

THEEWATERSKLOOF MUNICIPALITY



ASSET MANAGEMENT POLICY

Council	Resolution	Date
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1. OBJECTIVE

- 1.1. To ensure the effective and efficient control of the municipality's assets through:
 - 1.1.1. Proper recording of assets from authorization to acquisition and to subsequent disposal;
 - 1.1.2. Providing for safeguarding procedures;
 - 1.1.3. Setting proper guidelines as to authorized utilisation, and
 - 1.1.4. Prescribing for proper maintenance.
- 1.2. To assist officials in understanding their legal and managerial responsibilities regarding assets.

2. BACKGROUND

- 2.1. The proper utilization and management of assets is one of the prime mechanisms by which a municipality can fulfil its constitutional objectives for:
 - 2.1.1. Delivery of sustainable services;
 - 2.1.2. Promotion of Social and economic development;
 - 2.1.3. Promoting a safe and healthy environment and,
 - 2.1.4. Providing for the basic needs to the community.
- 2.2. The municipality has a legal and moral obligation to ensure it implements policies to provide for the effective and efficient usage of its assets over the useful life thereof.
- 2.3. The asset management policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of assets.
- 2.4. Stewardship has three components being the:
 - 2.4.1. Management, utilization and control by the Municipal Officials.
 - 2.4.2. Financial administration by the Chief Financial Officer, and
 - 2.4.3. Physical administration by the Asset and Property Managers
- 2.5. Statutory provisions exist to protect public property against arbitrary and inappropriate management or disposal by a local government.

2.6. Accounting standards are set to ensure the appropriate financial treatment for property, plant and equipment. The requirements of these accounting standards include:

2.6.1. The compilation of asset registers recording all assets controlled by the municipality.

2.6.2. Accounting treatment for the acquisition, disposal, recording and depreciation of property, plant and equipment.

2.6.3. The standards to which these financial records must be maintained.

3. DEFINITIONS

3.1. **“Accounting Standards Board”** was established by the Public Finance Management Act to set standards of Generally Recognized Accounting Practice (GRAP) as required by the Constitution of the Republic of South Africa.

3.2. **“Amortisation”** is the systematic allocation of the depreciable amount of an intangible asset over its useful life.

3.3. **“Assets”** are resources controlled by the municipality as the result of past events and from which future economic benefits or future service potential are expected to flow to the municipality and for the purpose of this policy refers to property, plant and equipment and includes Investment Properties and Intangible assets.

3.4. **“Asset categories”** are the four main asset categories defined by GRAP as follows (inclusive of movable and immovable assets):

3.4.1. **Property, Plant and Equipment assets** - are tangible assets that are held by the municipality for use in the supply of services, administrative purposes and are expected to be used during more than one financial year .

3.4.2. **Heritage assets** – are defined as culturally, environmental, historical, natural, scientific, technological or artistic significant and are held indefinitely for the benefit of present and future generations. Examples are works of art, historical buildings and statues.

3.4.3. **Investment properties** – are defined as properties (land or building) that are acquired for economic and capital gains.

Examples are office parks and under-developed land acquired for the purpose of resale in future years.

- 3.4.4. **Intangible assets** – are identifiable assets without physical substance.
- 3.5. **“Asset register / Fixed asset register (FAR)”** is the control register recording the financial and other key details for all municipal assets recognized in accordance with this policy
- 3.6. **“Basic Municipal Services”** means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment and for this policy includes, but is not restricted to electricity, refuse collection, sanitation, local roads, storm water drainage and water services.
- 3.7. **“Capitalisation”** is the recognition of expenditure as an Asset in the Asset Register.
- 3.8. **“Carrying amount”** is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses from the original cost.
- 3.9. **“Coordinator”** is someone which has the responsibility for handling the administration of assets in a specific location.
- 3.10. **“Cost”** is the amount of cash or cash equivalents paid, or the fair value of the other consideration given or received to acquire an asset at the time of its acquisition or construction.
- 3.11. **“Cost of acquisition”** is all the costs incurred in bringing an asset item to the required condition and location for its intended use.
- 3.12. **“Custodian”** is the responsible person for managing the assigned assets in a specific location.
- 3.13. **“Depreciation”** is the systematic allocation of the depreciable amount of an asset over its useful life.
- 3.14. **“Depreciable amount”** is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.
- 3.15. **“Director”** means each section 57 appointee
- 3.16. **“Disposal”** in relation to a capital asset, includes:

- 3.16.1. The demolition, dismantling or destruction of the capital asset; or
- 3.16.2. Any other process applied to a capital asset which results in loss of ownership of the capital asset otherwise than by way of transfer of ownership.
- 3.17. **“Fair value”** is a rational and unbiased estimate of the potential market price of an asset.
- 3.18. **“Fixed Asset”** (also referred to as a “non-current asset”) is an asset with an expected useful life greater than 12 months and includes movable and immovable assets.
- 3.19. **“GRAP”** is Standards of Generally Recognised Accounting Practice
- 3.20. **“High value capital asset”** is a capital asset whose fair market value exceeds R50 million or 1% of the total value of all the capital assets of the municipality, whichever is the lower (in a single transaction), or otherwise a value determined by the council provided that the value is less than the R50 million or 1% threshold. If the combined value of capital assets to be disposed of or transferred during the financial year exceed five percent of the total value of assets as per the audited AFS.
- 3.21. **“Immovable Assets”** are fixed structure such as buildings and roads, tied to the land, meaning it cannot physically be move somewhere else. A 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 immovable asset (though it may be temporarily removed for repair)
- 3.22. **“Impairment loss” of a cash-generating asset** is the amount by which the carrying amount of an asset exceeds its recoverable amount.
- 3.23. **“Impairment loss” of a non-cash-generating asset** is the amount by which the carrying amount of an asset exceeds its recoverable service amount.
- 3.24. **“Infrastructure assets”** are defined as any assets that are part of a network of similar assets.
- 3.25. **“Manager”** a person responsible for controlling or administering a section within a department.
- 3.26. **“Movable Assets”** are the stock of equipment owned or leased by the municipality such as office equipment and furniture, motor vehicles and mobile plant.
- 3.27. **“Organ of state”** in terms of this policy, means

