognised or classified as non-current assets held for sale. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under usage methods of depreciation the depreciation charge can be zero while there is no production. Depreciation is initially calculated when the asset is available for use, i.e when it is in the location and condition necessary for it to be capable of operating in the manner intended by the municipality.

Carrying amount

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

Capital spares

The depreciation of capital spares commences immediately when they are available in the stores. The depreciation continues once they are placed in service, or subsequently removed from service.

(b) Policy

All fixed assets, except land, heritage assets, investment properties, and servitudes, shall be depreciated over their expected useful lives. Computer software that is classified as intangible assets will be depreciated over 5 years to be in line with the economic useful lives of computer hardware utilising it. The remaining useful lives (RUL) of existing intangible assets have been adjusted in terms of the new policy statement.

Refer to **Annexures** for the expected useful lives by asset category.

In all cases, the straight-line method of depreciation shall be used. The depreciation charge for each period shall be recognised as an expense.

It is the municipality's intention to utilise all assets, with the exception of motor vehicles, for their full economical life, as a result the residual values for all assets (Except motor vehicles) are set at zero.

Residual values in respect of motor vehicles are set at a percentage of the original cost that will be determined based on the average proceed received on the sale of the assets. This percentage will be reviewed on an annual basis.

The depreciation method, and remaining useful life should be reviewed at each reporting date.

(c) Responsibilities

- Every Senior Manager shall ensure that a budgetary provision is made for the depreciation of the fixed assets under their control in the ensuing financial year, in consultation with the CFO.
- Every Senior Manager shall review the expected useful life stated in Annexure A of assets that are under their control and motivate to the Municipal Manager and CFO any adjustments if, in the judgement of the Senior Manager, such are not considered appropriate. This should not happen continuously because the accounting principle of consistency would be violated.
- The CFO shall ensure that depreciation charges are debited on a monthly basis and that the fixed asset register is reconciled with the general ledger.

7.8 ANNUAL ASSESSMENTS

7.8.1 Impairment Losses

(a) Definition

Impairment

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

Indications of impairment

The municipality shall assess at each reporting date whether there is any indication that an asset may be impaired.

In assessing whether there is any indication that an asset may be impaired, the municipality shall consider, as a minimum, the following indications:

- external sources of information:
 - decline or cessation in demand;
 - changes in the technological, legal or government policy environment; or
- internal sources of information:
 - evidence of physical damage;
 - evidence of obsolescence;
 - construction is halted before it is usable or complete; or
 - evidence that service performance is significantly worse than expected; or
- other indications, such as loss of market value.

The municipality must however test all intangible assets that have indefinite useful life and those not yet available for use, annually for impairment irrespective of whether there is an indication of impairment.

The municipality must only record impairments that are significant and have an enduring adverse effect (material and long-term impact). The events and circumstances in each instance must be recorded. Where there are indications of impairment, the municipality must also consider adjustment of the remaining useful life, residual value, and method of depreciation.

Impairment loss

An impairment loss of a non-cash-generating unit or asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount is the higher of the fair value less costs to sell and its value in use.

An impairment loss of a cash-generating unit (asset or smallest group of assets that generate cash inflows) is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the net selling price and its value in use.

Non-cash-generating units

Non-cash-generating units are those assets (or group of assets) that are not held with the primary objective of generating a commercial return. This would typically apply to assets providing goods or services for community or social benefit, such as infrastructure and community facilities. Typically there will not be an active market for such assets, and in such cases the municipality may use the asset's value in use as its recoverable service amount. The value in use of a non-cash generating unit is defined as the present value of the asset's remaining service potential. This can be determined using any of the following approaches.

- the Depreciated Replacement Cost (DRC) approach (and where the asset has enduring and material over-capacity, for example in cases where there has been a decline in demand, the Optimised Depreciated Replacement Cost (ODRC) approach may be used);
- the restoration cost approach (the Depreciated Replacement Cost less cost of restoration) – usually used in cases where there has been physical damage; or
- the service units approach (which could be used for example where a production units model of depreciation is used).

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

Cash-generating unit

Cash-generating units are those whose assets are held with the primary objective of generating a commercial return (in the municipal arena this would typically apply to investment property). However, when the municipality adopts the fair value model for investment property, impairment does not apply.

When the cost model is adopted, fair value is determined in accordance with the rules indicated for measurement after recognition. Costs to sell are the costs directly attributable to the disposal of the asset (for example agents fees, legal costs), excluding finance costs and income tax expenses. The value in use is determined by estimating the future cash inflows and outflows from the continuing use of the asset and at the end of its useful life, including factors to reflect risk in the respective cash-flows, and the time value of money.

