

1. Introduction

- The utilisation and management of PPE is the prime mechanism by which Umjindi municipality can fulfill its constitutional mandates for:
 - Delivery of sustainable services,
 - Social and economic development,
 - Promoting safe and health environments and,
 - Providing the basic needs to the community.
- As trustees on behalf of the local community, Umjindi municipality has a legislative and moral obligation to ensure it implements policies to safeguard the monetary value and future service provision invested in PPE.
- The asset management policy deals with the municipal rules required to ensure the enforcement of appropriate stewardship of PPE.
- Stewardship has two components being the:
 - Financial administration by the chief financial officer, and
 - Physical administration by the asset managers.
- Statutory provisions are being implemented to protect public property against arbitrary and inappropriate management or disposal by a local government.
- GRAP 17 requires that the following be included to ensure that effective management of PPE is achieved:
 - The compilation of asset registers covering all PPE controlled by Umjindi municipality.
 - Accounting treatment for the acquisition, disposal, recording and depreciation of PPE;
 - The standards to which these financial records must be maintained.

- Umjindi municipality uses BAUD (Bar coded Asset Audit) system to manage their asset register.
 - With BAUD, All assets are marked or identified with aluminum bar code labels and then linked to a location for electronic tracking purposes in future.

2. Objective

- To ensure the effective and efficient control, utilisation, safeguarding and management of Umjindi municipality's PPE.
- To ensure asset managers are aware of their responsibilities in regards of PPE.
- To set out the standards of physical management, recording and internal controls to ensure PPE are safeguarded against inappropriate loss or utilisation.
- To specify the process required before expenditure on PPE occurs.

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- Definitions

“**Accounting Standards Board**” was established by the Public Finance Management Act to set standards of (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 Manager**” is the “senior manager” who has the functional accountability for and control of the physical management of a particular set of assets in order to achieve the municipalities strategic objectives relevant to their directorate. The execution of this responsibility will require the asset manager to control the acquisition, utilization, management and disposal of this set of assets to optimize the achievement of these objectives.

“**Asset categories**” are the five main asset categories defined by GRAP. These are:

Infrastructure assets-are defined as assets that are part of a network of similar assets and usually display the following characteristics:

- part of a system or network,
- specialised in nature and do not have alternative uses,
- immovable, and
- may be subject to constraints on disposal.
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- **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.

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- **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.

“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.

“Capitalization” is the recognition of expenditure as an Asset in the Financial Asset Register.

“Carrying amount” is the amount at which an asset is included in the balance sheet after deducting any accumulated depreciation thereon.

“CFO” is the Chief Financial Officer as defined by the MFMA.

“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.

“Cost of acquisition” is all the costs incurred in bring an item of PPE to the required condition and location for its intended use.

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

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

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“Financial asset register” is the controlled register recording the financial and other key details for all municipal asset recognized in accordance with this policy.

“GAMAP” stands for “generally accepted municipal accounting practice”.

“GRAP” stands for “Generally Recognized Accounting Practice

“MFMA” stands for “Municipal Finance Management Act”

“Network assets” is an asset as defined in this policy.

“PPE” Property, plant and equipment are tangible assets that:

(a) Are held by 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 by Umjindi Municipality.

“Recoverable amount” is the amount that Umjindi 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.

“Residual value” is the net amount that the Umjindi 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 teams” 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.

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

“**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 Umjindi 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 Umjindi municipality.

3. Statutory and regulatory 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); and
- Municipal Finance Management Act No 56 of 2003.

This policy does not over rule the requirement to comply with other policies such as procurement, tendering or budget policies.

4. Responsibilities and accountabilities

The Municipal Manager is responsible for the management of the assets of Umjindi municipality, including the safeguarding and the maintenance of those assets. The municipal manager must ensure that:

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

The CFO is responsible to the Municipal Manager to ensure that the financial investment in the municipalities' assets is safeguarded and maintained. The CFO must ensure that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of Umjindi municipality are utilised effectively, efficiently, economically and transparently;
- The systems, processes and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements in terms of the accounting standards.
- Financial processes are established and maintained to ensure Umjindi municipality's financial resources are optimally utilised through an 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;

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- The senior managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- The CFO may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring these activities are performed.

Asset Manager must ensure that:

- Appropriate systems of physical management and control are established and carried out for assets in their area of responsibility;
- The municipal resources assigned to them are utilised effectively, efficiently, economically and transparently;
- Their asset management systems and controls can provide an accurate, reliable and up to date account of assets under their control;
- They are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve Umjindi municipality's strategic objectives as outlined in the IDP;
- The asset manager may delegate or otherwise assign responsibility for performing these functions but they will remain accountable for ensuring these activities are performed.

