

# **Buffalo City Municipality**

## **IMMOVABLE ASSET POLICY**

### **1. POLICY TITLE**

IMMOVABLE ASSET MANAGEMENT POLICY

### **2. PREAMBLE**

Effective management of infrastructure and community facilities is central to the municipality providing an acceptable standard of services to the community. Infrastructure impacts on the quality of the living environment and opportunities to prosper. Not only is there a requirement to be effective, but the manner in which the municipality discharges its responsibilities as a public entity is also important. The municipality must demonstrate good governance and customer care, and the processes adopted must be efficient and sustainable. Councillors and officials are custodians on behalf of the public of infrastructure assets, the replacement value of which amounts to several hundred million Rand.

Key themes of the latest generation of national legislation introduced relating to municipal infrastructure management include:

- long-term sustainability and risk management;
- service delivery efficiency and improvement;
- performance monitoring and accountability;
- community interaction and transparent processes;
- priority development of minimum basic services for all; and
- the provision of financial support from central government in addressing the needs of the poor.

Legislation has also entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However, the IDP cannot be compiled in isolation – for the above objectives to be achieved, the IDP needs to be informed by robust, relevant and holistic information relating to the management of the municipality's infrastructure.

There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintaining and renewing existing infrastructure whilst also addressing backlogs in basic services and facing on-going changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from a number of departments of the municipality, including infrastructure, community services, financial planning, and corporate services.

CoGTA has prepared guidelines in line with international practice, that propose that an Infrastructure Asset Management Plan (IAMP) is prepared for each sector (such as potable water, roads etc). These plans are used as inputs into a Comprehensive Infrastructure Plan (CIP) that presents an integrated plan for the municipality covering all infrastructure. The arrangements outlined in the CoGTA guidelines are further strengthened by the provision of National Treasury's Local Government Capital Asset Management

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Guidelines. This is in line with the practice adopted in national and provincial spheres of government in terms of the Government-wide Immoveable Asset Management Act (GIAMA).

Accordingly, the asset register adopted by a municipality must meet not only financial compliance requirements, but also set a foundation for improved infrastructure asset management practice.

Recognised good practice in the management of infrastructure assets from across the globe has been increasingly documented over the past 10 to 15 years. In 2000, the World Bank cited practice in Australasia as representative of best practice and this has been captured in the International Infrastructure Management Manual (IIMM), and regularly updated with case studies from across the globe, including South Africa. In 2008 the British Standards Institute issued PAS 55 (a publicly available specification on asset management). The International Standards Organisation (ISO) drew on these documents to establish an international standard for infrastructure asset management (ISO 55000 series) that was published in January 2014. These ISO's were adopted in South Africa as SANS 55000 series in terms of the Standards Act. Progressive entities are expected to consider compliance with the proposed SANS as a benchmark for practice.

In order to address the problems of inadequate capital expenditure and insufficient attention to asset management, a City Infrastructure Delivery and Management System (CIDMS) has been developed by National Treasury, building on the established Infrastructure Delivery Management System (IDMS) for provincial infrastructure. The CIDMS toolkit assists cities to optimise performance right across the urban infrastructure value chain by offering best practice processes, techniques and tools specifically designed to achieve city strategic objectives and desired outcomes related to the built environment. Consultation was held with key stakeholders on all 12 modules and the proposed implementation strategy.

CDMIS imbeds a functional asset hierarchy, accordingly, BCMM has aligned the Metro's asset hierarchy with that of CIDMS. This hierarchy has also been adopted and embedded with the MSCOA chart.

### **3. DEFINITIONS**

#### Asset

A resource controlled by an entity, as a result of past events; future economic benefits or service potential associated with the item will flow to the entity.

#### Fixed Asset

A fixed asset (also referred to as a "non-current asset") is an asset with an expected useful life greater than 12 months.

#### PPE

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, for rentals to others, or for administrative purposes; and are expected to be used

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during more than one reporting period. This includes items necessary for environmental or safety reasons to leverage the economic benefits or service potential from other assets. Insignificant items may be aggregated. Property, plant and equipment are broken down into groups of assets of a similar nature or function in the municipality's operations for the purposes of disclosure in the financial statements.

### Immovable PPE

Immoveable assets are fixed structures such as buildings and roads are immovable PPE. A plant that is built-in to the fixed structures and is an essential part of the functional performance of the primary asset is considered an immovable asset (though it may be temporarily removed for repair).

### Investment property

Investment property is defined as property (land and/or a building, or part thereof) held (by the owner or the lessee under a finance lease) to earn rentals or capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operations). Examples of investment property are office parks that are rented out. There is no asset hierarchy for investment property; each functional item will be individually recorded. Land held for a currently undetermined use is recognised as investment property until such time as the use of the land has been determined.

A property is only classified as investment property if the main purpose and most significant use of the property is to earn rental or for capital appreciation. For example, when a municipality owns a building, mainly used for the delivery of social housing but rents out a floor of the building to shops, banks and other external parties, the building should be accounted for as property, plant and equipment as its main purpose and most significant use is the provision of social services. This should be the case irrespective of whether the rental earned from the one floor of the building is significant in relation to the rental earned from the remainder of the building.

### Intangible assets

Identifiable non-monetary assets, without physical substance are intangible assets, for examples licenses or rights (such as water licenses) and software.

An asset meets the criterion of being identifiable in the definition of an intangible asset when it:

- a) is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability, or
- b) arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether those rights are transferable and separable from the municipality or from other rights and obligations.

In determining whether an asset that incorporates both intangible and tangible elements should be classified as intangible or tangible, the CFO uses judgement to assess which element is more significant.

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### Biological Assets

Biological assets are living animals or plants as per the definition in the GRAP on Agriculture

### Capital Spares (Major Spare Parts)

Spares and materials used on a regular basis in the ordinary course of operations are usually carried as inventory (ie they are not usually considered fixed assets) and are expensed when consumed. However, major spares that are available for use and constitute an entire or significant portion of a component type, or a specific component, defined in the immovable PPE asset hierarchy are considered capital spare parts and are recognised as an item of PPE as they are expected to be used for more than one period or they can only be used in connection with an item of PPE. The following items are examples of what can be considered to be capital spares that should be included in the immovable asset register:

- Transformers;
- Voltage transformers;
- Mini substations;
- Switch gear;
- Rising main units;
- Pumps; and
- Motors

### Useful Life

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

### Major inspections

A condition of continuing to operate an item of PPE may be to perform regular major inspections for faults regardless of whether parts of the item are replaced (for example, Occupational Health and Safety Act no. 85 of 1993 requires lifting equipment to be inspected once a year). When each major inspection is performed, its cost is recognised in the carrying amount of the item of PPE as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the cost of an existing inspection component may be used to estimate the cost of a future similar inspection.

### Items used irregularly

Tangible items that are used in the production or supply of goods or services on an irregular basis (such as standby equipment) are recognised as items of PPE.

### Leased assets

A lease is an agreement whereby the lessor conveys to the lessee (in this case, the municipality) the right to use an asset for an agreed period of time in return for a payment or series of payments. Leases are categorised into finance and operating leases. A finance lease is a lease that transfers substantially all the

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risks and rewards incident to ownership of an asset, even though the title may not eventually be transferred (substance over form). Where the risks and rewards of ownership of the immovable PPE are substantially transferred to the municipality, the lease is regarded as a finance lease and the asset recognised by the municipality as immovable PPE. Where there is no substantial transfer of risks and rewards of ownership to the municipality, the lease is considered an operating lease and payments are expensed in the income statement on a systematic basis (straight line basis over the lease term).

### Asset custodian

The department that controls an immovable asset, as well as the individual (asset custodian) or post that is responsible for the operations associated with such asset in the department, is identified by the respective Head of Directorate (HOD), recorded, and communicated on recognition of the asset.

### Class of immovable PPE

A class of immovable PPE is defined as a group of assets of a similar nature or function.

### PPE: Infrastructure

Infrastructure assets are immovable assets which are part of a network of similar assets that jointly provide service potential.

### PPE: Community Property

Community property is immovable assets contributing to the general well-being of the community, such as community halls and recreation facilities.

### PPE: Other property: Buildings

Buildings that are used for municipal operations such as administration buildings and rental stock or housing not held for capital gain.

### Heritage assets

Heritage assets are assets of cultural, environmental, historical, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations, such as monuments, nature reserves, and works of art. Some heritage assets have more than one purpose, e.g. an historical building which, in addition to meeting the definition of a heritage asset, is also used as office accommodation. The CFO, on behalf of the municipality, must use his / her judgement to make such an assessment. The asset will be accounted for as a heritage asset if, and only if, the definition of a heritage asset is met, and only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. If a significant portion is used for production, administrative purposes or supply of services or goods, the asset shall be accounted for in accordance with GRAP 17 on PPE.

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Biological assets are living animals or plants as per the definition in the GRAP on Agriculture.

### Servitudes

Where municipalities establish servitudes as part of the registration of a township, the associated rights are granted in statute and are specifically excluded from the standard on intangible assets. Such servitudes cannot be sold, transferred, rented or exchanged freely and are not separable from the municipality. Consequently, such servitudes are not recognised in the asset register.

