Fezile Dabi
District Municipality

ASSET MANAGEMENT POLICY

Date of approval by council: 29/05/023……

Council Resolution number: …199…….....

TABLE OF CONTENTS

Index	Page
LIST OF ACRONYMS	3 - 4
DEFINITIONS	5 - 9
1. POLICY FRAMEWORK	10
2. LEGAL FRAMEWORK	10 - 11
3. DISCIPLINARY PROCESSES	11
4. COORDINATION FOR SUCCESSFUL ASSET MANAGEMENT IMPLEMENTATION	11 - 12
5. ASSET MANAGEMENT	13 - 14
6. RESPONSIBILITIES AND ACCOUNTABILITIES	14 - 15
7. ASSET LIFE CYCLE	16 - 21
8. ACCOUNTING TREATMENT	21 - 25
9. CAPITALIZATION CRITERIA: MATERIAL VALUE	25
10. CAPITALIZATION CRITERIA: INTANGIBLE ASSETS	25
11. CAPITAL ASSETS CATEGORIES	26 - 27
12. CREATION OF NON-DISTRIBUTABLE RESERVES FOR FUTURE DEPRECIATION	27
13. CARRYING VALUES OF CAPITAL ASSETS	27
14. APPROPRIATE CODING	27
15. INSURANCE FOR CAPITAL ASSETS	28
16. ASSET REGISTER	28 - 29
17. VERIFICATION AND CONDITION ASSESSMENT OF TANGIBLE CAPITAL ASSETS	29
18. ALIENATION OF FIXED ASSETS	29 - 30
19. OTHER WRITE-OFFS OF FIXED ASSETS	30
20. CONTROL AND SAFEGUARDING OF ASSETS	31 - 32
21. LEASED ASSETS	32
22. REVALUATION OF FIXED ASSETS	32 - 33
23. IMPAIRMENT OF ASSETS	33
24. MANAGEMENT OF PORTABLE AND ATTRACTIVE ITEMS (INVENTORIES)	33
25. MONITORING, EVALUATION AND REPORTING	34
26. SCHEDULE OF EXPECTED USEFUL LIVES	34 - 35
27. ANNEXURE: PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2003	35

LIST OF ACRONYMS

Acronym		Meaning
AMSC	-	Asset Management Steering Committee
AMT	-	Asset Management Team
AR	-	Asset Register
ASB	-	Accounting Standards Board
BOOT	-	Build-own-operate-transfer
CFO	-	Chief Financial Officer
CRC	-	Current Replacement Cost
DME	-	Department of Minerals and Energy
CoGTA	-	Department of Cooperative Governance and Traditional Affairs
DPW	-	Department of Public Works
DRC	-	Depreciated Replacement Cost
DWAF	-	Department of Water and Forestry Affairs
EDIH	-	Electrical Distribution Industry Holdings Pty Ltd
EUL	-	Expected Useful Life
FDDM	-	Fezile Dabi District Municipality
GAAP	-	Generally Accepted Accounting Practice
GAMAP		Generally Accepted Municipal Accounting Practice
GIAMA	-	Government Immovable Asset Management Act
GIS	-	Geographical Information System
GPS	-	Global Positioning System
GRAP	-	Generally Recognised Accounting Practices
IAS	-	International Accounting Standards
IDP	-	Integrated Development Plan
IFRS	-	International Financial Reporting Standards
IIMM	-	International Infrastructure Management Manual
IMESA	-	Institute of Municipal Engineering of Southern Africa
IPSAS	-	International Public Sector Accounting Standards
IT	-	Information Technology
LAR	-	Lease Asset Register
LGCAMG	-	Local Government Capital Asset Management Guideline
MFMA	-	Municipal Finance Management Act, No. 56 of 2003
MM	-	Municipal Manager

LIST OF ACRONYMS - *(Continued)*

Acronym		Meaning
MSA	-	Municipal Systems Act, No. 32 0f 2000
mSCOA	-	Municipal Standard Chart of Accounts
NDOT	-	National Department of Transport
NERSA	-	National Energy Regulator of South Africa
NIMS	-	National Infrastructure Maintenance Strategy
NT	-	National Treasury
PPE	-	Property, Plant & Equipment
PPP	-	Public Private Partnerships
RUL	-	Remaining Useful Life
SALGA	-	South African Local Government Association
SDBIP	-	Service Delivery and Budget Implementation Plan

DEFINITIONS

"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.

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

"Asset Custodian" is a person in any position or level in the organisation entrusted with the safeguarding and use as well as the condition monitoring of a specific asset.

"Asset Management" is a broad function and includes a structured process of decision-making, planning and control over the acquisition, use, safeguarding and disposal of assets to maximise their service delivery potential and benefits, and to minimise their related risks and costs over their entire life.

"Asset Manager" is any official who has been delegated responsibility and accountability for the control, usage, physical and financial management of the municipality's assets in accordance with the municipality's standards, policies, procedures and relevant guidelines.

"Asset categories" are the five main asset categories defined by GRAP. These are:

- **Infrastructure assets-**are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.
- **Community assets-**are defined as any asset that contributes to the community's well-being. Examples are parks, libraries and fire stations.
- **Heritage assets-**are defined as culturally significant resources. Examples are works of art, historical buildings and statues.
- **Investment properties-**are defined as properties that are acquired for economic and capital gains. Examples are office parks and underdeveloped land acquired for the purpose of resale in future years.
- **Other assets-**are defined as assets utilized in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

"Asset Register" is a record of information on each asset that supports the effective financial and technical management of the assets, and meets statutory requirements.

