Item A-F (17-2023) **CM 26/05/2021**	**MEDIUM-TERM REVENUE AND EXPENDITURE FRAMEWORK (MTREF) FOR 2023/24 TO 2025/26 AND THE REVISED 2022/2023 TO 2026/27 INTEGRATED DEVELOPMENT PLAN (IDP)**

Resolved:

4. To guide the implementation of the municipality's annual budget, the Council of the City of Ekurhuleni **APPROVES** the amended policies and By-laws as contained in **Annexure E**.

POLICIES

Annexure E1 Medium-term Budget Statement Policy (Reviewed)
Annexure E2 Pricing Policy Statement (Reviewed)
Annexure E3 Property Rates Policy (Reviewed)
Annexure E4.1 Provision of Free Basic Electricity Policy (Reviewed)
Annexure E4.2 Provision of free Basic Water supply services (Reviewed)
Annexure E5 Waste Management Tariff Policy (Reviewed)
Annexure E6 Consumer Deposit Policy (Reviewed)
Annexure E7 Indigent Support Policy (Reviewed)
Annexure E8 Credit Control & Debt Collection Policy (Reviewed)
Annexure E9 Provision for Doubtful Debtor and Debtor Write-Off Policy (Reviewed)
Annexure E10 Budget Implementation and Monitoring Policy (Reviewed)
Annexure E11 Municipal Entity Financial Support Policy (Reviewed)
Annexure E12 Accounting Policy (Reviewed)
Annexure E13 Electricity Metering for Residential and business Customers (Reviewed)
Annexure E14 Policy for the vending of pre-paid electricity (Reviewed)
Annexure E15 Policy for Estimation and Correction of Energy or Demand Meter Reading and Billing Data (Reviewed)
Annexure E16 Electricity Tariff policy (Reviewed)
Annexure E17 Virements Policy (Reviewed)
Annexure E18 Consumer Agreement (Reviewed)
Annexure E19 Supply Chain Management Policy (Reviewed)
Annexure E20 Treasury Policy (Reviewed)
Annexure E21 Funds Transfer Policy (Reviewed)
Annexure E22 Assets Management Policy (Reviewed)
Annexure E23 Cost Containment Policy (Reviewed)
Annexure E24 Policy for the wheeling of Electricity Ekurhuleni (Reviewed)
Annexure E25 Policy for Embedded generation (Reviewed)
Annexure E26 Ekurhuleni Community Enterprise Development Fund Policy (Reviewed)
Annexure E27 Long Term Financial Strategy 2020/21-2029/30 (Reviewed)
Annexure E28 Expanded Public Works Programme Policy (Reviewed)

CONTENTS

ABBREVIATIONS

AO	Accounting Officer
AM	Asset Management
AMP	Asset Management Plan
ASB	Accounting Standards Board
COE	City of Ekurhuleni
CFO	Chief Financial Officer
CM	City Manager
CMIP	Comprehensive Municipal Infrastructure Plan
COGTA	Department of Co-operative Governance and Traditional Affairs
CRC	Current Replacement Cost
DRC	Depreciated Replacement Cost
EPWP	Expanded Public Work Program
EUL	Estimated Useful Life
GIAMA	Government Immoveable Asset Management Act
GRAP	Standards of Generally Recognised Accounting Practice
IAMP	Infrastructure Asset Management Plan
IDP	Integrated Development Plan
IIMM	International Infrastructure Management Manual
ISO	International Standards Organisation
MFMA	Municipal Finance Management Act
MM	Municipal Manager
MSA	Municipal Systems Act
ODRC	Optimised Depreciated Replacement Cost
OHSA	Occupational Health and Safety Act
PPE	Property, Plant and Equipment
RUL	Remaining Useful Life
RV	Residual Value
SDBIP	Service Delivery and Budget Implementation Plan
SANS	South African National Standard
SAMP	Strategic Asset Management Plan
VAT	Value Added Tax
%	Percentage

1. PURPOSE OF THIS DOCUMENT

This document stipulates the policy of City of Ekurhuleni (COE) for the management of its Property, Plant and Equipment (PPE), Investment property, Intangible, and Heritage assets.

The procedures required to implement this policy are provided in the procedures document. The policy commits the municipality to establishing and maintaining an asset register that complies with the latest accounting standards, and managing the assets in a way that is aligned with the municipality's strategic objectives and recognised good practice.

2. BACKGROUND

2.1 Legal framework

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

a) providing democratic and accountable government for local communities;

b) ensuring the provision of services to communities in a sustainable manner;

c) promoting social and economic development;

d) promoting a safe and healthy environment; and

e) encouraging the involvement of communities and community organisations in matters of local government.

The manner in which a municipality manages its 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 assets with the Municipal Manager while the Chief Financial Officer 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 assets safe.

2.1 Accounting standards

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

When compiling the asset register in accordance with the accounting standards, the requirements of GRAP 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 6.

2.3 Management of infrastructure assets

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 and community assets.

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

a) long-term sustainability and risk management;

b) service delivery efficiency and improvement;

c) performance monitoring and accountability;

d) community interaction and transparent processes;

e) priority development of minimum basic services for all; and

f) 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 Strategic Asset Management Plan (SAMP) that presents an integrated plan for the municipality covering all infrastructures. The arrangements outlined in the COGTA guidelines are further strengthened by the provisions of the National Treasury's Local Government Capital Asset Management Guidelines.

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.

This document provides the framework and policy directives in terms of which COE accounts for assets in a manner that satisfies the requirements of all relevant accounting standards. A procedures document focussing on the management aspects of assets will be prepared to give effect to Council's strategic objectives in a manner that employs industry best asset management philosophies and methods.

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-line with the requirements of SANS, SANS 55000 (Asset Management – Overview, principles and terminology) asset management is defined as “the coordinated activity of an organisation to realise value from assets”. The overarching goal of asset management (AM) is to manage assets in such a way that city strategic and customer service requirements are met in the most cost-effective manner for the benefit of present and future customers.

Key elements of infrastructure asset management in the South African urban space include:

- Providing defined levels and standards of service.
- Managing the impacts of changes in demand as well as changes in supply relating to climate change through spatial optimisation, demand management, infrastructure investment and other strategies.
- Adopting a full lifecycle approach to the management of infrastructure that includes cost-effective, long term strategies that meets defined service requirements.
- Optimising asset portfolios in relation to the desired spatial structure of the city.
- Identifying, assessing and managing risk in accordance with the risk appetite of the city.
- Pursuing optimised decision-making by (1) balancing opportunities, performance, costs and risks, (2) designing sustainable, net-benefit solutions that support the strategic objectives of the city and (3) by supporting long term city strategy through analysis of policy options, scenarios and other impacts.
- Developing long-term financial plans indicating lifecycle expenditure needs, probable revenue to be generated from asset portfolios, and how lifecycle needs are to be funded.

Figure A: *Asset lifecycle management*

The nature of asset portfolios (e.g. roads network, potable water system and real estate portfolio) in the city space tends to be characterised by longevity, with the lives of assets typically measured in decades.

Accordingly, AM is not only concerned with current customers and infrastructure, but also with sustainability and inter-generational equity.

So AM adopts a sustainable approach comprising lifecycle management over multiple human generations.

2.4 Policy principles

The Council and management team of COE will actively strive to implement the following principles in all asset management planning, decision-making and implementation activities:

2.4.1Sustainable service delivery

The municipality shall strive to provide to its customer’s 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; and
- 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.

2.4.2 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:

- 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;
- assess economic demand and timeously invest in bulk and distribution infrastructure as appropriate to unlock or facilitate economic growth;
- invest in a public transportation system that facilitates access to labour markets, allows for increased economic activity and opportunities, facilitates social integration; and supports spatial equity;
- invest in a range of social amenities that provide health, educational, sport and recreational benefits, thus improving the quality of life of residents;
- 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.

2.4.3 Spatial efficiency

The city shall strive to mutually optimise its spatial structure and infrastructure configuration to deliver a quality, effective and efficient physical environment supportive of sustainable, inclusive development.

To this end, the municipality commits to:

- optimise existing infrastructure capacities in the city;
- adopt levels of services and asset lifecycle responses tailored to the desired status and outcomes for priority areas as envisioned in the City’s Spatial Development Framework;

- prioritise infrastructure investment in locations that promote a compact, integrated city structure with the benefits of optimal economic functioning, citizen mobility and full realisation of social potential for all;
- consider the cost of development in various spatial locations; and to
- develop and implement spatially-based decision-making systems to ensure that infrastructure delivery maximises benefits to the community, and minimises negative financial, social, economic and environmental impacts.

2.4.4 Financial health and sustainability

The municipality shall strive to design and manage its asset portfolios and financial arrangements in such a manner that the city protects and expands the productive capacity and economic potential vested in assets as appropriate. Asset portfolio investment decisions shall be made with due consideration of both municipal and customer affordability, and aimed at long term financial resilience.

To this end, the municipality shall:

- Maintain an optimum composition of asset portfolios with an appropriate balance of revenue-generating assets to non-revenue assets, to ensure that the city is able to generate sufficient operating income to continue to deliver quality services;
- regularly review the actual extent, nature, utilisation, criticality, performance and condition of infrastructure assets to optimise planning and implementation works;
- assess life-cycle options for proposed new infrastructure in line with the requirements of the Standard for Infrastructure Procurement and Delivery Management, and the City's Supply Chain Management Policy;
- continue to secure and optimally utilise governmental grants in support of the provision of free basic services;
- review management and delivery capacity, and procure external support as necessary;
- assess and implement the most appropriate maintenance regimes for infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of infrastructure assets;
- 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;
- determine the extent of asset consumption as well as a long term programme of asset renewal;
- timeously dispose of infrastructure assets that are no longer in use;
- timeously renew infrastructure assets based on capacity, performance, risk exposure, and cost;
- maintain a positive asset sustainability ratio by aiming to fund and implement all required renewals in successive 10-year implementation periods; and shall
- determine and progressively implement cost-reflective tariffs, taking account of customer affordability, the needs of the poor and other relevant factors.

2.4.5 Environmental health

The municipality shall strive towards creating a climate adaptable, low carbon physical environment characterised by the efficient use of scarce renewable resources, extensive use of green infrastructure, and a pleasing natural environment that delivers multiple benefits to people.