Servitudes that are created through acquisition (including by way of expropriation or agreement) are recognised as PPE at cost or fair value (agreement). The municipality may include the cost of the servitude in the cost of the PPE if it is essential to the construction or operation of the asset.

### Asset coding

An asset coding system is the means by which the municipality is able to uniquely identify each immovable asset (at the lowest level in the adopted asset hierarchy) in order to ensure that it can be accounted for on an individual basis.

### Asset register

An immovable asset register is a database with information relating to each immovable asset. The immovable asset register is structured in line with the adopted classification structure. The scope of data in the register is sufficient to facilitate the application of the respective accounting standards for each of the asset classes, and the strategic and operational asset management needs of the municipality.

### Borrowing costs

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest expense calculated using the effective interest method, finance charges in respect of finance leases and service concession arrangements and exchange differences arising from foreign currency borrowings, to the extent that they are regarded as an adjustment to interest costs.

### Work in Progress (WIP)

Work in progress assets are assets that are still under construction and are recorded as work in progress until they are completed, whereafter they are classified as property, plant and equipment.

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### 4. LEGAL MANDATES AND REGULATORY FRAMEWORKS

#### CONSTITUTIONAL OF THE REPUBLIC OF SOUTH AFRICA ACT 108 OF 1996

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objects:

- providing democratic and accountable government for local communities;
- ensuring the provision of services to communities in a sustainable manner;
- promoting social and economic development;
- promoting a safe and healthy environment; and
- encouraging the involvement of communities and community organisations in matters of local government.

The manner in which a municipality manages its immovable Property, Plant and Equipment (PPE) is central to meeting the above challenges. Accordingly, the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal immovable PPE with the City Manager while the Chief Financial Officer (CFO) is responsible for maintaining the asset register.

The Occupational Health and Safety Act (OHSA) requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its immovable PPE safe.

#### MUNICIPAL FINANCIAL MANAGEMENT ACT NO. 56 OF 2003

The MFMA requires municipalities to comply with the Standards of Generally Recognised Accounting Practice (GRAP), in line with international practice.

#### ACCOUNTING STANDARDS

The Accounting Standards Board (ASB) has approved a number of Standards of GRAP. When compiling the asset register in accordance with the accounting standards, the requirements of GRAP 17 cannot be seen in isolation. Various other accounting standards impact on the recognition and measurement of assets within the municipal environment and should be taken into account during the compilation of a GRAP compliant asset register. The applicable standards of GRAP are noted in **section 8**.

As a high capacity municipality, BCMM was required to convert to applicable standards of GRAP on 1 July 2008.

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## 5. PURPOSE OF THE POLICY

The purpose of this policy is to give guidance on management and reporting on Immovable Assets, being; Property Plant and Equipment (PPE), Investment Property, Intangible Assets and Heritage Assets

## 6. STRATEGIC OBJECTIVES

The strategic objectives of this policy serves:

- To ensure that BCMM implement prevailing accounting standards; and
- Apply asset management practice in a consistent manner and in accordance with legal requirements and recognised good practice.

## 7. POLICY PRINCIPLES

- The municipality shall recognise all immovable assets existing at the time of adoption of this policy and the development of new, upgraded and renewed immovable assets on an on-going basis. Such assets shall be capitalised in compliance with prevailing accounting standards.
- A coding system shall be adopted and applied that will enable each asset of immovable assets (with PPE at the lowest level in the adopted asset hierarchy) to be uniquely and readily identified.
- An asset register shall be established to provide the data required to apply the applicable accounting standards, as well as other data considered by the municipality to be necessary to support strategic asset management planning and operational management needs. The asset register shall be updated and reconciled to the general ledger on a regular basis, which will be reconciled to the financial statements at year end.
- Immovable PPE, intangible assets; heritage assets and investment property that qualify for recognition shall initially be capitalised **at cost**. Borrowing costs will be recognised under the allowed alternative treatment as per GRAP 5. Biological assets that qualify for recognition shall be capitalised at fair value less costs to sell.

In cases where complete cost data is not available or cannot be reliably linked to specific assets:

- The fair value of PPE infrastructure, community property and building property shall be adopted on the basis of depreciated replacement cost;



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- If the cost of heritage assets cannot be measured reliably, this shall be disclosed in the notes to the financial statements together with a description of the nature of the asset; and
- Investment property and intangible assets shall be measured at fair value on the date of acquisition. If no fair value can be allocated to the intangible asset, the asset will not be recognised as an asset.
- After recognition, all immovable assets, except land, servitudes, road reserves, investment property, biological and heritage assets, shall be depreciated over their remaining useful lives. The method of depreciation shall be reviewed on an annual basis, though the straight line basis shall be used in all cases unless Council determines otherwise. The existence, remaining useful lives and residual values of immovable assets shall also be reviewed at each reporting date. Depreciation or amortisation is initially calculated from the day when an asset is acquired or – in the case of construction works – the day in which the asset is available for use.
- The municipality considers itself an entity whose objective is to provide goods and services for community or social benefit and manages its assets as such. Where positive cash flows are generated, these are with the view to support the objective of providing goods and services for community or social benefit rather than for financial return to equity holders and generally do not reflect the risks involved with managing the assets. Consequently, the default impairment treatment for the PPE and associated intangible assets of the municipality is that of non-cash generating assets.

In cases where it can be reliably demonstrated that an asset is managed with the objective of generating a commercial return (that it is deployed in a manner consistent with that adopted by a profit oriented entity, that the municipality intends to generate positive cash flows from the asset and earns a return that reflects the risk involved in managing the asset) then the municipality applies the impairment treatment for cash-generating assets. The municipality will develop criteria so that it can exercise that judgement consistently in accordance with the definition of cash-generating assets.

Impairment of immovable assets shall be recognised as an expense in the Statement of Financial Performance when it occurs. Ad-hoc impairment shall be identified as part of normal operational management as well as scheduled annual inspections of the assets.

- The municipality must adhere to the disaster management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster. The Council shall decide on insurance cover for immovable assets each financial year based on the recommendation from the City Manager after consultation with the CFO.
- An asset safeguarding plan shall be prepared for all immovable assets indicating measures that are considered effective to ensure that all immovable assets under control of the municipality are

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appropriately safeguarded from inappropriate use or loss, including the identification of asset custodians for all assets.

The impact of budgetary constraints on such measures shall be reported to Council. The existence, condition and location of these assets shall be verified annually (in line with the assessment of impairment).

- Immovable assets for which no future economic benefits or service potential are expected shall be identified and methods of disposal and the associated costs or income considered by Council. The carrying amount of the asset shall be derecognised when no future economic benefits or service potential are expected from its use or its disposal. Where an asset being de-recognised was previously revalued, the revaluation surplus is transferred to the Accumulated Surpluses/ (Deficits) Account on de-recognition of an asset.
- Updating data in the asset register: The fixed asset register is updated by an Asset Management Administrator only when authorised and instructed to do so by the CFO or their delegated official.

## **8. GOVERNANCE ISSUES/AUTHORITY/DELEGATIONS**

### **The Accounting Officer;**

- (1) The accounting officer of a municipality is responsible for the management of;
  - (a) the assets of the municipality, including the safeguarding and the maintenance of those assets;
  - and
  - (b) the liabilities of the municipality.
- (2) The accounting officer must for the purposes of subsection (1) take all reasonable steps to ensure;
  - (a) that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
  - (b) that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and
  - (c) that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed
- (3) The accounting officer must facilitate the revision of this policy annually

### **The Council;**

- (1) Councillors are required to familiarise themselves with this policy's contents, make their constituencies aware of it and oversee its implementation by the officials; and
- (2) Council to approve and adopt the Immovable Asset Policy

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## 9. SCOPE OF THE POLICY

This policy applies to all immovable assets of the municipality

## 10. POLICY PROCEDURES

Please see ANNEXURE A

## 11. COMPETENCE AND CAPACITY TO IMPLEMENT

- The policy should be available and communicated to all staff
- All staff must be aware of the prescriptions of the policy
- All staff must be aware of the procedures contained in this policy
- Supervisors/Manages must ensure compliance with this policy

## **ANNEXURE A: IMMOVABLE ASSET POLICY PROCEDURES**

### **RECOGNITION**

#### *Recognition criteria:*

The cost of an item of property, plant and equipment shall be recognised as an asset if, and only if:

- (a) it is probable that future economic benefits or service potential associated with the item will flow to the entity
- (b) the cost or fair value of the item can be measured reliably.

#### *Control*

An item is not recognised as an asset unless the entity has the capacity to control the service potential or future economic benefit of the asset, is able to deny or regulate access of others to that benefit, and has the ability to secure the future economic benefit of that asset. Legal title and physical possession are good indicators of control but are not absolute. For example, in the case of land parcels; where the title deeds are registered in the name of the Municipality; the land parcels are not recognised as assets without the Municipality's ability to exercise control over the land parcels.

#### *Past transactions or events*

Assets are only recognised from the point when some event or transaction transferred control to an entity.

