

# ASSET MANAGEMENT POLICY



**Subject:** Asset Management policy  
**Date:** 23 June 2020  
**Council Resolution:** ITEM SCM 11/2020

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## 1 Key definitions

### "Accounting Officer"-

Means the Municipal Manager;

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**“Asset”**

Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

**“Basic Municipal Service”**

Means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

**“Carrying Amount”**

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

**“Chief Financial Officer”**

Means a person designated in terms of section 80(2) (a) of the MFMA;

**“Cost”**

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP

**“Councillor”**

Means a member of a municipal council;

**“Current year”**

Means the financial year, which has already commenced, but not yet ended;

**“Depreciable amount”**

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

**Depreciation”**

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The systematic allocation of the depreciable amount of an asset over its useful life.

**“Fair value”**

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**"Financial year"**

Means a twelve months period commencing on 1 July and ending on 30 June each year.

**"Financing agreement"**

Includes any loan agreement, lease, and instalment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time;

**“GAMAP / GRAP 17”**

The accounting standards applicable to municipalities.

GAMAP – Generally Accepted Municipal Accounting Practice

GRAP – Generally Recognised Accounting Practice

**“Heritage assets”**

Some assets are described as “heritage assets” because of their cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

**“Impairment loss”**

- Of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

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- Of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

### **“Infrastructure assets”**

These assets usually display some or all of the following characteristics:

- (a) They are part of a system or network,
- (b) They are specialised in nature and do not have alternative uses,
- (c) They are immovable, and
- (d) They may be subject to constraints on disposal.

Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

### **“Inventory”**

Are assets:

- (a) In the form of materials or supplies to be consumed in the production process,
- (b) In the form of materials or supplies to be consumed or distributed in the rendering of services,
- (c) Held for sale or distribution in the ordinary course of operations, or
- (d) In the process of production for sale or distribution

### **“Investment”**

In relation to funds of a municipality, means-

- (a) The placing on deposit of funds of a municipality with a financial institution; or
- (b) The acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

### **“Investment properties”**

Property (land or a building or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

### **“Local community”**

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Has the meaning assigned to it in section 1 of the Municipal Systems Act;

**"Municipal Structures Act"**

Means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

**"Municipal Systems Act"**

Means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

**"Long-term debt"**

Means debt repayable over a period exceeding one year;

**"Municipal council" or "Council"**

Means the council of a municipality referred to in section 18 of the Municipal Structures Act; (refer to the MSA for definition);

**"Municipality"-**

(a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or

(b) when referred to as a geographic area, means a municipal area determined terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

**"MFMA"**

The Local Government: Municipal Finance Management Act (No. 56 of 2003)

**"Municipal Manager" "MM"**

Means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act;

**"Municipal service"**

Has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

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**"National Treasury" "NT"**

Means the National Treasury established by section 5 of the Public Finance Management Act;

**"Official"**

Means-

- (a) An employee of a municipality or municipal entity;
- (b) A person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or
- (c) A person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee

**"Property Plant and Equipment"**

Are tangible assets that:

- (a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- (b) Are expected to be used during more than one reporting period.

**"PT", "Provincial Treasury"**

Means the Provincial Treasury branch established by section 5 of the Public Finance Management Act;

**"Quarter"**

Means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

**"Recoverable amount"**

The higher of a cash-generating asset's net selling price and its value in use.

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### **“Residual value”**

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

### **“Useful life”**

(a) The period over which an asset is expected to be available for use by an entity, or  
(b) The number of production or similar units expected to be obtained from the asset by an entity.

### **“Vote”**

Means-

(a) One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and

(b) Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned?

## **2 Statutory and regulatory framework**

This policy must comply with all relevant legislative requirements including:

- The Constitution of the Republic of South Africa, 1996
- The Municipal Structures Act, 1998
- The Municipal Systems Act, 2000 as amended
- The Division of Revenue Act (enacted annual)
- The Municipal Finance Management Act, 2003

This policy must comply with the standards specified by the Accounting Standards Board. The current relevant recognized accounting standards include:

- GRAP 17 Property Plant and Equipment.
- GRAP 12 Inventories.

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This policy will be updated annually or whenever legislative or accounting standard amendments significantly change the requirements pertaining to asset management in general and the administration of property, plant and equipment.

This policy should be read in conjunction with all applicable **Tsantsabane** policies including the Supply Chain Management Policy. The Chief Financial Officer will provide guidance or adjust this policy where an apparent conflict exists between this policy and other policies, legislation or regulations.