"Attractive items" are items of property, plant or equipment that are not significant enough for financial recognition but are attractive enough to warrant special safeguarding. These assets are also referred to as inventory.

DEFINITIONS – *(Continued)*

"Capital Assets" are all assets with a life cycle of greater than one year and above the capitalisation threshold (where applicable). For example, this would include property, plant and equipment (infrastructure network, furniture, motor vehicles, computer equipment, etc.), intangible assets, and investment property.

"Capitalization" is the recognition of expenditure as an asset in the Financial Asset Register and accounting records

"Capitalisation Threshold" is the value above which assets are treated as capital assets and entered into an asset register from which reporting in the financial statements (specifically the Statement of Financial Position) is extracted.

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

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

"Component" is a part of an asset with a significantly different useful life and significant cost in relation to the rest of the main asset. Component accounting requires that each such part shall be separately accounted for and is treated separately for depreciation, recognition and derecognition purposes. It is also referred to as separately depreciable parts.

"Cost" is 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 construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other GRAP.

"Cost of acquisition" is all the costs incurred in bring an item of plant, property or equipment to the required condition and location for its intended use.

"Current Replacement Cost" is the cost of replacing an existing asset with a modern asset of equivalent capacity.

"Depreciation" is the systematic allocation of the depreciable amount of an asset over its useful life.

"Depreciable amount" is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

DEFINITIONS – *(Continued)*

"Depreciated Replacement Cost" is a measure of the current value of an asset based on its current replacement cost less an allowance for deterioration of condition to date (based on the fraction of remaining useful life/expected useful life).

"Economic Life" is either:
(a) the period over which an asset is expected to yield economic benefits or service potential to one or more users, or
(b) the number of production or similar units expected to be obtained from the asset by one or more users.

"Enhancement/Rehabilitation" is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential for example, remaining useful life, capacity, quality, and functionality.

"Fair value" is the amount for which an asset could be exchanged between knowledgeable willing parties in an arm's length transaction.

"Financially Sustainable", in relation to the provision of a municipal service, means the provision of a municipal service in a manner aimed at ensuring that the financing of that service from internal and external sources, including budgeted income, grants and subsidies for the service, is sufficient to cover the costs of—

(a) the initial capital expenditure required for the service;
(b) operating the service; and
(c) maintaining, repairing and replacing the physical assets used in the provision

"GAMAP" stands for **"**generally accepted municipal accounting practice".

"GRAP" stands for "generally recognised accounting practice".
"Infrastructure" means assets that 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

"Minor Asset" is an asset other than a capital asset, which is fully depreciated in the year of acquisition.

"Modern Equivalent Asset" is an asset that replicates the existing asset with the most cost-effective asset performing the same level of service. This includes improvements in technology that may change the nature, life and value of an asset.

"Municipal Manager" is the person defined as the Accounting Officer of a municipality

DEFINITIONS – *(Continued)*

"Municipal Standard chart of Accounts'' A multi-dimensional classification framework providing the method and format for recording and classifying financial transaction information in the general ledger forming part of the books of account containing a standard list of all available accounts

"Property, plant and equipment" are tangible assets that:

a) *Are held by a municipality for use in the production of goods or supply of goods or services, for rental to others, for administrative purpose; and*
b) *Are expected to be used during more than one period.*

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

"Recognition" is the process by which expenditure is included in the Financial Asset Register as an asset.

"Rehabilitation/Enhancement" is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential, for example, remaining useful life, capacity, quality, and functionality.

"Remaining Useful Life" is the time remaining (of the total estimated useful life) until an asset ceases to provide the required service level or economic usefulness.

"Renewal" is the work required to replace/enhance/rehabilitate an asset. Expenses on renewal works are considered capital expenditure.

"Reproduction Cost" is the cost of reproducing the asset in its present physical form (substantially the same materials and design).

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

"Senior manager" is a manager referred to in section 56 of the Municipal Systems Act being someone reporting directly to the Municipal Manager.

"Senior management team" are the incumbent of post level 1, 2 and 3 in each directorate being the "senior manager" and everyone up to two levels below them.

"Service Potential" is a tangible capital asset's output or service capacity, normally determined by reference to attributes such as physical output capacity, quality of output, associated operating costs and useful life.

"Stewardship" is the act of taking care of and managing property, plant or equipment on behalf of another.

DEFINITIONS – *(Continued)*

"Useful life" is either:

(a) *The estimated period of time over which the future economic benefits or future service potential embodied in an asset are expected to be consumed by the municipality,*

Or

(b) *The estimated total service potential expressed in terms of production or similar units that is expected to be obtained from the asset by the municipality.*

1. POLICY FRAMEWORK

1.1. Purpose

To provide for a structured process of decision-making, planning and control over the acquisition, use, maintenance, safeguarding and disposal of assets to maximise their service delivery potential and benefits, and to minimise their related risks and costs over their entire life.