#### *Probability of the flow of benefits or service potential*

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The degree of certainty that any economic benefits or service potential associated with an item will flow to the municipality is based on the judgement. The CFO shall exercise such judgement on behalf of the municipality, in consultation with the respective Head of Directorate (HOD)

### Economic benefits

Economic benefits are derived from immovable PPE that generate net cash inflows.

### Service Potential

An asset has service potential if it has the capacity, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality, such as the provision of services.

### Reliable measurement

Items are recognised if they possess a cost or fair value that can be reliably measured in terms of this policy.

### Immovable asset accounting groups

- Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the municipality's operations);
- Intangible assets;
- Heritage assets;
- Biological assets; and
- Investment property

### PPE Asset hierarchy

An asset hierarchy is adopted for immovable PPE which enables separate accounting of parts (components) of the asset that are considered significant to the municipality from a financial point of view, and for other reasons determined by the municipality, including risk management (in other words, taking into account the criticality of components); being a maintenance significant item and alignment with the strategy adopted by the municipality in asset renewal (for example the extent of replacement or rehabilitation at the end of life). In addition, the municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognises the functional relationship of assets and components. Although there is rigid alignment between the Accounting Sub-group, Asset Class, Asset Group Type individually, there is no rigid alignment when they as a collective are considered with the Asset type and Component type. The Asset type and Component type's included in Annexure A can be applied to more than one asset class. The Asset type and Component types are grouped in Annexure A under the umbrella of the Asset Class in which the components are most dominating. Any change in the estimated useful life embodied in a depreciable asset affects the depreciation expense for the current period and for each future period during the asset's remaining useful life. The effect of the change relating to the current period is recognised as revenue or expense in the current period. The effect, if any, on future periods is recognised as revenue or expense in those future periods.

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Asset hierarchies shall be adopted for each of the immovable PPE asset groups, separately identifying items of PPE at component level that are significant from a financial (material effect on depreciation) or strategic perspective (for risk management or asset replacement strategies / or separate significant components), and conversely, where applicable, grouping items that are relatively insignificant. Investment Property and Intangible assets are not required to be componentised. The components in the asset hierarchy shall be in line with the categorisation as informed by the mSCOA chart, whilst EULs will be based on the expected economic lives of assets calibrated to the conditions within the Metropolitan area.

PPE shall be disclosed in the financial statements at the sub-category level.

A committee to be nominated by Council will consider the recognition of assets as heritage assets and motivate their recommendation for adoption by Council.

### **MEASUREMENT AT RECOGNITION**

#### *Measurement at recognition of immovable PPE*

An item of immovable PPE that qualifies for recognition is initially measured at the acquired cost (first year) in terms of GRAP. Where an asset is acquired at zero or nominal cost (for example in the case of donated or developer-created assets), its cost is deemed to be its fair value at the date of acquisition. In cases where it is impracticable to establish the cost of an item of immovable PPE, such as on recognising immovable PPE for which there are no records, or records cannot be linked to specific assets, its cost is deemed to be its fair value.

#### *Cost of an item of immovable PPE*

The capitalisation cost comprises of

- (i) the purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and
- (ii) any directly attributable costs necessary to bring the asset to its location and condition necessary for it to be operating in the manner intended by the municipality, and
- (iii) an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

In cases where the municipality have claimed input VAT on the acquisition of the asset, such VAT is excluded from the purchase cost. There may be instances where the municipality did not/could not claim input VAT at the time of capitalisation of the asset and in such instances, the municipality capitalises the cost of the asset together with the VAT.

#### *Directly attributable costs*

Directly attributable costs are defined as:

- Cost of employee benefits arising directly from the construction or acquisition of the item.
- costs of site preparation;
- initial delivery and handling costs;

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- installation and assembly costs;
- commissioning (cost of testing the asset to see if the asset is functioning properly, after deducting the net proceeds from selling any item produced while bringing the asset to its current condition and location)
- professional fees (for example associated with design fees, supervision, and environmental impact assessments); and
- property transfer taxes

#### Options

Accounting standards allow measurement after recognition on immovable assets as follows:

- Immovable PPE, heritage assets and intangible assets: on either a cost or revaluation model; and
- Investment Property: either cost model or the fair value model.

Different models can be applied, providing the treatment is consistent per asset class.

#### Cost model

When the cost model is adopted, an immovable asset is carried after recognition at its cost less any accumulated depreciation and any accumulated impairment losses.

#### Revaluation model

When the revaluation model is adopted, an immovable asset is carried, subsequent to initial recognition, at a determined revalued amount. This revalued amount being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. When revaluations are conducted, the entire class of assets should be re-valued. The appraisal of the fair value of assets is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualifications and appropriate knowledge and experience in valuation of the respective assets.

If the carrying amount of an asset is increased as a result of a revaluation, the increase shall be credited directly to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

If the carrying amount of an asset is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised directly in net assets reduces the amount accumulated in net assets under the heading revaluation surplus.

When an immovable asset is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

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- Restated proportionately with the change in the gross carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to its depreciated replacement cost.
- Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus is transferred to the Accumulated Surpluses/ (Deficits) Account on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such immovable asset before the revaluation in question may be transferred from the Revaluation Reserve to the municipality's Accumulated Surplus/Deficit Account. If this option is selected, an adjustment of the aggregate transfer is made at the end of each financial year.

If the carrying amount based on the revaluation is less than the carrying value of the immovable asset recorded in the fixed asset register, the carrying value of such asset is adjusted by increasing the accumulated depreciation of the immovable asset in question by an amount sufficient to adjust the carrying value to the value based on the revaluation. Such additional depreciation expenses form a charge, in the first instance, against the balance in any Revaluation Reserve previously created for such asset, and to the extent that such balance is insufficient to bear the charge concerned, an immediate additional charge against the department or vote controlling or using the asset in question.

#### Measurement at recognition of investment property

Investment property will be measured at cost including transaction cost at initial recognition. However, where an investment property was acquired through a non-exchange transaction (i.e. where the investment property was acquired for no or nominal value), its cost is its fair value at the date of acquisition.

#### Measurement at recognition of intangible assets

Intangible assets will be measured at cost at initial recognition. Where assets are acquired for no or nominal consideration, the cost is deemed to equal the fair value of the asset on the date acquired.

#### Measurement at recognition of heritage assets

Heritage assets will be measured at cost at initial recognition. Where assets are acquired for no or nominal consideration, the cost is deemed to equal the fair value of the asset on the date acquired.

If the municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements as follows:

- A description of the heritage asset or class of heritage assets.
- The reason why the heritage asset or class of heritage assets could not be measured reliably.

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- On disposal of the heritage asset or class of heritage assets, the compensation received and the amount recognised in the statement of financial performance.

#### Measurement at recognition of biological assets

Biological assets shall be measured on initial recognition and at each reporting date at its fair value less costs to sell.

#### Fair value

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market based evidence by appraisal can be used where there is an active and liquid market for immovable assets (for example land and some types of plant and equipment). In the case of specialised buildings (such as community buildings) and infrastructure where there is no such active and liquid market, a depreciated replacement cost (DRC) approach may be used to identify the fair value. The appraisal of the fair value of assets is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualifications and appropriate knowledge and experience in valuation of the respective assets. A Professionally Registered Engineer is considered to have the relevant professional qualification in order to determine the CRC and DRC of specialised buildings and infrastructure.

#### Depreciated replacement cost

The depreciated replacement cost (DRC) approach requires information on the expected useful life (EUL), residual value (RV), current replacement cost (CRC), and remaining useful life (RUL) of each of the asset components. The CRC is the product of a unit rate and the extent of the component and represents the cost of replacing the asset, and in cases where the existing asset is obsolete, the replacement with a modern equivalent. The depreciable portion of an asset is determined by subtracting the residual value from the CRC. The depreciated replacement cost (DRC) is established by proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the expected useful life.

Accordingly, the following formula is used:

$$\text{DRC} = ((\text{CRC} - \text{RV}) \times \text{RUL}/\text{EUL}) + \text{RV}$$

#### Changes in the existing decommissioning or restoration cost included in the cost of an item

Changes in the measurement of an existing decommissioning cost or restoration cost as a result of changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, should be treated as follows:

1. If the cost model is used -
  - Changes in the liability shall be added to or deducted from the cost of the related asset.
  - If the amount deducted from the cost of the asset exceeds the carrying amount of the asset, the excess shall be recognised immediately in surplus or deficit.



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- If the adjustment results in an addition to the cost of an asset, the municipality should consider whether this is an indication that the carrying amount may not be recoverable. In this case the municipality should test the asset for impairment.
2. If the revaluation model is used -
- A decrease in the liability shall be credited to the revaluation surplus, except that it shall be recognised in the surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in the surplus or deficit; and
  - an increase in the liability shall be recognised in surplus or deficit, except that it shall be debited to the revaluation surplus to the extent that any credit balance may exist in the revaluation surplus in respect of asset.
  - If the decrease in liability exceeds the carrying amount that would have been recognised if the asset has been carried under the cost model, the excess shall be recognised immediately in the surplus or deficit.
  - If the change in liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation shall be taken into account in determining the amounts to be taken to surplus or deficit and net assets as discussed above. If a revaluation is necessary, all assets of that class shall be revalued.
  - The change in the revaluation surplus arising from the change in the liability shall be separately identified and disclosed on the face of the statement of changes in net assets.