### 3. Asset Management Policy Summary

<b>Objectives</b>	<b>Key principles to be achieved</b>
<p>The objectives of this policy are to ensure that assets are managed and accounted for by:</p> <ul style="list-style-type: none"> <li>• Accurate recording of fixed assets and related transactions.</li> <li>• Compliance with municipal legislation and accounting standards.</li> <li>• Compliance with accounting policies and standards.</li> <li>• Providing management information on fixed assets.</li> <li>• To ensure Asset Controllers are aware of their responsibilities in regards to assets.</li> <li>• To set out the standards of physical management, recording and internal controls to ensure property, plant and equipment are safeguarded against inappropriate loss or utilisation.</li> <li>• To specify the process required before expenditure on assets.</li> <li>• To prescribe the accounting treatment for assets including:</li> </ul>	<ul style="list-style-type: none"> <li>• Safekeeping of assets,</li> <li>• Accurate, complete recording of all the municipality's fixed assets.</li> <li>• Each departmental manager is responsible for the fixed assets in their department.</li> <li>• Asset register must balance to the financial statements.</li> <li>• Fixed assets must be properly maintained and insured.</li> <li>• The fixed assets register and annual financial statements must comply with the applicable accounting standards and legislation applicable at the time.</li> </ul>

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<p>The criteria to be met before expenditure can be capitalised as an asset,</p> <ul style="list-style-type: none"> <li>- The criteria for determining the initial cost of the different assets,</li> <li>- The method of calculating depreciation for different assets,</li> <li>- The criteria for capitalising subsequent expenditure on assets,</li> <li>- The policy for scrapping and disposal of assets,</li> <li>- The classification of assets.</li> </ul>	
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**Key performance areas (strategic intent)**

- Classification of fixed assets.
- Safekeeping and identification of fixed assets.
- Format of fixed assets register.
- Acquisition and replacement.
- Capitalisation criteria.
- General planned & deferred Maintenance.
- Depreciation of fixed assets.
- Amendment of asset lives and diminution in value of fixed assets.
- Creation of non-distributable reserves.
- Re-valuation of fixed assets.
- Insurance, loss, damage, theft.
- Disposal and retirement from use.

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## 4 Classification of fixed assets

### 4.1 Objectives

To ensure that fixed assets meeting certain criteria and characteristics are grouped and classified together according to regulated guidelines and standards.

### 4.2 Property, plant and equipment

The Chief Financial Officer shall insure that all fixed assets are classified as follows in the Annual Financial Statements and fixed assets register:

- Land and buildings.
- Infrastructure assets.
- Community assets.
- Heritage assets.
- Investment property.
- Other assets.

### 4.3 Investment property

These are investment assets held as resources for capital or operational gain.

#### 4.3.1 Accounting and recording

- Investment Property assets will be accounted for in terms of GRAP 16 and initially recorded at cost including transaction cost. Following initial recognition the investment property will be recognized at fair value reflecting the market conditions at the reporting date. An expert valuer may be engaged by the municipality to undertake such valuations.
- Transfer to and from investment property will be in accordance with GRAP 12 Inventories or GRAP 17 Property Plant and Equipment whichever is appropriate.
- If the council of the municipality resolves to construct or develop a property for future use as an investment property, such property will be accounted for as

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property, plant and equipment until it is ready for its intended use and reclassified as an investment property.

#### **4.3.2 Depreciation**

- Investment assets shall not be depreciated, but shall be valued on balance sheet date to determine their fair (market) value.
- Investment assets shall be recorded in the statement of position at such fair value.

#### **4.3.3 Valuation**

- Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned.
- An expert valuer shall be engaged by the municipality to undertake such valuations.
- Where 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 fixed asset until it is ready for its intended use – where after it shall be reclassified as an investment asset.

### **4.4 Inventory**

#### **4.4.1 Housing Stock**

This is rental or housing stock which is not held for capital gain

- This includes:
  - Land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business.
  - 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.

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- These assets 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.

#### **4.4.2 Recording**

- These Inventory assets will be recorded in a separate section of the asset register and maintained as required.
- Inventories shall be measured at the lower of cost and net realizable value.
- The cost of inventories shall comprise all costs of purchase, costs of development, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.
- Any land or buildings owned or acquired by the municipality with the intention of selling the property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing the property for the purpose of selling it in the ordinary course of business, will be accounted for as inventory.
- Where the municipality owns undeveloped land, usually this will be classified as property, plant and equipment. Where there is an intention to develop such land and to sell or transfer or contract it to a third party it should be classified as inventory rather than property, plant and equipment.
- The purchase of land or buildings for resale should be classified as inventory if the land or buildings is held for short-term sale in the ordinary course of operations.