To provide a framework for bringing together the technical operations managers and finance practitioner through an integrated and holistic approach to asset management

1.2. Aims and Objectives

The aims and objectives of this policy are:

- To ensure the effective and efficient control, utilization, safeguarding and management of a municipality's assets
- To ensure senior managers are aware of their responsibilities in respect of operation and maintenance of assets
- To set out the standards of management, recording and internal controls over assets to ensure that they are safeguarded against inappropriate loss or utilisation.
- To specify the process required before expenditure on property, plant and equipment occurs.

1.3 Scope

The scope of this policy covers intangible assets; tangible assets and financial assets

2. LEGAL FRAMEWORK

This policy must comply with all relevant legislative requirements including:

- The Constitution of the Republic of South Africa, 1996
- Municipal Structures Act, 1998
- Municipal Systems Act, 2000
- Division of Revenue Act (enacted annual)
- Municipal Finance Management Act No 56 of 2003
  Local Government Capital Asset Management Guideline, 2008

It also complies with the standards specified by the Accounting Standards Board. The relevant currently recognized accounting standards include:

- GRAP 1 Presentation of financial statements
- GRAP 17 Property Plant and Equipment GRAP 12 Inventories
- GRAP 16 Investment property
- IAS 36 Impairment of assets
- GRAP 102 Intangible assets
- IAS 17 Leases

This policy does not overrule the requirement to comply with other policies like supply chain or budget policies.

3. DISCIPLINARY PROCESSES

Transgression of this policy constitutes financial misconduct and depending on the facts may lead to criminal proceedings.

4. COORDINATION FOR SUCCESSFUL ASSET MANAGEMENT IMPLEMENTATION

The success for implementation of effective asset management depends on an organisational commitment to change and an attitude of continuous improvement, and close cooperation between the CFO, finance staff, senior managers and operational managers involved in service delivery.

4.1 Structures for Asset Management

4.1.1 Asset management steering committee (AMSC)

The Municipal Manager shall establish an Asset Management Steering Committee to provide technical assistance in relation to disposal, acquisition of assets and other matter as prescribed herein.

The composition of an Asset Management Steering Committee of Fezile Dabi District Municipality will be as follows:

1. The Municipal Manager (Chairperson);
2. Chief Financial Officer (Convenor);
3. Asset Manager;
4. IDP Manager;
5. Information Technology Manager; and
6. Technical Manager

Primarily, the Asset Management Steering Committee will be responsible for the following key functions:

- Specify Asset Management project Outcomes
- Set Asset Management timetable
- Approve all Asset Management progress reports
- Exercise oversight over the implementation of all related processes

Moreover, the Asset Management Steering Committee will be supported by the Asset Management Project Team and Asset Management Teams as follows:

4.1.2 Asset Management Project Team

The Asset Management Project Team will be a multidisciplinary team consisting of Senior Managers who will also act as Divisional Asset Managers and will be directly accountable to the Asset Management Committee and the Asset Manager for all the assets which are under their respective stewardship.

The Asset Management Project Team is responsible for performing the following functions:

- Coordinate Asset Management activities;
- Prepare Financial Forecasts; and
- Preparation of Asset Management plan

4.1.3 Asset Management Task Teams

Asset Management Task Teams shall be established for each department, and shall be led by Senior Managers who are heads of respective departments within the Fezile Dabi District Municipality.

The Asset Management Project Team is responsible for performing the following functions:

- Data base management of all assets within their respective departments
- Implement Asset Management tasks
- Perform Data Collection and analysis in respect of assets within their respective departments

The asset manager, shall also be as project leader the implementation of asset management, and shall therefore be responsible for overall co-ordination of related activities and the implementation process shall be driven through the Asset Management Steering Committee with regular reporting to senior management.

5. ASSET MANAGEMENT

The goal of asset management is to achieve the required level of service in the most cost effective manner, which is achieved through management of the asset's life cycle.

To be effective, asset management shall include the following:

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

5.1 Asset Strategy

An integrated approach towards asset planning and management will enable the FDDM to deliver quality, asset-based services efficiently and effectively. By integrating asset planning with its overall planning processes, the municipality is better able to make the most appropriate decisions about the asset profile, particularly when responding to such factors as:

- new or changing service delivery requirements;
- different methods of service delivery, and
- evolving technology i.e. Information Technology equipment

Proper planning will provide a comparison between the assets required to support service delivery and those assets currently available and/or programmed for acquisition. In this manner the municipality is able to identify:

- existing assets that are required and are presently capable of servicing program delivery needs;
- existing assets that are required but are below the necessary standard and need refurbishment to meet service delivery needs; and
- assets which must be acquired to meet service delivery needs.

Through this policy, Fezile Dabi District Municipality adopt the following integrated approach to asset management:

- taking the municipal strategy, converting that into an asset management strategy and producing plans based upon an analysis of service delivery options;
- informing the IDP (and revised IDP) and then the annual budget, using the detailed asset management plans;
- funding each approved asset management plan appropriately through the budget;
- including in the Service Delivery and Budget Implementation Plan (SDBIP) the measurable objectives and targets of each asset management plan;
- reporting on the performance of assets as measured in terms of service delivery based upon an approved SDBIP, budget and IDP.

6. RESPONSIBILITIES AND ACCOUNTABILITIES

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

The municipal manager must ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The municipality's assets are valued in accordance with standards of generally recognized accounting practice;
- That the municipality has and maintains a system of internal control of assets , including an asset register; and
- That senior managers and their teams comply with this policy.