#### Finance leases

At the commencement of a lease term, the municipality (the lessee) shall recognise a finance lease as an asset and liability in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease contract, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct cost of the lessee is added to the amount recognised as an asset.

#### Self-constructed immovable PPE

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality. All assets that can be classified as immovable PPE and that are constructed by the municipality should be recorded in the asset register and each component that is part of this immovable PPE should be depreciated over its estimated useful life for that category of asset.

Proper records are kept such that all costs associated with the construction of these assets are completely and accurately accounted for as capital under construction, and upon completion of the asset, all costs (both direct and indirect) associated with the construction of the asset are summed and capitalised as an asset.

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### Construction of future investment property

If property is developed for future use as an investment property, such property shall in every respect be accounted for as investment property.

### Borrowing Cost

There are two treatments of borrowing costs allowed under GRAP 5:

- Benchmark treatment - recognise all borrowing costs as an expense in the period in which they are incurred; or
- Allowed alternative treatment - recognise borrowing costs as an expense in the period in which they are incurred, except to the extent that they are capitalised. Borrowing costs may be capitalised if they are directly attributable to the acquisition, construction, or production of a qualifying asset as part of the cost of that asset.

Where an entity adopts the allowed alternative treatment, that treatment shall be applied consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the entity.

Where the allowed alternative treatment is applied, the following borrowing costs are eligible for capitalisation:

- To the extent that the municipality borrows funds specifically for the purpose of obtaining a qualifying asset, the municipality shall determine the amount of borrowing costs eligible for capitalisation as the actual borrowing costs incurred on that borrowing during the period, less any investment income on the temporary investment of those borrowings.
- To the extent that the municipality borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the municipality shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the municipality that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs that a municipality capitalises during a period shall not exceed the amount of borrowing costs it incurred during that period.

### Deferred payment

The cost of an asset is the cash equivalent at the recognition date. If the payment of the cost price is deferred beyond normal credit terms, the difference between the cash price equivalent (the total cost price is discounted to the asset's present value as at the transaction date) and the total payment is recognised as an interest expense over the period of credit unless such interest is recognised in the carrying value of the asset in accordance with the allowed alternative treatment in the Standard on Borrowing Costs, GRAP 5.

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### Exchanged PPE assets

In cases where assets are exchanged, the cost is deemed to be the fair value of the acquired asset and the disposed asset is de-recognised. If the acquired asset is not measured at its fair value, its cost price will be the carrying amount of the asset given up.

### Investment property

When the fair value model is adopted, all investment property should be measured at its fair value except when the fair value cannot be determined reliably on a continuing basis. The fair value of the investment property shall reflect market conditions at the reporting date. It shall be valued on an annual basis. All fair value adjustments shall be included in the surplus or deficit for the financial year. If a municipality selects the cost model to measure all of its investment property, it does so in accordance with the Standard of GRAP on Property, Plant and Equipment, i.e., at cost less any accumulated depreciation and any accumulated impairment losses.

### Statutory inspections

The cost of a statutory inspection that is required for the municipality to continue to operate immovable PPE is recognised at the time the cost is incurred, and any previous statutory inspection cost is de- recognised.

### Expenses to be capitalised

Expenses incurred in the enhancement of immovable PPE (in the form of improved or increased services or benefits flowing from the use of such asset), or in the material extension of the useful operating life of immovable PPE are capitalised. Such expenses are recognised once the municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) – prior to this, the expenses are recorded as work-in-progress. Expenses incurred in the maintenance or repair (reinstatement) of immovable PPE that ensures that the useful operating life of the asset is attained, are considered as operating expenses and are not capitalised, irrespective of the quantum of the expenses concerned.

### Spares

The location of capital spares shall be amended once they are placed in service, and re-classified to the applicable immovable PPE asset sub-category. Depreciation on the capital spares will commence once the items are placed in service as this is when they are in the location and condition necessary for them to be capable of operating in the manner intended by management.

### Major inspection

Major inspections will be measured at the value of the major inspection

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### **MEASUREMENT AFTER RECOGNITION**

Measurement after recognition shall be on the following basis: -

Immovable PPE:

- Electricity network: revaluation model;
- Water network: revaluation model;
- Sanitation network: revaluation model;
- Capital spares: cost model;
- Roads network: revaluation model;
- Community property: revaluation model;
- Heritage assets: cost model;
- Other property: revaluation model;
- Land revaluation model;
  
- Investment property: fair value model;
- Intangible assets: cost model;
- Biological assets: fair value less cost to sell.

Changes in asset value as a result of revaluation shall be reflected in a Revaluation Reserve. The restatement method will be applied to proportionately restate the accumulated depreciation to be in line with the gross replacement cost or CRC of the revalued asset.

### **DEPRECIATION**

Depreciation is the systematic allocation of the depreciable amount of an asset over its remaining useful life. The amortisation of intangible assets is identical.

Land and servitudes are considered to have unlimited life; therefore, they are not depreciated. Heritage assets and investment property are also not depreciated.

#### Depreciable amount

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

#### Residual value

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

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The residual values of assets are indicated in **Table A** in the form of a percentage of the take-on cost. In the case of assets measured after recognition on the cost model, the percentage is of the initial cost of acquisition. In the case of assets measured after recognition on the revaluation model, the percentage is of the modern equivalent replacement value.

### Remaining useful life

The remaining useful life (RUL) of a depreciable immovable PPE asset is the time remaining until an asset ceases to provide the required standard of performance or economic usefulness.

The remaining useful life of all depreciable immovable PPE assets at initial recognition is the same as the expected useful life indicated in **Table A**. These figures have been established using available information on industry norms, experience of local influencing factors (such as climate, geotechnical conditions, and operating conditions), the life-cycle strategy of the municipality, potential technical obsolescence, and any legal limits on the use of the immovable assets. Assets nearing the end of their useful life (36 months) are re-assessed on an annual basis in terms of the rul algorithm as indicated in the CIDMS toolkit.

### Intangible assets with an indefinite useful life

An intangible asset with an indefinite useful life will not be amortised. Impairment testing shall be performed on these assets on an annual basis and whenever there is an indication that the assets might be impaired, comparing its recoverable amount with its carrying amount.

### Annual review of remaining useful life

The remaining useful lives of depreciable immovable PPE are reviewed every year at the reporting date. PPE Assets nearing the end of their useful life (36 months) are re-assessed on an annual basis in terms of the rul algorithm as indicated in the CIDMS toolkit. Changes may be required as a result of new, updated or more reliable information being available. Changes may also be required as a result of impairments. Depreciation charges in the current and future reporting periods are adjusted accordingly, and are accounted for as a change in an accounting estimate.

### Depreciation method

Depreciation of immovable PPE is applied at the component level. A range of depreciation methods exist and can be selected to model the consumption of service potential or economic benefit (for example the straight line method, diminishing amount method, fixed percentage on reducing balance method, sum of the year digits method, production unit method). The approach used should reflect the consumption of future economic benefits or service potential, and should be reviewed annually where there has been a change in the pattern of consumption.

### Depreciation charge

Depreciation starts once an asset is available for use, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an assets ceases at the date the asset is derecognised.

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Carrying amount

The carrying amount is the cost price / fair value amount after deducting any accumulated depreciation and accumulated impairment losses.

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### Capital spares

The depreciation of capital spares commences immediately when they are available and in the location and condition necessary for it to be capable of operating in the manner intended by management. The depreciation continues once they are placed in service, or subsequently removed from service.

### Finance lease

Depreciable assets financed through a finance lease will give rise to a depreciation expense and finance cost which will occur for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with the policy of depreciable owned assets, and the depreciation recognised shall be calculated in accordance with the Standard on Property, Plant and Equipment, GRAP 17. If there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life. If there is certainty that the municipality will obtain ownership by the end of the lease term, the asset will be fully depreciated over the asset's useful life.

## **IMPAIRMENT**

Impairment is defined as 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.

### Indications of impairment

The municipality must review assets for impairment when one of the indicators below occurs or at least at the end of each reporting period. In assessing whether there is any indication that an asset may be impaired, an entity shall consider as a minimum the following indicators:

*i. External sources of information:*

- decline or cessation in demand;
- significant long-term changes in the technological, legal or government policy environment;
- the carrying amount of the net assets of the entity is more than its market capitalisation;
- market interest rates have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially;
- a halt in construction could indicate an impairment. Where construction is delayed or postponed to a specific date in the future, the project may be treated as work in progress and not considered as halted.

*ii. Internal sources of information:*

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- evidence of physical damage;
- evidence of obsolescence;
- significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or a manner in which, an asset is used or is expected to be used, including an asset becoming idle, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;
- cash flow for acquiring an asset or maintenance cost thereafter is higher than originally budgeted;
- the actual net cash flow or operating profit or loss flowing from an asset are significantly worse than those budgeted;
- a significant decline in budgeted net cash flow or operating profit, or a significant increase in the budget loss, flowing from the asset; or
- operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

*iii.* Other indications, such as loss of market value.