To this end, the municipality shall:

- actively take steps towards curbing the loss of non-renewable resources such as water and energy to alleviate environmental pressures and also to avoid unnecessary expenditure;
- strive to manage demand through non-asset solutions where appropriate;
- investigate and progressively transition to a low carbon environment in the design, construction, operation, renewal and management of municipal infrastructure and facilities;
- investigate and progressively transition to technologies supportive of a low natural resource footprint in the design, construction, operation, renewal and management of municipal infrastructure and facilities;
- investigate and where technically and financially feasible, reduce waste outputs from municipal infrastructure processes and other operations related to the use of assets;
- as funding allows, progressively develop a multi-purpose integrated public open space system; and
- investigate and where feasible, implement green infrastructure solutions that support the climate change transition and that offers environmental and service delivery benefits, whilst also being aesthetically pleasing to humans and conducive to a quality physical environment.

2.4.6 Effective governance

The municipality will 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:

- establish, operate and commit to continually improve an asset management system for the management of assets, responsive to stakeholder and legal requirements;
- conduct regular and independent assessments to support continuous improvement of infrastructure asset management practice;
- develop and maintain a culture of regular consultation with stakeholders with regard to its management of infrastructure;
- prepare and annually update its strategic asset management plan and sectoral asset management plans;
- avail asset management information to stakeholders as appropriate;
- clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);
- cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards;
- ensure that a long-term view is taken into account in infrastructure asset management decisions; and
- shall conduct internal audits to verify that the asset management system confirms to requirements, and delivers as expected.

Furthermore, the municipality is committed to continual improvement of its asset management system and asset management practices.

2.4.9 A safe and capable workforce

The municipality shall strive to develop an asset management-centric culture in which capable employees have the desire and required competencies to implement this policy, the city's asset management system, and asset-related activities. Further, the municipality is committed to providing its employees with a working environment that is safe and conducive for the nature of work activities to be undertaken.

To this end, the municipality is committed to:

- establish asset management competency requirements for officials involved in asset management decision-making, delivery and support;
- attract, employ and develop officials involved in asset management with the required competencies, including re-training of existing staff as necessary, in line with the drive towards professionalisation in the public sector;
- procure external professional services as necessary, ensuring that such professionals have the required competencies and capacities;
- cultivate an asset management centric culture, aimed at delivering value from assets to meet stakeholder requirements; and to
- assess facilities, assets and processes, identify risks and other hindrances to employee health, safety and productivity, and take appropriate steps to address such risks and other hindrances.

3. OBJECTIVES

The objectives of this policy are for the municipality to:

a) Comply with prevailing accounting standards;

b) Provide a data platform that will support asset management practice in accordance with legislative requirements and recognised good practice.; and

c) Establish the framework for asset management practice in a consistent manner and in accordance with the legislative requirements and recognised good practice.

4. APPROVAL AND EFFECTIVE DATE

The Group CFO is responsible for the submission of this document to Council to consider its adoption after consultation with the Accounting Officer. Council shall indicate the effective date for implementation of the policy.

5. POLICY AMENDMENTS

This policy should be reviewed annually and amended as and when necessary to ensure continued compliance with the relevant legislation and accounting standards.

Annual updates in line with GRAP standards will be approved by the Asset Management Project Steering Committee.

Any other changes to this document shall only become applicable if approved by Council.
Any proposals in this regard shall be motivated by the Group CFO in consultation with the Accounting Officer and respective Heads of Departments. The recommendations of the Group CFO shall be considered for adoption by Council.

6. REFERENCES

The following references were observed in compiling this document:

a) Asset Management Framework, National Treasury, 2004.

b) Guidelines for Infrastructure Asset Management in Local Government, Department of Provincial and Local Government, 2006.

c) Municipal Finance Management Act, 2003 (Act No.56 of 2003).

d) Municipal Systems Act, 2000 (Act No.32 of 2000).

e) MFMA Circular 18 & 44.

f) Local Government Capital Asset Management Guidelines, National Treasury, 2008.

g) Government Gazettes (30013 & 31021).

h) Generally Recognised Accounting Practice as issued by the Accounting Standards Board (ASB) (GRAP 1-14, 16, 17, 19, 21, 23-27, 31 and 100-104).

i) Interpretations of the standards of GRAP issued by the ASB (IGRAP 1- 16).

j) Directives issued by the ASB.

k) Accounting guideline issued by National Treasury relating to assets.

l) Municipal Transfer and Disposal Regulations, Government Gazette no.31346.

m) Municipal Standard Chart of Accounts, 2014

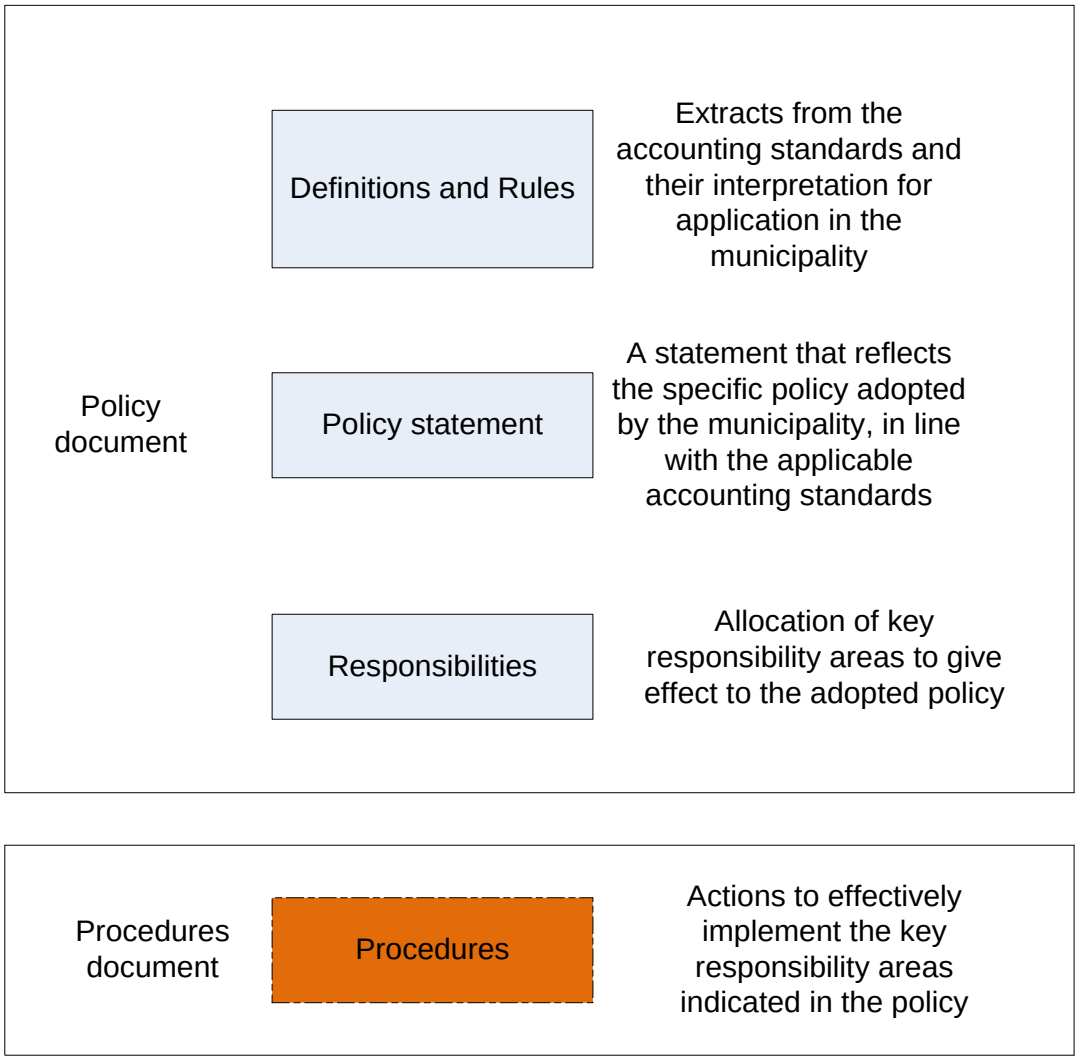
n) South African National Standard 55000 (SANS 55000): Asset management – overview, principles and terminology

o) The South African Heritage Resources Agency (SAHRA)

7. POLICY FORMAT

Figure 1 gives an overview to the format of presentation of this policy document, and how it links to a separate document that provides the procedures.

Figure 1 - Interaction between the policy and the procedures



8. ROLES AND RESPONSIBILITIES

a. Accounting Officer

The Accounting Officer of the Municipality (section 63 of the MFMA), shall be the principal custodian of all the Municipality's assets, and shall be responsible for ensuring that the asset management policy is meticulously applied and adhered to.

The Accounting Officer must ensure that:

a) The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;

b) The municipality's assets are recognised and subsequently measured in accordance with the standard of generally recognised accounting practice (GRAP);

c) the municipality has and maintains a system of internal control for the assets, including an asset register; and

d) The Head of Departments and their teams comply with this policy

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

In accordance with the MFMA, the Accounting Officer of the municipality and all designated officials are accountable to him / her. The Accounting Officer is therefore accountable for all transactions entered into by his / her delegates. The overall responsibility for asset management lies with the Accounting Officer. However, the day to day handling of assets shall be the responsibility of all officials in terms of delegated authority confirmed in writing. The Accounting Officer 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.

b. The Group Chief Financial Officer (CFO)

The Group CFO shall be the asset registrar of the Municipality (section 79 of the MFMA), and shall ensure that a complete, accurate and up-to-date computerised assets register is maintained.

The Group CFO must ensure that:

a) Appropriate systems of financial management and internal control are established and carried out diligently;

b) The financial and other resources of the municipality are utilized effectively, efficiently, economically and transparently;

c) Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;

d) The systems, processes and registers required to substantiate the financial values of the municipalities' assets are maintained to comply with prevailing accounting standards;

e) Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate asset plan, budgeting, purchasing, maintenance and disposal decisions;

f) The Accounting Officer is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets;

g) The senior managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;

h) The Group CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable to the Accounting Officer for ensuring that these activities are performed. The Group CFO has delegated this authority to the Divisional Head: Financial Reporting.

c. Divisional Head: Financial Reporting

Since the Group CFO has delegated the necessary authority to the Divisional Head: Financial Reporting to ensure effective and efficient implementation of this policy, in terms of section 82 of MFMA, the Divisional Head: Financial Reporting must exercise due financial management in terms of section 78 of the MFMA.