5. Financial Management

5.1 Pre-Acquisition Planning

- Before a capital project is included in the budget for approval , the asset manager must demonstrate that they have considered:
 - The projected cost over all the financial years until the project is operational;
 - The future operational costs and revenue on the project, including tax and tariff implications;
 - 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 and future budgets: and
 - Alternatives methods to this capital purchase.
- The CFO is accountable to ensure the asset manager receives all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

5.2 Approval to Acquire Property Plant and Equipment

- Money can 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 two years after the budget year is appropriately disclosed.

5.3 Funding of capital projects

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

5.4 Disposal of property plant and equipment.

- Umjindi municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a non-current asset needed to provide the minimum level of basic municipal services.

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- Umjindi municipality may transfer ownership or otherwise dispose of a non-current asset other than one contemplated above, but only after the council, in a meeting open to the public
 - Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services, and
 - Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- 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 Umjindi municipality after that asset been sold, transferred or otherwise disposed of.
- The municipal manager may approve the disposal of an item of PPE as delegated by the municipal council. The delegations to approve contracts for the disposal an item of PPE are stated in the Preferential Procurement Policy.
- The disposal an item of PPE must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management. The Preferential Procurement Policy covers these issues.
- Transfer of assets to another Umjindi municipality, municipal entity, national department or provincial department is excluded from these provisions.

6. Internal Controls

6.1 Financial Asset registers

6.1.1 Establishment and Management of the Financial Asset Register

- The CFO will establish and maintain the Asset Register containing key financial data on each item of Property, Plant or Equipment that satisfies the criterion for recognition.
- Asset Managers are responsible for establishing and maintaining any additional register or database required to demonstrate their physically management of their assets.
- Each asset manager is responsible to ensure that sufficient controls exist to substantiate the quantity, value, and location and condition all assets in their registers. Contents of the Financial Asset Register

The details included in the non-current asset register will include:

- The measurement bases used.
- The depreciation methods used.
- Bar code number
- The useful live.
- Depreciation charged.
- The gross carrying amount
- The accumulated depreciation.
- Date of acquisition
- Date of disposal (if relevant)
- Increases or the decreases resulting from revaluations (if relevant)
- Method of calculating recoverable amount.
- Any restrictions on title to the asset.
- Location.
- Strategic purpose and if it is required to provide minimum basic service.

- The Responsible Asset Manager

6.1.2 Internal Controls over the Financial Asset Registers

- Controls around the 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 CFO and required by the accounting standards.
- 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.

6.2 Physical Receipting and Management

6.2.1 Responsibilities of the asset manager

- The asset manager must ensure that the purchase of property, plant of equipment complies with all municipal polices and procedures.
- The asset manager must ensure the all moveable PPE is duly processed and identified before it is received into their stewardship.
- The asset 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 should be immediately reported to the chief financial officer.
- The asset manager will do an annual stock take of PPE as part of the annual reporting processes coordinated by the chief financial officer.

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- The asset manager must ensure that PPE is appropriately utilized these assets for the purpose that the Umjindi municipality acquired them.

6.2.2 Receipt of property plant and equipment

- The municipal stores will manage the receipting of PPE.
- The process of receipting by the municipal stores will include:
 - Review of the authority to purchase including compliance with all procurement policies and budgetary limits.
 - Review of all details required writing the asset on to the asset register.
 - Assignment of the asset to the appropriate Asset Manager.

6.2.3 The date of acquisition

- The date of acquisition of PPE is deemed to be the time when legal title and control passes to the Umjindi 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.

6.3 Transfers to another Asset Manager

6.3.1 Permanent transfers to another Asset Manager

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

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- Another Senior manager agrees in writing to accept responsibility for that assets, and
- The CFO endorses this transfer.
- The Finance Directorate appropriately amends the Financial Asset register for all approved transfers.
- The new Asset Manager assumes all the accountabilities of the previous Asset Manager.

6.3.2 Relocation or Reassignment of Property, Plant or Equipment

- The Asset Manager 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 Manager must advise the CFO whenever an asset is permanently relocated or reassigned from the location (or base) or cost center recorded in the Financial Asset Register.
- The Asset Manager must advise the CFO whenever an asset is temporarily relocated or reassigned from the location (or base) or cost center recorded in the Financial Asset Register. In this case, the Asset Manager must also advise the CFO when this asset is returned.