#### Impairment of projects under construction

In assessing whether a halt in construction would trigger an impairment test, it should be considered whether construction has simply been delayed or postponed, whether the intention to resume construction in the near future or whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work in progress and is not considered as halted.

#### Intangible assets

The municipality must test all intangible assets associated with immovable PPE not yet available for use or which have an indefinite useful life for impairment. This impairment test may be performed at any time during the reporting period provided it is performed at the same time every year.

An intangible asset with an indefinite useful life must be tested for impairment annually by comparing its carrying amount with its recoverable service amount, irrespective of whether there is any indication that it may be impaired.

The most recent detailed calculation of such an asset's recoverable service amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

- the most recent recoverable service amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and
- based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable service amount calculation, the likelihood that a current recoverable service amount determination would be less than the asset's carrying amount is remote.



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### Investment property on the fair value model

Investment property that is measured at fair value is specifically excluded from the scope of GRAP 21 and GRAP 26 (impairment standards). Any impairment would be reflected in the annual review of fair value.

### Recoverable amount

Where there are indications of impairment, the municipality must estimate the recoverable service amount of the asset and also consider adjustment of the remaining useful life, residual value, and method of depreciation.

### Recoverable service amount

A recoverable service amount is the higher of an asset's fair value less costs to sell and its value in use

### Impairment loss

An impairment loss of a non-cash-generating unit or asset is defined as the amount by which the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount is the higher of the fair value less costs to sell and its value in use.

An impairment loss of a cash-generating unit (smallest group of assets that generate cash inflows) or asset is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and its value in use.

### Non-cash generating unit

Non-cash-generating units are those assets (or group of assets) that are not managed with the objective of generating a commercial return. This would typically apply to assets providing goods or services for community or social benefit. The recoverable service amount is the higher of the asset's fair value less cost to sell and its value in use. It may be possible to determine the fair value even if the asset is not traded in an active market. If there is no binding sales agreement or active market for an asset, the fair value less cost to sell is based on the best information available to reflect the amount that an entity could obtain. However, sometimes it will not be possible to determine the fair value less cost to sell because there is no basis for making reliable estimates of the amount obtainable. For non-cash generating assets which are managed on an on-going basis to provide specialised services or public goods to the community, the value in use of the assets is likely to be greater than the fair value less cost to sell. In such cases the municipality may use the asset's value in use as its recoverable service amount. The value in use of a non-cash generating unit/asset is defined as the present value of the asset's remaining service potential. This can be determined using any of the following approaches:

- the Depreciated Replacement Cost (DRC) approach (and where the asset has enduring and material over-capacity, for example in cases where there has been a decline in demand, the Optimised Depreciated Replacement Cost (ODRC) approach may be used);
- the restoration cost approach (the Depreciated Replacement Cost less cost of restoration) – usually used in cases where there has been physical damage; or

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- the service units approach (which could be used for example where a production units model of depreciation is used).

Where the present value of an asset's remaining service potential (determined as indicated above) exceeds the carrying value, the asset is not impaired.

#### Cash-generating unit

Cash-generating units are those assets managed with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Managing an asset to generate a "commercial return" indicates that an entity intends to generate positive cash inflows from the asset (or from part of the cash-generating unit of which the asset is a part) and earn a commercial return that reflects the risk involved in managing the asset. The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction. If there is no binding sale agreement but an asset is traded in an active market, fair value is the asset's market price. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that the municipality could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties. In the case of specialised buildings (such as community buildings) and infrastructure where there is no such active and liquid market, a depreciated replacement cost (DRC) approach is generally used to identify the fair value. Costs to sell are the costs directly attributable to the disposal of the asset (for example agents fees, legal costs), excluding finance costs and income tax expenses. The value in use is determined by estimating the future cash inflows and outflows from the continuing use of the asset and net cash flows to be received or (paid) for the disposal of the assets at the end of its useful life, including factors to reflect risk in the respective cash-flows and the time value of money.

#### Judgement

The extent to which the asset is managed with the objective of providing a commercial return needs to be considered to determine whether the asset is a cash generating or non-cash generating asset. An asset may be managed with the objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset even though it may be breaking even or generating a commercial return during a particular reporting period. In some cases, it may not be clear whether the objective of managing an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that the asset is a non-cash-generating- or a cash-generating asset. Judgement is needed in these circumstances.

#### Recognition of impairment

The impairment loss is recognised as an expense when incurred (unless the asset is carried at a re-valued amount, in which case the impairment is carried as a decrease in the Revaluation Reserve, to the extent that such reserve exists). After the recognition of an impairment loss, the depreciation charge for the

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asset is adjusted for future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

When no future economic benefit is likely to flow from an asset, it is derecognised and the carrying amount of the asset at the time of de-recognition, less any economic benefit from the de-recognition of the asset, is debited to the Statement of Financial Performance as a "Loss on Disposal of Asset".

In the event of compensation received for damages to an item of immovable PPE, the compensation is considered as the asset's ability to generate income and is disclosed under Sundry Revenue; and the asset is impaired/ de-recognised.

### Reversing an impairment loss

The municipality must assess each year from the sources of information indicated above whether there is any indication that an impairment loss recognised in previous years may no longer exist or may have decreased. In such cases, the carrying amount is increased to its recoverable amount (providing that it does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods).

## **DE-RECOGNITION**

"Disposal" in relation to a capital asset, includes -

- the demolition, dismantling or destruction of the capital asset; or
- any other process applied to a capital asset which results in loss of ownership of the capital asset otherwise than by way of transfer of ownership;

### Exempt assets

- Capital assets transferred to another municipality or to a municipal entity or to a national or provincial organ of state in circumstances and in respect of categories of assets approved by the National Treasury, provided that such transfers are in accordance with a prescribed framework in terms of the Municipal Asset Transfer Regulations.

### Non-exempt assets

- Assets other than exempt assets

### De-recognition

Immovable assets are derecognised on disposal (including disposal through a non-exchange transaction) or when no future economic benefits or service potential are expected from its use or disposal. Where assets exist that have reached the end of their useful life yet they pose potential liabilities, the assets will not be derecognised until the obligations under the potential liabilities have been settled.

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The carrying amount of the asset and the net disposal proceeds (or cost of de-commissioning and/or disposal of the asset) shall be included in the surpluses or (deficits) for the year when the item is derecognised.

PPE that is associated with the provision of basic services cannot be disposed without the approval of Council.

Government Gazette no.31346, Municipal asset transfer regulations, sets out the regulations regarding municipal asset transfers and disposals, for example type of assets that need approval to be disposed or transferred, timeframes, possible public participation requirements, considerations in approving the transfer or disposal and Council approval. Read in conjunction with the Municipal Finance Management Act(MFMA) it is clear that a municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services unless that transfer is to an organ of state, and the following conditions must be met:

- Ownership in the capital asset (including replacements, upgrading and improvements made by the organ of state) must immediately revert to the municipality should the organ of state for any reason cease to or is unable to render the service;
- The organ of state may not without the written approval of the municipality:
- Transfer, dispose of or encumber the capital asset (including replacements, upgrading and improvements made by the organ of state) in any way;
- Grant a right to another person to use, control or manage the capital asset (including replacements, upgrading and improvements made by the organ of state);
- The transfer agreement must reflect the conditions above; and
- The organ of state must demonstrate the ability to adequately maintain and safeguard the asset.

If the combined value of any non-exempt capital assets a municipality intends to transfer or dispose of in any financial year exceeds 5% of the total value of its assets, as determined from its latest available audited AFS, a public participation process must be conducted to facilitate the determinations of the municipal council, in relation to all the non-exempt capital assets proposed to be transferred or disposed of during the year.

Council may delegate the following powers and responsibilities to the CM:

- The decision as to whether the non-exempt capital asset is needed to provide a basic service;
- The power to approve in-principle that the non-exempt capital asset may be transferred or disposed of; and
- The authority to approve in-principle of the granting of a right to use a capital asset. This delegation does not extend however, to cover long-term high-value transactions.

Disposal of fixed assets should be at fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent (the total proceeds discounted to the present value as at the transaction date). The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue.

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### Disposal Management System

An effective system of disposal management for disposal or letting of assets, including unserviceable, redundant or obsolete assets, must be provided for in the Supply Chain Management Policy. This must specify the ways in which assets may be disposed of, including by –

- transfer the asset to another organ of state in terms of a provision of the MFMA enabling the transfer of assets;
- transferring the assets to another organ of state at market related value or, when appropriate, free of charge;
- selling the asset; or
- destroying the asset.

Immovable property may be sold only at market related prices except when the public interest or the poor demands otherwise. When assets are traded in for other assets, the highest possible trade-in price must be negotiated.

### Revaluation model

The revaluation surplus is transferred to the Accumulated Surpluses/ (Deficits) Account on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such immovable asset before the revaluation in question may be transferred from the Revaluation Reserve to the municipality's Accumulated Surplus/Deficit Account. An adjustment of the aggregate transfer is made at the end of the assets life.