Conditional assessment for impairment

The impairment review is directly linked to the high-level condition assessment carried out on the assets that have been physically verified.

Condition assessment of assets physically verified, was determined in terms of the table below.

Each asset will be assessed according to the grades below:

<i>Grade</i>	<i>Description</i>	<i>Detailed description</i>
1	Very Good	Sound structure, well maintained. Only normal maintenance required.
2	Good	Serves needs but minor deterioration (< 5%). Minor maintenance required.
3	Fair	Marginal, clearly evident deterioration (10-20%). Significant maintenance required.

4	Poor	Significant deterioration of structure and/or appearance. Significant impairment of functionality. Significant renewal/upgrade required.
5	Very Poor	Unsound, failed needs reconstruction/ replacement (> 50% needs replacement)
6	Broken	No further life (impair immediately)

Impact of the condition assessment on impairment

Once the condition of an asset is determined the condition rating is applied in order to ensure that the value of the asset is correctly reflected.

This is done by reducing the carrying value of the asset based on its condition, as per the table below:

Condition	Description	Rating
1	Very Good	95
2	Good	70
3	Fair	45
4	Poor	25
5	Very Poor	10
6	Broken	0

Where an assets condition decreased by more than one level in one year, the asset was deemed to be impaired and thus the carrying value, if more than the specific condition rating, was adjusted to reflect the rating value. The additional impairment will be equal to the difference between the carrying value and the recoverable service amount. The recoverable service amount is the higher of the fair value less costs to sell and its value in use.

Recognition of impairment

The impairment loss is recognised as an expense when incurred (unless the asset is carried at a revalued amount, in which case the impairment is carried as a decrease in the Revaluation Reserve, to the extent that such reserve exists). After the recognition of an impairment loss, the depreciation charge for the asset is 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.

Once an asset has been impaired to such an extent that no future economic benefit is likely to flow from the asset, it is derecognised and the carrying amount of the asset at the time of

derecognition, less any economic benefit from the disposal of the asset, is debited to the statement of financial performance as a "Loss on Disposal of Asset".

In the event of compensation received for damages to an item of PPE and the item is not to be repaired to its original state, the compensation is considered as the asset's ability to generate income and is disclosed under Sundry Revenue; and the asset is impaired. Should repairs be performed, the compensation is offset against the repair cost.

Reversing an impairment loss

The municipality must assess each year from the sources of information indicated above whether there is any indication that an impairment loss recognised in previous years may no longer exist or may have decreased. In such cases, the carrying amount is increased to its recoverable amount (providing that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods). Any reversal of an impairment loss is recognised as a credit in the surplus/ (deficit), unless the asset is carried at a revalued amount and the impairment loss was previously treated as a revaluation decrease in the Revaluation Reserve, in which case the reversal of the impairment loss is carried to the Revaluation Reserve as a revaluation increase, to the extent that such reserve exists.

(b) Policy

Impairment of fixed assets shall be recognised as an expense in the Statement of Financial Performance when it occurs. Ad-hoc impairment shall be identified as part of normal operational management as well as scheduled annual inspections of the assets.

(c) Responsibilities

- The CFO shall indicate a fixed annual date for the review of remaining useful life of assets under the control of the respective Senior Managers.
- The Senior Managers shall review the remaining useful life of all assets under their control at the annual review date, and from time to time as a result of any events that come to their attention that may have a material effect on some or all such assets. The Senior Manager shall motivate to the CFO proposed changes to the remaining useful of such assets.
- The Senior Manager should evaluate all the assets for impairment, taking into consideration any discussions with the Senior Accountants and Operating Managers.
- The Asset register administrator should update the fixed asset register with the information received, relating to the financial management system where the impairment journals have been processed
- The CFO shall report changes made to the carrying values of these assets in the asset register to the Municipal Manager and Council.

7.8.2 Remaining useful lives

(a) Definition

Review of remaining useful lives (RUL):

In terms of GRAP 17 an entity shall assess at each reporting date whether there is any indication that the entity's expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the entity shall revise the expected useful life and/or residual value accordingly. The change(s) shall be accounted for as a change in an accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors GRAP 3.

