



CHRIS HANI
DISTRICT MUNICIPALITY

SUSTAINING GROWTH
THROUGH OUR PEOPLE

Chris Hani District Municipality

Asset Management Policy

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1 Background

Chris Hani District Municipality's (hereafter named CHDM) has made a significant investment in various assets used mainly to fulfil its responsibilities for:

1. Delivery of sustainable services,
2. Social and economic development,
3. Promoting safe and healthy environments, and
4. Providing for the basic needs of the community.

As custodians on behalf of the local community, the municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in these assets. The purpose of this policy is to therefore ensure that the municipality's assets are acquired, safeguarded, controlled, disposed of and accounted for in accordance with the Municipal regulations, the Municipal Finance Management Act (Act no. 56 of 2003), Auditor General's requirements, applicable accounting pronouncements, such as General Recognized Accounting Practices (GRAP), and in an appropriate manner applicable to the management and control of assets.

Statutory provisions have been implemented to protect public property against arbitrary and inappropriate management or disposal by a local government. The Accounting Standards Board per instructions of the Accountant General, to ensure the appropriate financial treatment for property, plant and equipment, has adopted certain accounting standards. The requirements of these new accounting standards include:

- a) The compilation of asset registers covering all property, plant and equipment controlled by the municipality;
- b) Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant and equipment;
- c) The standards to which these financial records must be maintained.

This Asset Management Policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of property, plant and equipment. This stewardship is comprised of two components being the:

- i. Financial administration by the Chief Financial Officer; and
- ii. Physical administration by the individual Asset Controller (s)

2 Definitions and Terminology

Terminology	Definition
Accounting Standards Board	Was established by the Public Finance Management Act to set standards of Generally Recognised Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa
AMP	Asset Management Policy
AMT	Asset Management Team
AO	Accounting Officer
Acquisition cost	When a Municipality initially recognises assets such as items of property, plant and equipment, investment properties, intangible assets and heritage assets using the Standards of GRAP, it measures those assets using either cost (if the asset is acquired in an exchange transaction) or at fair value (if the asset is acquired in a non-exchange transaction). This cost or fair value on initial acquisition of an asset is the acquisition cost.
Assets	Are resources controlled by a Municipality as the result of past events and from which future economic benefits or potential service provision are expected to flow to the Municipality
Asset Categories	Are the six main asset categories defined by and GRAP 17. These are:
Infrastructure assets	Are defined as any asset that is part of a network of similar assets. It is specialised in nature and does not have an alternative use. It is immovable and may be subject to constraints on disposal.

Terminology	Definition
Heritage assets	GRAP103 defines heritage assets as assets which have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.
Community assets	Are defined as any asset that contributes to the community's wellbeing, eg. parks, libraries and fire stations
Investment assets	Are defined as properties (land or buildings) that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.
Intangible assets	Are defined as identifiable non-monetary assets without physical substance
Other assets	Are defined as assets utilised in normal operation, eg. plant and equipment, motor vehicles and furniture and fittings
Capilisation	Is the recognition of expenditure as an Asset or Inventory item in the Asset Register
Carrying amount	Is the amount at which an asset is included in the Statement of Financial Position after deducting any accumulated depreciation thereon
CFO	Chief Financial Officer
Cost	Is the amount of cash or cash equivalent paid or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction plus costs incidental to the acquisition or acquirement. Also known as historical cost/value.
Cost of acquisition	Are all the costs incurred in bringing an item of plant, property or equipment to the required condition and location for it's intended use

Terminology	Definition
Deemed cost	Deemed cost is a surrogate value for the cost or fair value of an asset at its initial acquisition, and is determined by reference to the fair value of the asset at the date of adopting the Standards of GRAP measurement date).
Deferred maintenance	Is the extent of preventative maintenance that has not been performed
Depreciation	Is the systematic allocation of the depreciable amount of an asset over its useful life
Depreciable amount	Is the cost of an asset, or the other amount of an asset, or other amount substituted for cost in the financial statements, less its residual value
Fair value	Is the amount for which an asset could be exchanged between knowledgeable willing parties in an 'arms- length' transaction
CHDM	Chris Hani District Municipality
Finance Lease	<p>A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.</p> <p>An operating lease is a lease other than a finance lease.</p>
Fixed asset register	Is the controlled register recording the financial and other key details for all municipal assets recognised in accordance with this policy
GAMAP	Generally Accepted Municipal Accounting Practice
GRAP	Generally Recognised Accounting Practice

Terminology	Definition
IAS	International Accounting Standards
Impairment	Impairment is a 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.
PPE - Property, plant and equipment	Are tangible assets that: (a) Are held by a municipality for use in the production of goods and services, for rental to others, for administrative purposes; and
Recognition	The cost of an item of PPE shall be recognised as an asset only if: (a) It is probable that future economic benefits or service potential associated with the item will flow to the entity; and (b) The cost or fair value of the item can be measured reliably
Recoverable amount	Is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal
Replacement value	Is the amount which is needed in current terms to replace an asset
Residual value	Is the net amount that the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal
Stewardship	Is the act of taking care of and managing property, plant or equipment on behalf of others
Useful life	Is either: (a) The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the municipality, or (b) The estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the municipality

3 Legal and Regulatory Framework

The statutory framework for this policy is:

- a) The Constitution of the Republic of South Africa, 1996
- b) Municipal Systems Act, 2000
- c) Municipal Finance Management Act, 2003.
- d) The Constitution's prime mandate for Local Government is that services are provided in a sustainable manner. (Section 152)
- e) The MSA in sections 4(2)(d) states that a municipality has the duty to -
- f) strive to ensure that municipal services are provided to the local community in
- g) a financially and environmentally sustainable manner.

Good asset management facilitates the provision of services in a financially sustainable manner. As noted under the Scope, the MFMA (section 63) states specific duties in respect of asset management; each municipal manager must ensure that the provisions of S63 are implemented. The accounting and reporting principles governing municipal assets are covered in more detail in standard specific guidelines and should be referred to in conjunction with the Local Government Capital Asset Management Guideline (LGCAMG). Some of the following standards were reviewed during the compilation of this policy, and they are:

- a) GRAP 17 :Property, Plant & Equipment (PPE)
- b) GRAP 16 : Investment Properties
- c) GRAP 102 : Intangible Assets
- d) GRAP 100 : Non-current Assets Held for Sale and Discontinued Operations
- e) GRAP 101 o: Agricultural Activities
- f) GRAP 21 : Impairment of Non-cash-generating Assets
- g) GRAP 26 : Impairment of Cash-generating assets
- h) Other relevant accounting standards are:
 - a. GRAP 12 : Inventories
 - b. GRAP 11 : Construction Contracts.

Together with the statutory framework and relevant accounting standards, this asset management policy covers the roles and responsibilities, asset life-cycle management processes and the accounting treatment of CHDMs assets.

4 Introduction

An asset is defined in GRAP 17 as a tangible item of property, plant or equipment held by a Municipality for use in the productions or supply of goods or services, for rental to others, or for administrative purposes, and which is expected to be used during more than one reporting period (financial year).

An asset is thus either movable or fixed/immovable, under the control of the Municipality, and from which the Municipality reasonably expects to derive economic benefits, or reasonably expects to use in service delivery, over a period extending beyond one financial year. An asset held under a finance lease, shall be recognised as a Municipal asset, since the Municipality has control over the leased assets.

Legislation such as the Municipal Finance Management Act (MFMA) and the size of CHDM operations highlights the critical importance of asset management. It is therefore important to note that all assets acquired on behalf of CHDM must be for the efficient, effective and economical use and aid the Municipality to attain and maintain its service delivery objectives. The Municipality has a responsibility and an obligation to ensure that assets which require periodical maintenance are properly maintained in order to realise the intended benefit from the procured asset. Also, assets no longer needed to deliver services, must be declared for further transfer to areas where needed or to be disposed of in the appropriate manner as the council deems fit as long as the normal SCM processes are followed.

Individuals entrusted with CHDM's assets have to properly utilize such assets to ensure that the intended benefit to be derived is realised. Adequate security measures to safeguard the CHDM's assets must be adhered to; to ensure that loss or theft of assets is minimized.

Assets acquisitions, movements, transfer and disposals policies and procedures must be adhered to at all times to ensure that the assets recorded in the Assets Register and funding sources are correctly identified and recorded appropriately. Disciplined asset management from the individual

asset user up to top management must ensure that this is achieved. This policy is applicable to all Customer Care Centres, Departments and all Municipal structures offices within the CHDM.