The Divisional Head: Financial Reporting shall keep an asset register in which all property, plant and equipment, heritage assets, intangible assets, investment property and other material assets owned or leased by the municipality, together with their appropriate carrying amounts.

The Divisional Head: Financial Reporting shall co-ordinate the submission of all integrated portfolio items for the Group CFO to report in accordance with municipal requirements.

d. Asset Management Unit (AMU)

The Divisional Head: Financial Reporting discharges his / her responsibility through the Asset Management Unit (AMU). This section consists of officials that operate at corporate level. The AMU officials are a specialized team responsible for the centralized overall asset accounting management. The officials in this AMU are however not the custodians for physical assets that are dedicated to a specific Head of Department.

Some critical duties of AMU include the following tasks:

a) Perform asset accounting in the asset registers and programme tests for asset verification to ensure that assets in the assets register and physical assets present a true reflection of COE's assets.

b) To ensure that the asset information presented to any relevant committee(s) is a correct representation of information in the asset registers, to enable decisions taken on such asset items to be effected timeously.

c) Render comments in relation to departmental assets items.

d) Provide continuous support to Asset Custodians.

e. Heads of Departments (functional heads)

The Heads of Departments (functional heads) are responsible and accountable for the custody, safeguarding, administration and maintenance of physical assets in accordance with the following criteria:

a) In general, the Accounting Officer shall be responsible and accountable for the custody, safeguarding, administration and maintenance of:

- All assets in the city, unless delegated in writing to the relevant functional head but the Accounting Officer shall remain accountable for ensuring that these delegated activities are performed;
- The assets in the Accounting Officer's office, unless delegated in writing to an Asset Controller;

b) A functional head shall be responsible and accountable for the custody, safeguarding, administration and maintenance of all physical assets in the areas delegated to them; and

c) The functional head must nominate Asset Custodians, who shall safeguard the assets on their behalf; but they shall remain accountable for ensuring that these activities are performed.

Heads of Department must ensure that:

a) The appropriate physical asset management and control (including asset internal control processes) are established and carried out for assets in their area of responsibility;

b) The municipal asset resources assigned to them are utilized effectively, efficiently, economically and transparently;

c) Any unauthorized, irregular, fruitless or wasteful utilization, and losses resulting from criminal or negligent conduct, are prevented;

d) Their asset management controls can provide an accurate, reliable and up to date account of assets under their control;

e) They are able to justify that their asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives;

f) They, or their nominated officials, shall annually confirm the existence and condition of sampled assets and submit the accountability report (in respect of movable assets) to the Divisional Head: Financial Reporting. This has to be complied with, in order to adhere to the MFMA, section 126;

g) They, or their nominated officials, complete and submit to COE's AMU their Department's annual *GRAP pack* for immovable assets in accordance with the following dates:

- Draft *GRAP pack* by 15 June each year; and
- Final *GRAP pack* by 30 June each year.

h) They use the *GRAP pack* as the source information to notify the Group CFO by 30 June each year of any change to the status or value of any asset under the functional head's control. This notification will show assets that are missing, including assets that have been demolished, destroyed, damaged, in the process of being disposed, replaced, impaired or added, results of their review and reassessment of the remaining useful lives, or any other event materially affecting assets values.

f. Divisional Heads responsible for assets

The Divisional Heads responsible for assets are officials nominated by Heads of Departments to confirm the availability, accuracy and completeness of the supporting documentation required for the assets that are acquired; but the Heads of Departments shall remain accountable for the delivery of this supporting documentation.

Where, a Divisional Head has either not been nominated or the physical projects are not appropriate for asset control purposes, the Heads of Departments of such non-represented area shall be deemed not to have delegated asset control responsibility and therefore retains all the operational asset control functions.

These Divisional Heads responsible for assets must ensure that Project Managers responsible for assets are nominated to cover all physical projects for which the Head of Department is responsible and accountable for. The project management office or the HOD assigns projects to Project Managers to a degree that it can be well managed by each Project Manager. The overall responsibility of the assets, however, still lies with the HOD of each department.

g. Asset Management Project Steering Committee and associated teams

The purpose of COE's Asset Management Project Steering Committee is to manage the asset management practices in order to ensure that the existing assets continue to provide a service whilst new infrastructure is created. Members of the Asset Management Project Steering Committee are nominated from each sector department.

The objectives of the Asset Management Project Steering Committee are to:

a) Specify the required outcomes for compliance and planning of asset management projects;
b) Set the asset management timetable (schedule);
c) Monitor all asset management progress reports;
d) Identify and manage the implementation of the required organisational changes required to improve asset management;
e) Ensure that all Auditor General findings relating to assets are addressed and cleared timeously;
f) Confirm that prescribed asset management practices are being implemented across the Municipality; and
g) Convene regularly to check the effectiveness of COE's asset management practices.

h. All council employees

a) Shall ensure that assets assigned to them are utilized effectively, efficiently, economically and transparently.
b) Shall ensure that the assets of the council are not used for private gain.
c) Shall notify that the asset controllers and asset management section of all obsolete, damaged and stolen assets without delay.
d) Shall physically verify all assets under their possession and report to the result of the verification to the assets management unit at year end.
e) Shall ensure that all assets under their possession are properly bar-coded.
f) Shall ensure that on termination of service they returned the assets to their supervisors and complete a termination assets clearance form.
g) Shall notify the asset coordinators and assets management unit of the movement and transfer of assets assigned to them by completing an asset transfer form.
h) Shall ensure that they comply with the operational procedures.

9. Financial Management

a. Pre-Acquisition Planning

Before a capital project is included in the budget for approval, the Head of Department of the relevant department must demonstrate that they have considered:

a) The projected capital expenditure over all the financial years until the project is operational;
b) The funding source;
c) The future operational costs and revenue on the project, including tax and tariff implications;
d) The financial sustainability of the project over its life including revenue generation and subsidisation requirements;
e) The physical and financial stewardship of that asset through all stages in its life including acquisition, installation, maintenance, operations, disposal and rehabilitation;
f) The inclusion of this capital project in the integrated development plan and future budgets.
g) The chief financial officer is accountable to ensure the senior manager of the relevant department receives all reasonable assistance, guidance and explanation to enable them to achieve their planning requirements.

b. Approval to Acquire Property Plant and Equipment

Money can only be spent on a capital project if:

- The money has been appropriated in the capital budget,
- The project, including the total capital expenditure, has been approved by the council,
- The CFO confirms that funding is available for that specific project, and
- The contract that will impose financial obligations beyond two years after the budget year is appropriately disclosed.
- The acquisition of the Assets complies with the normal processes of the Supply Chain Management Policy and Procedures.

c. Funding of capital projects

Within the municipality's on-going financial, legislative or administrative capacity, the Group CFO will establish and maintain the funding strategies that optimise the municipality's ability to achieve its strategic objectives as stated in the integrated development plan.

d. Disposal of property plant and equipment.

a) The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a non-current asset needed to provide the minimum level of basic municipality services;
b) The municipality may transfer ownership or otherwise dispose of a non-current asset other than one contemplated above, but only after the approval by council, in a meeting open to the public;
c) The municipality must demonstrate that the decision to dispose is based on the reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services; and
d) The municipality must demonstrate that it has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
e) The decision that a specific non-current asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset been sold, transferred or otherwise disposed of.
f) The municipal manager may approve the disposal of an item of property, plant and equipment as delegated by the municipal council. The delegations to approve contracts for the disposal an item of property, plant and equipment is stated in the Preferential Procurement Policy.
g) The disposal an item of property, plant and equipment must be fair, equitable, transparent, competitive and cost effective and comply with a prescribed regulatory framework for municipal supply chain management. The Preferential Procurement Policy covers these issues.
h) Transfer of assets to another municipality, municipal entity, national department or provincial department is excluded from these provisions.

10. CONSISTENCY OF ACCOUNTING POLICY

COE has control over several municipal entities, including the authority to govern the financial and operating policies of all these municipal entities as to obtain benefits from their activities. All the entities together are referred to as a group.

The combined financial position and results of all the entities together are compiled in the consolidated financial statements. For these consolidated financial statements to be compiled, all the entities' accounting policies shall be similar for like transactions and events.

If an entity of the group uses accounting policies other than those adopted in the consolidated financial statements such as transactions and events in similar circumstances, appropriate adjustments will be made upon consolidation of the financial statements.

11. POLICY FOR ASSET ACCOUNTING

a. Recognition

(a) Definitions and rules (as per GRAP standards)

Recognition criteria

The cost of an item of PPE, associated intangible assets, heritage assets and investment property shall be recognised as an asset if, and only if:

a) it is probable that economic benefits or service potential associated with the item will flow to the municipality, and

b) the cost or fair value of the item can be measured reliably.

Asset
Is defined as a resource controlled by the municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

PPE
These are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and are expected to be used during more than one reporting period.

Immovable PPE
Immoveable assets are fixed structures such as buildings and roads. 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 immoveable 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). Land held for currently undetermined use is recognised as investment property until such time as the use of the land has been determined.

Intangible assets
Intangible assets are defined as identifiable non-monetary assets, without physical substance. Examples are licenses/ rights, (such as water licenses), servitudes and software.

An asset is identifiable if it either:

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, identifiable asset or liability, or

b) arises from binding arrangements (including rights arising from contracts) regardless of whether those rights are transferable and separable from the municipality or from other rights and obligations.

Heritage assets

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

Heritage assets will be controlled by the municipality when it is able to generate future economic benefits or service potential from the assets, even though the municipality may be restricted from disposing these assets based on a stipulation imposed by, for example, the transferor.

Capital spares (major spare parts)
Spares and materials used on a regular basis in the ordinary course of operations are usually carried as inventory (i.e. 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 PPE asset hierarchy are considered capital spare part and are recognised as an item of PPE if they are expected to be used for more than one period or they can only be used in the construction of an item of PPE.

Consumables
Consumables are products that consumers use recurrently (are used up, discarded and have to be replaced frequently) and usually of insignificant value. These assets are not to be purchased from capital budget.

Consumable items as per approved list by the CFO (Refer to Annexure D) shall be treated as an ordinary operating expense.

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.

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.

Control over land
Control may be evidenced by a number of indicators. These indicators of control are:
- legal ownership; or
- the right to access the land, and to restrict or deny the access of others to the land; and/or
- the existence of an enforceable right to service potential or the ability to generate future economic benefits arising from the land.

In the absence of an entity demonstrating that it has the right to access and restrict or deny access of others to the land, and/or an enforceable right to service potential or the ability to generate future economic benefits arising from the land, the legal owner controls the land.