### **4.5 Heritage assets**

#### **4.5.1 Fixed assets register**

If no original costs or fair values are available in the case of heritage assets, the Revenue and Asset Management Officer should record such asset or assets in the fixed asset register at a value as determined in terms of the guidance and accounting standards for heritage assets.

#### **4.5.2 Annual financial statements**

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For purposes of compiling the statement of position, the existence of such heritage assets shall be disclosed by means of an appropriate note in the Annual Financial Statements.

## **4.6 Accounting for Property, Plant and Equipment**

### **4.6.1 Recognition of property, plant and equipment**

An item of property, plant and equipment will be recognized as an asset when:

- It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,
- The cost of the asset to the municipality can be measured reliably,
- The municipality has gained control over the asset,
- Irrespective of the cost, if the asset meets the recognition criteria it should be recognised as an asset,
- The asset is expected to be used during more than one financial year.
- All other acquisitions of property, plant and equipment that do not meet the recognition criteria will be expensed.

### **4.6.2 Initial measurement**

- An item of property, plant and equipment that qualifies for recognition as a non-current asset should be initially measured at its "cost of acquisition".
- This "cost of acquisition" will include all costs required to bring the asset to the proper working condition and position for its intended use. These costs usually include the following:
  - Purchase costs (less any discounts given)
  - Delivery costs.
  - Installation costs.
  - Professional fees for architects and engineers.
  - Import duties.

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- Non-refundable taxes.
- Site development costs.
- Contractor fees.

#### **4.6.3 Donations or exchanges**

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 non-current asset register if the fair value is greater than the recognition threshold.

#### **4.6.4 Carrying amount on property plant and equipment**

Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation, subject to the requirement to write an asset down to its recoverable amount or any subsequent revaluation.

#### **4.6.5 Componentisation of major portions of assets**

- An Asset Controller may, with agreement of the Revenue and Asset Management Officer, treat specified major components of an item of property plant or equipment as a separate asset for the purposes of this policy.
- These major components may be defined by its physical parameters (e.g. a reservoir roof) or its financial parameters (e.g. a road surface).
- In agreeing to these treatments the Revenue and Asset Management Officer must be satisfied that these components:
  - Have significantly a different useful life or usage pattern to the main asset,
  - Align with the asset management plans,
  - The benefits justify the costs of separate identification,
  - It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,
  - The cost of the asset to the municipality can be measured reliably,
  - The municipality has gained control over the asset,
  - The costs is above the recognition threshold, and
  - The asset is expected to be used during more than one financial year.

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- All such decisions and agreements will be confirmed before the beginning of the financial year and submitted for approval with the budget. Any amendments will only be permitted as part of a budget review.
- Once a major component is recognized as a separate asset, it may be acquired, depreciated and disposed of as if it were a separate asset.
- All other replacements, renewals or refurbishments of components will be expensed.

## **5 Safekeeping, identification and movement of fixed assets**

### **5.1 Objectives**

To prevent the loss, damage or theft from the misappropriation or misuse of fixed assets owned by the municipality.

### **5.2 Safekeeping**

Each departmental head shall:

- Be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question,
- Take the necessary steps to ensure the safekeeping of fixed assets under their control,
- Adhere to any written directives issued by the Chief Financial Officer in regard to the control of or safekeeping of the municipality's fixed assets.

### **5.3 Identification**

The Chief Financial Officer shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its fixed asset register

- The identification system shall be determined by the Chief Financial Officer:
  - Acting in consultation with the municipal manager and other departmental heads,
  - Comply with any legal prescriptions,
  - Be decided upon within the context of the municipality's budgetary and human resources available,

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- Every departmental head shall ensure that the asset identification system approved for the municipality is properly applied in respect of all fixed assets controlled or used in their department.

## **5.4 Transfers to another Asset Controller**

### **5.4.1 Permanent transfers to another Asset Controller**

An Asset Controller retains managerial accountability and control for a particular asset unless;

- Another Senior manager agrees in writing to accept responsibility for that asset, and
- The Revenue and Asset Management Officer endorses the transfer.
  - The Budget and Treasury Office appropriately amends the Fixed Asset Register for all approved transfers.
  - The new Asset Controller assumes all the accountabilities of the previous Asset Controller.