The objective of this policy is to:

- a) To ensure the effective and efficient control, utilization, safeguarding and management of the CHDM's property, plant and equipment are achieved.
- b) To ensure that the Heads of Department are aware of their roles and responsibilities regarding property, plant and equipment.
- c) To set out the standards of physical asset management, recording and internal controls to ensure property, plant and equipment are safeguarded against loss and/or inappropriate utilisation.
- d) To specify the processes required for acquisition, transfer and disposal of assets.

5 Asset Management Strategy

The goal of asset management is to achieve the required level of service in the most cost effective manner, which is achieved through management of the asset's life cycle. To be effective, asset management in municipalities should include the following:

- a) Service level needs, identified in the IDP process, drive asset management practices and decision-making;
- b) Asset management plans that are an integral part of the municipal planning process;
- c) Asset acquisition decisions that are based upon the evaluation of alternatives, including demand management and non-asset solutions;
- d) Asset acquisition proposals that include a full business case, including costs, benefits and risks across each phase of an asset's life cycle;
- e) Defined responsibility and accountability for performance, safe custody and use.
- f) Disposal decisions based upon an analysis of disposal options, designed to achieve the best possible return for the municipality and made in accordance with the provisions of the MFMA;
- g) Sound risk-based internal controls supporting all asset management practices.

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5.1 Key Strategy Principles

Effective asset management will:

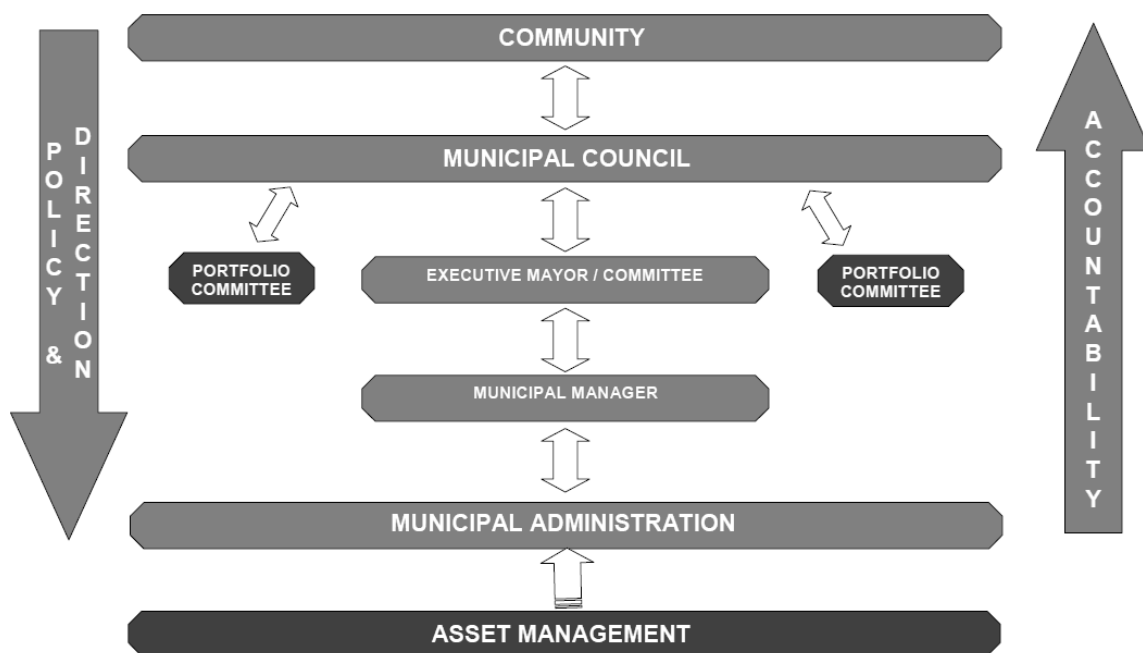
- a) maximise the service potential of existing assets by ensuring that they are appropriately used; maintained, safeguarded and that risks are mitigated;
- b) optimise the life cycle costs of owning and using these assets by seeking cost-effective options throughout an asset's life cycle;
- c) reduce the demand for new assets through optimal use of existing assets and management of demand through the use of non-asset service delivery options; and
- d) establish clear lines of accountability and responsibility for performance.

CHDM is working towards adopting a fully integrated approach to asset management:

- a) taking the municipal strategy, converting that into an asset management strategy and producing plans based upon an analysis of service delivery options;
- b) formulating an asset management strategy consisting of detailed plans for acquisitions and replacements, operation and maintenance as well as disposals in terms of the municipality's policies;
- c) informing the IDP (and revised IDP) and then the annual budget, using the detailed plans;
- d) funding each approved asset management plan appropriately through the budget;
- e) including in the Service Delivery and Budget Implementation Plan (SDBIP) the measurable objectives and targets of each asset management plan;
- f) reporting on the performance of assets as measured in terms of service delivery based upon an approved SDBIP, budget and IDP.

6 Roles & Responsibilities

CHDM has a clear and up-to-date system of delegations and accountability within the administration, and between the administration and municipal council. The council is ultimately accountable to the wider community. The municipality has clear monitoring and reporting lines between asset managers, senior managers, municipal manager, executive mayor and municipal council.



6.1 The Municipal Council must:

- Approve the temporary and/or permanent transfer of all moveable assets exceeding approved limits, as stipulated in the “Powers of Delegation” of the municipality and
- Approve the writing-off, disposal of obsolete or redundant assets.

6.2 Role of the Municipal Manager (MM)

The Municipal Manager shall ensure that the Municipality maintains an asset identification system, which shall be operated in conjunction with its computerised assets register.

The identification system shall be determined by the Municipal Manager, acting in consultation with the CFO and other Heads of Departments, and shall comply with any legal prescriptions, as well as any recommendations of the Auditor General as indicated in the CHDM's audit report(s), and shall be decided upon within the context of the CHDM's budgetary and human resources. Every Head of Department shall ensure that the asset identification system approved for the CHDM is meticulously applied in respect of all assets controlled or used by the Department in question.

As the accounting officer of the Municipality (section 63 of the MFMA), the Municipal Manager shall be the principal custodian of all the Municipality's assets including safe guarding and shall be responsible for ensuring that the asset management policy is meticulously applied and adhered to. The Municipal Manager must ensure that:

- a) the municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- b) the municipality's assets are valued in accordance with standards of generally recognised accounting practice;
- c) the municipality has and maintains a system of internal control of assets, including an asset register; and
- d) Senior managers and their teams comply with this policy and that this asset management policy is reviewed annually.

6.3 Role of the Chief Financial Officer (CFO)

The CFO is responsible to the municipal manager as per section 79 1 (b) (ii) of the MFMA for ensuring that the financial investment in the municipality's assets is safeguarded and maintained.

The CFO must ensure that:

- a) all asset acquisitions are in accordance to the Supply Chain Management Policy.
- b) Appropriate systems of financial management and internal control are established and carried out diligently;
- c) The financial and other resources of the Municipality are utilized effectively, efficiently, economically and transparently;
- d) Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- e) The systems, processes and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of the Treasury and the Auditor General;
- f) Financial processes are established and maintained to ensure the Municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions;
- g) The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- h) 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;
- i) The CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring that these activities are performed.

6.4 Asset Management Section (AMS)

This section shall be the asset registrar of the assets of the municipality and shall ensure that a credible asset register is maintained. The Asset Management Section consists officials that operate at corporate level and some deployed within the finance and asset management section. The

officials in this section are not accountable for physical assets dedicated to the Head of Department or Asset Users.