Indications of changes in RUL:

In assessing whether there is any indication that the expected useful life of an asset has changed, an entity considers the following indications:

- (a) The composition of the asset changed during the reporting period, i.e. the significant components of the asset changed.
- (b) The use of the asset has changed, because of the following:
 - (i) The entity has changed the manner in which the asset is used.
 - (ii) The entity has changed the utilisation rate of the asset.
 - (iii) The entity has made a decision to dispose of the asset in a future reporting period(s) such that this decision changes the expected period over which the asset will be used.
 - (iv) Technological, environmental, commercial or other changes that occurred during the reporting period that have, or will, change the use of the asset.
 - (v) Legal or similar limits placed on the use of the asset have changed.
 - (vi) The asset was idle or retired from use during the reporting period.
- (c) The asset is approaching the end of its previously expected useful life.
- (d) Planned repairs and maintenance on, or refurbishments of, the asset and/or its significant components either being undertaken or delayed.
- (e) Environmental factors, e.g. increased rainfall or humidity, adverse changes in temperatures or increased exposure to pollution.
- (f) There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.
- (g) The asset is assessed as being impaired in accordance with GRAP 21 and GRAP 26.

(b) Policy

Any changes in RUL's and residual values will be implemented at year end and will impact on depreciation charges in the next financial period.

Assets that are approaching the end of its previously expected useful life will be reviewed and the RUL will be adjusted taking into consideration factors such as the planned replacement or repair of the asset. In cases where no such information is unavailable, a default RUL of at least two years after year-end will be applied.

The impact of these changes on current and future depreciation charges will be estimated and disclosed in the financial statements as required by GRAP 3.

(c) Responsibilities

- The CFO shall indicate a fixed annual date for the review of remaining useful life of assets under the control of the respective Senior Managers.
- The Senior Managers shall review the remaining useful life of all assets under their control at the annual review date, and from time to time as a result of any events that come to their attention that may have a material effect on some or all such assets. The Senior Manager shall motivate to the CFO proposed changes to the remaining useful of such assets.
- The Senior Manager should evaluate all the assets for impairment, taking into consideration any discussions with the Senior Accountants and Operating Managers.
- The Asset register administrator should update the fixed asset register with the information received, relating to the financial management system where the impairment journals have been processed
- The CFO shall report changes made to the carrying values of these assets in the asset register to the Municipal Manager and Council.

7.9 PHYSICAL VERIFICATION OF ASSETS

Physical verification is performed at each reporting date. Where it is not possible to conduct all verifications at the time of reporting, a phased programme of verification with the external auditor will be agreed upon.

The physical verification plan indicating the date and responsible person is determined and communicated to all involved.

Physical verification procedures:

- Prior identification of all locations at which assets are located.
- Areas to be counted are allocated to teams of counters as per the verification plan.
- A systematic approach is taken to ensure a full physical verification and that assets are not omitted or double counted
- Verification is performed using scanners
- Once all items in a selected area have been scanned, the scanner is taken to the designated person for downloading and recording on the plan;
- A report of items recorded by the scanner is printed; any barcodes not recognised by the scanner are printed in an exception report and followed up.
- Authorisation for write-off or disposals is obtained from the CFO.
- The necessary approved adjustments should be recorded by the Chief Asset accountant in the asset register.
- The barcode labels are affixed to assets that were not previously on the master list, and steps are taken to ensure the asset register is updated with this information.

- Verification on properties is done by means of a deed search and during the compilation of the valuation process.

7.10 DE-RECOGNITION

(a) *Definition and rules*

De-recognition

A fixed asset is derecognised on disposal or when no future economic benefits or service potential are expected from its use or disposal.

The carrying amount of an asset and the net disposal proceeds (or cost of de-commissioning and/or disposal of an asset) shall be included in the surplus or deficit when the item is derecognised.

Disposal of assets should be approved by Council and where applicable at market-related value (or auction/tender in the case of moveable assets). Section 14 of the MFMA prohibits the disposal of assets needed to provide the minimum level of basic municipal services.

A fixed asset will remain in the fixed assets register for as long as it is in physical existence or is yet to be written off.

(b) *Policy*

The only reasons for writing off fixed assets, other than the alienation of such fixed assets, shall be the loss, theft, destruction, material impairment, or decommissioning of the fixed asset in question. Fixed assets that have not been found during physical verification for three consecutive years will be written off by Council.