- 3.27.1. a national department or national public entity
- 3.27.2. a provincial department or provincial public entity
- 3.27.3. a municipality or municipal entity; or
- 3.27.4. any other organ of state within the meaning assigned to "organ of state" in section 239 of the Constitution

3.28. **"Other assets"** are defined as assets utilized in normal operations.

3.29. **"Prescribe"** means as prescribed by the Minister of Finance by regulation.

3.30. **"Project Managers"** is the person in charge of the planning and execution of a particular project.

3.31. **"Recoverable amount"** is the amount that the municipality expects to recover from the future use of an asset, including its residual value on disposal.

3.32. **"Residual value"** is the net amount which the municipality expects to obtain for an asset at the end of its useful life after deducting the expected costs of disposal.

3.33. **"Senior Management"** means officials who are responsible for managing the respective votes of the municipality and to whom powers and duties for this purpose have been delegated in terms of section 79 of the MFMA.

3.34. **"Useful life"** is either:

- 3.34.1. The estimated period of time over which the future economic benefit or future service potential embodied in an asset are expected to be consumed by the municipality.

Or

- 3.34.2. 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.

4. STATUTORY AND REGULATORY FRAMEWORK

- 4.1. This policy must comply with all relevant legislative requirements including:
 - 4.1.1. The Constitution of the Republic of South Africa, 1996
 - 4.1.2. Municipal Structures Act, No 117 of 1998
 - 4.1.3. Municipal Systems Act, No 32 of 2000
 - 4.1.4. Division of Revenue Act (enacted annually)
 - 4.1.5. Municipal Finance Management Act No 56 of 2003
 - 4.1.6. Local Government: Municipal Asset Transfer Regulations, 2008
- 4.2. Also, this policy must comply with the standards specified by the Accounting Standards Board. The relevant currently recognized accounting standards include:
 - 4.2.1. GRAP 12 – Inventories
 - 4.2.2. GRAP 13 – Leases
 - 4.2.3. GRAP 16 – Investment Properties;
 - 4.2.4. GRAP 17 - Property, plant equipment;
 - 4.2.5. GRAP 21 – Impairment of Non-cash-generating Assets
 - 4.2.6. GRAP 26 – Impairment of Cash-generating Assets
 - 4.2.7. GRAP 27 - Agriculture; (Replaced GRAP 101)
 - 4.2.8. GRAP 31 – Intangible Assets; (Replaced GRAP 102)
 - 4.2.9. GRAP 103 – Heritage Assets.
- 4.3. This policy does not overrule the requirement to comply with other policies such as Supply Chain Management or Budget policies or the Administration of Immovable Property policy.

5. RESPONSIBILITIES AND ACCOUNTABILITIES

- 5.1. The **Municipal Manager** is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.
- 5.2. The Municipal Manager must take all reasonable steps to ensure that:
 - 5.2.1. The municipality has and maintains a management, accounting and information system that records all the assets of the municipality;

- 5.2.2. The municipality's assets are valued in accordance with recognised standards as prescribed by statutes and/or regulations;
 - 5.2.3. That the municipality has and maintains a system of internal control of assets, including an asset register;
 - 5.2.4. Fairly presents the state of affairs of the municipality, its management of assets as at the end of the financial year; and
 - 5.2.5. That Senior Management comply with this policy.
- 5.3. The **Chief Financial Officer** is responsible to the Municipal Manager to ensure that the financial investment in the municipalities' assets is properly recorded.
- 5.4. The Chief Financial Officer must take all reasonable steps to ensure that:
- 5.4.1. Appropriate systems of financial management and internal controls are established and carried out diligently;
 - 5.4.2. The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
 - 5.4.3. Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are detected, prevented and investigated;
 - 5.4.4. The systems, processes and registers required to substantiate the financial values of the municipality's assets are maintained to standards sufficient to satisfy the requirements of all statutes;
 - 5.4.5. 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;
 - 5.4.6. The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
 - 5.4.7. The Directors and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;

5.5. The Chief Financial Officer may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

5.6. The **Directors**

- 5.6.1. Appropriate systems of physical management and controls are established and carried out for assets in their areas of responsibility;
- 5.6.2. The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- 5.6.3. The assets under their control are appropriately safeguarded and maintained to the extent necessary and that risk management systems are in place and applied.
- 5.6.4. In the instance where movable assets are not accounted for, after a verification process is completed, this will be regarded as misconduct and must be reported to the Human Resource department. It may be dealt with in terms of the Financial Misconduct Regulations and or the Disciplinary Procedure Collective Agreement.
- 5.6.5. Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are detected, prevented and investigated;
- 5.6.6. The asset management systems and controls can provide an accurate, reliable and up to date record of assets under their control.
- 5.6.7. They can justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives.
- 5.6.8. The purchase of assets complies with all municipal policies and procedures, including the procurement of items from the correct budget allocation.
- 5.6.9. The contribution (donation) asset is communicated with the Asset Department in writing and ensure that it is included in the budget.
- 5.6.10. All moveable property, plant and equipment is duly processed and identified and inspected as being in order before it is received into their stewardship.