6.4.1 Role of Asset Manager

- Ensure all assets are accounted for in accordance with all applicable Generally Recognised Accounting Practice standards
- Ensure the general ledger is reconciled to the fixed assets register
- Review the reconciliation between general ledger and the fixed assets register
- Ensure that the municipality has and maintains a fixed asset register that is complete, accurate and up to date
- Provide Auditor General or his personnel upon request with financial records relating to CHDM assets as recorded in the general ledger
- Ensure asset management systems, processes and controls can provide an accurate, reliable and up-to-date account of assets under their control;
- Ensure the Asset Management Policy is adhered
- Ensure the effectiveness of the Asset Management Policy as an ultimate Asset Management control measure
- Review the Asset Management Policy and Procedure Manuals at least once a year

6.4.2 Role of Asset Management Team

Some critical duties of asset management team include the following tasks:

- Maintain the asset register by;
 - recording all asset acquisitions purchased by CHDM
 - recording all asset movements including transfers
 - recording all assets disposals.
 - keeping asset audit evidence for items recorded on the asset register.
 - perform asset verification at least once a year for both movable assets and immovable assets
- Conduct, manage and facilitate an asset disposal process annually.
- Facilitate and manage the transfer of CHDM's assets; internally between the various units (sections) and end-users, as well as between external government bodies

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- Facilitate and manage auctioning of CHDM's assets, and/or asset donations etc.
 - Capture and maintain accurate records and asset information on CHDM's financial management system.
 - No amendment / changes to the fixed asset register shall be made by anyone other than those authorised by CFO and or Asset Manager.
 - Maintain and adhere to the internal controls enforced by the CFO and management
 - Maintain and adhere to the statutes stipulated by National Treasury in terms of best practise asset management accounting

6.5 Heads of Departments (Line Managers)

Heads of Department and Line Managers must ensure that:

- a) all employees in the divisions adhere to approved asset management policies and procedures
- b) all employees with/without delegated authority are responsible for assets in their custody / place of work / offices. Even though assets are in the custody of officials, the ultimate responsibility to ensure adequate physical control over assets remains with the Head of Department
- c) assets of the municipality are not used for private gain
- d) all movable assets as they appear in the register / inventory list have bar codes. If not, the asset management division must be notified
- e) asset verification is done at least once a year and that all asset custodians participate meaningfully
- f) all obsolete and broken assets are reported the Asset Management Division and are accompanied by a relevant asset/sale scrap form
- g) a correct cost element and description are being used before authorising any requisitions
- h) The appropriate internal controls (including asset internal control processes) are adhered to and carried out for assets in their area of responsibility.
- i) the municipal assets assigned to them are utilized effectively, efficiently, economically and transparently.

- j) any unauthorized, irregular, fruitless or wasteful utilization, and losses resulting from criminal or negligent conduct, is prevented.
- k) management controls that they implement and enforce can provide an accurate, reliable and up-to date account of assets under their control.

The Heads of Department may nominate officials who shall safeguard the assets on their behalf, but they shall remain accountable for ensuring that these activities are performed. Every Line Manager is, in terms of the employment contract, directly responsible for the physical safekeeping of any asset controlled or used by the Department in question. In exercising this responsibility, Heads of Department shall adhere to all written directives issued by the Municipal Manager to the Department in question, or generally to all Departments, regard the control of or safekeeping of the CHDM's assets.

The Head of Department and Line Managers shall ensure that any incident of loss, theft, destruction, or material impairment of any asset controlled or used by the Department in question is promptly reported in writing to the CFO. Also, in cases of suspected theft or loss of any asset controlled or used by the Department in question is promptly reported in writing to the South African Police Service and the accident / case number must accompany a written report of such incident to CFO. Such a report with case number is crucial for insurance claims.

6.6 Role of Budget Office

- Ensure clear descriptions are provided with each project and the appropriate funding source is identified
- Release capital funds only after receiving written authority and a clear description of the item to be purchased
- Ensure that any changes to the capital budget with regards to funds transferred or project description changes are communicated to the Asset Management unit / Asset Manager

6.7 Role of SCM

- Ensure the correct SCM procedures are followed when acquiring assets
- Ensure specification committee, evaluation and adjudication committees comply with and are constituted in accordance to SCM policy

6.8 Role of Human Resource Management

- Ensure that no monies are paid out on termination of service of an employee without receiving a confirmation of return of municipal assets assigned to the employee from the Asset management unit / Asset Manager
- Ensure that the confirmation document is counter signed by the CFO

6.9 Asset Management Steering Committee (AMSC)

The Asset Control Committee (AMSC) does not form of the line structure in the asset control process. This committee is responsible only in an advisory capacity Municipal to assist the Asset Management Section with the formulation of policy, procedures and updating of the Asset Management Policy and Procedures Manual.

The committee meets quarterly, and as and when necessary.

6.10 Loss Control Committee

Heads of Department must forward details of asset/s loss/es or damage/s to the Loss Control Committee for further investigation. The resultant Loss Control Committee comments must be included in assets items to serve in respective relevant Portfolios.

6.11 Asset Users

Listed below are the responsibilities of all CHDM's officials utilising or entrusted with assets:

- a) Each user is responsible for the assets under their control, allocated to/used by them in the performance of their duties.

- b) Each user must sign an asset inventory list (movable assets list) containing the barcoded assets allocated to them. These lists must be visibly displayed for audit purposes, preferable at the back of the doors. The Asset Management Unit must keep copies of the movable assets lists.
- c) Asset users are prohibited to move/transfer assets from the location recorded in the asset register without proper authorisation from the Asset Management Unit.
- d) Each user must take all reasonable precautions to protect their assets against losses and/or damage.
- e) Each user must maintain or take steps to maintain their assets for their useful life. Users must check and verify their physical assets against their assets lists regularly and ensure that changes in physical assets in their possession are updated in their assets lists.
- f) Any damage to the asset items must be immediately reported to superiors as well as to Asset Management Unit who will advise on the appropriate steps to be taken in relevant incidents.
- g) The assets users must avail assets under their control at any time, at the request of the CHDM or the Asset Management Section or External Audit or Internal Audit Section for verification purposes.

6.12 Safe guarding of assets susceptible to theft

The adequate security measures to safeguard assets susceptible to theft include;

- refusal by security officers to move assets / transfer assets outside the premises of the municipality without a duly signed Asset Transfer Form (ATF) or authorisation by the relevant line manager .
- inspection at the point of entry to the municipal offices by security officers to all visitors.
 - On instances where a visitor brings in a personal asset inside municipal offices, a visitor must sign for it and have the serial number written down by the security officer
 - Should CHDM member of staff decide to bring and use his/her personal asset within the premises for a period longer than a full business day, the Asset Manager must be notified in writing by the member of staff. It must be noted that the onus is in the member of staff concerned to notify the Asset Manager.

6.13 Asset Users Responsibilities on Loss of Assets

- In the event of such assets being missing stolen or lost, the responsible user shall accordingly report the incident to the SAPS. The reported case information will be the source document used to report missing/stolen/lost assets to their superiors, as well as to their responsible Asset Controllers who will take further appropriate action in the relevant incidents.
- Should it be found that users were not properly utilizing/maintaining/securing assets under their control/stewardship leading to asset/s damages/losses such users' Heads of Department must recover the replacement costs of such assets from relevant users.
- On resignation, the user must complete the Exit Clearance form have it signed by all the parties concerned (Head of Department, Asset Management Unit etc.), to ensure that all assets have been handed back to CHDM, in working condition.

7 Asset Life-Cycle

A clear understanding of asset life-cycle costs is crucial for the development of cost-effective asset management plans and options. Knowledge of these asset life-cycle costs is also a legislative requirement.

The analysis of life-cycle costs should cover the four broad phases, thus covering the entire life of the asset, including any environmental rehabilitation at the end of its life. This analysis will be based upon estimates and include all cash flows such as operation, maintenance, administration, capital, and financing costs. The budget should have a split between capital and operational costs including depreciation.

These are typical asset life-cycle costs:

- a) Planning-phase costs. These costs include items such as concept design costs, scientific studies, environmental impact studies and feasibility studies. These costs are usually incurred when weighing up the different options, before deciding on the best option, and are excluded from the cost of an asset.
- b) Acquisition-phase costs & revenues. An example of these are; special levies, purchase price / construction costs (labour, materials, and components), detailed design costs (not feasibility analysis), transportation costs, installation and commissioning cost, use of own assets in construction (limited to depreciation over duration of use), freight, legal fees, warehousing costs, initial consumables (e.g. initial set of tyres for a vehicle) and all other costs required to bring that asset to its proper working condition and location for intended use (excluding training on use of the new asset, should this be required).
- c) Operation and maintenance-phase costs:
 - i. **Operation** - fuel or energy costs, operational labour, security costs, safety costs, training costs, performance monitoring costs, cleaning costs and consumables.
 - ii. **Maintenance** - spare parts and repair labour.
 - iii. **Administration (asset specific)** - insurance, rates and taxes, management fees, etc.

- iv. **Rehabilitation and renewal** - upgrade costs, modification costs if this improves asset life (capital), re-training costs (current), etc.
- v. **Asset-related receipts** – tariffs, rates and equitable share (only to the extent that it relates to this asset acquisition).

d) Disposal-phase costs:

- An example of disposal costs (like auctioneer fees, etc.) would be; storage costs, environmental rehabilitation costs, decommissioning costs, demolition costs and etc.