7. Management of attractive items

7.1 Management of attractive items

- Assets costing less than R10 000 but more than R500 are deemed to be attractive item unless those type of asset are specifically excluded by the CFO.

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- The requirements to manage attractive items includes:
 - 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.

8. Management and Operation of PPE

8.1 Accountability to manage PPE

- Each Asset Manager is accountable to ensure that municipal resources assigned to them are utilised effectively, efficiently, economically and transparently. This would include:
 - Developing appropriate asset management systems, procedures, processes and controls for managing assets,
 - 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 Umjindi municipality's strategic objectives.

8.2 Contents of a strategic asset management plan

- Asset Managers 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 Manager 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.

8.3 Reporting on Emerging Issues

Each Asset Manager 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.

9. Classification, aggregations & components

9.1 Classification of property plant and equipment

- Any asset recognized as an asset under this policy will be classified GRAP 17
- The CFO with the relevant Asset Manager may agree to subdivide these classifications further. This decision will be noted as an amendment to the classification schedule of the Umjindi municipality and endorsed by the Municipal Manager, the CFO and the relevant Asset Manager.

9.2 Optional Treatment for Major Component

- An Asset Manager may, with agreement of the CFO, 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) of its financial parameters (e.g. a road surface).
- In agreeing to these treatments the CFO 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 Umjindi municipality,
 - The cost of the asset to the Umjindi municipality can be measured reliably,
 - The Umjindi 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 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.

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- 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 of refurbishments of components will be expensed.

9.3 Recognition of network asset

- A network asset is a collection of assets that work together as a whole to deliver specified service or economic benefit. E.g. library books, computer systems or office furniture.
- A network asset should be recognized as an asset on the asset register where its aggregate value exceeds 5% of the total value of all PPE already recognized.
- At the discretion of the CFO, a network asset with an aggregate value of less than 5% but greater than 2% maybe recognized as an asset on the asset register.
- The Asset Manager is accountable for the management of the registers required to financially verify the value of a network asset.

10. Accounting for PPE

10.1 Recognition of PPE

- An item of PPE 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 Umjindi municipality,
 - The cost of the asset to the Umjindi municipality can be measured reliably,
 - The Umjindi municipality has gained control over the asset,

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- 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 PPE will be expensed.

10.2 Initial measurement

- An item of PPE 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
 - Non-refundable taxes
 - Site development costs
 - Contractor fees

10.3 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.

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10.4 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 R10 000 or more.
- The acquisition of PPE costing less than R10 000 will be expenses but their management will need to comply with the policy on managing attractive items.

10.5 Carrying amount on property plant and equipment

Subsequent to initial recognition as an asset, an item of PPE 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.

10.6 Depreciation

Depreciation is described as the monetary reflection of the asset's consumption during a financial year and shall be calculated over the useful life of an asset from the date that the asset becomes available for use, even if the asset is not yet employed in providing services.

- The depreciable amount of an item of PPE should be allocated on a systematic basis over its useful life.
- The depreciation method used should reflect the pattern in which economic benefits or potential service provisions are consumed by the Umjindi municipality.
- The depreciation charge for each period will be recognized as an expense against the budget of the relevant Asset Manager unless it is included in the carrying amount of another asset.

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- The depreciation method will be straight line unless the CFO is convinced that another method is more appropriate.

10.7 Initial determination useful life

- Each Asset Manager needs to determine the useful life of a particular item or class PPE 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.

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Schedule of useful life of assets for Umjindi Local Municipality

<u>Infrastructure assets:</u>	<u>Asset life (yrs)</u>	<u>Community assets:</u>	<u>Asset life (yrs)</u>
Electricity:		Buildings (continue):	
Power stations	30 years	Libraries	30 years
Cooling towers	30 years	Museums/Art galleries	30 years
Transfer kiosks	30 years	Parks	30 years
Meters	20 years	Public	30 years
Load control equipment	20 years	conveniences/bathhouses	30 years
Switchgear equipment	20 years	Recreation centers	30 years
Supply/reticulation	20 years	Stadiums	30 years
Mains	20 years	Zoos	
Roads:	15 years	Gas:	
Motorways	10 years	Meters	
Other roads	10 years	Mains	20 years
Traffic islands	20 years	Storage tanks	20 years
Traffic lights	25 years	Supply/reticulation	20 years
Street lighting	30 years		20 years
Overhead bridges	20 years	Sewerage:	
Storm water drains	30 years	Sewers	20 years
Bridges, subway & culverts	20 years	Outfall sewers	20 years
Car parks	20 years	Purification works	20 years
Bus terminals		Sewerage pumps	15 years
		Sludge machines	15 years
<u>Community assets:</u>	30 years	Pedestrian malls:	20 years
Buildings:	30 years	Footways	20 years
Ambulance stations	30 years	Kerbing	20 years
Aquariums	30 years	Paving	20 years
Beach developments	30 years		20 years
Care centers	30 years	Airports:	
Cemeteries	30 years	Aprons	20 years
Civic theatres	30 years	Runways	20 years
Clinics/Hospitals	30 years	Taxiways	20 years
Community centers	30 years	Airport/Radio beacons	
Fire station	30 years		
Game reserves/Rest camps			
Indoor sports			