The Chief Financial Officer is responsible to the municipal manager to ensure that the financial investment in the municipalities' assets is safeguarded and maintained.

The chief financial officer must ensure that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;
- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- The systems, processes and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of the auditor-general;
- Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions;

- The municipal manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;
- The senior managers, and users are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- The chief financial officer has delegated or otherwise assigned responsibility for performing these functions but they will remain accountable for ensuring these activities are performed.

The Asset Manager shall be responsible for:

- ensuring that, when acquiring assets, decisions on how to account for the transactions, e.g. whether they should be capitalised or expensed, are made in full compliance with the MFMA, accounting standards and the LGCAMG;
- ensuring that the purchase of capital assets complies with all municipal policies and procedures, including the acquisition plans;
- ensuring that the correct date on which an asset is put into service or commissioned is properly recorded in the asset register and that the appropriate financial data are recorded;
- ensuring that all capital assets are duly processed, identified and recorded before issued for use;
- ensuring that all capital assets under the asset manager's control are appropriately safeguarded from inappropriate use or loss, including appropriate control over the physical access to these assets and regular asset verification to ensure losses have not occurred, and ensuring that any known losses are immediately reported to the CFO.
- ensuring that proper procedures for the movement of assets from one user to another, for maintenance, or disposals outside the municipality are in place and enforced;
- ensuring capital assets are utilised for the purpose for which they were acquired by the municipality.

The asset manager shall delegate custodianship of assets to specific users. The custodians will be required to perform functions assigned to the asset manager in respect of their specific assets, but the Asset Manager will remain accountable for ensuring that these activities are performed.

Senior Managers must ensure that:

- municipal resources assigned to them are utilised effectively, efficiently, economically and transparently.
  This would include:
  - complying with systems of management and internal controls established by the municipality;
  - preventing inappropriate losses;
  - appropriately managing, safeguarding and maintaining assigned assets; and
  - providing all asset-related information as and when required.

7. ASSET LIFE CYCLE

For the purpose of efficient asset management, the municipality's asset life-cycle shall include the followingl phases:

- Planning;
- Acquisition;
- Operation and Maintenance; and
- Disposal

These key aspects of these phases are as follows:

7.1 Planning

Planning for assets shall be linked to the broader strategic planning, capital budgets, operating budgets and asset management plans of the municipality, all of which shall in turn inform the Integrated Development Plan (IDP) processes.

Where appropriate, the municipality shall consult with various sector departments to provide guidance in planning for certain types assets so as to ensure well informed asset management plans, budgets and Integrated Development Plan

Before a capital project is included in the budget for approval, the Asset Manager must demonstrate that he has considered:

- The preliminary or conceptual design and specification of the asset;
- The projected cost over all the financial years until the project is operational;
- The future operational costs and revenue on the project, including tax;
- The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
- The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
- The inclusion of this capital project in the integrated development plan (IDP) and future budgets: and
- all preliminary costing-projected timeframes, cash flows and other requirements; and alternatives to the capital purchase in question

The Asset Manager is accountable to ensure that the senior managers (heads of department) receive all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

7.2 Acquisition

The time frame for the acquisition process/project start date, and the timing and amount of required capital outlays shall be considered and included in the IDP and annual medium term budgets.

Expenditure on a capital project will be approved through the budget process. Part of this approval process shall include the tabling of the business case (including life-cycle costs and revenue) to council.

Closer to the actual acquisition date, the initial estimates and the preferred options shall be re-assessed, and, if necessary, an updated business case prepared for the approval of the acquisition. Once the acquisition has been approved, the actual purchase will be done through the Supply-Chain unit.

7.2.1 Decision to lease or buy

The decision to lease or buy an asset is where the market can provide generic assets to meet a municipality's service needs. Since that leases have a built-in interest cost, this shall be considered when evaluating whether to lease or buy (cash) an asset.

Where an asset is leased, the details thereof shall be recorded in the Lease Register, additional details, which shall also be recorded, include:

- lease start and completion dates;
- first-instalment date;
- asset-fair value;
- implicit interest rate; and
- lease payments.

Information in the register shall be reviewed annually to confirm that the decision remains the most economical one.

7.2.2 Decision to buy or enter into a PPP

When a decision is made to enter into a PPP, the municipality shall consult with the National Treasury for guidance and other accounting implications. The municipality shall enter into PPP only if the Municipal Manager can demonstrate to Council that the agreement will:

- provide value for money;
- be financially sustainable for the municipality; and

- transfer appropriate technical, operational and financial risk to the private party.

Furthermore, the municipality shall undertake a feasibility study in relation to PPP including:

- the strategic and operational benefits of the PPP agreement for the municipality;
- the specific description of the extent to which the function, both legally and by nature, can be performed by a private party in terms of a PPP agreement and what other forms of PPP agreement were considered;
- explanation of the municipality's capacity effectively to enforce the agreement, including monitoring and regulating implementation and performance of the agreement.

7.2.3 Acquisition of land

When buying land with improvements such as buildings, the cost of the land and the buildings shall be separated in the asset register and the ledger for reporting purposes.

7.2.4 Funding of the acquisition

Within the municipality's on-going financial, legislative or administrative capacity, the Municipal Manager and 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. The funding strategy shall consider available sources of finance such as operating surpluses, cash-backed reserves, loans, grants, and cash donations.