• *Disposal of Vacant Land / Investment Property (Alienation)*

A Vacant land / Investment property which has been disposed-off may only be derecognised from the accounting records of the municipality if the following conditions are met:

1. There is a signed deeds of sale between the municipality and the purchaser
2. Full purchase price of the vacant land / investment property has been received by the municipality

(c) *Responsibilities*

- An asset shall be written off only on the recommendation of the Senior Manager of the department controlling the asset, and with the approval of the Municipal Manager.
- Every Senior Manager shall report to the CFO on 31 October and 30 April of each financial year on any fixed assets which such Senior Manager wishes to have written off, stating in full the reason for such recommendation. The CFO shall

consolidate all such reports, and shall promptly make a submission to the Asset Management Committee with a copy to the Municipal Manager on the fixed assets to be written off. The Asset Management Committee shall consider the submission and make recommendations to the Council for adoption.

- Assets that are replaced should be written off and removed from the asset register.
- The Municipal Manager, in consultation with the CFO and other Senior Managers shall formulate norms and standards from the replacement of all normal operational fixed assets.

7.11 INSURANCE OF FIXED ASSETS

(a) Definition and rules

Insurance provides selected coverage for the accidental loss of asset value.

Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury. The municipality can however elect to insure certain infrastructure risks, though approval must be obtained from the Council.

The municipality may elect to operate a self-insurance reserve, in which case the CFO shall annually determine the premiums payable by the departments or votes after having received a list of the fixed assets and insurable values of all relevant fixed assets from the Senior Managers concerned.

(b) Policy

The Municipal Manager shall ensure that material movable assets in value and substance are insured at least against destruction, fire and theft, and that all municipal buildings are insured at least against fire and allied perils. The municipality must adhere to the disaster management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster.

(c) Responsibilities

- The Municipal Manager shall recommend to the Council, after consulting with the CFO, the basis of the insurance to be applied to each type of fixed asset: either the

carrying value or the replacement value of the fixed assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the municipality, and where applicable asset classes shall be prioritised in terms of their risk exposure and value.

- In the event that the CFO is directed by Council to establish a self-insurance reserve, the CFO shall annually submit a report to the Council on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve.

(d) Claims against Municipality by third parties

- A Claims procedure manual must be prepared to ensure the effective and efficient management of third party claims.
- The third parties must lodge every claim with the municipality within 60 days (Sixty) days after the third party becomes aware of the incident that must be claimed from the municipality, in writing, giving the municipality such proof, information and sworn declarations as the municipality may require.
- No Claim shall be payable unless the Third Party claims payment by serving legal process on Govan Mbeki Municipality within six (6) months of the rejection of the claim in writing and pursues such proceedings to finality.
- All pending Third Party claims (excluding rejected claims) shall prescribe after the expiry of 24 months from the date of the last correspondence between the Third Party and the Municipality.

(e) Claims within excess

- A Claims procedure manual must be prepared to ensure the effective and efficient management of claims within excess.
- Theft / Loss of any municipal asset must be reported to the Asset Management Division immediately at the occurrence of the incident.
- In case of theft where force was used to obtain entry, the case must be reported to the police and an incident form must be completed with the Occupational Health and Safety Division, The Asset Manager must ensure that the asset is removed from the Fixed Assets Register.
- In case where no forced entry was used and the asset was not secured in a safe manner, an investigation will be done to determine whether the custodian is to be held liable for the asset or not.
- The Chief Financial Officer may use financial recovery methods permitted by the relevant legislations to recover expenses lost in case of negligible loss of municipal assets.

(f) Excess amount recovery

- Excess amount recovery refers to getting back the initial out-of-pocket payment (the "excess") for an insurance claim.

- All employees entrusted with the care, custody or control of municipal assets are obligated to exercise the highest degree of due diligence and care in their management and protection.
- This encompasses proactive measures to identify and mitigate risks, timely reporting of potential hazards or deficiencies, and diligence oversight of assets under their purview. Failure to demonstrate such due diligence, resulting in loss or damage may be considered a breach of this clause.
- In the event of a claim for loss or damage to municipal assets covered by the insurance policy, and where an investigation conclusively determines that such loss or damage was directly attributable to the negligence of one or more employees, the following liabilities to employees shall apply:
 - Should the loss or damage to municipal assets be determine to be a direct negligence, the employee or employees shall be held liable for the excess amount stipulated in the insurance policy for that particular claim;
 - Should the negligence be deemed to be gross or wilful, the employee or employees shall be held liable for the total claim cost up to the full value of the lost or damaged asset.

8 POLICY FOR SAFEGUARDING FIXED ASSETS

(a) *Definitions and rules*

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

The existence of assets is physically verified from time-to-time, and measures adopted to control their use and movement.