- 5.6.11. All moveable assets received into their stewardship are appropriately safeguarded against inappropriate use or loss. This will include control over the physical access to these assets and regular verification to ensure that no losses have occurred. Any known losses should be immediately reported to the Chief Financial Officer.
- 5.6.12. Assets are appropriately utilized for the purpose for which the municipality acquired them.
- 5.6.13. Report any lost, stolen and damaged asset in line with the insurance Standard Operating Procedure and policy
- 5.7. The Directors may delegate or otherwise assign responsibility for performing these functions but will remain ultimately accountable for ensuring these activities are performed.

6. ASSET MANAGEMENT SYSTEM

- 6.1. The Municipality's asset management system recognises that the life-cycle of any asset consists of four stages, namely:
 - 6.1.1. Planning during which stage the need for a particular asset is identified or recognised, the acquisition of the asset is budgeted for and the design of the particular asset;
 - 6.1.2. Acquisition at which time an asset is purchased, leased, constructed or acquired and the installation and commissioning of the asset concerned;
 - 6.1.3. Operation and maintenance during which period the asset receives whatever is necessary to allow it to operate efficiently in the delivery of services; and
 - 6.1.4. Disposal at which time the asset may be sold transferred, demolished or otherwise disposed of when it is no longer required or it has reached the end of its useful life.

7. FINANCIAL MANAGEMENT

7.1. Pre-Acquisition Planning:

Before a capital project is included in the budget for approval, the Director must demonstrate and the Council must consider;

- 7.1.1. The projected cost over all the financial years until the project is operational;
- 7.1.2. The future operational costs and revenue of the project, including tax and tariff implications;
- 7.1.3. The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
- 7.1.4. The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
- 7.1.5. The inclusion of this capital project in the integrated development plan and future budgets: and
- 7.1.6. Advise on all alternatives considered on capital purchases.
- 7.1.7. Total asset life-cycle costs
- 7.2. The Chief Financial Officer is accountable to ensure the Directors receive all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.
- 7.3. **Approval to Acquire Property Plant and equipment:**

Expenditure can only be incurred on a capital project if:

 - 7.3.1. The funds have been appropriated in the capital budget,
 - 7.3.2. The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
 - 7.3.3. The project, including the total cost and funding sources, has been approved by Council,
 - 7.3.4. The Chief Financial Officer confirms that funding is available for that specific project,
 - 7.3.5. The Supply Chain Management prescripts/procedures have been adhered to, and
 - 7.3.6. Any contract that will impose financial obligations beyond two years after the budget year is appropriately disclosed.

7.4. Funding of capital projects:

- 7.4.1. Within the municipality's on-going financial, legislative and administrative capacity, the Chief Financial Officer will establish and maintain the funding strategies that optimise the municipality's ability to achieve its strategic objectives as stated in the integrated development plan.
- 7.4.2. The acquisition of assets will not be funded over a period longer than the useful life of that asset.

7.5. Disposal of assets (excluding immovable property covered under the Administration of Immovable Property Policy):

- 7.5.1. Subject to Section 14 of the MFMA, the municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of an asset needed to provide the minimum level of basic municipal services, unless such asset is obsolete or surplus to requirements or beyond a state of good repair or being replaced and provided that the delivery of the minimum level of basic municipal services is not compromised as a result of the disposal of the asset.
- 7.5.2. The municipality may transfer ownership or otherwise dispose of an asset other than one contemplated above in paragraph 7.5.1 or movable assets referred to in paragraph 7.5.8, but only after the Council, in a meeting open to the public:
 - 7.5.2.1. Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services, and
 - 7.5.2.2. Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset,
- 7.5.3. The decision that a specific asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset had been sold, transferred or otherwise disposed of.
- 7.5.4. The disposal of an item of property, plant or equipment must be fair, equitable, transparent, competitive, and cost effective. This policy forms part of the prescribed regulatory framework for municipal supply chain management and the Supply Chain Management Policy of the municipality.

- 7.5.5. The transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions, provided such transfer is being done in accordance with a prescribed regulatory framework.
- 7.5.6. All assets (high value capital assets and immovable property) should be transferred or disposed of according to the Asset Transfer Regulations, which under certain conditions requires a public participation process to be followed as set out in paragraph 7.6.11 below.
- 7.5.7. The disposal of moveable assets up to a carrying amount as specified from time to time by Council in terms of Section 14(4) of the MFMA may be authorised under delegated powers by the Municipal Manager after taking the above-mentioned conditions into account.
- 7.5.8. Each director shall report in writing to the Chief Financial Officer quarterly or at least by 31 October and 30 April of each financial year on all assets controlled or used by the department concerned which such director wishes to alienate by public auction or public tender. The Chief Financial Officer shall thereafter consolidate the requests received from the various departments and shall promptly report such consolidated information to the Council or the Municipal Manager of the municipality, as the case may be, recommending the process of alienation to be adopted.
- 7.5.9. Once assets are alienated, the Chief Financial Officer shall adjust the asset register for the current year and shall, for the ensuing year, delete the asset from the accounting records and the asset register.
- 7.5.10. All gains and losses realized on the alienation of assets shall be accounted for according to section 11.11 below.(Accounting treatment on disposal)
- 7.5.11. Disposal of immovable property is dealt with in terms of the Theewaterskloof Administration of Immoveable Property Policy.

7.6. Loss, theft, destruction or impairment of assets

- 7.6.1. Each director 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

Chief Financial Officer and in cases of suspected theft or malicious damage, also to the South African Police Services.

- 7.6.2. Directors and Senior Managers shall further ensure that all the required insurance claim documentation and information is promptly submitted to the Chief Financial Officer in terms of the prescribed claims procedures.