## **INSURANCE**

Insurance provides selected coverage for the accidental loss of asset value.

Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury. The municipality can however elect to insure certain infrastructure risks, though approval must be obtained from the Council. The CFO must conduct a risk assessment of all assets and after considering the risks involved, report to Council, which assets must be insured. The risk assessment must be based on a loss probability analysis and if there is no capacity within the municipality to conduct the analysis, the CFO should be authorised to obtain external professional assistance.

The municipality may elect to operate a self-insurance reserve, in which case the CFO shall annually determine the premiums payable by the departments or votes after having received a list of immovable assets and insurable values of all relevant immovable assets from the Head of Directorate (HOD) concerned, this will be reflected in the accumulated surplus and will be cash backed.

Assets must be insured internally or externally and coverage must be based on the loss probability analysis. All insurance claims must be assessed by an official, charged with the responsibility for the

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insurance of assets, to determine whether the damage to the assets can be recovered from possible third parties involved.

If the damage was caused by an identifiable third party, the CFO should compile a report advising the City Manager of the facts thereof and any possible further action.

### **SAFEGUARDING OF ASSETS**

The municipality applies controls and safeguards to ensure that immovable assets are protected against improper use, loss, theft, malicious damage or accidental damage.

The existence of immovable assets is physically verified from time-to-time, and measures adopted to control their use, as follows:

All above ground assets should be verified for existence and any changes in condition at regular intervals. These inspections should be formally recorded and signed off and, where possible, shall be worked into the routine maintenance inspections. These inspections may be prioritised on a risk basis to give emphasis to assets approaching the end of their useful life and assets with a high value in relation to total assets (the threshold for high value will be determined by the CFO), whereas a sample

- basis may be adopted for long life or multiple assets of a similar nature;
- Performance data shall be reviewed for buried assets to identify possible changes in condition; and
- A detailed road condition survey shall be conducted every 5 years.

Every Head of Directorate (HOD) shall at least once during every financial year undertake a comprehensive verification of all movable PPE controlled by or used by the department <sup>Director</sup> concerned. Every Head of Directorate (HOD) shall promptly and fully report in writing to the CFO, in the format determined by the CFO, all relevant results of such verification.

This report in respect of the annual physical verification of movable assets shall:-

- Confirm the location of the asset;
- Confirm the physical description of the asset;
- Confirm the level of utilisation of the asset;
- Indicate the assessment of the condition of the asset (Condition Grade);
- Indicate the expected useful life of the asset (RUL); and
- The existence or absence of any physical impairment of the asset.

Budgetary constraints may however constrain the measures adopted.

The municipality may allocate day-to-day duties relating to such control, verification and safekeeping to asset custodians, and record such in the asset register.

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### **LIFE-CYCLE MANAGEMENT OF IMMOVABLE PPE ASSETS**

- Each ~~Director~~ Directorate (HOD) shall prepare and submit to the CFO, upon request, an annual asset safeguarding plan for the immovable assets under the control of their respective departments, indicating the budget required.

The CFO shall confirm the available budget, and in consultation with the respective, ~~Director~~ Directorate (HOD) determine

the impact of any budget shortfall. The CFO shall report the impacts to the CM for review, and advise Council.

- Each Head of Directorate (HOD) shall implement the safeguarding plan within the resources made available.
- Each ~~Director~~ Directorate (HOD) shall report, within the time frame indicated by the CFO, the existence, condition, location and appropriate use of immovable assets under the control of their respective departments at the review date.
- Malicious damage, theft, and break-ins must be reported to the CM or delegated person within 48 hours of its occurrence or awareness by the respective Head of Directorate (HOD).

The CM must report criminal activities to the South African Police Service

#### Service delivery

Immovable PPE assets (such as infrastructure and community facilities) are the means by which the municipality delivers a range of essential municipal services. Consequently, the management of such assets is critical to meeting the strategic objectives of the municipality and in measuring its performance.

#### Asset management

The goal of asset management of immovable PPE is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers.

The core principles are:

- taking a life-cycle approach;
- developing cost-effective management strategies for the long-term;
- providing a defined level of service and monitoring performance;
- understanding and meeting the impact of growth through demand management and infrastructure investment;
- managing risks associated with asset failures;
- sustainable use of physical resources; and
- continuous improvement in the immovable PPE asset management practices.

The municipality shall provide municipal services for which the municipality is responsible, at an appropriate level, and in a transparent, accountable and sustainable manner, in pursuit of legislative requirements, SANS 55001: Asset Management - Management Systems – Requirements, and in support of its strategic objectives, according to the following core principles:

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### Effective governance

The municipality shall strive to apply effective governance systems to provide for consistent asset management and maintenance planning in adherence to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected.

To this end, the municipality shall:

- continue to adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- regularly review updates and amendments to the above legislation;
- review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- effectively apply legislation for the benefit of the community.

### Sustainable service delivery

The municipality shall strive to provide to its customers services that are technically, environmentally and financially sustainable.

To this end, the municipality shall:

- identify a suite of levels and standards of service that conform with statutory requirements and rules for their application based on long-term affordability to the municipality;
- identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- identify current and future demand for services, and demand management strategies;
- set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose infrastructure assets, where applicable in line with national targets;
- apply a risk management process to identify service delivery risks at asset level and appropriate responses;
- prepare and adopt a maintenance strategy and plan to support the achievement of the required performance;
- allocate budgets based on long-term financial forecasts that take cognisance of the full life-cycle needs of existing and future infrastructure assets and the risks to achieving the adopted performance targets;
- strive for alignment of the financial statements with the actual service delivery potential of the infrastructure assets; and
- implement its tariff and credit control and debt collection policies to sustain and protect the affordability of services by the community.

### Social and economic development

The municipality shall strive to promote social and economic development in its municipal area by means of delivering municipal services in a manner that meet the needs of the various customer user-groups in the community.

To this end, the municipality shall:



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- regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- implement changes to services in response to changing customer needs and expectations where appropriate;
- foster the appropriate use of services through the provision of clear and appropriate information;
- ensure services are managed to deliver the agreed levels and standards; and
- create job opportunities and promote skills development in support of the national EPWP.

#### Custodianship

The municipality shall strive to be a responsible custodian and guardian of the community's assets for current and future generations.

To this end, the municipality shall:

- establish a spatial development framework that takes cognisance of the affordability to the municipality of various development scenarios;
- establish appropriate development control measures including community information;
- cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- ensure that heritage resources are identified and protected; and
- ensure that a long-term view is taken into account in infrastructure asset management decisions.

#### Transparency

The municipality shall strive to manage its infrastructure assets in a manner that is transparent to all its customers, both now and in the future.

To this end, the municipality shall:

- develop and maintain a culture of regular consultation with the community with regard to its management of infrastructure in support of service delivery;
  - clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);
  - avail immovable PPE asset management information on a ward basis; and
- continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

#### Cost-effectiveness and efficiency

The municipality shall strive to manage its infrastructure assets in an efficient and effective manner.

To this end, the municipality shall:

- assess life-cycle options for proposed new infrastructure in line with the Supply Chain Management Policy;

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- regularly review the actual extent, nature, utilisation, criticality, performance and condition of infrastructure assets to optimise planning and implementation works;
- assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of infrastructure assets;
- continue to secure and optimally utilise governmental grants in support of the provision of free basic services;
- implement new and upgrading construction projects to maximise the utilisation of budgeted funds;
- ensure the proper utilisation and maintenance of existing assets subject to availability of resources;
- establish and implement demand management plans;
- timeously renew infrastructure assets based on capacity, performance, risk exposure, and cost;
- timeously dispose of infrastructure assets that are no longer in use;
- review management and delivery capacity, and procure external support as necessary;
- establish documented processes, systems and data to support effective life-cycle infrastructure asset management;
- strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and
- conduct regular and independent assessments to support continuous improvement of infrastructure asset management practice.

### **RESPONSIBILITIES**

The CFO is responsible for the submission of the Policy to Council to consider its adoption after consultation with the City Manager. Council shall indicate the effective date for implementation of the policy.

#### ***City Manager***

The City Manager (CM) is responsible for the management of the immovable assets of the municipality, including the safeguarding and the maintenance of those assets.

The City Manager shall ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for the immovable assets of the municipality;
- The municipality's immovable PPE are valued in accordance with the standard of generally recognized accounting practice (GRAP17);
- That the municipality has and maintains a system of internal control for the immovable assets, including an asset register; and
- The Head of Directorate (HOD) and their teams comply with this policy.

As Accounting Officer of the municipality, the City Manager shall be the principal custodian of the entire municipality's immovable assets, and shall be responsible for ensuring that this policy is effectively applied on adoption by Council. To this end, the City Manager shall be responsible for the preparation, in

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consultation with the Chief Financial Officer (CFO) and Head of Directorates (HOD), of procedures to effectively and efficiently apply this policy.

This policy should be applied with due observance of the municipality's policy with regard to delegated powers. Such delegations refer to delegations between the CM and other responsible officials as well as between Council and the Executive Mayor and the Council and the CM.