Also, before approving a capital project in terms of subsection (1)(b), the council of a municipality must consider:

- a) the projected cost covering all financial years until the project is operational; and
- b) the future operational costs and revenue on the project, including municipal tax and tariff implications.
- c) (d) tariffs must reflect the costs reasonably associated with rendering the service, including capital, operating, maintenance, administration and replacement costs,
- d) and interest charges;
- e) tariffs must be set at levels that facilitate the financial sustainability of the service, taking into account subsidisation from sources other than the service concerned; the extent of subsidisation of tariffs for poor households and other categories of users should be fully disclosed.

Asset Life-Cycle is the cycle of activities that an asset goes through – including planning, design, initial acquisition and/or construction, cycles of operation and maintenance and capital renewal, and finally disposal. This policy will address the process CHDM has adopted for all phases within the asset life cycle.

7.1 Planning

The identification of assets needs and financing options, where the requirement for a new/replacement asset is planned for and established, must be done at the planning stage.

7.1.1 Financial Planning

Property, Plant and Equipment financial planning and decision making must be informed by the Integrated Development Plan (IDP) and strategic business initiatives in line with prevailing economic conditions and the Municipality's financial affordability.

7.1.2 Pre -Acquisition Planning

Before a capital project is included in the budget for approval, the Head of Department must demonstrate that they have considered:

- a) The projected cost over all the financial years including initial setup costs;
- b) The future operational costs and revenue on the project, including tax and tariff
- c) implications;
- d) The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
- e) The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and
- f) rehabilitation;
- g) The inclusion of this capital project in the IDP and future budgets: and
- h) Alternatives to this capital purchase.

7.1.3 Approval to Acquire Property Plant and Equipment

This can only be approved on a capital asset/project if:

- a) The funds for the project have been appropriated in the capital budget,
- b) The project, including the total cost, has been approved by the CHDM Council,
- c) The CFO confirms that funding is available for that specific project. (Any contract that will impose financial obligations beyond two years after the budget year must be appropriately disclosed)

7.1.4 Capital Projects Funding Planning

Within the Municipality's on-going financial, legislative or administrative capacity, the CFO will establish and maintain the funding strategies that optimise the Municipality's ability to achieve its strategic objectives as stated in the IDP.

The acquisition of assets shall not be funded over a period longer than the useful life of that asset.

7.1.5 Replacement Planning

- a) Property, Plant and Equipment are to be replaced when:
 - i. They have reached the end of their useful or economic life (i.e. when the asset is fully depreciated); and the cost of maintaining such asset outweighs the economic benefit,
 - ii. they have been lost, stolen, damaged beyond repair; or
 - iii. they have been determined as obsolete, provided there is a continuing need for the services provided by such an asset.
- b) The future usefulness of an asset should be assessed continuously especially when the asset is fully depreciated. If it is found that there is no evidence of any continuing need, the asset should not be replaced, and if it still in good working condition; the asset could be transferred to where the need for such asset can still be identified. (AMS has a facility to publish on the intranet movable assets that are still in good condition on behalf of Departments) The selling of such assets should result as quickly as possible if there is no longer a need for such an asset.
- c) The asset will only be replaced if:
 - i. It has reached the end of its economic life,
 - ii. It was lost, stolen or non-repairable,
 - iii. It has become unserviceable,
 - iv. It is not economical to continue using the asset when a replacement would ultimately bring economic saving benefit,
 - v. It has been superseded by a later or more technologically superior model and;
 - vi. There is a continuing need for the service provided by the asset in question or economic benefit.

7.2 Acquisition of property, plant and equipment

The Property, Plant and Equipment acquisition phase take effect through outright purchase or development/construction. Such Property, Plant and Equipment acquisitions must only be funded out of capital budget votes in line with IDP and not through the operational budget.

7.2.1 Physical Receipting and Management

The Head of Department or his/her nominee must:

- a) Ensure that the purchase of property, plant of equipment complies with all CHDM's policies and procedures.
- b) Ensure all movable assets received into their stewardship are appropriately identified and safeguarded or prevented from inappropriate usage or loss. This will include appropriate control over the physical access to these assets and regular stock takes to ensure any losses do not occur. Any known losses should be immediately reported to the CFO.

7.2.2 The date of acquisition

The date of acquisition of property, plant and equipment is deemed to be the time when legal title and control passes to the Municipality.

7.2.3 Donations

The CFO must be informed about any donation to CHDM and form "Asset 001" must be submitted to the AMS. Where an item of property plant and equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the assets register if the fair value is greater than the recognition threshold. Where the value of the asset is known, such value shall be included in the register in line with recognition criteria. It shall be the responsibility of the Head of Department or his/her nominee to notify the CFO and AMU of such assets for capitalisation purposes. The Municipal Manager or his/her delegated official shall authorize all capital assets donated through inter CHDM Council donations, or public, individuals, private enterprises, Provincial or National Government, to the Municipality, prior to capitalisation.

7.3 Maintenance of property, plant and equipment

Accountability for the operation and maintenance of all assets is delegated from the municipal manager, through the senior managers, to the asset manager. The asset manager is accountable for ensuring that municipal resources assigned to him/her are utilised effectively, efficiently, economically and transparently. This would include:

- a) complying with systems of management and internal controls established by the municipality;
- b) preventing inappropriate losses;
- c) appropriately managing, safeguarding and maintaining assigned assets; and
- d) providing all asset-related information as and when required.

The asset manager will delegate custodianship of assets to specific users.

The custodians will be required to perform functions assigned to the asset manager in respect of their specific assets.

7.3.1 Maintenance Plans

Every Head of Department shall ensure that a maintenance plan in respect of every new infrastructure asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the Municipal Manager for approval. The maintenance plans contemplated in these are subject to budgetary provision in terms of the normal budget process.

If so directed by the Municipal Manager, the maintenance plan shall be submitted to the CHDM Council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.

The Head of Department controlling or using the infrastructure asset in question, shall annually report to the Municipal Manager of the CHDM, not later than in July, of the extent to which the relevant maintenance plan has been complied with.

7.3.2 Deferred Maintenance

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset, the CFO shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements.

Such note shall also indicate any plans, which the authoritative body of the CHDM has approved in order to redress such deferral of the maintenance requirements concerned.

If no such plans have been formulated or are likely to be implemented, the CFO shall re-determine the useful operating life of the asset in question if necessary, in consultation with the Head of Department controlling or using such asset, and shall recalculate the annual depreciation expenses accordingly.

7.3.3 General Maintenance of Assets

Every Head of Department shall be directly responsible for ensuring that all assets are properly maintained and in a manner, which will ensure that such assets attain their useful operating lives.

7.4 Disposal phase of property plant and equipment

The MFMA (section 14 & 90) and the Municipal Supply Chain Management Regulations have specific requirements regarding the disposal of assets. Specifically:

- a) CHDM will permanently dispose of a capital asset that can no longer provide the minimum level of basic municipal services.
- b) Where a municipal council has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

Where assets have been identified as under-performing, or no longer functionally suited for basic service-delivery needs, consideration should be given to the possible alternatives to disposal. A factor to consider is whether utilisation can be increased (for example by adapting the asset to another function or using it in another programme). The cost benefit of such alternatives should be included in the disposal strategy.

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

- a) The asset was acquired specifically for resale or distribution, e.g. investment property or stands held for distribution
- b) The asset is impaired (in respect of which the asset custodian can provide evidence).
- c) The municipality no longer performs the function for which the asset was purchased, e.g. the case of a clinic where the province has taken over that healthcare function.
- d) It is an immovable asset no longer located close to where the service is required, e.g. a taxi rank on a disused road.
- e) The asset has been replaced.
- f) The asset no longer performs the required level of service.

Processes should be in place to ensure that:

- a) under-utilised and under-performing assets are identified as part of a regular,
- b) systematic review process;
- c) the reasons for under-utilisation or poor performance are critically examined, and corrective action taken to remedy the situation or a decision to dispose of
- d) the asset is made;
- e) the analysis of disposal methods takes into consideration the potential market or other intrinsic values; the location and volume of assets to be disposed of; the ability to support other government programmes; and environmental implications;
- f) regular evaluation of disposal performance is undertaken.

To ensure that a disposal is fair, equitable, transparent and competitive, the

Following should happen:

- a) The supply chain management policy should state the mechanism for determining the market value for different types of assets.
- b) The process should be open to the public and public scrutiny.
- c) Consideration should be given to the fair market value of the asset, and to the economic and community value to be received in exchange for the asset.
- d) Reasonable efforts should be made to ensure that an appropriately competitive process for disposal is adopted.

Council or the municipal manager (where delegated) will need to know what the expected market price is in order to demonstrate that it has considered the market value of that asset.

In compliance with the principles and prescriptions of the MFMA, the transfer of ownership of any asset shall be fair, equitable, transparent, competitive and consistent with the Municipality's supply chain management policy.