If one entity has the right to access and restrict or deny the access of others to the land and/or has an enforceable right to service potential or the ability to generate future economic benefits arising from the land, while another is the legal owner of the land, substance over form determines that the land may be controlled by the entity that:
- has the right to access the land, and to restrict or deny the access of others to the land, and/or
- has an enforceable right to service potential or the ability to generate future economic benefits arising from the land?
- can demonstrate that it has the right to access the land, and to restrict or deny the access of others to the land, it considers whether it can:

- directly use the land's service potential or future economic benefits to provide services to beneficiaries; or
- exchange, dispose of, or transfer the land; or
- use the land in any other way to provide service potential or generate future economic benefits.

Probability of the flow of benefits or service potential
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 Accounting Officer shall exercise such judgement on behalf of the municipality, in consultation with the Group CFO and respective Divisional Head.

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.

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 risks and rewards incidental 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 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 HOD, recorded, and communicated on recognition of the asset.

(b) Guideline
COE shall recognise all PPE, intangible assets, heritage assets and investment property existing at the time of the adoption of the policy and any upgrades, new assets and renewals if the assets comply with the recognition criteria. Such assets shall be capitalised in compliance with prevailing accounting standards.

The documents required for capitalisation include, but are not limited to;
- Componentisation certificates;
- Completion reports/ certificates;
- Asset capitalisation certificate;
- Bills of quantities;
- Layout drawings and;
- As-built drawings.

Refer to the Procedures for Asset Management of Immovable Assets and Associated Intangibles document for the detailed procedure regarding the capitalisation of assets.

b. Classification

(a) Definitions and rules (as per GRAP standards)

Fixed asset categories
Accounting categories relating to immoveable assets are as follows:

a) Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the municipality's operations, that is shown as a single class for the purposes of disclosure in the financial statements);

a) Heritage assets;

b) Intangible assets; and

c) Investment property.

Class of immovable PPE
A class of immovable PPE is defined as a group of assets of a similar nature or function in the municipality's operations. The total balance of each class of assets is disclosed in the notes to the financial statements.

PPE asset hierarchy
An asset hierarchy is adopted for immovable PPE which enables separate accounting of parts (or 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) 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.

PPE: Infrastructure
Some assets are commonly described as "infrastructure assets". While there is no universally accepted definition of infrastructure assets, these assets usually display some or all of the following characteristics:

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

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

PPE: Building property
PPE building property assets are 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 may have more than one purpose, e.g. a historical building which, in addition to meeting the definition of a heritage asset, is also used as office accommodation. The municipality must use its judgement to make such an assessment.

The asset should 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 the Standard of GRAP on PPE.

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.

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 (such as in the case of pipes).

Investment property
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.

Inventory
Inventories are assets: (a) in the form of materials or supplies to be consumed in the production process; (b) in the form of materials or supplies to be consumed or distributed in the rendering of services; (c) held for sale or distribution in the ordinary course of operations; or (d) in the process of production for sale or distribution.

(b) Guideline
The asset sub-categories and groups below shall be used as the classification structure for the immovable assets and associated intangible assets. The assets shall be disclosed in the financial statements at the category level.

Asset hierarchies shall be adopted for each of the immovable asset groups and associated intangible assets, separately identifying items of PPE at component level that are significant from a financial or risk perspective (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.

c. Identification

(a) Definitions and rules

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

(b) Guideline
A coding system shall be adopted and applied that will enable each asset (with immoveable PPE at the lowest level in the adopted asset hierarchy) to be uniquely and readily identifiable.

d. Asset register

(a) Definitions and rules
Asset register
A fixed asset register is a database with information relating to each asset. The fixed 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.

(b) Guideline

A fixed 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.

e. Measurement at recognition

(a) Definitions and rules (as per GRAP standards)

Measurement at recognition of immovable PPE

An item of immovable PPE that qualifies for recognition is measured at cost. Where an asset is acquired at no 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.

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), the cost of such an item is measured at fair value unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up.

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 of such an item is measured at fair value unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up.

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) A description of the heritage asset or class of heritage assets.

a) The reason why the heritage asset or class of heritage assets could not be measured reliably.

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

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.

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 qualification and has appropriate knowledge and experience in valuation of the respective assets. A Professional Engineer is considered to have the relevant professional qualification in order to determine the Current Replacement Cost (CRC) and DRC of specialised buildings and infrastructure.

Cost of an item of immovable PPE

The capitalisation value comprises of:

a) the purchase price including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and

a) 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, plus

b) an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

VAT is excluded (unless the municipality is not allowed to claim input VAT paid on purchase of such assets - in such an instance, the municipality should capitalise the cost of the asset together with VAT).

Directly attributable costs

Directly attributable costs are defined as:

a) cost of employee benefits arising directly from the construction or acquisition of the item.

b) costs of site preparation;

c) initial delivery and handling;

d) installation and assembly costs;

e) 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);

f) professional fees (for example associated with design fees, supervision, and environmental impact assessments) (in the case of all asset classes); and

g) Proper transfer taxes (in the case of all asset classes).

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

Most immoveable PPE in the municipal environment are considered assets in perpetuity in that they will generally be renewed or replaced at the end of their useful life. In the event that there is a statutory (and material) obligation to decommission or restore an asset at the end of its useful life (such as at a landfill site), provision has to be made for such costs.

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:

a) 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.

- 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.

b) 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 in the face of the statement of changes in net assets.

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. The cost of such an item of property, plant and equipment is measured at fair value unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up.

Finance leases

The cost of such an item of property, plant and equipment is measured at fair value unless the fair value of neither the asset received nor the asset given up is reliably measurable. If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up.

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.

Depreciated replacement cost

The depreciated replacement cost method is used when the cost of an item of PPE cannot be reliably measured.

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:

$$DRC = ((CRC – RV) \times RUL/EUL) + RV$$

Replacement costs are “brown field”, reflecting cost variances over and above “green-field” modifications. Capital unit costs vary from site to site and provision is made for site specific influencing factors (e.g. topography). Capital unit costs are also influenced by macro-economic driving forces such as “supply-and-demand”, economy of scale, financial markets and availability of contractors, and the impact of these factors are reflected in the capital unit rates where applicable. Adjustments of rates for escalation to the valuation date are applied.

The expected useful life and residual values are estimates informed by industry norms and actual asset performance in the municipality and at other similar municipalities. The remaining useful life is informed by the expected useful life, the age of the component since becoming available for use, its condition, and any committed plans for replacement, rehabilitation, upgrading or de-commissioning.

Self-constructed assets

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality.

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 aggregated and capitalised in the asset register.

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.

Circumstances where fair value will be used at initial measurement:

Where an item of immoveable PPE, an intangible asset, heritage asset or an investment property is acquired through a non-exchange transaction, its cost is the fair value as at the date of acquisition. Events that might lead to this accounting treatment are when an asset is contributed or gifted to the municipality, a power of sequestration was exercised, there are no records on the asset’s cost price, or the records cannot be linked to specific assets.

According to Directive 7, if the fair value at the measurement date cannot be determined for an item of property, plant and equipment, investment property or a heritage asset, an entity may estimate such fair value using:

a) depreciated replacement cost at the measurement date for an item of property, plant and equipment;

b) depreciated replacement cost at the measurement date for an investment property, but only if the investment property is of such a specialised nature that there is no market-based evidence of fair value; and

c) replacement cost at the measurement date for heritage assets.

Directive 7 can only be used to determine the cost of an asset that was acquired prior to the measurement date, 1 July 2007. For assets which cost data is not available and acquired after the measurement date, the use of deemed cost will result in a change of policy from the cost model to the revaluation model.

The measurement at recognition of an item of PPE, acquired through a non-exchange transaction, at its fair value does not constitute a revaluation.

Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

Day-to-day servicing

The cost of day-to-day servicing of an asset shall not be recognised as an item of PPE. These costs shall instead be recognised in the surplus or deficit as incurred. The cost of day-to-day servicing is primarily the costs of labour and consumables, and may include costs of small parts and maintenance material.

Replacement of components

Components of some items of PPE may require replacement at regular intervals, for example a pump. Items of PPE may also be required to make a less frequently recurring replacement, such as replacing the interior walls of a building, or to make a non-recurring replacement. The municipality recognises in the carrying value of an item of PPE the cost of the replacing part of such an item, when that cost is incurred and if the recognition criteria are met.

The carrying values of those parts that are replaced are derecognised in accordance with the Standard on Plant, Property and Equipment, GRAP 17 (REVISED), which are discussed later in this document.

Intangible assets acquired through non-exchange transactions

In some cases, an intangible asset may be acquired through a non-exchange transaction. This may happen when another public sector entity transfers to an entity in a non-exchange transaction, intangible assets such as airport landing rights. The cost of the item will be its fair value at the date it is acquired.

Internally generated goodwill

Internally generated goodwill must not be recognised as an asset.

(b) Guideline

An item of PPE and heritage assets which qualify for recognition as an asset shall be measured at its cost. Investment property will be measured at cost and transaction costs will be included in the initial measurement.

In the case of intangible assets, expenditure shall be recognised as an expense when it is incurred unless it forms part of the cost of an intangible asset that meets the recognition criteria. Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

In cases where complete cost data is not available or reliable for use, the fair value of PPE, an associated intangible asset, heritage assets and investment property shall be used to recognise the asset.

f. Measurement after recognition

(a) Definitions and rules (as per GRAP standard)

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.

Investment property
COE has adopted the cost model approach; therefore, investment property will be accounted for at cost less accumulated depreciation and accumulated impairment in accordance with the Standards on PPE, GRAP 17 (REVISED).

COE is required to determine the fair values of all the investment property, for the purpose of disclosure when using the cost model approach. COE is encouraged to disclose the fair value of investment property when this is materially different from the carrying amount. COE will determine the fair value of investment property on a basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

Transfers from investment property to PPE shall only be made when there is a change in use of the property.

Costs associated with heritage assets subsequent to initial measurement
Costs incurred to enhance or restore a heritage asset to preserve its indefinite useful life should be capitalised as part of the cost of the asset. Such costs should be recognised in the carrying amount of the heritage asset as incurred.

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.

Costs to be capitalised
Costs 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 costs are recognised once the municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) – prior to this, the costs are recorded as work-in-progress. Costs 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 costs concerned.