### **5.4.2 Relocation or Reassignment of Property, Plant or Equipment**

- The Asset Controller must ensure that the asset is appropriately safeguarded for loss, damage or misuse wherever it is located. Safeguarding includes ensuring reasonable physical restrictions and delegated management is implemented.
- The Asset Controller must advise the Revenue and Asset Management Officer whenever an asset is permanently relocated or reassigned from the location (or base) or cost centre recorded in the Fixed Asset Register.
- The Asset Controller must advise the Revenue and Asset Management Officer whenever an asset is temporarily relocated or reassigned from the location (or base) or cost centre recorded in the Fixed Asset Register. In this case, the Asset Controller must also advise the Revenue and Asset Management Officer when this asset is returned.

### **5.4.3 Verification**

- Every departmental head shall undertake a comprehensive verification of all fixed assets under their control:
  - At least once during June of every financial year,

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- In compliance with the relevant written directives issued by the Revenue and Asset Management Officer,
- Report in writing to the Revenue and Asset Management Officer in the format determined by the Chief Financial Officer, all relevant results of such fixed asset verification not later than 30 June.

## **6 Fixed Assets Register**

### **6.1 Objective**

To ensure that the entire municipality's fixed assets are recorded in such a way to enable adequate management and accounting for fixed assets.

#### **6.1.1 Establishment and Management of the Fixed Asset Register**

- The Revenue and Asset Management Officer will establish and maintain the Asset Register containing key financial data on each asset that satisfies the criterion for recognition.
- Asset Controllers are responsible for establishing and maintaining any additional register or database required to demonstrate their physical management of their assets.
- Each Asset Controller is responsible to ensure that sufficient controls exist to substantiate the quantity, value, location and condition all assets in their registers.

#### **6.1.2 Format of the fixed assets register**

The fixed assets register should contain the following for each item of property, plant and equipment:

- Acquisition dates.
- Clear descriptions of individual items.
- Location.
- Department / service that controls the asset.
- A unique asset identification number.
- The original cost / fair value.
- Depreciation charge and accumulated depreciation.
- Carrying amount.

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- Method and rate of depreciation.
- Impairment losses incurred during the year.
- Insurance arrangements.
- Disposal date and price.
- Date retired from use.
- Re-valued amounts.

## 6.2 Provision of information for the Fixed Asset Register

Each departmental head under whose control any fixed asset falls shall:

- Promptly provide the Revenue and Asset Management Officer in writing with any information required to compile the fixed asset register
- Promptly advise the Revenue and Asset Management Officer in writing of any material change which may occur in respect of such information

## 6.3 Recording on the register

- A fixed asset shall be recorded in the fixed assets register, as soon as it is acquired,
- Where 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 a fixed asset,
- A fixed asset shall remain in the fixed assets register for as long as it is in physical existence.

## 6.4 Carrying value

All fixed assets shall be carried in the fixed asset 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 fixed asset register.

### 6.4.1 Internal Controls over the Fixed Asset Registers

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Controls around these asset registers should be sufficient to provide an accurate, reliable and up to date account of assets under their control to the standards specified by the Chief Financial Officer and required by the Auditor-General.

These controls will include physical management and recording of all acquisitions, assignments, transfers, losses and disposals of their assigned assets as well as regular stock-takes and systems audits to confirm the adequacy of their controls.

## **7 Acquisition and replacement of fixed assets**

### **7.1 Objectives**

- To ensure fair, transparent and equitable acquisition of fixed assets in terms of the supply chain management policy, capital budget and IDP priorities.
- To ensure that fixed assets are replaced when they have exhausted their effective service potential

### **7.2 Acquisition of fixed assets**

- The Revenue and Asset Management Officer will develop and provide a form to be completed by departmental heads for new acquisitions.
- Each departmental head will promptly inform the Revenue and Asset Management Officer of new fixed assets taken into use in the format requested by the Chief Financial Officer.

### **7.3 Physical Receipting and Management**

#### **7.3.1 Responsibilities of the Asset Controller**

The Asset Controller must ensure that the purchase of assets complies with all municipal policies and procedures.

- The Asset Controller must ensure that all moveable property, plant and equipment is duly processed and identified before it is received into their stewardship.
- The Asset Controller must ensure all moveable assets received into their stewardship are appropriately safeguarded for inappropriate use or loss. This will include appropriate control over the physical access to these assets and regular

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stock takes to ensure any losses have not occurred. Any known losses should be immediately reported to the Revenue and Asset Management Officer.