(b) *Policy*

An asset safeguarding plan shall be prepared for all assets indicating measures that are considered effective to ensure that all fixed assets under control of the municipality are appropriately safeguarded from inappropriate use or loss. The impact of budgetary constraints on such measures shall be reported to Council. The existence, condition and location of assets shall be verified bi-annually (in line with the assessment of impairment). No asset may be moved without the prior consent of the respective Senior Manager and notification of the CFO.

(c) *Responsibilities*

- Each Senior Manager shall prepare and submit to the CFO, upon request, an annual asset safeguarding plan for the assets under the control of their respective departments, indicating the budget required. The CFO shall confirm the available budget, and in consultation with the respective Senior Managers, determine the impact of any budget shortfall. The CFO shall report the impacts to the Municipal

Manager for review, and advise Council. Each Senior Manager shall implement the safeguarding plan within the resources made available.

(d) Communication of changes

- All changes must be reported to the Assets section in the Finance Department within 10 working days to maintain accuracy of the fixed asset register. Accurate information in the system is dependent upon the completion by Departments of the Asset Movement forms for additions and transfers to other departments.
- The assets section should be consulted prior to moving the assets to record the asset numbers of the assets being moved and update the inventory list. The asset movement form should be signed by 3 officials as follows:
 - Official from the asset section
 - Official from the department/section moving the assets
 - Official from the department /section receiving the assets
- The signed assets movement forms should be filed by the Asset Section for Audit purposes.

Data updates are required for the following changes:

- a) change in Department ownership
 - b) change from location on record
 - c) change in usage of equipment
 - d) change in operating conditions (impairment)
 - e) change in property title
 - f) change in estimated useful life
 - g) disposal or retirement
 - h) replacement of damaged / lost barcodes
- Departments must reconcile and motivate discrepancies between the fixed asset register and the physical inventory count results.
 - Each Senior Manager shall report, within the time frame indicated by the CFO, the existence, condition, location and appropriate use of fixed assets under the control of their respective departments at the review date.
 - Senior Managers shall enforce the application of the procedures for controlling the movement of assets as prescribed by the CFO.
 - Senior Managers shall ensure that rented assets, such as photocopy machines, shall not be moved, unless by duly authorised staff.
 - Malicious damage, theft, and break-ins must be reported to the Municipal Manager or delegated person within 48 hours of its occurrence or awareness by the respective Senior Manager.
 - The Municipal Manager must report criminal activities to the South African Police Service.

9 POLICY FOR LIFE-CYCLE MANAGEMENT OF PPE ASSETS

(a) *Definitions and rules*

Service delivery

PPE assets (such as infrastructure and community facilities) are the means by which the municipality delivers a range of essential municipal services. Consequently the management of such assets is critical to meeting the strategic objectives of the municipality and in measuring its performance.

Asset management

The goal of asset management of PPE is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers.

The core principles are:

- taking a life-cycle approach;
- developing cost-effective management strategies for the long-term;
- providing a defined level of service and monitoring performance;
- understanding and meeting the impact of growth through demand management and infrastructure investment;
- managing risks associated with asset failures;
- sustainable use of physical resources; and
- continuous improvement in asset management practices.

(b) *Policy*

The municipality shall provide municipal services for which the municipality is responsible, at an appropriate level, and in a transparent, accountable and sustainable manner, in pursuit of legislative requirements and in support of its strategic objectives, according to the following core principles:

- **Effective governance**

The municipality shall strive to apply effective governance systems to provide for consistent asset management and maintenance planning in adherence to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected.

To this end, the municipality shall:

- continue to adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- regularly review and update amendments to the above legislation;
- review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- effectively apply legislation for the benefit of the community.

- **Sustainable service delivery**

The municipality shall strive to provide to its customers services that are technically, environmentally and financially sustainable.

To this end, the municipality shall:

- identify a suite of levels and standards of service that conform with statutory requirements and rules for their application based on long-term affordability to the municipality;
- identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- identify current and future demand for services, and demand management strategies;
- set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose infrastructure assets, where applicable in line with national targets;
- apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- prepare and adopt a maintenance strategy and plan to support the achievement of the required performance;
- allocate budgets based on long-term financial forecasts that take cognisance of the full life-cycle needs of existing and future infrastructure assets and the risks to achieving the adopted performance targets;
- strive for alignment of the financial statements with the actual service delivery potential of the infrastructure assets; and
- implement its tariff and credit control and debt collection policies to sustain and protect the affordability of services by the community.