8. INTERNAL CONTROLS

8.1. Asset Register

- 8.1.1. Establishment and management of the Asset Register:

- 8.1.1.1. The Chief Financial Officer will ensure the establishment and maintenance of the asset register containing key financial data on each item of asset that satisfies the criterion for recognition.

- 8.1.2. Contents and maintenance of the Asset Register

- 8.1.2.1. The asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of GRAP and any other accounting requirements which may be prescribed.

- 8.1.3. The details within the asset register may include but is not limited to:

- 8.1.3.1. Description of the asset

- 8.1.3.2. Asset identification number

- 8.1.3.3. Asset classification

- 8.1.3.4. Asset hierarchy

- 8.1.3.5. mSCOA classification

- 8.1.3.6. Source document and dates

- 8.1.3.7. Purchase price or historical cost

- 8.1.3.8. The useful life of the asset

- 8.1.3.9. The residual value of the asset

- 8.1.3.10. Depreciation charged
- 8.1.3.11. The gross carrying amount
- 8.1.3.12. The accumulated depreciation
- 8.1.3.13. Date of acquisition
- 8.1.3.14. Date and value of disposal (if relevant)
- 8.1.3.15. Location of the asset
- 8.1.3.16. The Coordinator for managing the asset
- 8.1.3.17. The department that controls or uses the asset
- 8.1.3.18. Whether the asset has been used to secure any debt, and
– if so - the nature and duration of such security
arrangements
- 8.1.3.19. The title deed number, in the case of immovable
- 8.1.3.20. Geographic Information System identification for
infrastructure assets

- 8.1.4. All directors and coordinators under whose control any asset falls shall promptly provide and advise the Chief Financial Officer in writing with any information required to compile the asset register, and of any material change which may occur in respect of such information.
- 8.1.5. An asset shall be recorded in the assets register as soon as it is delivered or brought into use. If the asset is constructed over a period, it shall be recorded as work-in-progress until it is available for use, where after it shall be appropriately capitalised as a fixed asset.
- 8.1.6. An asset shall remain in the asset 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 deleting it from the register.
- 8.1.7. The municipality's does not assign residual values to assets as the municipality intent when purchasing an asset is to utilise it at its useful life for service delivery and not for the intention to sell the asset.

8.1.8. Internal Controls over the Asset Register:

8.1.8.1. Controls relating to the asset register should be sufficient to provide Directors with an accurate, reliable and up-to-date account of assets under their control, in line with the standards specified by the Chief Financial Officer and as required by relevant statutes.

8.1.8.2. These controls will include (a) details of the physical management (b) the recording of all acquisitions, assignments, transfers, losses and disposals of assets (c) regular verification and (d) systems audits to confirm the accuracy of the records.

8.1.8.3. Identification of assets.

8.1.9. The Chief Financial Officer will establish a system to ensure that each moveable asset bears a unique identification number/ barcode, where possible and practical, which shall be recorded in the asset register.

8.1.10. Each director and coordinator shall ensure that the asset identification system approved for use by the municipality is scrupulously applied to all assets controlled or used by the department in question.

8.2. **Physical Controls and Management:**

8.2.1. The date of acquisition:

8.2.1.1. The date of acquisition of assets is deemed to be the time when legal title and control passes to the municipality.

8.2.1.2. This may vary for different categories of assets but will usually be the point of time when an asset is brought into use or when final payment for that item is approved.

8.2.1.3. A Director and project managers must advise the Chief Financial Officer, in writing, of capital work-in-progress at the end of the financial year

8.2.1.4. A Director and project managers must advise the Chief Financial Officer, promptly in writing whenever capital work-in-progress is completed, for inclusion in the Asset Register.

8.2.2. Transfers between Directorates

8.2.2.1. A Director or Manager may transfer an asset under his control provided that the coordinator receiving the asset agrees in writing to accept responsibility for that asset from a date specified in the written communication. Copies of such approvals must be submitted to the Chief Financial Officer.

8.2.2.2. The Chief Financial Officer must appropriately amend the Asset register by recording all approved transfers.

8.2.2.3. A Director and coordinator must ensure that assets are appropriately safeguarded from loss, damage or misuse wherever they are located. Safeguarding includes ensuring reasonable physical restrictions.

8.2.3. Verification of Assets:

8.2.3.1. Each director and managers shall at least biannually undertake a complete physical verification of all assets under his / her control.

8.2.3.2. The results of such verification shall be reported to the Chief Financial Officer in the format as required by the Chief Financial Officer.

8.2.3.3. The Chief Financial Officer will ensure that an annual verification of assets is undertaken and concluded before the 30th of June as part of the annual reporting process.

8.2.3.4. Each director must report asset not verified, without a justifiable explanation to the Human Resource department, as this will be regarded as misconduct and may be dealt with in terms of the Financial Misconduct Regulations and or the Disciplinary Procedure Collective Agreement.

8.2.4. Insurance of assets

8.2.4.1. The Chief Financial Officer shall ensure that all movable assets meeting the insurance criteria are insured against loss:

8.2.4.1.1. Movable assets should at least be covered against fire and theft and

8.2.4.1.2. Municipal buildings and infrastructure assets identified by individual directors should at least be covered against fire and allied perils.

8.2.5. Recovery of loss

8.2.5.1. An Insurance Claims Evaluation Committee, appointed by the Accounting Officer, must be established to investigate all losses and to consider the settlement of third-party insurance claims falling within the relevant excess limit.

8.2.5.2. The Insurance Claims Evaluation Committee must comprise of a representative from Legal Services, Human Resources (Labour Relations), Finance (Asset Management), Deputy Director Community Services and Fleet Manager.