- The Asset Controller will do an annual stock take of property, plant and equipment as part of the annual reporting processes coordinated by the Revenue and Asset Management Officer.
- The Asset Controller must ensure that property, plant and equipment is appropriately utilized these assets for the purpose that the municipality acquired them.

### **7.3.2 The date of acquisition**

- The date of acquisition of an asset is deemed to be the time when legal title and control passes to the municipality.
- This may vary for different categories of assets but will usually be the point of time when the payment for that asset is approved.

## **7.4 Replacement of fixed assets**

- Fixed assets will be replaced when they can no longer deliver the services effectively and efficiently
- Each departmental head will assess the service potential of the fixed assets under their control annually
- The results of these assessments will be included into each departmental head's contribution to the IDP and capital budgeting process

# **8 Capitalisation criteria**

## **8.1 Objective**

To ensure that only items that meet the criteria and characteristics for fixed assets are capitalised as such,

### **Material value: Management of Valuable Items**

#### **8.1.1 Management of asset inventory items**

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All items that meet the recognition criteria in terms of GRAP 17 will be recognised and accounted for as such.

The capitalisation threshold of R 20 000 (previously applied) will no longer apply as this is not in terms of Generally Accepted Accounting Practice.

## **8.2 Reinstatement, maintenance and other expenses**

### **8.2.1 Enhancement costs**

Only expenses incurred in the following shall be capitalised:

- Enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset),
- Material extension of the useful life.

### **8.2.2 Maintenance costs**

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses.

### **8.2.3 Expenses to bring the asset into operation**

Expenses to bring the fixed asset into operation of will be capitalised as part of such fixed asset,

Such expenses may include the following costs:

- Import duties.
- Forward cover.
- Transportation.
- Installation.
- Assembly.
- Commissioning.

### **8.2.4 Subsequent expenditure on property plant and equipment**

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- Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized should be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery, in excess of the originally assessed standard of performance of the existing asset, will flow to the municipality.
- All other expenditure should be recognized as an expense in the period in which it occurred.
- Before allowing the capitalization of subsequent expenditure, the Revenue and Asset Management Officer must be satisfied that this expenditure significantly:
  - Increases the life of that asset beyond that stated in the asset register, or
  - Increases the quality of service that asset beyond the existing level of service, or
  - Increases the quantity of services that asset can provide, or
  - Reduces the future assessed costs of maintaining that asset.
- Expenditure that is proposed to be capitalized must also conform to recognition criteria for non-current assets and should also be appropriately included in the approved capital budget.
- Where it is desired to capitalise future component replacements, refurbishments or renewals, then please refer to the section on major components in this policy

## 9 Management and operation of assets

### 9.1 Objectives

To ensure that the municipality's fixed assets are effectively utilised and maintained.

#### 9.1.1 Accountability to manage property, plant and equipment

- Each Departmental Manager is accountable to ensure that municipal resources assigned to them are utilized effectively, efficiently, economically and transparently. This would include;
  - Developing appropriate asset management systems, procedures, processes and controls for managing assets,

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- Providing accurate, reliable and up to date account of assets under their control,
- The development and motivation of relevant strategic asset management plans and operational budgets that optimally achieve the municipality's strategic objectives.

### **9.1.2 Contents of a strategic asset management plan**

Asset Controllers need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost. To achieve this, the Asset Controller will need to develop strategic asset management plans that cover:

- Alignment with the Integrated Development Plan,
  - Operational guidelines,
  - Performance monitoring,
  - Maintenance programs,
  - Renewal, refurbishment and replacement plans,
  - Disposal and Rehabilitation plans,
  - Operational, financial and capital support requirements, and
  - Risk mitigation plans including insurance strategies.
- The operational budgets are the short to medium term plan for implementing this strategic asset management plan.

### **9.1.3 Reporting on Emerging Issues**

Each Asset Controller should report to the Municipal Manager on issues that will significantly impede the assets capability to provide the required level of service or economic benefit.

## **10 General, planned and deferred Maintenance**

### **10.1 Objectives**

To ensure that fixed asset maintained to a level to ensure that the fixed asset can be used efficiently and services can be effectively rendered to the community by:

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- Planned maintenance,
- General maintenance,
- Reporting and follow-up of deferred maintenance,

## **10.2 General and planned maintenance**

- Every departmental head shall be directly responsible for ensuring that all assets are properly maintained to ensure:
  - That such assets provide the desired level of service and;
  - Attain their useful operating lives.