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Schedule of useful life of assets for Umjindi Local Municipality (continued)

<u>Recreational assets:</u>	<u>Asset life (yrs)</u>	<u>Other assets (continue):</u>	<u>Asset life (yrs)</u>
Facilities:		Buildings (continue):	
Bowling greens	20 years	Office buildings	30 years
Tennis courts	20 years	Old age homes	30 years
Swimming pool	20 years	Quarries	30 years
Golf courses	20 years	Tip sites	30 years
Jukskei pitches	20 years	Training centers	30 years
Outdoor sport facilities	20 years	Transport facilities	30 years
Organ & Case	20 years	Workshop/depots	30 years
Lakes and dams	20 years	Office equipment:	
Fountains	20 years	Computer hardware	3 years
Floodlighting	20 years	Computer software	3 years
Security measures:	3 years	Office machines	3 years
Fencing	3 years	Air conditioners	5 years
Security systems	3years	Furniture and fittings:	7 years
Access control	15 years	Chairs	7 years
Water:	20 years	Tables/desks	7 years
Meters	20 years	Cabinets/cupboards	7 years
Mains	20 years	Miscellaneous	5 years
Rights	20 years	Bins and containers:	10 years
Supply/reticulation		Household refuse bins	5 years
Reservoirs & Tanks	30 years	Bulk containers	5 years
Other assets:	30 years	Emergency equipment:	5 years
Buildings:	30 years	Ambulances	
Abattoirs	30 years	Fire hoses	5 years or
Asphalt plant	30 years	Emergency lights	120 000
Cable stations	30 years	Motor vehicles:	km
Caravan parks	30 years	Fire engines	5 years or
Cinemas	30 years	Buses	120 000
Compacting stations	30 years	Passenger vehicles	km 5
Hotels – Public/Tourist	30 years	Motor cycles	years or
Hostels – Workers	30 years	Trucks/bakkies	120 000
Housing schemes	30 years		km 5
Kilns	30 years		years or
Laboratories			120 000
Markets			km
Nurseries			

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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.

1. Review of useful life

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

2. Review of depreciation method

- The depreciation method applied to PPE should 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 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.

3. Subsequent expenditure on property plant and equipment

- Subsequent expenditure relating to an item of PPE 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 Umjindi municipality.
- All other expenditure should be recognized as an expense in the period in which it occurred.

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- Before allowing the capitalization of subsequent expenditure, the CFO 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 capitalize future component replacements, refurbishments or renewals, then please refer to the section on major components in this policy.

4. Reduction of the carrying amount

- The carrying amount of a non-current asset should 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 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 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.

5. 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.
- The amount written back should be reduced by the amount that would have been recognized as depreciation had the write-down or write-off not occurred.

6. Reduction of the carrying amount

- The carrying amount of a non-current asset should 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 should be reduced to the recoverable amount.

7. Accounting treatment on Disposal

- An item of PPE 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 is expected from its disposal.
- Gains or losses arising from the retirement or disposal of an item of PPE 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.

11. Financial Disclosure

- The financial statements should disclose, in respect of each class of PPE 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:
 - Additions
 - Disposal
 - Acquisition through business combinations
 - Increases or the decreases resulting from revaluations
 - Deductions in carrying amount
 - Amounts written back
 - Depreciation
 - Other movements

ASSET MANAGEMENT POLICY

- The financial statement should also disclose:
 - Whether or not, in determining the recoverable amount of items of PPE, expected future cash flows have been discounted to their present values.
 - The existence and amounts of restrictions on title and PPE pledged as security for liabilities.
 - The accounting policy for restoration costs relating to items of PPE.
 - The amount of expenditures on account of PPE in the course of construction, and
 - The amount of commitments for the acquisition of PPE.

- When items of property are stated at revalued 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 PPE 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.