8.2.5.3. Where applicable, the matter must be referred to the Human Resources department to institute disciplinary action in order to recover any possible loss in incidents where negligence or misconduct may be suspected.

9. MANAGEMENT AND OPERATION OF ASSETS

9.1. Accountability to manage assets

9.1.1. The Chief Financial Officer has identified asset items which will not be capitalised. These assets are qualitative and quantitatively immaterial and the costs to maintain these assets were considered and found to exceed the economic benefit if considered over the life cycle of the assets. Refer to annexure B.

9.1.2. The coordinator will be held responsible for loss of assets after signing documentation that he/she acknowledge the assets under their control. These losses will be regarded as misconduct, which may be dealt with in terms the Financial Misconduct Regulations and or the Disciplinary Procedure Collective Agreement.

9.1.3. Each Director and coordinator are accountable to ensure that municipal resources assigned to him / her are utilized effectively, efficiently, economically and transparently.

- 9.1.4. Directors and coordinators need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost.
- 9.1.5. This will entail;
 - 9.1.5.1. Developing appropriate asset management systems for more over fleet and infrastructure, providing, inter alia, for
 - 9.1.5.1.1. Recording of usage of the asset such as logbooks,
 - 9.1.5.1.2. Recording of preventative and maintenance programmes
 - 9.1.5.1.3. Annual assessment of usefulness, condition of asset and remaining useful life,
 - 9.1.5.1.4. Planning for replacement of asset.

9.2. **Strategic asset management plan.**

- 9.2.1. Each Director will need to develop such a plan that covers:
 - 9.2.1.1. Alignment with the Integrated Development Plan
 - 9.2.1.2. Operational guidelines,
 - 9.2.1.3. Performance monitoring including benchmarking indicators and measurement,
 - 9.2.1.4. Maintenance programmes,
 - 9.2.1.5. Renewal, refurbishment and replacements plans,
 - 9.2.1.6. Disposal and Rehabilitation plans,
 - 9.2.1.7. Operational, financial and capital support requirements, and
 - 9.2.1.8. Risk mitigation plans including insurance strategies
- 9.2.2. The operational budgets are the short to medium term plan for implementing strategic asset management plans.

9.3. Reporting on Impeding Issues:

- 9.3.1. Each Director shall report to the Municipal Manager & Chief Financial Officer on issues that will significantly impede the assets capacity to provide the required level of service or economic benefit.

10. CLASSIFICATION, AGGREGATIONS & COMPONENTS

10.1. Asset hierachy:

- 10.1.1. Any asset recognized as an asset under this policy will be classified according to approved asset hierachy. (annexure D)
- 10.1.2. These categories have been specified by the Municipal Chart of Accounts (mSCOA) and for infrastructure the City Infrastructure Delivery and Management System (CIDMS).
- 10.1.3. The Chief Financial Officer in consultation with the relevant Director may agree to subdivide these classifications further. This decision will be noted as an amendment to the classification schedule of the municipality and must be endorsed, by council.

11. ACCOUNTING FOR ASSETS

11.1. Recognition of assets.

- 11.1.1. An item of property, plant or equipment will be recognized as an asset when:
 - 11.1.1.1. It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,
 - 11.1.1.2. The cost of the asset to the municipality can be measured reliably,
 - 11.1.1.3. The municipality has control over the asset,
 - 11.1.1.4. The item is not listed in annexure B (listed items of assets not recognised), and
 - 11.1.1.5. The asset is expected to be used during more than one financial year.

11.2. Initial measurement

11.2.1. An item of property, plant or equipment that qualifies for recognition as an asset should be initially measured at its “cost of acquisition”.

11.2.2. The “cost of acquisition” usually includes the following:

11.2.2.1. Purchase costs (less any discounts given)

11.2.2.2. Delivery costs

11.2.2.3. Installation costs

11.2.2.4. Professional fees for architects and engineers

11.2.2.5. Import duties

11.2.2.6. Non-refundable taxes

11.2.2.7. Site development costs

11.2.2.8. Contractor fees

11.2.2.9. Financing costs including capitalized interest for an initial reasonable period and costs of security arrangements for debt.

11.2.2.10. Discount and fees in connection with financing

11.2.2.11. Fees for legal, financial, advisory, trustee, credit rating, other services and other costs directly connected to the financing

11.2.3. An item of property, plant or equipment that is detected during a verification and qualifies as an asset, but which the acquisition date is unknown must be added to the asset register at the date of the opening balances of the comparative year of the annual financial statements.

11.3. Donations or exchanges

11.3.1. Where an item of property plant or 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 receipt or acquisition and included in the asset register.

11.4. Carrying amount of assets

- 11.4.1. After initial recognition as an asset, an item of property, plant or equipment should be carried at its cost of acquisition less any accumulated depreciation and accumulated impairments, as adjusted for subsequent revaluations or write downs.

11.5. Depreciation

- 11.5.1. All assets, except land and assets under construction, shall be depreciated.
- 11.5.2. The depreciable amount of an item of property, plant or equipment should be allocated on a systematic basis over its useful life.
- 11.5.3. The depreciation charge for each period will be recognized as an expense against the budget of the relevant Directorate.
- 11.5.4. The depreciation method used shall reflect the pattern in which the assets future economic benefits or service potential are expected to decrease the value of the asset.
- 11.5.5. A variety of depreciation methods can be used to allocate the depreciable amount of an asset on a systematic basis over its useful life. These methods include:
 - 11.5.5.1. the straight-line method,
 - 11.5.5.2. the diminishing balance method and
 - 11.5.5.3. the units of production method.
- 11.5.6. Straight-line depreciation results in a constant charge over the useful life if the asset’s residual value does not change.
- 11.5.7. The diminishing balance method results in a decreasing charge over the useful life.
- 11.5.8. The units of production method results in a charge based on the expected use or output.