### **10.2.1 Maintenance planning**

- An annual maintenance plan shall be prepared and submitted by each departmental head when the capital and operating budget is prepared annually.
- A maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned.
- The departmental head of the department controlling or using the infrastructure asset in question, shall annually report to the council at least annually on:
  - The extent to which the relevant maintenance plan has been complied with,
  - The likely effect which any non-compliance may have on the useful operating life of the asset concerned.

## **10.3 Deferred maintenance**

### **10.3.1 Disclosure of 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 Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements.

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Such note shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned.

## **11 Depreciation**

### **11.1 Objectives**

To ensure that the accounting records and annual financial statements reflect fixed assets at a value in accordance with the rate at which the economic benefits and service potential has been utilised.

### **11.2 Depreciation**

#### **11.2.1 Assets to depreciate**

All fixed assets, except land and heritage assets, shall be depreciated.

#### **11.2.2 Calculation of depreciation**

- Depreciation will take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed.
- Depreciation shall initially be calculated from:
  - The day in which a fixed asset is acquired, or
  - In the case of construction works and plant and machinery – the day in which the fixed asset is brought into use, until the end of the calendar month concerned.
- Thereafter, depreciation charges shall be calculated monthly.
- Depreciation will be included in the annual operating budget.

#### **11.2.3 Rate of depreciation**

- The Revenue and Asset Management Officer shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register

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□ The useful life shall be determined in consultation with the departmental head concerned

#### **11.2.4 Depreciation rate**

□ The Revenue and Asset Management Officer shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question

#### **11.2.5 Initial determination useful life**

□ Each Asset Controller needs to determine the useful life of a particular item or class property, plant and equipment through the development of a strategic asset management plan that forecasts the expected useful life that asset. This should be developed as part of the Pre-Acquisition Planning that would consider the following factors:

- The operational, maintenance, renewal and disposal program that will optimize the expected long term costs of owning that asset,
- economic obsolescence because it is too expensive to maintain,
- functional obsolescence because it no longer meets the municipalities needs,
- technological obsolescence,
- social obsolescence due to changing demographics, and
- legal obsolescence due to statutory constraints.

□ Spares purchased specifically for a particular asset, or class of assets, 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.

#### **11.2.6 Review of useful life**

The useful life of an item property, plant and equipment should be reviewed regularly and if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.

#### **11.2.7 Review of depreciation method**

□ The depreciation method applied to property, plant and equipment should be reviewed regularly, and if there has been a significant change in the expected pattern

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of economic benefits or potential service delivery from those assets, the method should be changed to reflect the changed pattern.

□ When such a change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current future periods should be adjusted.

## **12 Amendment of asset lives and diminution in value of fixed assets**

### **12.1 Objective**

To ensure that the amendment of asset lives or the diminution in value thereof must take place in a controlled manner based on the operating value and service potential of those fixed assets.

### **12.2 Amendment of asset lives**

#### **12.2.1 Authority to amend useful life**

□ Only the Revenue and Asset Management Officer may amend the useful operating life assigned to any fixed asset.

□ When any material amendment occurs the Revenue and Asset Management Officer shall inform the council of the municipality of such amendment.

#### **12.2.2 Circumstances to amend useful life**

□ The Revenue and Asset Management Officer shall amend the useful operating life assigned to any fixed 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.

### **12.3 Diminution in fixed asset value**

#### **12.3.1 Circumstances to fully depreciate fixed assets**

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- A fixed asset shall be fully depreciated where:
  - Where the value of a fixed asset has been diminished to such an extent that it has no or a negligible further useful operating life or value,
  - Where a fixed asset has been lost, stolen or damaged beyond repair,
  - Physically ceased to exist.
- These additional depreciation expenses shall be debited to the department or vote controlling or using the fixed asset in question.

## **12.4 Impairment of fixed assets**

- A fixed asset is said to be impaired where the recoverable amount or the recoverable service value is less than the carrying amount reflected in the accounting record.
- Each departmental head shall annually, judge the useful lives, value and impairment of all the fixed assets under their control and submit to the Revenue and Asset Management Officer.
- When such a decline has occurred, the carrying amount should be reduced to the recoverable amount.
- The amount of the reduction should be recognized as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to a non-distributable reserve.
- For asset providing economic benefits, the recoverable amount is the net present value of future ownership.
- For asset providing future service delivery, the recoverable amount is the remaining proportional of its useful life, service capacity or quality of service that is not intended to be restored by normal maintenance programs.