Before a decision is made to acquire an asset, the acquisition plans that have been prepared shall be checked to ensure that budget planning has been done.

Furthermore, money shall only be spent on a capital project if:

- The money has been appropriated in the capital budget,
- The project, including the total cost, has been approved by the council,
- The CFO confirms that funding is available for that specific project, and
- Any contract that will impose financial obligations beyond three years after the budget year is appropriately disclosed.

In cases of funding acquisition of assets by means of loan, the term of the loan shall not be longer than the life of the assets they are used to acquire.

7.3 Operation and maintenance

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

7.3.1 Maintenance plans

Every senior manager (head of department) shall ensure that a maintenance plan in respect of every new capital asset with a value of R100 000 (one hundred thousand rand) or more is promptly prepared and submitted to the council of the municipality for approval.

If so directed by the Municipal Manager, the 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 senior manager (head of department) controlling or using the capital asset in question, shall not later than end of June annually, report to the Asset Management Steering Committee of the extent to which the relevant maintenance plan has been complied with, and of the likely effect which any non-compliance may have on the useful operating life of the asset concerned.

For some specialised assets the technical requirements for scheduled maintenance are provided by the manufacturer. These schedules shall be taken into account when planning for the long and medium term and appropriate budget provision made to ensure adherence to schedules.

Certain categories of assets requiring little or no regular maintenance (for example furniture and fittings), shall be excluded from a maintenance programme, however, these assets shall be subject to regular, periodic inspection of condition.

7.3.2 Deferred maintenance

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any capital 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. 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.

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

7.3.3 General maintenance of assets

Every senior manager shall be directly responsible for ensuring that all assets under their responsibility are properly maintained and in a manner which will ensure that such assets attain their useful lives.

7.4 Disposals

Where assets have been identified as under-performing, or no longer functionally suited for basic service-delivery needs, consideration shall be given to the possible alternatives to disposal.

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

- The asset was acquired specifically for resale or distribution, e.g. investment property
- The asset is impaired (in respect of which the asset custodian can provide evidence).
- The municipality no longer performs the function for which the asset was purchased,
- It is an immovable asset no longer located close to where the service is required,
- The asset has been replaced.
- The asset no longer performs the required level of service.

The following standing requirements shall apply regarding disposal of capital assets:

- The municipality shall not permanently dispose of a capital asset needed to provide the minimum level of basic municipal services;

- Where the council has resolved that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy. The decision that a specific non-current asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset been sold, transferred or otherwise disposed of.

To ensure that a disposal is fair, equitable, transparent and competitive, the following shall happen:

- The fair market value for different types of assets identified for disposal shall be determined;
- The disposal process shall be open to the public and public scrutiny and consistent with the municipality's supply chain management policy;
- Consideration shall be given to the fair market value of the asset and to the economic and community value to be received in exchange for the asset.
- Reasonable efforts shall be made to ensure that an appropriately competitive process for disposal is adopted;
- All assets identified for disposal shall be efficiently and properly secured to avoid the risk of theft or misappropriation while waiting for disposal processes to be initiated.

The municipal manager may approve the disposal of an item of property, plant and equipment as delegated by the municipal council. The delegations to approve contracts for the disposal an item of property, plant and equipment are stated in the Supply Chain Management Policy.

7.4.1 Asset disposal methods

Assets can be disposed of in the following methods;

- Transfer
- Auctions;
- Bidding;
- Donations;
- Destruction; and
- Scrapping

7.4.2 Accounting treatment on Disposal

An item of capital asset shall 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 is expected from its disposal.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment shall be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and shall be recognized as revenue or expense in the income statement.

8. ACCOUNTING TREATMENT

8.1. 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,*
- *The costs is above the recognition threshold, and*
- *The asset is expected to be used during more than one financial year.*

All other acquisitions of property, plant and equipment will be expensed.

8.2. Initial measurement

An item of property, plant and equipment that qualifies for recognition as a non-current asset shall 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 shall include the following:

- *Purchase costs (less any discounts given)*
- *Delivery costs*
- *Installation costs*
- *Professional fees for architects and engineers*
- *Import duties*
- *Non-refundable taxes*
- *Site development costs*
- *Contractor fees*

8.3. 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.

8.4. Recognition threshold

To ensure efficiency in the administration of this policy, the recognition of property plant and equipment as an asset will be limited to items costing R1 000 (VAT excluded) or more.

The acquisition of property, plant and equipment costing less than R1 000 (VAT excluded) will be expenses but their management will need to comply with the policy on managing attractive/inventories items.

8.5. Carrying amount on property plant and equipment

Subsequent to initial recognition as an asset, an item of property, plant and equipment shall 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.

8.6. Depreciation (excluding land)

The depreciable amount of an item of property, plant and equipment shall be allocated on a systematic basis over its useful life.

The depreciation method used shall reflect the pattern in which economic benefits or potential service provisions are consumed by the municipality.

The depreciation charge for each period will be recognized as an expense against the budget of the relevant head of department unless it is included in the carrying amount of another asset.

The depreciation method will be straight line unless the Chief Financial Officer is convinced that another method is more appropriate.

Residual value
Residual values are applicable only on buildings and vehicles. Depreciation shall be calculated on cost less residual values. A residual value of 10% is applicable on both vehicles and buildings.