(b) Guideline
Measurement after recognition shall be on the following basis: -
- Immoveable PPE: cost model.
- Heritage assets: cost model.
- Investment property: cost model.
- Intangible assets: cost model.

g. Depreciation

(a) Definition and rules (as per GRAP standard)
Depreciation
"Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life".
PPE is depreciated over its useful life

Intangible assets are amortised over its useful life.

Land and servitudes are considered to have unlimited lives; therefore, they are not depreciated.

Heritage assets are 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.
The residual value of a PPE asset, investment property or intangible assets may increase to an amount equal or greater than the asset's carrying value. If it does, the asset's depreciation charges will be zero unless and until its residual value subsequently decreases to an amount below the asset's carrying value.

The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless:

- there is a commitment by a third party to purchase the asset at the end of its useful life; or
- there is an active market for the asset and:
- residual value can be determined by reference to that market; and
- it is probable that such a market will exist at the end of the asset's useful life.

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.

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.

Remaining useful life
The remaining useful life of a depreciable 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 assets at initial recognition is the same as the expected useful life indicated in **Annexure B**. 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.

Annual review of remaining useful life
The remaining useful lives of depreciable assets are reviewed every year at the reporting date.

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.

Useful lives of assets
The estimated useful lives of all assets shall be reviewed at each reporting date, taking into account any changes in asset lifecycle strategies as described in the Municipality's asset

management plans, the availability of funding to implement lifecycle strategies, changes in operating conditions and other relevant factors such as the availability of comparative asset data. The estimated useful lives of assets are indicated in **Annexures B and C** for immovable and movable assets respectively.

The useful life of an asset shall be reviewed at least at each reporting date and, if expectations differ from previous estimates, the change shall be accounted for as a change in accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3. The change will occur prospectively which means that the change will have an effect in the current and future periods.

Land and buildings are separable assets and are accounted for separately, even when they are acquired together. With some exceptions, such as quarries and landfill sites, land has an unlimited useful life and therefore is not depreciated. Buildings have a limited useful life and therefore are depreciable assets. An increase in the value of the land on which a building stands does not affect the determination of the depreciable amount of a building.

The municipality shall assess whether the useful life or service potential of an intangible asset is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, will be the elements used to estimate the useful life. An intangible asset shall be regarded by the municipality as having an indefinite life when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential for the municipality.

The useful life of an intangible asset that arises from contractual rights or other legal rights shall not exceed the period of the contractual or other legal right, but may be shorter depending on the period over which the municipality expects to use the asset. If the contractual rights or other legal rights are conveyed for a limited term that can be renewed, the useful life of the intangible asset shall include the renewal period only if there is evidence to support renewal by the municipality without significant cost.
The useful life of an intangible asset that is not amortised shall be reviewed each period to determine whether events and circumstances continue to support an indefinite useful life assessment for that asset. If it does not, the change in the useful life from indefinite to finite shall be accounted for as a change in accounting estimate in accordance with the Standard on Accounting Policies, Changes in Accounting Estimates and Errors, GRAP 3.

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.

Depreciation is initially calculated from the day when an asset is acquired or – in the case of construction works and plant and machinery – the day in which the asset is available for use, until the end of the calendar month concerned. Thereafter, depreciation charges are calculated monthly.

Depreciation and amortisation charges for each period shall be recognised in the surplus or deficit unless it is included in the carrying value of another asset.
Depreciation and amortisation of an asset will cease at the earlier date that the asset is classified as held for sale in accordance with the Standard on Non-Current Assets held for sale and discontinued operations, GRAP 100, and the date the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use unless the asset is fully depreciated.

Amortisation of an intangible asset with a finite useful life does not cease when the intangible asset is no longer used, unless the asset has been fully depreciated.

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

a) Restated proportionately with the change in gross carrying value of the asset so that the carrying value of the asset after the 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, or
b) Eliminated against the gross carrying value of the asset and the net amount restated to the revalued amount of the asset. This method is often used for buildings.

Carrying amount

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

Capital spares

Capital spares will be depreciated once they are commissioned into operation and they will be depreciated over their useful life.

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.

(b) Guideline

All assets, except land and heritage assets, shall be depreciated over their useful lives.
All intangible assets, other than intangibles with an indefinite useful life, shall be amortised over their useful lives.
Capital spares held in storage will be depreciated over their useful once the asset has been commissioned into operation.
The method of depreciation shall be reviewed on an annual basis, though the straight-line basis shall be used in all cases except capital spares (for which the production method will be used) unless Council determines otherwise. Servitudes will not be depreciated. The existence, remaining useful lives and residual values of fixed assets shall also be reviewed at each reporting date.

Depreciation or amortisation is initially calculated from the day when a fixed asset is acquired or – in the case of construction works and plant and machinery – the day in which the fixed asset is available for use.

h. Impairment

(a) Definition and rules (as per GRAP standard)

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; or
   - 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:
   - 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.

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.

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
The events and circumstances in each instance must be recorded. 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.

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 units
Non-cash-generating units are those assets (or group of assets) that are not used with the objective of generating a commercial return. Instead they are used to deliver services. This would typically apply to assets providing goods or services for community or social benefit.

The recoverable 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 ongoing 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:

(a) 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); or
(b) the restoration cost approach (the Depreciated Replacement Cost less cost of restoration) – usually used in cases where there has been physical damage

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 used with the objective of generating a commercial return. Commercial returns mean that positive cash flows are expected to be significantly higher than the cost of the asset.

An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. In such cases, management's plans and decisions will indicate that the entity intends to generate positive cash flows that are expected to be significantly higher than the cost of the assets at acquisition.

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.

Designation as cash generating or non-cash-generating

At initial recognition, an entity shall designate an asset as non-cash-generating asset or cash-generating unit as cash-generating. The designation is made on the basis of an entity's objective of using the assets. Assets are designated as cash-generating or non-cash-generating based on the entity's objective of using the assets. Assets can either be used with the objective of generating a commercial return or delivering services. In some cases, an entity may use its assets to fulfil both objectives.

An asset may be used 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.

The designation of an asset will not change between reporting periods unless there has been a change in the entity's objective of using the asset that is expected to results in positive cash flows that are significantly higher than the cost of the asset. In cases when it is not clear what the overall objective of using the assets is, the presumption is that assets are used with the objective to deliver services.

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 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 asset, 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). Any reversal of an impairment loss is recognised as a credit in surplus or deficit.

(b) Guideline

The municipality considers itself an entity whose objective is to provide goods and services for community or social benefit, and where positive cash flows are generated (such as from sale of trading services such as water services), these are with the view to support the primary objective 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), 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 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.

i. De-recognition and disposal

(a) Definition and rules (as per GRAP standards)

Disposal

"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.

De-recognition

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.

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.

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

(b) Guideline

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 Accounting Officer:

- 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 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.

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 and approved 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 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.

j. Insurance of assets

(a) Definition and rules

Insurance provides selected coverage for the accidental loss of asset value. The municipality can elect to insure certain infrastructure risks, though approval must be obtained from the Council.

The Group 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 Group CFO should be authorised to obtain external professional assistance. Other criteria include the tolerance and ability to self-absorb risks which might be insurable, the availability of cover in the market, the cost to obtain which might be prohibitive as well as self-insurance policies and procedures.

The municipality is not allowed to operate a self-insurance reserve unless it is cash backed and can be verified exactly what the amount set aside will be utilised for. Currently, COE is self-insuring by means of an aggregate fund provision on the operational budget. The funds within this budget fall away at the end of the financial year if they are unutilised.

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 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 Group CFO should compile a report advising the Accounting Officer of the facts thereof and any possible further action.

(b) Guideline

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 assets each financial year based on the recommendation from the Municipal Manager after consultation with the Group CFO, and advise Council accordingly.

The Municipal Manager shall ensure that all Municipal buildings are insured at least against fire and allied perils.

k. Disclosures

PPE

In the financial statements, COE should disclose, for each class of property, plant and equipment recognised in the financial statements:

(a) the measurement bases used for determining the gross carrying amount;
(b) the depreciation methods used;
(c) the useful lives or the depreciation rates used;
(d) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
(e) a reconciliation of the carrying amount at the beginning and end of the period showing:
    (i) additions;
    (ii) disposal;
    (iii) acquisitions through entity combinations;
    (iv) increases or decreases resulting from revaluations (if any);
    (v) impairment losses recognised in surplus or deficit in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets (if any);
    (vi) impairment losses reversed in surplus or deficit in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets (if any);
    (vii) depreciation;
    (viii) the net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
    (ix) other changes.

The financial statements should also disclose for each class of property, plant and equipment recognised in the financial statements:

(a) the existence and amounts of restrictions on title and property, plant and equipment pledged as securities for liabilities;
(b) the amount of expenditures recognised in the carrying amount of an item of property, plant and equipment in the course of its construction;
(c) the amount of contractual commitments for the acquisition of property, plant and equipment; and
(d) if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant and equipment that were impaired, lost or given up that is included in surplus or deficit.

If items of property, plant and equipment are stated at revalued amounts, the following should be disclosed:

(a) the effective date of the revaluation;
(b) whether an independent valuer was involved;
(c) the methods and significant assumptions applied in estimating the items' fair values;
(d) the extent to which the items' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms or were estimated using other valuation techniques;
(e) the revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to owners of net assets.

COE should disclose the following information to users of financial statements for their relevant needs:

(a) the carrying amount of any item of property, plant and equipment that was not used for any period of time during the reporting period that significantly impacted the delivery of goods and services of COE;
(b) the gross carrying amount of any fully depreciated property, plant and equipment that is still in use;
(c) the carrying amount of property, plant and equipment retired from active use and not classified as held for sale in accordance with the Standard of GRAP on Non-Current Assets Held for Sale and Discontinued Operations; and
(d) when the cost model is used, the fair value of property, plant and equipment when this is materially different from the carrying amount; therefore, COE should disclose these amounts.

<u>Investment Property</u>

COE should disclose:

(a) whether it applies the fair value model or the cost model;
(b) if it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;
(c) when classification is difficult, the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;
(d) the methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;
(e) the extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;
(f) the amounts recognised in surplus or deficit for:

(i) rental revenue from investment property;
(ii) direct operating expenses (including repairs and maintenance) arising from investment property that generated rental revenue during the period; and
(iii) direct operating expenses (including repairs and maintenance) arising from investment property that did not generate rental revenue during the period;

(g) the existence and amounts of restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal; and
(h) contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

COE should also disclose the following information because the municipality applies the cost model:

(a) the depreciation methods used;
(b) the useful lives or the depreciation rates used;
(c) the gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
(d) a reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:
(i) additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognised as an asset;
(ii) additions resulting from acquisitions through transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger;
(iii) depreciation;
(iv) the amount of impairment losses recognised, and the amount of impairment losses reversed, during the period in accordance with the Standard of GRAP on Impairment of Cash-generating Assets;
(v) the net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
(vi) transfers to and from inventories and owner-occupied property; and
(vii) other changes.