### **12.4.1 Subsequent increase in recoverable amount**

- A subsequent increase in the recoverable amount of an asset, previously written down 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.

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- The amount written back should be reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

## **13 Funding sources**

### **13.1 Objectives**

- To ensure that fixed assets are funded in terms of the funding sources available.

#### **13.1.1 Main funding sources**

The main sources of finance to be used to acquire assets will be as follows:

- Grants, subsidies and public contributions
- Revenue contributions
- Cash surplus

#### **13.1.2 Conditional grants, subsidies, public contributions and donations**

- Unspent grants are to be accounted for and disclosed in terms of GRAP 17.
- These funds will be cash backed and invested until utilised.
- The interest earned from investments will be treated in terms of the conditions of the grant.

#### **13.1.3 Revenue contributions**

- Revenue will be used to finance smaller fixed asset items.
- These items will typically be under the R 20 000 capitalisation threshold mentioned previously.

#### **13.1.4 Surplus cash**

- If there is sufficient surplus cash available, fixed assets may be financed directly from surplus cash.
- Depreciation charges on these assets will not be offset.

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## 14 Re-valuation of fixed assets

### 14.1 Objective

Accurate re-valuation of fixed assets where the re-valuation model is used.

#### 14.1.1 Re-valuation process

- All land and buildings recorded in the municipality's fixed asset register shall be re-valued with the adoption by the municipality of each new valuation roll.
- The Revenue and Asset Management Officer shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll, provided the Revenue and Asset Management Officer is satisfied that such value reflects the fair value of the fixed asset concerned.
- Re-valued fixed assets shall thereafter be depreciated on the basis of its re-valued amount.

#### 14.1.2 Re-valuation reserve

- The Chief Financial Officer shall create a revaluation reserve for each re-valued fixed asset equal to the difference between the value as recorded in the valuation roll and the carrying value of the fixed asset before the adjustment in question.

#### 14.1.3 Depreciation of re-valued property

- The fixed 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.
- The increased depreciation expenses must be budgeted.

## 15 Insurance, loss, damage, theft

### 15.1 Objective

To ensure that municipal fixed assets are adequately insured and adequate records kept of loss, damage and theft thereof.

### 15.2 Insurance of fixed assets

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- The Chief Financial Officer shall ensure that all the fixed assets are adequately insured.
- The municipal manager shall recommend to the council of the municipality, after consulting with the Chief Financial Officer, the basis of the insurance to be applied to each type of fixed asset: either
  - The carrying value, or
  - The replacement value of the fixed assets concerned.
- Such recommendation shall take due cognisance of the budgetary resources of the municipality.
- The Chief Financial Officer shall ensure that insurance cover is sourced in terms of the supply chain management policy of the municipality.
- The Chief Financial Officer shall annually submit a report to the council of the municipality for approval on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve.

### **15.3 Loss, damage, theft of fixed assets**

- Every departmental head shall promptly report every incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in writing to the Chief Financial Officer and;
- In cases of suspected theft or malicious damage also to the South African Police Service.
- Each departmental head shall prepared a schedule of loss, damage and theft and submit it to the Chief Financial Officer annually by 30 April.
- The Revenue and Asset Management Officer will then reconcile this information to the insurer's schedule and collate it into a report for external audit

## **16 Disposal and retirement from use**

### **16.1 Objective**

To ensure that disposal and transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the Supply Chain Management Policy.

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## 16.2 Disposal of fixed assets

- Each departmental head shall report in writing to the Revenue and Asset Management Officer annually on all fixed assets controlled or used by the department concerned on which fixed assets they wish to dispose of by public auction, public tender or write-off by 30 April each year.
- Each departmental head must take the necessary steps to ensure that all obsolete or damaged assets are disposed of in an appropriate and approved manner.

## 16.3 Other write-offs

- A fixed asset shall be written-off only on the recommendation of the departmental head of the department controlling the asset and with the final approval of Council.
- Every departmental head shall report annually to the Revenue and Asset Management Officer which fixed assets they wish to have written-off, stating the full reason for such recommendation by 30 April of each year.
- The Revenue and Asset Management Officer will then consolidate all such reports and submit a recommendation to Council for approval.
- Valid reasons for the writing-off of fixed assets shall be the disposal, loss, theft, destruction, incorrect capitalizations or material impairment of these fixed assets.

### 16.3.1 Accounting treatment on Disposal

- An item of property, plant and equipment should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery are expected from its disposal.
- Gains or losses arising from the retirement or disposal of an item of property, plant and equipment 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 income statement.