Every Head of Department shall report in writing to the CFO on 31 October and 30 April of each financial year, on all assets controlled or used by the Department concerned which such Department Head wishes to alienate by public auction or public tender. The CFO shall thereafter consolidate the requests received from the various Departments, and shall promptly report such consolidated information to the CHDM or the Municipal Manager, as the case may be, recommending the process of alienation to be adopted. The disposal of capital assets must be dealt with in terms of Section 14 of the Municipal Finance Management Act in conjunction with the relevant delegated powers as approved by Council from time to time.

Once the assets are alienated, the CFO shall approve the removal of the relevant records from the assets register to the asset disposal register. Or use a Microsoft excel formula and get the net book value of such an asset to zero if the record cannot be removed from the fixed asset register.

If the proceeds of the alienation are less than the carrying value recorded in the assets register, such difference shall be recognised as a loss in the income statement of the vote concerned. If the proceeds of the alienation, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain in the income statement of the vote concerned.

All gains realised on the alienation of assets shall be appropriated annually to the Municipality's asset financing reserve (except in the cases outlined below), and all losses on the alienation of assets shall remain as expenses on the income statement of the vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the assets of any vote, only the net gain (if any) on the alienation of such assets shall be appropriated. Transfer of assets to other municipalities, municipal entities (whether or not under the

Municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

8 Transfer of property plant and equipment

8.1 Permanent transfers to another Head of Department

- a) The Head Department retains managerial accountability and control for a particular asset unless;
 - i. Another Head of Department agrees in writing to accept responsibility for that assets, and
 - ii. The CFO or his/her nominee endorses this transfer.
- b) The Finance Department appropriately amends the Assets Register for all approved transfers.
- c) The new Head of Department assumes all the accountabilities of the previous Head of Department.

8.2 Relocation or Reassignment of Property, Plant or Equipment

The Head of Department must ensure that the asset is appropriately safeguarded for loss, damage or misuse wherever it is located. Safeguarding includes ensuring reasonable physical restrictions. The Head of Department must advise the CFO whenever an asset is permanently relocated or reassigned from the location (or base) or cost centre recorded in the Assets Register. The Head of Department must advise the CFO whenever an asset is temporarily relocated or reassigned from the location (or base) or cost centre recorded in the Asset Register. In this case, the Head of Department must also advise the CFO when this asset is returned.

9 *Assets to be Written Off*

An asset, even though fully depreciated shall be written off only on the recommendation of the Head of Department controlling or using the asset concerned, and with the approval of the CHDM Council. Every Head of Department shall provide the CFO, before year end, with a list of all assets, which they wish to have written off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the CHDM Council on the assets to be written off.

The normal disposal of written-off assets is through auction but the CHDM Council may decide on any other method as deemed fit in line with CHDM's supply chain management policy. Writing off of assets not fully depreciated should be avoided since there is direct financial implication on operating revenue. Preferably, fully depreciated assets may be written off. In every instance where a not fully depreciated asset is written off, the CFO shall effect such accounting adjustments in terms of appropriate accounting standards.

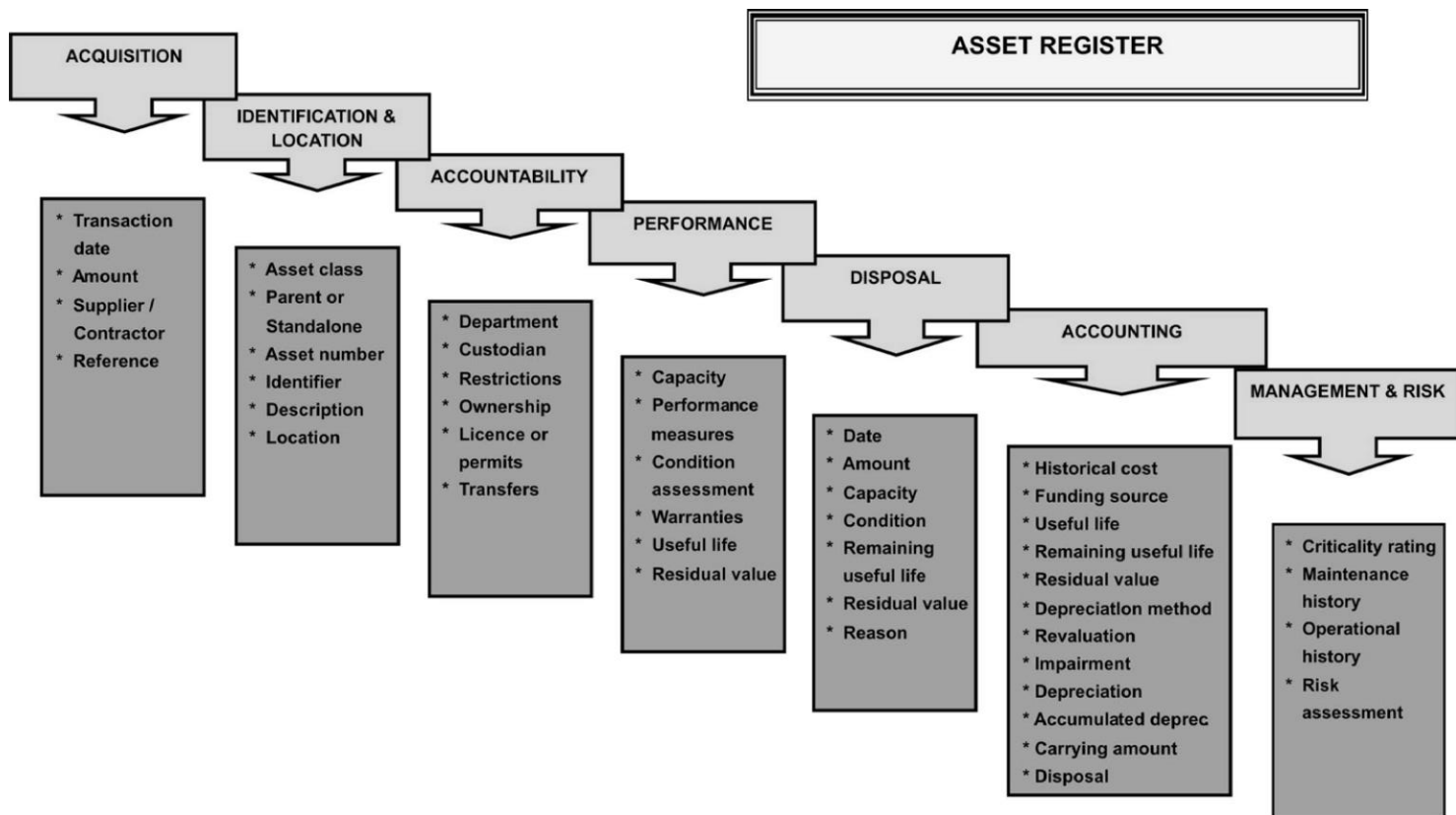
10 The Required format of the Asset Register

The assets register shall be maintained in the format determined by the CFO, which format shall comply with the requirements of generally recognised accounting practice (GRAP).

The assets register shall reflect the following information:

- a) A brief but meaningful description of each asset.
- b) The date on which the asset was acquired or brought into use.
- c) The location of the asset.
- d) The vote(s) within which the assets will be used.
- e) The title deed number, in the case of property.
- f) The stand number, in the case of property.
- g) The original cost, or the re-valued amount determined in compliance or the fair value if no costs are available.
- h) The (last) revaluation date of the assets subject to revaluation.
- i) The re-valued value of such assets.
- j) References to supporting documentation to support re-valuation
- k) Accumulated depreciation to date.
- l) The depreciation charge for the current financial year.
- m) The carrying value of the asset.
- n) The method and rate of depreciation.
- o) Impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- p) The source of financing.
- q) The current insurance arrangements.
- r) Whether the asset is required to perform basic municipal services.
- s) Whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements.
- t) The date on which the asset is disposed of.
- u) The disposal price.
- v) The date on which the asset is removed from operations, if not disposed of.