- 11.5.9. The method of depreciation is applied consistently from period to period unless there is a change in the expected pattern of consumption of those future economic benefits or service potential. If there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method must be changed to reflect the changed pattern.
- 11.5.10. The preferred depreciation method will be the straight-line method unless otherwise agreed to in writing by the Chief Financial Officer.
- 11.5.11. Depreciation shall initially be calculated from the day the asset is available for use.
- 11.5.12. The straight-line depreciation method used will calculate depreciation per day.
- 11.5.13. The Chief Financial Officer shall ensure that reasonable budgetary provision is made annually for depreciation per department.

11.6. Initial determination of useful life

- 11.6.1. Each Director needs to determine the useful life of a particular item or class of asset through the development of a strategic asset management plan. The determination of useful life should be developed as part of any pre-acquisition planning that would consider, inter alia, the following factors:
 - 11.6.1.1. The program that will optimize the expected long-term costs of owning that asset,
 - 11.6.1.2. Economic obsolescence because it is too expensive to maintain,
 - 11.6.1.3. Functional obsolescence because it no longer meets the municipality's needs,
 - 11.6.1.4. Technological obsolescence,
 - 11.6.1.5. Social obsolescence due to changing demographics, and
 - 11.6.1.6. Legal obsolescence due to statutory constraints

- 11.6.2. A schedule of useful lives is included in Annexure A. These should be used as a guide only because asset lives experienced may greatly vary from those recommended lives.
- 11.6.3. Spares purchased specifically for a particular asset or class of assets at the time of the initial acquisition and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, must be considered to form part of the historical cost of that asset or class. The depreciable amount of such spares must be allocated over the useful life of the asset or class.

11.7. Review of useful life

- 11.7.1. Only the Chief Financial Officer in consultation with the responsible Director may amend the useful operating life assigned to any asset and when any material amendment occurs.
- 11.7.2. The Chief Financial Officer 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.
- 11.7.3. If the value of an asset item of PPE has been diminished to such an extent that it has no or a negligible further useful operating life or value such fixed asset shall be written off from the date in which such diminution in value occurs.
- 11.7.4. The Chief Financial Officer shall assess at each reporting date whether there is any indication that the entity's expectations about the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the Chief Financial Officer shall revise the expected useful life and/or residual value accordingly.
- 11.7.5. If the remaining useful life (RUL) at financial year end is equal to 1 year or less than a year, 2 years will be added unless an indication is received from the directorate that the asset is lost, stolen or damaged beyond repair.

11.8. Subsequent expenditure on assets

- 11.8.1. Subsequent expenditure relating to an item of property, plant or equipment that has already been capitalised must be added to the carrying amount of the asset when such expenditure will increase the useful life of the asset or increase the efficiency of the asset or reduce the cost of operating the asset and resulting in financial or service delivery benefits.
- 11.8.2. All other expenditure must be recognized as an expense in the period in which it occurred.
- 11.8.3. Before allowing the capitalization of subsequent expenditure, the Chief Financial Officer must be satisfied that this expenditure will significantly:
 - 11.8.3.1. Increase the life of that asset beyond that stated in the asset register, or
 - 11.8.3.2. Increase the quality of service provided by that asset beyond the existing level of service, or
 - 11.8.3.3. Increase the quantity of services that asset can provide, or
 - 11.8.3.4. Reduce the future assessed costs of maintaining that asset.
- 11.8.4. Expenditure that is proposed to be capitalized must also conform to recognition criteria for assets and should also be appropriately included in the approved capital budget.

11.9. Impairment losses

- 11.9.1. The accounting treatment relating to impairment losses is outlined as follows (GRAP 21 & 26)
 - 11.9.1.1. The carrying amount of an item or a group of identical items of property, plant and equipment should be reviewed periodically in order to assess whether or not the recoverable amount has declined below the carrying amount.
 - 11.9.1.2. When such a decline has occurred, the carrying amount should be reduced to the recoverable amount. The amount of the reduction should be recognised as an expense immediately.

- 11.9.1.3. The recoverable amount of individual assets, or groups of identical assets, is determined separately and the carrying amount reduced to recoverable amount on an individual asset, or group of identical assets, basis. However, there may be circumstances when it may not be possible to assess the recoverable amount of an asset on this basis, for example when all of the plant and equipment in a sewerage purification works is used for the same purpose. In such circumstances, the carrying amount of each of the related assets is reduced in proportion to the overall decline in recoverable amount of the smallest grouping of assets for which it is possible to make an assessment of recoverable amount.
- 11.9.2. The following may be indicators that an asset is impaired:
 - 11.9.2.1. The asset has been damaged.
 - 11.9.2.2. The asset has become technologically obsolete.
 - 11.9.2.3. The asset remains idle for a considerable period either prior to it being put into use or during its useful life.
- 11.9.3. The following steps will have to be performed regularly during the year to account for impairment losses:
- 11.9.4. Departments will identify and inform the Chief Financial Officer of Asset Control of assets that:
 - 11.9.4.1.1. Are in a state of damage at year end.
 - 11.9.4.1.2. Are technologically obsolete at year end.
 - 11.9.4.1.3. Have remained idle for a considerable period either prior to them being put into use at year end or during their useful life.
 - 11.9.4.1.4. Are subject to impairment losses because the subsidies to be received in exchange for assets are less than the carrying amounts. An example of this is land that is purchased at market value and is to be utilized for subsidized housing developments.