- **Social and economic development**

The municipality shall strive to promote social and economic development in its municipal area by means of delivering municipal services in a manner that meet the needs of the various customer user-groups in the community.

To this end, the municipality shall:

- regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- implement changes to services in response to changing customer needs and expectations where appropriate;
- foster the appropriate use of services through the provision of clear and appropriate information;
- ensure services are managed to deliver the agreed levels and standards; and
- create job opportunities and promote skills development in support of the national EPWP.

- **Custodianship**

The municipality shall strive to be a responsible custodian and guardian of the community's assets for current and future generations.

To this end, the municipality shall:

- establish a spatial development framework that takes cognisance of the affordability to the municipality of various development scenarios;
- establish appropriate development control measures including community information;
- cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- ensure that heritage resources are identified and protected; and
- ensure that a long-term view is taken into account in infrastructure asset management decisions.

- **Transparency**

The municipality shall strive to manage its infrastructure assets in a manner that is transparent to all its customers, both now and in the future.

To this end, the municipality shall:

- develop and maintain a culture of regular consultation with the community with regard to its management of infrastructure in support of service delivery;
- clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);
- avail asset management information on a ward basis; and
- continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

- **Cost-effectiveness and efficiency**

The municipality shall strive to manage its infrastructure assets in an efficient and effective manner.

To this end, the municipality shall:

- assess life-cycle options for proposed new infrastructure in line with the Supply Chain Management Policy;
- regularly review the actual extent, nature, utilisation, criticality, performance and condition of infrastructure assets to optimise planning and implementation works;
- assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of infrastructure assets;
- continue to secure and optimally utilise governmental grants in support of the provision of free basic services;

- implement new and upgrading construction projects to maximise the utilisation of budgeted funds;
- ensure the proper utilisation and maintenance of existing assets subject to availability of resources;
- establish and implement demand management plans;
- timeously renew infrastructure assets based on capacity, performance, risk exposure, and cost;
- timeously dispose of infrastructure assets that are no longer in use to provide basic municipal services;
- review management and delivery capacity, and procure external support as necessary;
- establish documented processes, systems and data to support effective life-cycle infrastructure asset management;
- strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and
- conduct regular and independent assessments to support continuous improvement of infrastructure asset management practice.

(c) Responsibilities

- Asset Management Committee should convene regularly and take measures to effectively implement this policy, and report to Council on progress made at a frequency indicated by Council.
- Within 2 years of adoption of this policy, Senior Managers shall develop, and update at least every 3 years thereafter, an Asset Management Plan (AMP) for each service involving fixed assets that shall assess levels and standards of service, future demand, risk, determine a lifecycle plan for a minimum 10 year planning horizon, and identify management practice improvement needs (3 year horizon). The AMPs will be submitted through the Municipal Manager to Council for adoption. AMPs shall be used to inform the preparation of a Comprehensive Municipal Infrastructure Plan and budgets through the IDP process.
- The CFO shall, in consultation with Senior Managers, determine grading scales for the measurement of asset condition, performance, cost-of-operation, and common utilisation and which is applicable to all services. Where necessary, the Senior Managers shall interpret the grading scales for the PPE assets under their control. Senior Managers shall determine the grading of all PPE assets under their control at a level of accuracy considered appropriate to the municipality's resources, at least every 5 years.
- Within 2 years of the adoption of this policy, Senior Managers shall prepare, and review at least every 3 years thereafter, an Operations and Maintenance Strategy and Plan, and submit such, through the Municipal Manager, to Council for adoption.
- Within 2 years of the adoption of this policy, Senior Managers shall determine detailed service performance measures (differentiated, where applicable for identified customer groups), and submit such, through the Municipal Manager, to Council for adoption.

Senior Managers shall establish a monitoring regime, and report actual performance each financial year.

- The Municipal Manager shall establish procedures to ensure that legislative requirements regarding the management of capital assets, including but not limited to health and safety, and environmental protection, are documented and advised to Senior Managers. Senior Managers shall address legislative needs in their strategies and plans, and shall enforce implementation.

10 POLICY IMPLEMENTATION

Detailed procedures shall be prepared and adopted by the Municipal Manager, in consultation with the CFO and Senior Managers, to give effect to this policy.

Signed by the Municipal Manager as per resolution:



Mr. EN Maseko
Municipal Manager

Date