These fields have been depicted below pictorially to indicate and show their importance



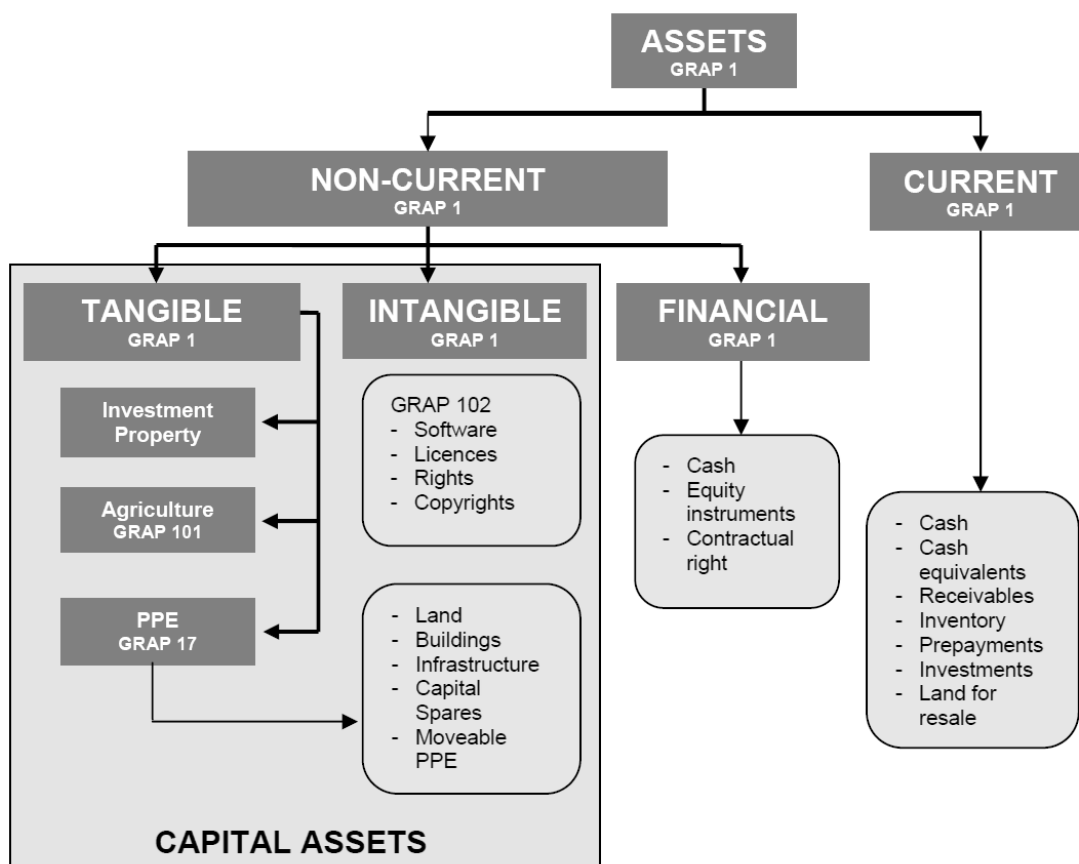
An asset shall be capitalised, that is, recorded in the assets register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as Work In Progress until it is available for use, where after it shall be appropriately capitalised as an asset.

An asset shall remain in the assets register for as long as it is in physical existence.

The fact that an asset has been fully depreciated shall not in itself be a reason for writing off such an asset.

11 Classification of Assets

When accounting for capital assets, municipalities should follow the various standards of GRAP relating to the capital assets. The diagram below indicates the various standards that impact the accounting for capital assets as well as the relation between the capital assets and other assets.



Class of Property, Plant and Equipment means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements. (GRAP 17) (This definition of class applies to all capital assets.)

Class of assets is also sometimes referred to as the asset hierarchy.

In compliance with the requirements of the National Treasury, the CFO shall ensure that all assets are classified under the following headings in the assets register, and

Head of Department shall in writing provide the CFO with such information or assistance as is required to compile the proper classification

11.1 Property, Plant and Equipment

Items of property, plant and equipment are distinguished from other assets as they are defined as tangible assets (i.e. they have physical substance) held by an entity for use in the production, supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

These include the following:

- a) Land (not held as investment assets)
- b) Infrastructure assets (assets which are of a network of similar assets)
- c) Community assets (resources contributing to the general wellbeing of the community)
- d) Heritage assets (culturally significant resources)
- e) Movable assets (ordinary operational resources):
 - i. vehicles
 - ii. furniture
 - iii. office equipment
 - iv. computer equipment
 - v. mobile plant

11.2 Inventory (*Housing (rental stock or housing stock not held for capital gain)*)

Any land or buildings owned or acquired by the Municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the Municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business, shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the Municipality's statement of position. Such inventories shall, however, be recorded in the assets register in the same manner as other assets, but a separate section of the assets register shall be maintained for this purpose.

11.3 Investment Property

CHDM will measure investment property initially measured at cost, including transaction costs.

If investment property is acquired at nominal or no cost or is received in the form of a donation, the investment property is recognised at fair value on transaction date. Investment property includes property the following:

- a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations (i.e. land held by a municipality for capital appreciation which may be sold at a beneficial time in the future);
- b) Land held for an undetermined future use. (If the municipality has not determined that it will use the land either as owner-occupied property, including occupation to provide services such as those provided by the municipality to current and future generations, or for short-term sale in the ordinary course of operations, the land is considered to be held for capital appreciation);
- c) A building owned by CHDM (or held under a finance lease) and leased out under one or more operating leases on a commercial basis. For example, a municipality may own residential houses that it leases on a commercial basis to municipal officials; and
- d) A building that is currently vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties

Subsequent to initial recognition of the investment property, CHDM can choose as its accounting policy to measure its investment property according to either the fair value model or the cost model. Also, transfers to, or from, investment property can be made to, or from property, plant and equipment or inventory. Depending on the measurement bases used, the transfers will be treated differently.

Gains or losses arising from the retirement or disposal of investment property will be determined as the difference between the net disposal proceeds and the carrying amount of the assets.

11.4 Donates Assets

Where an asset is donated to the Municipality or an asset is acquired by means of an exchange of assets between the Municipality and entities, the asset concerned shall be recorded in the assets register at its fair value, as determined by the CFO.

12 Assets Accounting and Reporting

12.1 Definition and recognition criteria for assets

A capital asset should be recognised as an asset in the financial and asset records when:

- a. it is probable that future economic benefits or potential service delivery associated with the item will flow to the municipality;
- b. the cost or fair value of the item to the municipality can be measured reliably;
- c. the cost is above any municipal capitalisation threshold **(if any)**; and
- d. the item is expected to be used during more than one financial year.

12.2 Capitalisation Criteria: Material Value

- a) Buildings, infrastructure, all fixtures and other tangible and non-tangible assets of a non – consumable nature of which the value is R1 000 and more, and the normal expected life of which is one year and more will be treated as fixed assets and be capitalised as such; and
- b) All tangible property with a value of less than R1 000 will be funded from the capital budget and included in the fixed asset register for control purposes, but depreciated in full in the year of acquisition. These assets will therefore be recorded in the fixed asset register at a carrying value of R1.

12.3 Capitalisation Criteria: Reinstatement, Maintenance and other expenses

Only expenses incurred in the enhancement of an asset (in the form of improved or increased services or benefits flowing from the use of such asset) or expenses incurred in the material extension of the useful operating life of an asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of an asset shall be considered as operating expenses incurred, in ensuring that the useful operating life of the asset concerned is attained, and shall not be capitalised, irrespective of the quantum of the expenses concerned.

Expenses, which are reasonably ancillary to bringing into operation of an asset, may be capitalised as of such asset. Such expenses may include but need not be limited to import duties, forward cover costs, transportation costs, installation, assembly and communication costs.

12.4 Depreciation of Assets

All assets, except land and heritage assets, shall be depreciated or amortised in the case of intangible assets.

Depreciation may be defined as the monetary quantification of the extent to which an asset is used or consumed in the provision of economic benefits or the delivery of services.

Depreciation shall generally take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the vote in which the asset is used or consumed.

However, depreciation shall initially be calculated from the day following the day in which an asset is acquired or – in the case of construction works and plant and machinery – the day following the day in which the asset is brought into use, until the end of the calendar month concerned. Thereafter, depreciation charges shall be calculated monthly.

Each Head of Department, acting in consultation with the CFO, shall ensure that reasonable budgetary provision is made annually for the depreciation of all applicable assets controlled or used by the Department in question or expected to be so controlled or used during the ensuing financial year.

The procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other assets.

12.5 Rate of Depreciation

The CFO shall assign a useful operating life to each depreciable asset recorded on the Municipality's assets register. In determining such a useful life, the CFO shall adhere to the useful lives set out in the Local Capital Asset Guidelines.

In the case of an asset which is not listed in this annexure, the CFO shall determine a useful operating life, if necessary in consultation with the Head of Department who shall control or use the asset in question, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed.

12.6 Method of Depreciation

The CFO shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question.

12.7 Impairment Review

Impairment is a loss in the future economic benefits or service potential of an asset, over and above depreciation.