Entities are encouraged to disclose the fair value of investment property when this is materially different from the carrying amount.

COE shall disclose the following in the notes to the financial statements in relation to investment property which is in the process of being constructed or developed:
(a) The cumulative expenditure recognised in the carrying value of investment property.
(b) The carrying value of investment property that is taking a significantly longer period of time to complete than expected, including reasons for any delays
(c) The carrying value of investment property where construction or development has been halted either during the current or previous reporting period(s). The entity shall also disclose reasons for halting the construction or development of the asset and indicate whether any impairment losses have been recognised in relation to these assets.

Intangible assets

COE should disclose the following for each class of intangible assets, distinguishing between internally generated intangible assets and other intangible assets:

(a) Whether the useful lives are indefinite or finite and, if finite, the useful lives or the amortisation rates used.
(b) The amortisation methods used for intangible assets with finite useful lives.
(c) The gross carrying amount and any accumulated amortisation (aggregated with accumulated impairment losses) at the beginning and end of the period.
(d) The line item(s) of the statement of financial performance in which any amortisation of intangible assets is included.
(e) A reconciliation of the carrying amount at the beginning and end of the period showing:

(i) additions, indicating separately those from internal development and those acquired separately;
(ii) acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger;
(iii) disposals;
(iv) increases or decreases during the period resulting from revaluations (if any);
(v) impairment losses recognised in surplus or deficit during the period in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets (if any);
(vi) impairment losses reversed in surplus or deficit during the period in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets) (if any);
(vii) any amortisation recognised during the period;
(viii) net exchange differences arising on the translation of the financial statements into the presentation currency, and on the translation of a foreign operation into the presentation currency of the entity; and
(ix) other changes in the carrying amount during the period.

COE should disclose information on impaired intangible assets in accordance with the Standards of GRAP on Impairment of Cash-generating Assets and Impairment of Non-cash-generating Assets.

The Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors requires COE to disclose the nature and amount of a change in an accounting estimate that has a material effect in the current period or is expected to have a material effect in subsequent periods. Such disclosure may arise from changes in:

(a) the assessment of an intangible asset's useful life;
(b) the amortisation method; or
(c) residual values.

COE should also disclose:

(a) for an intangible asset assessed as having an indefinite useful life, the carrying amount of that asset and the reasons supporting the assessment of an indefinite useful life. In giving these reasons, the entity shall describe the factor(s) that played a significant role in determining that the asset has an indefinite useful life;
(b) a description, the carrying amount and remaining amortisation period of any individual intangible asset that is material to the entity's financial statements;
(c) the existence and carrying amounts of intangible assets whose title is restricted and the carrying amounts of intangible assets pledged as security for liabilities; and
(d) the amount of contractual commitments for the acquisition of intangible assets.

COE should disclose the aggregate amount of research and development expenditure recognised as an expense during the period.

COE is encouraged, but not required, to disclose the following information:

(a) A description of any fully amortised intangible asset that is still in use.
(b) A brief description of significant intangible assets controlled by COE but not recognised as assets because they did not meet the recognition criteria in this Standard on Intangible assets.

Heritage assets

The financial statements should disclose, for each class of heritage assets recognised in the financial statements:

(a) the measurement bases used for determining the gross carrying amount;
(b) the gross carrying amount aggregated with accumulated impairment losses at the beginning and of the period;

(c) a reconciliation of the carrying amount at the beginning and end of the period showing:
    (i) additions;
    (ii) disposals;
    (iii) acquisitions through a transfer of functions between entities under common control, a transfer of functions between entities not under common control or a merger;
    (iv) increases or decreases resulting from revaluations under paragraphs .34, .51 and .52 (GRAP103) and from impairment losses recognised or reversed directly in net assets in accordance with the Standards of GRAP on Impairment of Non-cash-generating Assets and Impairment of Cash-generating Assets;
    (v) impairment losses recognised in surplus or deficit in accordance with the Standards of GRAP on Impairment of Non-cash-generating Assets and Impairment of Cash-generating Assets;
    (vi) impairment losses reversed in surplus or deficit in accordance with the Standards of GRAP on Impairment of Non-cash-generating Assets and Impairment of Cash-generating Assets;
    (vii) the net exchange differences arising from the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity;
    (viii) transfers to and from property, plant and equipment, investment property, inventories or intangible assets; and
    (ix) other changes.

To the extent that it provides useful and relevant information, COE is encouraged to disclose:
(a) information that will enable users to appreciate the age and/or condition of the heritage assets; and
(b) information on heritage assets that are borrowed from, or on loan to other entities.

The financial statements should also disclose for each class of heritage assets recognised in the financial statements:
(a) the existence and amounts of restrictions on title and disposal of heritage assets;
(b) heritage assets pledged as securities for liabilities;
(c) the amount of contractual commitments for the acquisition, maintenance and restoration of heritage assets; and
(d) if it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of heritage assets that were impaired, lost or given up that is included in surplus or deficit.

The financial statements should disclose information about the alternative use and value of heritage assets that are used by COE for more than one purpose.
When COE does not recognise a heritage asset, or a class of heritage assets as a result of reliable measurement not being possible on initial recognition, COE shall disclose the following for each heritage asset or class of heritage assets:
(a) A description of the heritage asset or class of heritage assets.
(b) The reason why the heritage asset or class of heritage assets could not be measured reliably.
(c) On disposal of the heritage asset or class of heritage assets, the compensation received and the amount recognised in the statement of financial performance.

In the exceptional cases, when an entity measures a heritage asset or class of heritage assets using the cost model, the reconciliation requires these additional information:
(a) a description of the heritage asset or class of heritage assets,
(b) an explanation why fair value cannot be determined reliably,
(c) on disposal of the heritage asset or class of heritage assets:
    (i) the fact that the entity has disposed of the heritage asset or class of heritage assets;

(ii) the carrying amount of that heritage asset or class of heritage assets at the time of sale; and
(iii) the amount of gain or loss recognised.

If the fair value of the heritage asset or class of heritage assets previously measured at cost less any impairment losses become reliably measurable during the current period, an entity shall disclose for those heritage assets or classes of heritage assets:

(a) A description of the heritage asset or class of heritage assets;
(b) An explanation why fair value has become reliably measurable; and
(c) The effect of the change.

Impairments

COE shall disclose in the summary of accounting policies; the judgements management has made in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets.

COE should disclose the following for each class of assets:

(a) The amount of impairment losses recognised in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are included.
(b) The amount of reversals of impairment losses recognised in surplus or deficit during the period and the line item(s) of the statement of financial performance in which those impairment losses are reversed.
(c) The amount of impairment losses on revalued assets recognised directly in net assets during the period.
(d) The amount of reversals of impairment losses on revalued assets recognised directly in net assets during the period.

COE which reports segment information in accordance with the Standard of GRAP on Segment Reporting should disclose the following for each segment reported:

(a) the amount of impairment losses recognised in surplus or deficit and directly in net assets during the period; and
(b) the amount of reversals of impairment losses recognised in surplus or deficit and directly in net assets during the period.

COE should disclose the following for each material impairment loss recognised or reversed during the period:

(a) the events and circumstances that led to the recognition or reversal of the impairment loss;
(b) the amount of the impairment loss recognised or reversed;
(c) the nature of the asset;
(d) For COE which reports segment information in accordance with the Standard of GRAP on Segment Reporting, the reported segment to which the asset belongs, based on COE's reporting format;
(e) whether the recoverable service amount of the asset is its fair value less costs to sell or its value in use;
(f) if the recoverable service amount is fair value less costs to sell, the basis used to determine fair value less costs to sell (such as whether fair value was determined by reference to an active market);
(g) if the recoverable service amount is value in use, the method and significant assumptions applied, including the discount rate(s) used in the current estimate and previous estimate (if any) of value in use; and
(h) whether an independent valuer was used to determine the recoverable service amount.

COE should disclose the following information for the aggregate of impairment losses and aggregate reversals of impairment losses recognised during the period for which no information is disclosed:

(a) the main classes of assets affected by impairment losses (and the main classes of assets affected by reversals of impairment losses); and,
(b) the main events and circumstances that led to the recognition of these impairment losses and reversals of impairment losses.

COE should disclose in the notes information about the key assumptions used to determine the recoverable service amount of assets during the period that have a significant risk of causing a material adjustment to the carrying amounts of assets.

Borrowing costs

Borrowing costs are interest and other costs that an entity incurs in connection with borrowing of funds. It shall be the policy of the COE to expense borrowing costs in the period in which they are incurred.

Leases

(a) For each class of asset, the net carrying amount at reporting date;
(b) A reconciliation between the total of future minimum lease payments at reporting date and their present value for each of the following:
(i) Not later than one year;
(ii) Later than one year but not later than five years; and
(iii) Later than five years.
(c) Contingent rent recognised as expense in the period;
(d) The future minimum sublease payments to be received under a non-cancellable sublease at reporting date;
(e) A general description of the lessee's material leasing arrangements, including:
(i) Basis on which contingent rent payable is determined;
(ii) The existence and terms of renewal or purchase options and escalation clause; and
(iii) Restrictions imposed by lease arrangements; and
(f) The depreciation and finance charges relating to the leased asset.

Additional in the case of Finance leases of lessors:

(a) Unearned finance revenue;
(b) The unguaranteed residual value accruing to the benefit of the lessor;
(c) Accumulative allowance for uncollectible minimum lease payments receivable; and
(d) Contingent rents recognised as revenue in the period

Work in Progress

An entity shall disclose the following in the notes to the financial statement in relation to property, plant and equipment which is in the process of being constructed or developed:

a) *The cumulative expenditure recognised in the carrying value of property, plant and equipment. These expenditures shall be disclosed in aggregate per class of asset.*
b) *The carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected, including reasons for any delays.*
c) *The carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s). The entity shall also disclose reasons for halting the construction or development of the asset and indicate whether any impairment losses have been recognised in relation to these assets.*

12. RECONCILIATION

(a) Definitions and rules

The municipality might, from time to time, make use of technical systems to meet technical requirements.