8.7. Initial determination useful life

Each Head of department 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 shall 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.

8.8. Review of useful life

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

Only the Chief Financial Officer may amend the useful operating life assigned to any fixed asset, and when any material amendment occurs the chief financial officer shall inform Council of such amendment.

The Chief Financial 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. Where the asset is having nil value in the fixed asset register, the depreciation of such asset shall be written back and the useful life of such asset will be revised.

8.9. Review of depreciation method

The depreciation method applied to property, plant and equipment shall be reviewed annually, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method shall be changed to reflect the changed pattern.

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

8.10 Subsequent expenditure on property plant and equipment

Subsequent expenditure relating to an item of property, plant and equipment that has already been recognized shall 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 shall be recognized as an expense in the period in which it occurred.

Before allowing the capitalization of subsequent expenditure, the Chief Financial 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 shall also be appropriately included in the approved capital budget.

Where it is desired to capitalize future component replacements, refurbishments or renewals, then please refer to the section on major components in this policy.

8.10. Reduction of the carrying amount

The carrying amount of a non-current asset shall be reviewed annually to assess whether or not the recoverable amount has declined below the carrying amount.

- When such a decline has occurred, the carrying amount shall be reduced to the recoverable amount.
- The amount of the reduction shall be recognized as an expense immediately, unless it reverses a previous revaluation in which case it shall be charged to a non-distributable reserve.
- For assets providing economic benefits, the recoverable amount is the net present value of future ownership.
- For assets 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.

8.11. 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 shall 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.

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

8.12. Reduction of the carrying amount

The carrying amount of a non-current asset shall be reviewed annually to assess whether or not the recoverable amount has declined below the carrying amount.

When such a decline has occurred, the carrying amount shall be reduced to the recoverable amount.

9. CAPITALIZATION CRITERIA: MATERIAL VALUE

No item with an initial cost or fair value of less than R1 000 (VAT excluded) shall be recognised as a fixed asset. If the item has a cost or fair value lower than this capitalisation benchmark, it shall be treated as an ordinary operating expense.

Every head of department shall, however, ensure that any item with a value in excess of R 1,000 (VAT excluded), and with an estimated useful life of more than one year, shall be classified and included in the register of attractive assets / inventory.

10. CAPITALIZATION CRITERIA: INTANGIBLE ASSETS

No intangible item shall be recognised as a fixed asset, except that the Chief Financial Officer, acting in strict compliance with the criteria set out IAS 38 may recommend to the council that specific development costs be recognised as fixed assets.

11. CAPITAL ASSETS CATEGORIES

Property, Plant and Equipment items will primarily be classified and recorded in one of the following nine (9) categories:-

Infrastructure assets: Roads;

Roads infrastructure consists of roads built, which will create future economic benefits for the municipality or community.

Infrastructure assets: Water;

Water infrastructure will include all structures associated with the collection, channeling and processing of water e.g. dams and pump stations.

Infrastructure assets: Stadium;

Stadium infrastructure consists of stadium built, which will create future economic benefit for municipality

Buildings;

Buildings are major tangible capital assets which are acquired through donation, purchase or completion of a construction project.

Construction Assets

Assets used in the construction of infrastructure assets e.g. dams, canals, etc.

Computer equipment and software;

Computer equipment consists of computers and any other related items, which require a computer to operate. For example printers, scanners, monitors, etc.

Computer software consists of programs that enable a computer to perform certain application functions. Computer Network consists of cabling between the computer hardware.

Office Equipment and Furniture;

Such assets consist of all items of equipment used solely for administrative purposes within the Municipality.

Appliances

Included in this category are items such as refrigerators, microwave ovens, etc.

Machinery and Equipment

Assets used in the service delivery of the municipality.

Vehicles

Vehicles include all forms of motorised transport, whether they are used to transport people or objects.

Investment property

Investment property is property held by the municipality for rental to others or for capital appreciation.

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13. CARRYING VALUES OF CAPITAL ASSETS

All capital assets shall be carried in the 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 revalued assets in respect of which no value is recorded in the asset register.

14. APPROPRIATE CODING

All movable assets purchased shall be bar-coded upon receipt and included in the Asset Register.

15. INSURANCE FOR CAPITAL ASSETS

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

The Municipal Manager shall recommend to the council of the municipality, after consulting with the Chief Financial Officer, the assets to be insured on the replacement value. Such recommendation shall take due cognisance of the budgetary resources of the municipality.

16. ASSET REGISTER

An Asset Register is a data source, which reflects the recorded information of each individual asset of the Municipality. Third party assets under the custody of the municipality shall not be regarded as forming part of the municipality assets and shall be kept in a separate Fixed Asset Register labeled 'Third part assets'. A register for assets with third parties for repairs, service shall be maintained with such details as service provider, date asset taken for service, and its expected date of return.

16.1 Format of fixed asset register

The fixed asset register shall be maintained in the format determined by the Chief Financial Officer, which format shall comply with the requirements of generally recognised accounting practice (GRAP) and any other accounting requirements which may be prescribed.