Impairment means the carrying amount of an asset exceeds its recoverable amount or recoverable service amount. Indications for impairment should be assessed at each reporting date.

Cash-generating assets are those that are held to generate a commercial return.

An asset generates a commercial return when it is deployed in a manner consistent with that Non-cash-generating assets are assets other than cash-generating assets

The municipality will undertake the following when determining or considering impairing their assets:

- a) Review External Sources to determine if there are significant long-term changes in technology, market, economic, government or legal environment have taken place or will take place in the near future.
- b) Review internal Sources to determine if;
 - i. There is evidence of the obsolescence of or physical damage to an asset.
 - ii. Significant long-term changes in the operational environment will impact on the future expected use of the asset, e.g. discontinued operations, early disposal or reassessment of useful life.
 - iii. There is internal reporting that indicates worse than expected economic and/or service performance in respect of an asset or specific assets.
 - iv. Assets with significantly decreased remaining useful lives (includes various types of obsolesces);
 - v. Assets with significantly decreased residual values;
 - vi. Asset with significantly decreased replacement costs.

12.7.1 Specific to non-cash-generating assets

- a) Review external sources to determine if there is cessation, or near cessation, of the demand or need for services provided by the asset.
- b) Review internal sources to determine if a decision was taken to halt the construction of the asset before it is complete or in a usable condition.

12.7.2 Specific to cash-generating assets

- a) Review external sources to determine the following:
 - i. The market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and materially decrease the asset's recoverable amount.
 - ii. If an asset's market value has declined significantly during the reporting period, more than would have been expected as a result of the passage of time or normal use.

The impairment reduction should be recognised as an immediate expense, unless it reverses a previous revaluation in which case it should be charged to a "revaluation surplus". It is then necessary to link each asset to its impact on the "revaluation surplus" because a revaluation is usually based upon a class of assets whereas impairment could affect a single asset or class of assets. If an asset is impaired it should be written down to its recoverable amount.

12.8 Amendment of Asset Useful lives

Only the CFO may amend the useful operating life assigned to any asset.

The CFO shall amend the useful operating life assigned to any asset if it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed.

If the value of an asset has been diminished to such an extent that, it has no or a negligible further useful operating life or value, such asset shall be dealt with in terms of the appropriate accounting standards.

Similarly, if an asset has been lost, stolen or damaged beyond repair, it shall be fully depreciated in the financial year in which such event occurs, and if the asset has physically ceased to exist, it shall be written off from the assets register.

In all the foregoing instances, any accounting adjustments shall be dealt with in terms of the appropriate accounting standards.

If any of the foregoing events arises in the case of a normally non-depreciable asset, and such asset has been capitalised at a value other than a purely nominal value, such asset shall be fully depreciated, as the case may be, as though it were an ordinary depreciable asset.

12.9 Alternative Methods of Depreciation in Specific Instances

The CFO may employ the sum of units method of depreciation in the case of assets which are physically wasted in providing economic benefits or delivering services.

The CFO shall only employ this method of depreciation if the Head of Department controlling or using the asset in question gives a written undertaking to the Municipal Manager to provide:

- a) estimates of statistical information required by the CFO to prepare estimates of depreciation expenses for each financial year; and
- b) actual statistical information, for each financial year.

The Head of Department concerned shall moreover undertake to provide such statistical information at the specific times stipulated by the CFO.

Where the CFO decides to employ the sum of units method of depreciation, and the requirements set out in the preceding paragraph have been adhered to, the CFO shall inform the CHDM of such decision.

12.10 Creation of Non-Distributable Reserves for Future Depreciation

The CFO shall ensure that in respect of all assets financed from the Municipality's asset financing reserve, or from grants or subsidies or contributions received from other spheres of government or from the public at large, as well as in respect of assets donated to the Municipality, non-distributable reserve for future depreciation is created equal in value to the capitalised value of each asset in question.

The CFO shall thereafter ensure that in the case of depreciable assets an amount equal to the monthly depreciation expenses of the asset concerned is transferred each month from such non-distributable reserve to the Municipality's appropriation account. Where there is a difference between the budgeted monthly depreciation expenses and the actual total depreciation expenses for each financial year, the CFO shall appropriately adjust the aggregate transfer from the non-distributable reserve for the year concerned.

12.11 Carrying Value for Assets

All assets shall be carried in the assets register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation.

The only exceptions to this rule shall be re-valued assets and heritage assets in respect of which no value is recorded in the assets register.

12.12 Revaluation of Assets

The Municipality currently adopts and operates on the Cost Model to account for their asset, however, through policy change and council approval, the Municipality has the option to adopt the Revaluation Model, in terms of accounting for costs of assets.

In that instance, all land and buildings recorded in the CHDM's assets register shall be re-valued with the adoption by the municipality of each new valuation roll (or, if the land and buildings concerned fall within the boundary of another Municipality, with the adoption by such Municipality of each new valuation roll).

The CFO shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the asset as recorded in the valuation roll, provided the CFO is satisfied that such value reflects the fair value of the asset concerned.

The CFO shall also, where applicable, create a revaluation reserve for each such asset equal to the difference between the values as recorded in the valuation roll and the carrying value of the asset before the adjustment in question.

The asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its re-valued amount, over its remaining useful operating life, and such increased depreciation expenses shall be budgeted for and debited against the appropriate line item in the vote controlling or using the asset in question.

The CFO shall ensure that an amount equal to the difference between the new (enhanced) monthly depreciation expense and the depreciation expenses determined in respect of such asset before the revaluation in question is transferred each month from the revaluation reserve to the Municipality's appropriation account. An adjustment of the aggregate transfer shall be made at the end of each financial year, if necessary.

If the amount recorded on the valuation roll is less than the carrying value of the asset recorded in the assets register, the CFO shall adjust the carrying value of such asset by increasing the accumulated depreciation of the asset in question by an amount sufficient to adjust the carrying value to the value as recorded in the valuation roll.

Such additional depreciation expenses shall form a charge, in the first instance, against the balance in any revaluation reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the vote controlling or using the asset in question.

Re-valued land and buildings shall be carried in the assets register, and recorded in the annual financial statements, at their re-valued amount, less accumulated depreciation (in the case of buildings).

12.13 Asset Verification

The Asset Management Unit shall at every quarter during every financial year undertake a comprehensive verification of all assets controlled or used by the Department concerned.

Physical verification procedures:

- a) Prior identification of all locations at which assets are located.
- b) Areas to be counted are allocated to teams of counters.
- c) A systematic approach is taken to ensure a full physical verification (assets should not be omitted or double counted).
- d) All assets are verified at the same time to ensure no movement takes place to cover irregularities and avoid any double counting or omissions.

- e) In the event that verification cannot be performed at the same time, processes are put into place to ensure as little movement of the assets as possible and very strict written authorisation where movements are required.
- f) Before physical verification commences counters should be given written instructions on the verification procedures. Verbal instructions are given to reinforce the written instructions and to ensure that the counters understand the procedures, know what is required and are familiar with follow-up procedures for resolving variances.
- g) The instructions clearly delineate the roles and responsibilities of all involved in the physical verification process. A practice asset verification session to illustrate the procedures may be helpful for those who have not previously participated in a physical count.
- h) Responsibility for the control of the physical verification rests with the asset count supervisor. The supervisor oversees the process to ensure that counting is carried out and that counters are following the procedures laid down.
- i) The asset count supervisor, together with the asset manager, secures (in advance to ensure availability) staff (other than members of the Asset Management Team (AMT)) to participate in the physical verification procedure as well as independent observers (individuals not ordinarily involved in asset management, for example the internal auditors).
- j) The master listing of assets should be available for verification and includes the following information:
 - i. Asset number;
 - ii. Description;
 - iii. Serial number;
 - iv. Last known location;
 - v. Custodian;
 - vi. Space for condition assessment.
- k) On the day prior to the physical verification procedure, the responsible AMT member verifies that:
 - i. all assets received on the day are entered into the system and, where applicable, a barcode label affixed;

- ii. all movements in the assets under their control throughout the period of review are updated and fully accounted for on the system, and that barcode labels are affixed.
- l) On the day of the count:
 - i. staff conducting the physical verification:-
 - are assigned areas to count;
 - are provided with the master listing of the assets;
 - verify the assets within the assigned areas, taking care to identify the assets correctly;
 - mark assets/attractive items once they have been counted to ensure they are only counted once;
 - investigate discrepancies as directed by the supervisor and recount assets as requested

12.14 Assets Exclusion List

An important consideration is the nature of the asset itself. Certain categories of equipment may qualify as assets (types of office equipment and computer equipment), when considering their value, but when considering the use and the nature of the item, the municipality may deem them as non-assets. It is valid to exclude such items from a formal asset register and have these items expensed.