In accordance with the MFMA, the CM of the municipality and all designated officials are accountable to him / her. The CM is therefore accountable for all transactions entered into by his / her delegates. The overall responsibility for asset management lies with the CM. However, the day to day handling of assets should be the responsibility of all officials in terms of delegated authority reduced in writing. The CM may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed. All delegations in terms of this policy must be recorded in writing.

***Chief Financial Officer***

The Chief Financial Officer (CFO) is responsible to the CM to ensure that the financial investment in the municipalities' immovable assets are safeguarded and maintained.

The CFO, as one of the Head of Directorates (HOD) of the municipality, shall also ensure, in exercising their financial responsibilities, that:

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- 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, economical and transparently;
- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- All revenue due to the municipality is collected, for example rental income relating to immovable assets;
- The systems, procedures and registers required to substantiate the financial values of the municipalities' immovable 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 plans, budgeting, purchasing, maintenance and disposal decisions;
- The City Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of immovable assets; and
- This policy and support procedures are established, maintained and effectively communicated.

In terms of section 82 read with section 81(1)(e) of the MFMA the CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed. The CFO shall be the fixed asset register of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained. No amendments, deletions or additions to the fixed asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

#### **Head of Directorate (HOD)**

Head of Directorate (HOD) are managers who report directly to the CM. Head of Directorates (HOD) shall insure that:

- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- Procedures are adopted and implemented in conformity with this policy to produce reliable data to be input to the municipal fixed asset register;
- Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
- The asset management system, processes and controls can provide an accurate, reliable and up to date account of immovable assets under their control;
- They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives; and
- Manage the immovable PPE life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.

Head of Directorate (HOD) may delegate or otherwise assign responsibility for performing these functions but they shall remain accountable for ensuring these activities are performed.

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Procedures shall be prepared and adopted by the City Manager, in consultation with the CFO and Head of Directorate (HOD), to give effect to this policy.

**Relevant Legislation applicable to this Policy**

This policy gives effect to the provision of the following legislation.

This policy needs to be read in conjunction with other relevant adopted policies of the municipality, including the following:

- Delegation of Powers;
- Supply Chain Management Policy;
- Tariff Policy;
- Accounting Policy;
- Property Rates Policy;
- Risk Management Policy;
- Banking and Investment Policy;
- Land Management Policy; and

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- Disposal of Immovable Capital Assets
- Budget Policy
- Credit Control and Debt Collection Policy;
- Disaster Management Policy;
- Funding & Reserves Policy
- Theft, Loss or Damage to Municipal Property policy.
- Long Term Financial Planning Policy;
- Capital Infrastructure Development Policy

The following references were observed in compiling this document:

- Asset Management Framework, National Treasury, 2004
- Guidelines for Infrastructure Asset Management in Local Government, Department of Provincial and Local Government, 2006
- Municipal Finance Management Act, 2003
- Disaster Management Act, 2002
- Municipal Systems Act, 2000
- Municipal Structures Act, 1998
- MFMA Circular 18 & 44
- Local Government Capital Asset Management Guidelines, National Treasury, 2008
- Government Gazettes (30013 & 31021)
- Generally Recognised Accounting Practice as issued by the Accounting Standards Board (ASB) (1-14, 16, 17, 19, 21, 23-27, 31 and 100-104)
- Directives issued by the ASB
- Interpretations of the standards of GRAP issued by the Accounting Standards Board (ASB) (IGRAP 1- 17)
- Accounting guideline issued by National Treasury relating to intangible assets
- Government Gazette, 30 May 2005, No. 27636 on disposal

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**TABLE A: EUL's and RESIDUAL VALUES**

ELECTRICITY NETWORK

ASSET TYPE	COMPONENT TYPE	EUL	Residual (%)
Electrical plant / ICT	Control panel	50	0
	Wireless Access Points	10	0
	ICT Core/Distribution Support Layers	5-30	0
	ICT Data Center structures	5-20	0
	ICT Data Fibre lines	30-50	0
	Telemetry	10	0
HV Conductor	Fibre	50	0
	HV Cable	50	0
	HV Overhead Line Conductor	50	0
	HV Overhead Line Insulators	50	0
	HV Overhead Line Support structure	50	0
HV Substation	Auxiliary Equipment	60	0
	SCADA Equipment	30	0
	Batteries	20	0
	Battery Charger	10	0
	Current Transformer	50	0
	HV Busbar Outdoor	50	0
	HV Power Transformer	50	0
	HV Switchgear - Circuit Breaker	50	0
	HV Switchgear - Earth switches	50	0
	HV Switchgear - Isolators	50	0
	MV Power Transformer	50	0
	MV Switchgear - Circuit Breaker	45	0
	Ring Main Unit	50	0
	Surge Arrestor	50	0
	Transformer NEC	50	0
Transformer NER	50	0	
Voltage Transformer	50	0	
MV Conductor	MV Cable	50	0
	MV Overhead line	45	0
	Pilot cables	50	0
MV Mini Substation	Mini-Sub	45	0
	MV Switchgear - Circuit Breaker	45	0
MV Secondary	Mini-Sub	45	0

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Substation	Ring Main Unit	50	0
MV Sub Station	Batteries	20	0
	Battery Charger	10	0
	Mini-Sub	45	0
	MV Power Transformer	50	0



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	MV Switchgear - Circuit Breaker	45	0
	PV Solar system	20	0
	Ring Main Unit	50	0
MV Switch Chamber	Batteries	20	0
	Battery Charger	10	0
	MV Power Transformer	50	0
	MV Switchgear - Circuit Breaker	45	0
	Ring Main Unit	50	0
MV Switch Houses	Batteries	20	0
	Battery Charger	10	0
	Control panel	50	0
	HV Switchgear - Isolators	50	0
	Inverter	20	0
	Load Control Set	20	0
	MV Power Transformer	50	0
	MV Switchgear - Circuit Breaker	45	0
	Ring Main Unit	50	0
MV Switch kiosk	MV Switchgear - Circuit Breaker	45	0
	Ring Main Unit	50	0
MV Switchgear	MV Switchgear - Circuit Breaker	45	0
	MV Switchgear - Isolating Link	30	0
	Ring Main Unit	50	0
MV Transformer	Mini-Sub	45	0
	MV Power Transformer	50	0
	Pole Transformer	45	0
LV Switchgear	LV Switchgear – Circuit Breaker	45	0
LV Conductor	LV Cable	60	0
	LV Overhead Line	45	0
	Pilot cables	50	0
	Poles	30	0
	Ducts	30	0
	Slabs	20	0
	Fibre	50	0
Public Lighting	High mast	50	0
	Street Light	45	0
Service Connections (on site)	Electrical service connection	50	0
	Electricity Meter	30	0
Servitude	Servitude	n/a	n/a

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**WATER AND SANITATION NETWORK**

ASSET TYPE	COMPONENT TYPE	EUL	Residual (%)
Civil structure	Dam wall - concrete	200	0
	Dam wall - earthfill	80-200	0
	Dam wall - rockfill	100	0
	Earth structure	50-100	0-50%
	Erosion Protection	50	0
	Fence - Wire	15	0
	Filter media	20	0
	Masonry structure	50	0
	RC structure - above ground structure	30-50	0
	RC structure - below ground structure	50-80	0
	RC structure - mass concrete	50-80	0
	RC structure - Shuttered RC eng structure	80	0
	RC structure - Shuttered RC eng structure - water retaining	50-80	0
	Small building / enclosure	30-50	0
	Tank - Galvanised steel panel	30	0
	Septic Tank	40	0
	Tank - Plastic	15	0
	Tank - Concrete	50-80	0
Well - Well & lining	30	0	
Electrical plant	Control panel	50	0
	Telemetry	10	0
Mechanical equipment	Chlorinator	20	0
	Compactor	15	0
	Compressor	10	0
	Conveyor	10	0
	Crane	20	0
	Doser	15	0
	Gas installation	20	0
	Gearbox	15	0
	Agitator	15	0
	Scraper	15	0
	ALU Sulphate Hopper	15	0
	Generator	20	0
	Motor	15	0
	Pump - hand	15	0

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	Pump - submersible	12	0
	Pump - sewer	15	0
	Pump – water	15	0
	Telemetry	15	0

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	Weigh bridge	15	0	
Metal work	Cast steel	50	0	
	Fabricated Steel - Galvanised steel	30-50	0	
	Fabricated steel - Stainless steel	20	0	
	Fabricated Steel - Mild steel	30	0	
	Communal standpipe - Pedestal	10	0	
Pipe Work	Communal standpipe - Tap	10	0	
	Hydrant	20	0	
	Pipe - sewer - Concrete	40-80	0	
	Pipe - sewer - uPVC	60	0	
	Pipe - sewer - AC	30	0	
	Pipe - sewer - Clay	100	0	
	Pipe - sewer - HDPE	60	0	
	Pipe - sewer - GRP	60	0	
	Pipe - stormwater	50-80	0	
	Pipe - water - AC	40	0	
	Pipe - water - GRP	80	0	
	Pipe - water - HDPE	80	0	
	Pipe - water - mPVC	80	0	
	Pipe - water - steel	80	0	
	Pipe - water - unknown	60-80	0	
	Pipe - water - uPVC	80	0	
	Aerator	100	0	
	Valve - Air release	15	0	
	Valve - Butterfly	15	0	
	Valve - Gate	15	0	
	Valve - Non-return	15	0	
	Valve - Pressure reducing	15	0	
	Valve - Resilient seal	20	0	
	Water Meter (smart meter)	10	0	
	Water Meter (mechanical/bulk)	10-20	0	
	Service Connections (on site)	Sewer Connection	50-80	0
		Water - connection	80	0
Servitude	Servitude	0	0	