(b) Guideline

All technical systems should be aligned with the fixed asset register system. It is the responsibility of the various departments to provide the Finance department with new asset information, for which the Finance department is responsible for updating in the financial asset register.

This relates not only to new completed project information but any asset information that will result in completeness of the asset register, for example third party roads that were transferred to the municipality because of a border change, should be made available to the Finance department.

13. SAFEGUARDING

(a) Definitions and rules

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

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

- 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.

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.

(b) Guideline

The technical systems assist in the safeguarding of assets and indicate measures that are considered effective to ensure that all assets under control of the municipality are 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).

14. POLICY FOR LIFE-CYCLE MANAGEMENT OF IMMOVABLE PPE ASSETS

(a) Definitions and rules

<u>Service delivery</u>

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.

<u>Asset management</u>

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.

(b) Guideline

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:

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 customer's 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:

- 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;
- 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.

Planning documents

a) The key instrument for documenting and planning the life-cycle management of immoveable PPE will be asset management plans prepared for each service area. The applicable service areas for EMM are as follows:
   - Potable water;
   - Sanitation;
   - Roads and storm-water;
   - Electricity supply; and
   - Community assets (including solid waste).

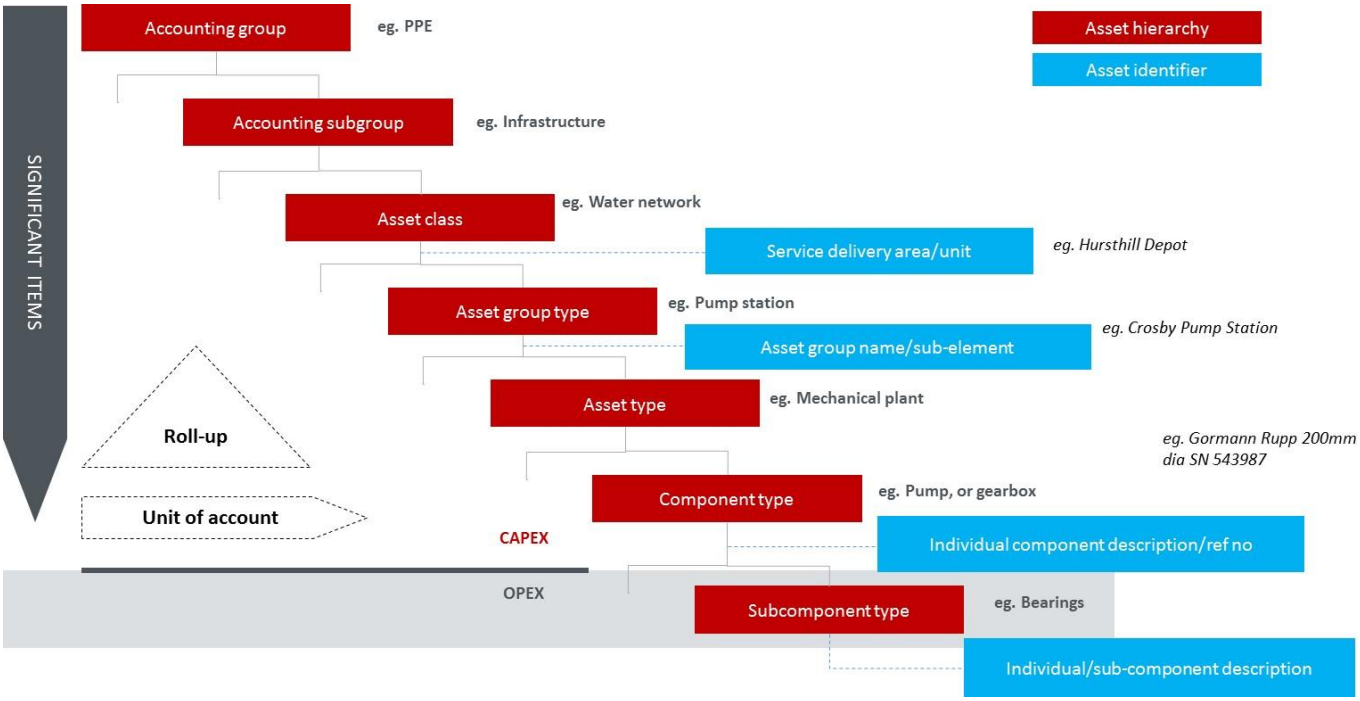
b) The following planning documents will be updated bi-annually;
   - Socio-economic study
   - Backlog study
   - Asset Management Plans (AMP)
   - Strategic Asset Management Plan (SAMP)

15. CONTENTS OF THE ASSET REGISTER

Without in any way detracting from the compliance criteria mentioned in the preceding paragraphs, the fixed asset register shall reflect at least the following information:

a) Asset hierarchy
b) The date on which the asset was acquired for use
c) The location of the asset
d) The departments within which the assets will be utilized
e) The responsible person for this asset
f) The stand number, in the case of fixed property
g) A unique identification number
h) The original cost or fair value if no costs are available
i) The (last) effective date of revaluation of the fixed assets subject to revaluation
j) The revalued value of such fixed assets
k) Expected useful life and remaining useful life
l) Accumulated depreciation to date
m) The carrying value of the asset
n) Whether this is a cash or non-cash generating asset
o) The method and, where applicable, the rate of depreciation
p) Impairment losses
q) Impairment reversals
r) the source of financing
s) Whether the asset is required to perform basic municipal services;
t) The date on which the asset is disposed of
u) The disposal proceeds
v) The residual value of each asset
w) Measurement model

The basis for asset identification and measurement is the asset hierarchy that is a framework for segmenting an asset base into appropriate classifications to enable componentisation.



An asset hierarchy consisting of six (6) levels has been developed that identifies asset components, groups them into types of assets (e.g. mechanical, electrical or civil), combines these into a facility or asset group (e.g. treatment works or pump station), groups facilities into a network (e.g. water supply), and slots that network into the category infrastructure under the accounting group of assets referred to as “Property, Plant and Equipment”, as shown in the figure below.

Refer to **Annexure A** for the Hierarchy of City of Ekurhuleni.

ANNEXURE A: IMMOVABLE ASSET HIERARCHY

Accounting Sub-group	Asset Class	Asset Group Type
Community Assets	Community facilities	Airports
		Cemeteries / Crematoria
		Clinics / Care centres
		Galleries
		Halls
		Libraries
		Markets
		Museums
		Parks
		Public ablution facilities
		Public open space
		Taxi ranks / Bus terminals
		Theatres
	Sport and recreation facilities	Indoor facilities
		Land
		Outdoor facilities
Heritage assets	Historic Buildings	Areas of Land of Historic Specific Significance
	Monuments	National Monuments
	Conservation area	National Parks
	Works of art	Works of art
		Collections
	Other Heritage assets	Cemeteries and gravesites
Infrastructure Assets	Solid Waste Infrastructure	Landfill Sites
		Waste transfer stations
		Garden refuse sites
	Electricity Infrastructure	HV Networks
		LV Networks
		MV Networks
		Capital Spares
	Information and communications Infrastructure	Access Layer
		Core Layer
		Data Centre Environment
		Distribution Layer
		Capital Spares
	Roads infrastructure	Road furniture
		Road structures
		Roads
		Capital Spares
	Storm water infrastructure	Storm water Conveyance
		Attenuation
		Drainage Collection
	Sanitation Infrastructure	Outfall sewers
		Pump stations
		Reticulation

Accounting Sub-group	Asset Class	Asset Group Type
		Waste Water Treatment Works
		Capital Spares
	Water supply Infrastructure	Bulk Mains
		Distribution
		PRV stations
		Boreholes
		Pump stations
		Reservoirs
		Capital Spares
Intangible Assets	Software/ Licences and rights	Computer Software and Applications
	Servitudes	Electricity servitude
		Sanitation servitude
		Sewerage servitude
		Water servitude
Investment Property	Investment Property	Improved property
		Unimproved property
Land	Land	Land
Other Assets	Housing	Social housing
		Staff housing
	Operational Buildings	Fire / Ambulance stations
		Laboratories
		Municipal offices
		Pay / Enquiry points
		Stores
		Testing stations
		Ward / CCC offices
		Workshops
		Yards

ANNEXURE B: EXPECTED USEFUL LIVES OF IMMOVABLE ASSETS

Component Type	Expected Useful Life (years)
Air conditioning	8 – 15
Anchored wall	50
Baler	15
Ballast	80
Batteries / battery charger	10 – 20
Billboard	15 – 30
Carport	15
Channel	20
Chiller	10
Communal standpipe	10
Communication switch	5
Commuter shelter	15 – 30
Compactor	15
Compressor	10
Control cable	5 – 10
Control panel	50
Conveyor belt	10
Culvert	60
Current transformer	50
Distributed control system	15
Doser	15
Earth structure	50
Earthworks	100
Electrical installation (building)	30
Electrical service connection	50
Electricity meters	10 – 30
Engine	10 – 20
External furniture	20
External lighting	30
Extraction blower	15
Fabricated steel	10 – 40
Fan	15
Fibre optic cable	15 – 20
Filter media	10
Finishes, fixtures & fittings	15
Fire protection	20
Footpath	20 – 40
Flare stack	30
Floor	50
Gabions	40 – 80
Gasometer	15
Gearbox	15
Generator	20

Component Type	Expected Useful Life (years)
Generator breaker / busbar / transformer	50
Grid inlet	30
Guard rail	25
Heat exchanger	30
High mast light	50
HV busbars	50
HV cable	50
HV circuit breaker	50
HV compact circuit breaker, isolator, and current transformer unit	50
HV earth switch	50
HV isolator	50
HV overhead line conductor	50
HV overhead line support structure	50
HV transformer	50
Hydrant	20
Irrigation	10
Improved investment property	40 – 60
Kerb	50
Kerb inlet	20
Landscaping	30 – 50
Lifts	30
Lightning mast and shield wiring	50
Lining - landfill	50
Liquid gas installation	20
Load control set	20
LV breaker	30
LV cable	60
LV overhead line	45
Masonry structure	50
Mini roundabout	20
Motor	15
MV busbars	50
MV cable	50
MV circuit breaker	50
MV compact circuit breaker, isolator and current transformer unit	50
MV isolator	50
MV overhead line	45
MV transformer	50
Paving	20 – 40
Pedestrian bridges	30 – 50
Perimeter protection	15 – 30
Pipe - sewer	30 – 100
Pipe – storm water	50