- 11.9.4.2. The recoverable amounts of these assets need to be determined by calculating the net selling price per asset as defined above.
- 11.9.4.3. The value in use is the present value of the asset's remaining service potential. Present value of the remaining service potential of the asset is determined using any one of the approaches identified in paragraphs .43 to .47 in GRAP 21, as appropriate.
 - 11.9.4.3.1. Depreciated replacement cost approach
 - 11.9.4.3.2. Restoration cost approach
 - 11.9.4.3.3. Service units approach
- 11.9.4.4. The impairment loss per asset is the difference between the net selling price and the carrying value of the asset.

11.10. Subsequent increase in recoverable amount

- 11.10.1. A subsequent increase in the recoverable amount of an asset, previously impaired due to a decline in the carrying amount, should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.
- 11.10.2. The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

11.11. Accounting treatment on Disposal

- 11.11.1. An asset should be eliminated from the financial records on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery is expected from its existence.
- 11.11.2. Similarly, if an asset has been lost, stolen or damaged beyond repair, it shall be written off the asset register.
- 11.11.3. Immovable Property sold, will be disposed on the date the application is submitted to the Deeds Registration Office. If this date is unknown the date the property is registered will apply.
- 11.11.4. Gains or losses arising from the retirement or disposal of an asset should be determined as the difference between the actual or

estimated net disposal proceeds and the carrying amount of the asset and should be recognized as revenue or expense in the financial records.

- 11.11.5. Gains realized on the alienation of assets shall only be appropriated annually to the municipality's Capital Replacement Reserve in terms of an approved budget (except in the cases below), and all losses on the alienation of assets shall remain as expenses on the statement of financial performance of the department or vote concerned. If, however, both gains and losses arise in any one financial year in respect of the alienation of the assets of any department or vote, only the net gain (if any) on the alienation of such assets shall be appropriated.

11.12. Reinstatement, maintenance and other expenses

- 11.12.1. Only 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 shall be capitalised.
- 11.12.2. Expenses incurred in the maintenance or reinstatement of a fixed 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.
- 11.12.3. Expenses which are reasonably ancillary to the bringing into operation of a fixed asset may be capitalised. Such expenses may include but need not be limited to import duties, forward cover costs, transportation, installation, assembly and communication costs.
- 11.12.4. The following matrix will assist in distinguishing capital expenditure from maintenance expenditure:-

CAPITAL EXPENDITURE	MAINTENANCE
<ul style="list-style-type: none">• Acquiring a new asset• Replacing an existing asset	<ul style="list-style-type: none">• Restoring an asset so that it can continue to be used for its intended purposes• Maintaining an asset so that it can be used for the period for which it was initially intended

- | | |
|---|--|
| <ul style="list-style-type: none"> • Enhancing an existing asset so that its use is expanded or increased • Further developing an existing assets so that its original useful life is considerably extended | |
|---|--|

11.13.Assets held under leases:

- 11.13.1. Finance leases are leases, which in effect transfer all risks and rewards associated with the ownership of an asset from the lessor to the lessee.
- 11.13.2. Assets held under finance leases are capitalized by the municipality and reflected as such in the Asset Register. It will be capitalized at its leased value at commencement of the lease, which will be the price stated in the lease agreement, or a price calculated after taking into account reasonable interest on the payments over the period of the lease. The asset is then depreciated over its expected useful life.
- 11.13.3. Operating leases are those leases which do not fall within the scope of the above definition. Operating lease rentals are expensed as they become due.
- 11.13.4. Assets held under operating leases where the municipality is the lessee are not accounted for in the asset register.

11.14.Investment property

- 11.14.1. Investment assets shall be accounted for in terms of GRAP 16 and shall not be classified as property, plant and equipment for purposes of preparing the municipality's financial statements.
- 11.14.2. Investment assets comprise land or buildings (or parts of buildings) or both held by the municipality, as owner or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both.
- 11.14.3. Investment assets shall be recorded in a separate section of the assets register in the same manner as other assets.
- 11.14.4. If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary asset until it

is ready for its intended use – where after it shall be reclassified as an investment asset.

11.15. Assets treated as inventory:

- 11.15.1. Any land or buildings owned or acquired by the municipality with the intention of reselling 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 reselling 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 financial statements.
- 11.15.2. Such inventories shall, however, be recorded in a separate register.

11.16. Recognition of heritage assets in the asset register:

- 11.16.1. If no original costs or fair values are available in the case of one or more or all heritage assets, the Chief Financial Officer may, if it is believed that the determination of a fair value for the assets in question will be a laborious or expensive undertaking, record such asset or assets in the asset register without an indication of the costs or fair value concerned.
- 11.16.2. For financial statements purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note.

11.17. Other write-offs of assets:

- 11.17.1. An asset item, even though fully depreciated, shall be written off only on the recommendation of the director controlling or using the asset concerned, provided it has been submitted to the Chief Financial Officer for approval.
- 11.17.2. The only reasons for writing off assets, other than the alienation of such assets, shall be the loss, theft, destruction or material impairment of the item/s in question.
- 11.17.3. In every instance where a not fully depreciated asset is written off, the Chief Financial Officer shall immediately debit to such department or vote the full carrying value of the asset concerned.

11.18. Agricultural assets:

- 11.18.1. Accounting for such assets shall take place in accordance with the requirements of GRAP 101.

12. MAINTENANCE OF ASSETS

- 12.1.1. Every director shall be directly responsible for ensuring that all assets are properly maintained and in a manner which will ensure that such assets attain their maximum useful operating lives

13. FINANCIAL DISCLOSURE

- 13.1. The financial statements must disclose, in respect of each class of asset classified under the categories of infrastructure, community, heritage, investment properties, inventory, biological and other assets the compulsory disclosures as required by the relevant standards of GRAP.