### 16.3.2 The Supply Chain Management Policy

The asset management policy must be read together with section 40 of the Municipality's "Supply Chain Management policy" which sets out requirements for "Disposal Management" under the following headings:

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- Disposal and letting of the municipality's assets and,
- Evaluation of offers for disposal and letting of assets.

## 17 Accounting and financial statement disclosure

Fixed assets should be disclosed and accounted for in terms of GRAP 17 as applicable.

### 17.1 Objective

To ensure that financial statement disclosures for fixed assets to be done in terms of GRAP 17 as applicable.

### 17.2 Detailed disclosure requirements

□ The Chief Financial Officer must ensure that relevant and current GRAP 17 accounting standards are applied for the disclosure of fixed assets on the financial statements.

□ The financial statements should disclose, in respect of each class of property, plant and equipment classified under the categories of infrastructure, community, heritage, investment properties and other assets:

- The measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed.

- The depreciation methods used.

- The useful lives or the depreciation rates used.

- Depreciation charged in arriving at net surplus or deficit for the period.

- The gross carrying amount and the accumulated depreciation at the beginning and the end of the period.

- A reconciliation of the carrying amount at the beginning and end of the period showing:

- (i) additions
- (ii) disposals

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- (iii) acquisition through business combinations
- (iv) increases or the decreases resulting from revaluations
- (v) deductions in carrying amount
- (vi) amounts written back
- (vii) depreciation
- (xi) other movements

The financial statements should also disclose:

- Whether or not, in determining the recoverable amount of items of property, plant and equipment, expected future cash flows have been discounted to their present values.

- The existence and amounts of restrictions on title and property, plant and equipment pledged as security for liabilities.

- The accounting policy for restoration costs relating to items of property, plant and equipment.

- The amount of expenditures on account of property, plant and equipment in the course of construction, and

- The amount of commitments for the acquisition of property, plant and equipment.

When items of property are stated at re-valued amounts, the financial statements should disclose:

- The basis used to revalue the assets.

- The effective date of revaluation.

- Whether an independent value was involved.

- The nature of any indices used to determine replacement cost.

- The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less depreciation.

- The revaluation surplus, detailing the movement for the period.

The portion of the depreciation charge relating to the revaluation.

## **ANNEXURE: FIXED ASSET LIVES**

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## BUILDINGS

The following is the list of building assets, with the estimated useful life in years indicated in brackets in each case.

* Community centers & public entertainment buildings	(30)
* Libraries	(30)
* Office buildings	(30)
* Taxi Ranks	(15)
* Non-residential perimeter protection	(15)
* Carports	(15)
* Workshops / Storerooms	(30)

## INFRASTRUCTURE ASSETS

The following is the list of infrastructure assets, with the estimated useful life in years indicated in brackets in each case.

* Roads – Municipal gravel surface	(10)
* Roads – Paved gravel surface	(20)
* Water supply reticulation	(25)

## OTHER ASSETS

The following is a list of other assets, again showing the estimated useful life in years in brackets:

## MACHINERY AND EQUIPMENT

* Audiovisual equipment	(7)
* Domestic equipment (non-kitchen appliances)	(3)
* Electric wire & power distribution equipment (compressors/ generators)	(5)
* Emergency/ rescue equipment	(5)
* Farm/ agricultural equipment	(10)
* Fire fighting equipment	(5)
* Gardening equipment	(3)
* Kitchen appliances	(5)
* Medical & allied equipment	(5)
* Photographic equipment	(5)
* Radio equipment	(5)

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- \* Road construction & maintenance equipment (10)
- \* Security equipment - systems/ - material fixed (5)
- \* Security equipment - systems/ - material movable (5)
- \* Telecommunications equipment (5)
- \* Tents, flags & accessories (5)
- \* Workshop equipment & loose tools movable (3)

**FURNITURE AND OFFICE EQUIPMENT**

- \* Air-conditioners individual fixed & movable (5)
- \* Cutlery and crockery (5)
- \* Linen and soft furnishing (5)
- \* Office equipment including fax machines (5)
- \* Office furniture (5)

**COMPUTER EQUIPMENT**

- \* Computer hardware including operating systems (5)
- \* Computer networking equipment (5)

**TRANSPORT ASSETS**

- \* Motor vehicles (5)
- \* Trucks (5)

**INTANGIBLE ASSETS**

- \* Computer software (3)

Signed and Approved

.....  
Accounting officer

G.H Mathobela

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