The fixed asset register shall reflect the following information:

- a brief but meaningful description of each asset
- the date on which the asset was acquired or brought into use
- the location of the asset
- where applicable, the identification number
- accumulated depreciation to date
- the depreciation charge for the current financial year
- the carrying value of the asset
- the method and rate of depreciation
- the title deed number, in the case of fixed property
- the stand number, in the case of fixed property
- the original cost, the revalued amount or the fair value if no costs are available
- the (last) revaluation date of the fixed assets subject to revaluation
- the revalued value of such fixed assets
- impairment losses incurred during the financial year (and the reversal of such losses, where applicable)
- the source of financing
- whether the asset has been used to secure any debt, and – if so – the nature and duration of such security arrangements
- the date on which the asset is disposed of
- the disposal price
- the date on which the asset is retired from use, if not disposed of.

All heads of department under whose control any fixed asset falls shall promptly provide the Chief Financial Officer in writing with any information required to compile the fixed asset register, and shall promptly advise the Chief Financial Officer in writing of any material change which may occur in respect of such information.

A fixed asset shall be capitalised, that is, recorded in the fixed assets register, as soon as it is acquired. If the asset is constructed over a period of time, it shall be recorded as work-in-progress until it is available for use, whereafter 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. The fact that a fixed asset has been fully depreciated shall not in itself be a reason for writing-off such an asset.

17. VERIFICATION AND CONDITION ASSESSMENT OF TANGIBLE CAPITAL ASSETS

Every senior manager shall at least once during every financial year undertake a comprehensive verification of all fixed assets controlled or used by the department concerned.

Every senior manager shall promptly and fully report in writing to the Chief Financial Officer in the format determined by the Chief Financial Officer, all relevant results of such fixed asset verification, provided that each such asset verification shall be undertaken and completed as closely as possible to the end of each financial year, and that the resultant report shall be submitted to the Chief Financial Officer not later than 30 June of the year in question.

The municipality shall undertake regular assessment of the conditions and performance of all the tangible capital assets in order to determine the ability of these assets to continue to perform and provide services into the future. Where appropriate, information collected on the condition shall be recorded in the asset register and updated in the strategic plans.

18. ALIENATION OF FIXED ASSETS

In compliance with the principles and prescriptions of the Municipal Finance Management Act, the transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

Every head of department shall report in writing to the Chief Financial Officer on all fixed assets controlled or used by the department concerned which such head of department 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.

Once the fixed assets are alienated, the Chief Financial Officer shall delete the relevant records from the fixed asset register.

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

more than the carrying value of the fixed asset concerned, the difference shall be recognised as a gain in the income statement of the municipality.

All gains realised on the alienation of fixed assets shall be appropriated annually to the municipality's asset financing reserve (except in the cases outlined below), and all losses on the alienation of fixed assets shall remain as expenses on the income statement of the municipality. If, however, both gains and losses arise in any one financial year in respect of the alienation of the fixed assets of any department or vote, only the net gain (if any) on the alienation of such fixed assets shall be appropriated.

Transfer of fixed assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

19. OTHER WRITE-OFFS OF FIXED ASSETS

A fixed asset even though fully depreciated shall be written off only on the recommendation of the head of department controlling or using the asset concerned, and with the approval of the council of the municipality.

Every head of department shall report to the Chief Financial Officer on any fixed assets which such head of department wishes to have written off, stating in full the reason for such recommendation. The Chief Financial Officer shall consolidate all such reports, and shall promptly submit a recommendation to the council of the municipality on the fixed assets to be written off.

The only reasons for writing off fixed assets, other than the alienation of such fixed assets, shall be the loss, theft, destruction or material impairment of the fixed asset in question.

In every instance where a not fully depreciated fixed asset is written off, the Chief Financial Officer shall immediately debit to such department or vote, as additional depreciation expenses, the full carrying value of the asset concerned (see also 19).

20. CONTROL AND SAFEGUARDING OF ASSETS

20.1 Asset Registers

Establishment and Management of the Financial Asset Register

- The Chief Financial Officer shall ensure that the Asset Register containing key financial data on each item of Property, Plant or Equipment that satisfies the criterion for recognition, is established and maintained.
- The Asset Manager is responsible for establishing and maintaining asset register or database required to demonstrate their physically management of the assets.
- The Asset Manager shall also be responsible to ensure that sufficient controls exist to substantiate the quantity, value, and location and condition all assets in their registers.

20.2 Internal Controls over the Asset Registers

- Controls around the asset registers shall 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.

20.3 Physical Receipting and Management

20.3.1 Responsibilities of the senior managers

- The senior manager must ensure that the purchase of capital assets complies with all municipal policies and procedures.
- The senior manager must ensure the all moveable capital asset is duly processed and identified before it is received into their stewardship.
- The senior manager 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 stock takes to ensure any losses have not occurred. Any know losses shall be immediately reported to the chief financial officer.
- The asset manager must ensure that property, plant and equipment is appropriately utilized these assets for the purpose that the municipality acquired them.

20.4 Receipt of property plant and equipment

- The supply chain management unit will manage the receipting of movable assets
- The process of receipting will include:
    - Review of the authority to purchase including compliance with all procurement policies and procedures and budgetary limits.
    - Review of all details and specification as per original order.
- The Asset Manager shall be responsible for registering the asset into the asset register upon receipting and assignment of the asset to the appropriate head of department.

20.4.1 The date of acquisition

- The date of acquisition of property, plant and equipment is deemed to be the time when legal title and control passes to the municipality.
- This may vary for different categories of assets but will usually be the point of time when the municipal store approves payment for that item of property, plant or equipment.