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Roads, Rail and Storm-water

Asset type	Component type	EUL to Adopt in the Policy (Years)	Residual Values (%)
Bridges	Pedestrian bridge substructure	50	0
	Pedestrian bridge superstructure	50-80	0
	Road bridge side barrier	80	0
	Bridge abutments	80	0
	Road bridge sub-structure	80	0
	Low Level Barage	50	0
	Road bridge super-structure	80	0
Road drainage	Chute Structure	20	0
	Dewatering sub-soil drain	50	0
	Drop Inlet	20	0
	Grid Inlet	30	0
	Kerb	50	0
	Kerb Inlet	20	0
	Lined open drain	20	0
	Stone pitch channel	20	0
	Stone pitched drain	15	0
	Pipe – Stormwater Drainage	50	0
	Unlined open drain	20	0
	V-drain	20	0
Wing Walls	20	0	
Land	Public Service Infrastructure / Infrastructure Servitudes	0	0
	Road reserve	0	0
Rail lines and ballast	Rail lines	50-80	0
	Rail lines and ballast	60	0-50%
Pavements	Bituminous surface (medium)	9-20	0
	Bituminous surface (Thick)	12-25	0
	Bituminous surface (Thin)	7-15	0
	Concrete block surface	20-50	0
	Earthworks - cut and fill	100	0-50%
	Gravel	5-15	0
	Structural layers - paved access roads	80	0-30%
	Structural layers - paved arterial/ distributor	30-50	0-30%
	Structural layers - paved collectors	50	0-30%
Rail lines and ballast	Rail lines and ballast	60	0-50%

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Retaining walls	Anchored wall	50	0
	Retaining wall	60	0

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	Tunnel excavation	300	0
	Tunnel lining	75	0
Storm-water Conveyance	Canal lining	50	0
	Culvert	60	0
	Gabion walls	40	0
	Pipe - stormwater	50	0
	Commuter shelter	25	0
Street Furniture (architecture)	Cable/Fibre Ducts	80	0
	Footpath (Bituminous)	30	0
	Footpath (Concrete)	30-50	0
	Footpaths (Brick)	30	0
	Guard rail	25	0
	Mini round-about	20	0
	Speed hump	50	0
	Street rubbish bin	10	0
	Street Signs	7-10	0
	Traffic island	30	0
Street Furniture (roads)	Guidance Signs	15	0
	Regulatory and Warning Signs	7-10	0
	Road marking	5	0
	Traffic signal	15	0

COMMUNITY FACILITIES AND OTHER PROPERTY			
Asset type	Component type	EUL to Adopt in the Policy (Years)	Residual Values (%)
Building Elements	Air conditioning	8-15	0
	Building Structure - Walls	60-80	0
	Electrical installation	30	0
	Finishes, fixtures & fittings	15	0
	Fire protection	20	0
	Finishes, Fixtures & fittings (per floor)	15	0
	Geyser	15	0
	Burglar Bars	15	0
	Security Fence & Gate	15	0
	Floor	50	0
	Lifts	30	0
	Concrete Slab/Apron	50	0
	Steel Containers	15	0
	Plumbing	20	0
	Roof	30	0

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	Security system	5-10	0
Civil structure	Lining - landfill	50	0
	Retaining Wall	60	0
External Improvements	Billboards	25	0
	Carports	15	0
	External furniture	20	0
	External lighting	30	0



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	Fence - wire	5-15	0
	Floodlights	30	0
	Irrigation	10-15	0
	Landscaping	50	0
	Lawns	50	0
	Light bollards	30	0
	Paving	15	0
	Perimeter Protection	15-30	0
	Security Device	10	0
	Steel palisade fence	15	0
	Gate	15	0
	Ramps	15	0
	Balustrades	15	0
	Bins	10	0
	Fibre	25	0
	Guidance Signs	12	0
	Playground Equipment	10	0
	Poles	30	0
	Roads & Parking	30	0
	Earthworks – cut & fill	100	0.5
	Patio - Concrete	15	0
	Tank Concrete	50	0
	Boundary Wall	15	0
	Nursery	15	0
	Steel palisade fence	15	0
	Steel palisade gate	15	0
	Steel structure	15	0
	Fence – reinforced panel	15	0
Retaining walls	Retaining wall	60	0
Sports facilities	Bowling green	20	0
	Lawns	50	0
	Sports field	15	0
	Stadium	50	0
	Swimming pool	20-30	0
	Tennis court	15	0
	Basketball posts	10	0
	Goal posts	10	0
	Rugby posts	10	0
	Irrigation equipment	10	0
	Steel palisade fence	15	0
	Steel palisade gate	15	0

**LAND**

ASSET TYPE	COMPONENT TYPE	EUL	Residual (%)
Land	Stormwater Reserve	NA	NA
	Rail Reserve	NA	NA

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	Land – Public Service Infrastructure	NA	NA
	Land	NA	NA

**INVESTMENT PROPERTY**

<b>ASSET TYPE</b>	<b>COMPONENT TYPE</b>	<b>EUL</b>	<b>Residual (%)</b>
Investment Property	Improved Property	NA	NA
	Unimproved Property	NA	NA

**INTANGIBLE ASSETS**

<b>ASSET TYPE</b>	<b>COMPONENT TYPE</b>	<b>EUL</b>	<b>Residual (%)</b>
Servitude	Servitudes	NA	NA

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**HERITAGE ASSETS**

<b>ASSET TYPE</b>	<b>COMPONENT TYPE</b>	<b>EUL</b>	<b>Residual (%)</b>
Land	Land	NA	NA
Monument	Monument	NA	NA
Statue	Statue	NA	NA
Sculpture	Sculpture	NA	NA
Memorial	Memorial	NA	NA
Plaque	Plaque	NA	NA
Cenotaph	Cenotaph	NA	NA
Grave	Grave	NA	NA

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**Table B- Asset categories, sub-categories and groups**

Accounting Group	Asset Category	Asset Sub-Category	Asset group type
Heritage assets	Heritage assets	Conservation areas	Conservation areas
		Historic buildings	Historic buildings
		Monuments	Monuments
		Other heritage	Other heritage
		Works of art	Works of art
Intangible assets	Intangible assets	Licences and rights	Effluent licences
			Solid waste licences
			Water Rights
		Servitudes	Servitudes
Investment property	Investment property	Investment property	Improved property
			Unimproved property
Property, plant and equipment	Community assets	Community facilities	Abattoirs
			Capital spares
			Cemeteries / crematoria
			Centres
			Clinics / care centres
			Crèches
			Fire / ambulance station
			Galleries
			Halls
			Libraries
			Markets
			Museums
			Nature reserves
			Parks
			Police
			Public ablution facilities
			Public open Spaces
			Stalls
			Taxi ranks / bus terminals
			Testing stations
		Theatres	
		Sport and recreation facilities	Capital spares
			Indoor facilities
			Outdoor facilities

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Accounting Group	Asset Category	Asset Sub-Category	Asset group type
	Infrastructure	Coastal infrastructure	Capital spares
			Piers
			Promenade
			Revetments
			Sand pumps
		Electrical infrastructure	Capital spares
			HV substations
			HV switching stations
			HV transmission conductors
			LV networks
			MV networks
			MV substations
			MV switching stations
			Power plants
		Information and communications infrastructure	Capital spares
			Core layers
			Data centres
			Distribution layers
		Rail infrastructure	Capital spares
			Drainage collection
			LV networks
			MV networks
			MV substations
			MV switching stations
			Rail furniture
			Rail lines
			Rail structures
		Roads infrastructure	Capital spares
			Road furniture
			Road structures
			Roads
		Sanitation infrastructure	Capital spares
			Outfall sewers
	Pump stations		
	Reticulation		
	Toilet facilities		
	Waste-water treatment works (WWTW)		

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Accounting Group	Asset Category	Asset Sub-Category	Asset group type
		Solid waste infrastructure	Capital spares
			Landfill sites
			Processing facilities
			Waste transfer stations
			Waste transfer stations, processing facilities, and landfill sites
		Storm-water infrastructure	Attenuation
			Capital spares
			Drainage collection
			Pump stations
			Storm-water conveyance
		Water infrastructure	Borehole
			Bulk mains
			Capital spares
			Dams and weirs
			Distribution
			PRV station
			Pump stations
			Reservoirs
			Water treatment works (WTW)
	Other assets	Housing	Capital spares
			Social housing
			Staff housing
		Operational buildings	Building plan offices
			Capital spares
			Laboratories
			Manufacturing plant
			Municipal offices
			Pay / enquiry points
			Stores
			Training centres
			Workshops
			Yards / depots