12.15 Replacement Norms

The Municipal Manager, in consultation with the CFO and other Heads of Departments, shall formulate norms and standards for the replacement of all normal operational assets.

Such norms and standards shall be incorporated in a formal policy, which shall be submitted to the CHDM Council for approval. This policy shall cover the replacement of motor vehicles, furniture and fittings, computer equipment, and any other appropriate operational items. Such policy shall also provide for the replacement of assets which are required for service delivery but which have become uneconomical to maintain.

12.16 Insurance of Assets

Movable and infrastructure assets shall be insured from date of delivery or completion.

The Municipal manager shall ensure that all movable assets are insured at least against fire and theft, and that all municipal buildings are insured at least against fire and allied perils.

Where the Municipality needs to insure internally via its own resources (given the nature of Infrastructure Assets) Management shall ensure that consideration is taken into account as the probability of existing and future claims.

The Municipal Manager shall recommend to the CHDM Council, after consulting with the CFO, the basis of the insurance to be applied to each type of asset: either the carrying value or the replacement value of the assets concerned. Such recommendation shall take due cognisance of the budgetary resources of the Municipality.

The CFO shall annually submit a report to the CHDM Council on any reinsurance cover which it is deemed necessary to procure for the Municipality's self-insurance reserve.

In terms of infrastructure assets, the Municipal Manager must annually, after considering the risks involved, determine which assets must be insured. Prior to doing so the following needs to be undertaken:

1. Perform a risk assessment based on a loss probability analysis. Professional assistance must be obtained if required.
2. Determine whether these assets must be insured internally or externally and coverage must be based on the loss probability analysis.
3. Appoint an official that will assess all claims that will made, to determine whether the damage to the assets can be recovered from possible third parties involved. Over and above that, the appointed official will be charged to undertake the following:
 - a. Recording of claims on an insurance register.
 - b. Reporting all outstanding insurance claims monthly to mayoral committee and council.

13 Asset Useful lives

The Local Government Capital Asset Management Guideline has the following asset useful lives as a guideline for municipalities. These should be used as a guide to the minimum useful lives only because actual asset lives experienced greatly exceed those recommend lives.

- a) Each Asset Controller, verifying assets, needs to determine the useful life of a particular item of property, plant and equipment (using these recommendations as a guide);
- b) The useful life of the item of property, plant and equipment should be reviewed annually

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
INFRASTRUCTURE	30	POWER STATIONS	360
	30	COOLING TOWERS	360
	30	TRANSFORMER KIOSKS	360
	20	ELECTRICITY METERS	240
	20	LOAD CONTROL EQUIPMENT	240
	20	SWITCHGEAR EQUIPMENT	240
	20	ELECTRICITY SUPPLY AND RETICULATION	240
	20	ELECTRICITY MAINS	240

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
	15	MOTORWAYS	180
	10	ROADS GRAVEL	120
	10	TRAFFIC ISLANDS	120
	20	TRAFFIC LIGHTS	240
	25	STREET LIGHTING	300
	30	OVERHEAD BRIDGES	360
	20	STORMWATER DRAINS	240
	30	BRIDGES SUBWAYS AND CULVERTS	360
	20	CAR PARKS	240
	20	BUS TERMINALS	240
	15	WATER METERS	180
	20	WATER MAINS	240
	20	WATER RIGHTS	240
	20	WATER SUPPLY AND RETICULATION	240
	20	WATER RESERVOIRS AND TANKS	240
	20	GAS METERS	240
	20	GAS MAINS	240
	20	GAS STORAGE TANKS	240
	20	GAS SUPPLY AND RETICULATION	240
	20	SEWERS	240
	20	OUTFALL SEWERS	240
	20	PURIFICATION WORKS	240
	15	SEWERAGE PUMPS	180
	15	SEWERAGE SLUDGE MACHINES	180
	20	FOOTWAYS	240
	20	KERBING	240
	20	PAVING	240
	20	APRONS	240
	20	RUNWAYS	240
	20	TAXIWAYS	240
	20	RADIO BEACONS	240
	3	FENCING	36
	5	SECURITY SYSTEMS	60
	5	ACCESS CONTROL	60

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
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COMMUNITY ASSETS	30	AMBULANCE STATIONS	360
	30	AQUARIUMS	360
	30	BEACH DEVELOPMENTS	360
	30	CARE CENTRES	360
	30	CEMETERIES	360
	30	CIVIC THEATRES	360
	30	CLINICS AND HOSPITALS	360
	30	COMMUNITY CENTRES	360
	30	FIRE STATIONS	360
	30	GAME RESERVES AND REST CAMPS	360
	30	INDOOR SPORTS FACILITIES	360
	30	LIBRARIES	360
	30	MUSEUMS AND ART GALLERIES	360
	30	PARKS	360
	30	PUBLIC CONVENIENCES & BATHHOUSES	360
	30	RECREATION CENTRES	360
	30	STADIUMS	360
	30	ZOOS	360
	20	BOWLING GREENS	240
	20	TENNIS COURTS	240
	20	SWIMMING POOLS	240
	20	GOLF COURSES	240
	20	JUKSKEI PITCHES	240
	20	OUTDOOR SPORTS FACILITIES	240
	20	ORGAN AND CASE	240
	20	LAKES AND DAMS	240
	20	FOUNTAINS	240
	20	FLOODLIGHTING	240

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
OTHER ASSETS	30	ABATTOIRS	360
	30	ASPHALT PLANT	360
	30	CABLE STATIONS	360
	30	CARAVAN PARKS	360
	30	CINEMAS	360
	30	COMPACTING STATIONS	360
	30	HOSTELS - PUBLIC AND TOURIST	360
	30	HOSTELS WORKERS	360
	30	HOUSING SCHEMES	360

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
	30	KILNS	360
	30	LABORATORIES	360
	30	MARKETS	360
	30	NURSERIES	360
	30	OFFICE BUILDINGS	360
	30	OLD AGE HOMES	360
	30	QUARRIES	360
	30	TIP SITES	360
	30	TRAINING CENTRES	360
	30	TRANSPORT FACILITIES	360
	30	WORKSHOPS AND DEPOTS	360
	5	COMPUTER HARDWARE	60
	5	COMPUTER SOFTWARE	60
	5	FFICE MACHINES	60
	7	AIR CONDITIONERS	84
	10	CHAIRS	120
	10	TABLES AND DESKS	120
	10	CABINETS AND CUPBOARDS	120
	10	FURNITURE AND FITTINGS OTHER	120
	5	HOUSEHOLD REFUSE BINS	60
	10	BULK CONTAINERS	120
	15	FIRE EQUIPMENT	180
	10	AMBULANCE EQUIPMENT	120
	5	FIRE HOSES	60
	5	EMERGENCY LIGHTS	60
	20	FIRE ENGINES	240
	15	BUSES	180
	7	MOTOR VEHICLES	84
	3	MOTOR CYCLES	36
	7	LDV's	84
	15	AIRCRAFT	180
	15	WATERCRAFT	180
	15	GRADERS	180
	15	TRACTORS & SELF PROPELLED MOWERS	180
	15	MECHANICAL HORSES	180
	5	FARM EQUIPMENT	60
	2	LAWNMOWERS	24
	5	COMPRESSORS	60
	5	LABORATORY EQUIPMENT	60

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
	5	RADIO EQUIPMENT	60
	5	FIRE ARMS	60
	5	TELECOMMUNICATION EQUIPMENT	60
	5	PLANT AND EQUIPMENT GENERAL	60
	15	CABLE CARS	180
	15	IRRIGATION SYSTEMS	180
	15	CREMATORS	180
	15	LATHES	180
	15	MILLING EQUIPMENT	180
	15	CONVEYORS	180
	15	FEEDERS	180
	15	TRUCKS & TIPPERS	180
	15	PULVERISING MILLS	180

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
INVESTMENTS	30	LAND MAIN INVESTMENT	360
	30	FARMS	360
	30	MINERAL RIGHTS	360
	30	OFFICE PARKS	360
	30	SHOPPING CENTERS	360
	30	HOUSING SCHEMES	360

ASSET CLASS	YEARS	CLASS DESCRIPTION	MONTHS
HERITAGE	0	MUSEUM EXHIBITS	0

0	PUBLIC STATUES	0
0	HISTORICAL BUILDINGS & STRUCTURES	0
0	HISTORICAL SITES	0
0	PAINTINGS	0
0	SCULPTURES	0