21. LEASED ASSETS

Leases are categorized between finance and operating leases. A finance lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset. The title may or may not eventually be transferred.

Assets acquired through a finance lease are capitalised. Finance lease assets shall be included in the balance sheet.

An operating lease is any lease other than a finance lease. Generally the risks and benefits incidental to the ownership of an asset are not substantially transferred to the lessee. The lease payments are expensed in the income statement on a systematic basis. Leased assets shall be recognized and recorded in line with ISA 17 and other appropriate financial reporting standards.

22. REVALUATION OF FIXED ASSETS

All land and buildings recorded in the municipality's fixed asset register shall be revalued at least once in a period of every (5) five years. Such revaluation shall be performed by registered valuer.

The Chief Financial Officer shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset after each valuation, provided the Chief Financial Officer is satisfied that such value reflects the fair value of the fixed asset concerned.

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

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

Revalued land and buildings shall be carried in the fixed asset register, and recorded in the annual financial statements, at their revalued amount, less accumulated depreciation (in the case of buildings).

23. IMPAIRMENT OF ASSETS

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

- Significant decline in market value
- Carrying amount of an asset exceeds the recoverable amount or market value
- There is evidence of obsolescence (physical damage)

- The deterioration of economic performance of asset concerned.

Where the assessed costs of holding impaired assets exceed the benefits thereof, such assets shall be considered for disposal. Impairment test shall be done on an annual basis. Impairment of assets will be performed in line with IAS 36 and other appropriate financial reporting standards.

24. MANAGEMENT OF PORTABLE AND ATTRACTIVE ITEMS (INVENTORIES)

Assets costing than R1 000 (VAT excluded) are deemed to be attractive item unless that type of asset is specifically excluded by the Chief Financial Officer. The requirements to manage attractive items include:

- Receipting these items through specified control points.
- Maintaining and updating attractive items register for these receipts.
- Delivery and assignment of an attractive item to a specified position.
- Regular stock takes by the assigned person to ensure these attractive items are being appropriately safeguarded.
- Regular audits by the finance department to ensure attractive items are being appropriately managed by the assigned persons.
- Recording and reporting of any disposal or loss of these attractive items to the CFO and adjustment of the attractive items register.
- Attractive items will not be:
    - Capitalized as an asset,
    - Depreciated,
    - Revalue,
    - Recording in the financial asset register, or
    - Otherwise treated as an asset.

25. MONITORING, EVALUATION AND REPORTING

25.1 Monitoring

The Internal Audit will monitor the impact of this policy on service delivery.

25.2 Evaluation

The Internal Audit will evaluate the policy and report on its effectiveness to Council annually.

25.3 Reporting obligations

Each asset custodian shall report to the asset manager, who will report to the appropriate senior manager; and senior managers shall report to the municipal manager on the execution of their delegated responsibilities, including any issues that will significantly impede the capability of the assets to provide the required level of service or economic benefit. One of these issues will be the adequacy of the maintenance, operation and safeguarding of assigned assets.

The asset manager is responsible for preparing any required reports measuring the implementation progress and deadlines against that of the plan.

These reports shall be submitted to the CFO for his authorisation and for inclusion in the formal reports. Where appropriate, service performance of capital assets, as well as financial aspects extracted from the asset register, shall be reported on in the same cycle and also submitted to the CFO for his authorisation and for inclusion in the formal reports. The annual report of the municipality shall contain information on the performance of capital assets and status of asset management during the year under review.

26. SCHEDULE OF EXPECTED USEFUL LIVES

ASSETS	**NUMBER OF YEARS**
INFRUSTRACTURE	
Stadium	30
BUILDINGS	
Office Buildings	30
Fire stations	30
OFFICE EQUIPMENT	
Computer hardware	5
Computer software	3
Office machines	3
Air conditioners	5
RECREATION ASSETS	
Fountains	20
FURNITURE AND FITTINGS	
Chairs	7
Tables and desks	7
Cabinets and cupboards	7
EMERGENCY EQUIPMENT	
Fire hoses	5
Other fire-fighting equipment	15
Emergency lights	5
MOTOR VEHICLES	
Fire engines	20
Buses	15
Trucks and light delivery vehicles	5

Mini-busses	5
Passenger motor vehicles	5
Motor cycles	3
Water tanks	20
PEDESTRIAN MALLS	
Footways	20
Kerbing	20
Paving	20
EQUIPMENT	
Lawn mowers	2
Compressors	5
Laboratory equipment	5
Radio equipment	5
Firearms	5
Telecommunication equipment	5

The Chief Financial Officer shall estimate the expected useful lives of any other assets or categories of assets that are not listed in the schedule above, using his discretion. The CFO may assign a useful life to an asset, that's different from the one listed on the schedule after taking into consideration, the nature and use of any asset.

The expected useful lives in the schedule above shall not form the basis of any review of useful lives of any asset subsequent to its initial expected useful life.

27. ANNEXURE: PARAPHRASE OF SECTION 14 OF THE MUNICIPAL FINANCE MANAGEMENT ACT 2003

A municipality may not alienate any capital asset required to provide a minimum level of basic municipal services.

A municipality may alienate any other capital asset, but provided

- the council, in a meeting open to the public, has first determined that the asset is not required to provide a minimum level of basic municipal services, and
- the council has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.