14. IMPLEMENTATION AND REVIEW PROCESS

- 14.1. This policy will come into effect as from 1 July 2023;
- 14.2. This policy will be reviewed at least annually or when significant changes are required amended by way of a Council resolution.

Annexure A: Indicative useful life of assets

	<u>Years</u>		<u>Years</u>
<u>Infrastructure</u>		<u>Other</u>	
Roads and Storm water	5 - 150	Buildings	20 - 100
Refuse	20 - 50	Specialist vehicles	10 - 35
Electricity	10 - 100	Other vehicles	5 - 30
Water	10 - 200	Office equipment	3 - 15
Sewerage	10 - 200	Furniture and fittings	5 - 20
Housing	20 - 100	Watercraft	15 - 30
		Bins and containers	5 - 15
<u>Community</u>		Specialised plant and	
Buildings	20 - 100	Equipment	5 - 35
Recreational Facilities	20 - 30	Other plant and	
Security	5 - 15	Equipment	2 - 25
Halls	20 - 30	Landfill sites	20 - 100
Libraries	20 - 30	Quarries	20 - 100
Parks and gardens	15 - 20	Emergency equipment	5 - 25
Other assets	15 - 30	Computer equipment	3 - 15
<u>Finance lease assets</u>			
Office equipment	3 - 15		
Other assets	5 - 15		

Annexure B: Items consumed within 12 months

Description	Description
Crockery	Kettle /urn
Spades	Stapler
Garden Fork	Punch
Rake	Letter Trays
Traffic Cones	Boxes – money, tender, CV's etc
Broom	Keyboard
Multi plug	Mouse
Small & Loose Tools <ul style="list-style-type: none"> ○ Sockets ○ Spanners ○ Pliers ○ Hammer 	Computer Speakers
Desk & Pocket Calculators	"Wheely Bins"
Panga	Numbering Stamp
Hoe	Stamps
Garden Hose	Fan
Trowels	Dustbin
Plaster Board	Small Carpets
Measuring Tape	Carpet Protector
Leads	Flower Pots
Work station divider	Holder Pens & Notes
Banners	Memory Stick (Flashdisk)
Batteries	Buddy drawers
CD Racks	Chairs (Plastic stackable)
Chargers except industrial	Clipboards
Jump starters	First aid and medic kits
Toolbox incl tools	Paper trays

Annexure C: Items considered furniture and fitting and treated as maintenance of existing buildings

The following list of items is approved to only be purchased via the maintenance line items as the items are mounted to the building:

Description	Description
Blinds	Bookcase bolted to floor of wall
Carpets	Cupboard – built in
Extractor fan	Flagpole
Key Cabinet	Safe
	Curtains

Annexure D: Asset hierarchy

Accounting Group Description	Sub Group Description	Asset Class Description	Asset Group Description
Intangible assets	Intangible assets	Intangible assets	Computer software
Investment property	Investment property	Investment property	Land
			Building
Heritage assets	Heritage assets	Heritage assets	Other heritage assets
Property, plant and equipment	Community assets	Community assets	Cemeteries
			Parks and Gardens
	Other assets	Other assets	Land
			Buildings
	Computer equipment	Computer equipment	Desktop Computer
			Computer monitor
			Laptop
			Printers
			Servers
			Tablets
			Switches
			Other computer equipment
	Furniture and office equipment	Furniture and office equipment	Chair
			Desk/table/pedestal
			Cabinet/cupboard
			Notice/White Boards
			Photocopier
			Fire extinguisher
	Machinery and equipment	Machinery and equipment	Other furniture and office equipment
			Small tools
			Parks equipment
			Road maintenance equipment
	Transport assets	Transport assets	Other Machinery and equipment
			Motor vehicles
			Light delivery vehicles (LDV)
			Truck
			Specialised vehicles
			Other transport assets
	Leased assets		
	Infrastructure	Electrical infrastructure	
			HV substations
			HV switching stations
			HV transmission conductors
			LV networks

			MV networks
			MV substations
			MV switching stations
			Power plants
		Roads infrastructure	Road furniture
			Road structures
			Roads
		Sanitation infrastructure	Sewer pipeline
			Pump stations
			Reticulation
			Waste water treatment works
		Solid waste infrastructure	Landfill sites
			Waste drop-off points
			Waste transfer stations
		Storm-water infrastructure	Attenuation
			Drainage collection
			Storm-water conveyance
		Water supply infrastructure	Boreholes
			Bulk mains
			Dams & weirs
			Distribution
			Distribution points
			Pump stations
			Reservoirs
			Water treatment works

MUNICIPALITY
ASSET MANAGEMENT POLICY

Policy Title	Asset Management
File ref.	
Purpose	To ensure the effective and efficient control of the municipality's assets and assist officials in understanding their legal and managerial responsibilities with regard to assets.
Version	6
Policy owner	Director: Financial Services
Approval of council ref.	SC06/2026
Date approved	28 May 2026
Effective date	1 July 2023
Review frequency	Yearly
Policy review date	
Official responsible for revision	Manager : Assets & Insurance
Related Legislation	The Constitution of the Republic of South Africa, 1996 Municipal Structures Act, 1998 Municipal Systems Act, 2000 Division of Revenue Act (enacted annually) Municipal Finance Management Act No 56 of 2003 Local Government: Municipal Asset Transfer Regulations, 2008
Related Policies	Short term Insurance Policy
Implementation	Municipal Manager All Directors
Supplementary Documentation	