Component Type	Expected Useful Life (years)
Pipe - water	40 – 80
Plumbing	20
Pumps	12 - 15
Radio infrastructure	10
RC structure	50 – 80
Retaining wall	40 – 60
Ring main unit	50
Road bridges	50 – 80
Road structural layer	30 – 80
Road surface	3 – 20
Roof	30 – 40
Router	10
Security system	5 – 10
Septic tank	40
Server	10
Sign - general	15
Sign - regulatory	7
Small building / enclosure	20 – 50
Spectator stand	50
Speed hump	50
Sports field / sport installations	15 – 50
Steel structure	60
Storage area network	10
Street lights	45
Street rubbish bin	10 – 20
Subsoil drain	50
Surge arrestor	50
Tank	15 – 30
Telemetry	10
Traffic island	30
Traffic signal units	15
Uninterrupted power supply	10
Valves	15 – 45
Vending station	15
Voltage transformer	50
Walls	60
Water meter	10
Weighbridge	15
Well	30
Winch	15
Wireless access point	10

ANNEXURE C: EXPECTED USEFUL LIVES OF MOVABLE ASSETS

Code	Asset Type	Expected Useful Life (years)
30300	***FURNITURE AND FITTINGS***	
30301	CHAIRS	7
30302	TABLES AND DESKS	7
30303	CABINETS AND CUPBOARDS	7
30304	FURNITURE AND FITTINGS OTHER	7
30400	***BINS AND CONTAINERS***	
30401	HOUSEHOLD REFUSE BINS	5
30402	BULK CONTAINERS	10
30500	***EMERGENCY EQUIPMENT***	
30501	FIRE EQUIPMENT	15
30502	AMBULANCE EQUIPMENT	5
30503	FIRE HOSES	5
30504	EMERGENCY LIGHTS	5
30600	***MOTOR VEHICLES***	
30601	FIRE ENGINES	20
30602	BUSES	15
30603	MOTOR VEHICLES	5
30604	MOTOR CYCLES	3
30605	TRUCKS AND BAKKIES	5
30700	***AIRCRAFT***	15
30800	***WATERCRAFT***	15
30900	***PLANT AND EQUIPMENT***	
30901	GRADERS	10
30902	TRACTORS	10
30903	MECHANICAL HORSES	10
30904	FARM EQUIPMENT	5
30905	LAWNMOWERS	2
30906	COMPRESSORS	5
30907	LABORATORY EQUIPMENT	5
30908	RADIO EQUIPMENT	5
30909	FIRE ARMS	5
30910	TELECOMMUNICATION EQUIPMENT	5
30911	PLANT AND EQUIPMENT GENERAL	5
30912	CABLE CARS	15
30913	IRRIGATION SYSTEMS	15
30914	CREMATORS	15
30915	LATHES	15
30916	MILLING EQUIPMENT	15
30917	CONVEYORS	15
30918	FEEDERS	15

Code	Asset Type	Expected Useful Life (years)
30919	TIPPERS	15
30920	PULVERISING MILLS	15
40000	***INVESTMENT ASSETS***	
40100	LAND MAIN INVESTMENT	30
40200	FARMS	30
40300	MINERAL RIGHTS	30
40400	OFFICE PARKS	30
40500	SHOPPING CENTERS	30
40600	HOUSING: SELLING SCHEMES	20

Description
Alco meters (Breathalyzer)
Amplifier
Analyzer - breath
Antenna
Apparatus - beam, blood, bridge, eye tester, horse, suction etc.
Ashtray
B.A pack (Back pack for oxygen bottle)
Bag sealer
Base station for alarms
Bath (chemical)
Bath (water)
Battery - car, radio, etc.
Battery pack
Baumanometer
Beater - grass
Bench: cafeteria, park, steel, wood
Waste Bins - concrete, metal, plastic, refuse, wood
Blanket
Blinds
Block and tackle (Tool to lift heavy objects)
Blower: Cylinder, Electric
Board: Advertising, drawing, ironing, notice, writing white, scaffolding
Boiler
Book
Box: Ballot, cash, cooler, first aid, money, tender, safety, toys
Breaker - door
Briefcase
Bulb
Burner (big gas burner)
Burner - Bunsen (small burner used in laboratories)
Calculator - desk, pocket
Can - jerry, petrol

Description
Card reader
Carpet - loose and fixed, door mat, protector (plastic)
Cartridge - deionization (organic removal pack/pre-treatment carbon/reverse osmosis
Chain
Chair: Plastic, steel stackable, bonny, crèche, rick stacker.
Charger - battery
Chart - flip
Clip remover (clinic)
Clock - kitchen, wall
Clothing - rain (boot / clothes / coat / suit)
Clothing - safety (belt / boot / glove /hat / suit / bulletproof vest)
Coil
Communication Belt Packs and Headsets
Compass
Computer: Keyboard, modem, mouse, extender, pen writer, speaker, splitter.
Computer commas link, internal cd writer, hub, switch, Power bank, Memory stick, USB flash drives, External hard drive, etc.
Cones - road (red, yellow, etc.)
Container - pot plant
Control - remote (entrance gate)
bunk beds, beds
Coupling - pump, water
Cover
Crate
Curtains
Cylinder - acetylene, gas, measuring, oxygen, diving.
Desiccators (spaghetti mop drier), cloth, mop, mopping unit - bucket, wringer
Dish - DSTV/satellite
Dish - kidney (clinics.)
Dispenser, - foam fire equipment
Divider (Partition)
Division Isomantle (Medical equipment)
Door
Dryer - hair
Easel
Eater - weed
Electrode (equipment used in transformers)
Engraver
Extension cable / cord - electricity
Extinguisher - fire
Fan - ceiling, desk, pedestal
First aid box / kit
Flag pole and rope
Forceps (instrument used at clinics)
Gas - cylinder, heater, lamp, torch, welding,
Glass stuff - pipette/test tube

Description
Glove - leather, rubber
Goal posts
Grinder: Angle, Bench, Disc
Head - collecting
Heater - electric / gas / oil / paraffin
Height measurements
Helmet - welding
Hook - ceiling
Horse rocking
Hose - fire, garden, winder
Hotplate, hot tray.
Inductor - foam/gelid
Intercom
Inverter
Iron - board, domestic to straighten textiles, presser, soldering
Jumping castle
K53 driving test equipment (simulators used at licence dept. use to test candidates)
Kitchen ware: kettle, crockery, cutlery, knife, fork, cook ware, cooker pressure, flask - erlin meyer / volumetric, electric frying pan, pot, toaster, urn, blender, holder - paper towel, stitch, swab etc.
Hydrant (fire hydrant)
Ladder - aluminium, extension, hook, step
Lamp - examination, gas, uv arc, etc.
Laryngoscope. (throat mirror)
Light - emergency (light with battery backup), medical light used by medical personnel, re-chargeable (light that is re-chargeable), spot (spotlights used on vehicles), timing light (in workshop to tune car engines.), demo (lights used at electricity to demonstrate the amount of electricity used)
Lock - door, pad, chain
Loudhailer
Mallet - rubber
Mat - measuring
Mattress
Megaphone
Meter - baunometer/blood preasure/gluco/HB/peak flow (clinic.)
Meter - decibel, micro, multi, sound level
Meter density, flow meter, glucose meter, multi meter, voltage meter.
Microfiche.
Microphone
Mirror - framed, etc. (all types)
Model - human body, scull, etc.
Nozzle
Office stationery - guillotine, paper punch, staplers, scissors, pencil sharpener etc.
Overall (protective clothing, dust coat)
Pager
Partition stand, partition pole
Pictures, photograph - framed, etc.
Pin set

Description
Planer
Pounder
Press - ironing, steel
Reel - electric cable, hose
Rod - extension, waste water
Route finder.
Scale - adult, baby, bathroom, lab, post, etc.
Scope: Fetal- / Oro- / Steto- (Medical Equipment)
Screen - medical, welding, safety.
Scriber
Shackle
Shield - riot
Shifting
Snip - tin
Sound: Blaster(Computer), system
Speculum (instrument used at clinics)
Sprayer - back, chemical
Spreader - jaws (instrument used at clinics)
Stand Coat and Hat
Standpipe - water
Steps: metal, mobile, wood.
Stethoscope - mechanical
Stick - link, telescopic
Stool - foot (Clinics)
Strainer - basket/metal
Strapper
Suit: Chemical / Hazardous chemical / Thermal (protective clothing used by fire department)
Table: Folding, steel, plastic, plastic creche.
Tank - water
Telephone digital, cordless, telecom, cell phones, etc
Tester - 500 volt, decibel, electricity, tong (elec.), battery, bilo, current, earth leakage, gas(exhaust),spark plug.
Tester - battery / compression / cooling system, gas
Tools: (Tools generally are expense items. The list below is not exhaustive and types listed provide a guideline): Corner, crimping, divider, flaring, halogen, wrench - (bobbejaan, monkey, pipe), broom, bucket, crowbar; Cutter - (bolt, brush, pipe, side, tile, edge, I.D. photo, steel), clamp, chisel, cord - extension, detector metal, Driver - screw, file (tool to smooth metal), float (tool to smoothen cement), gauge-(gas, pressure, pump, tyre); Grip - vice, drill, drill bit, gun - hilti / grease, hammer, hoist, jack- (hydraulic, vehicle), allan keys (tool used at workshop) , Jack Hammer - (air, electric), level (used by builder to check level), line - chalk, opener - manhole, pick, plane; Pliers - crimping 4-16mm, puller - bearing, rake, pop rivet, rope-towing, router, sander socket, Saw - (blade, bow, chain, circular, hack, jig), scaffold, spade, spanner - (combination ring, shifting, valve, wheel), stripper-wire, tape-measuring, thermometer-dial, leveling,surveying equipment, trestle, Torch - (gas, maglite, rechargeable); trowel (used by builders), vice - workshop, Welder - (arc, electric), winch, sewer equipment - (rods and brushes to clean sewers), square combination, Pump - (foot, grease, oil, petrol), rucksack spray (health), sprayer poison, sling towing, socket, Set - BA, stock & dice (tool used at workshop to tread pipes)
Toolbox - medicine, tools

Description
Trampoline
Transformer (small) - 220/32/24/24 volt
Tray - emergency, instrument, etc.
Tray Cards
Tray letter - plastic, wood
Tripod (stand for cameras)
Trolley - stainless steel, steel, two wheel for heavy objects etc.
Trunk -medicine
Tube - pickup