public works

Department:
Public Works
REPUBLIC OF SOUTH AFRICA

PROPERTY MANAGEMENT TRADING ENTITY

IMMOVABLE ASSET MANAGEMENT POLICY

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Immovable Asset Management Policy

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Immovable Asset Management Policy

1 Purpose and objectives

1.1 The purpose of this document is to provide the Property Management Trading Entity (PMTE) with a basis for accounting for immovable assets and the management of immovable assets to ensure compliance with standards of GRAP, PFMA requirements, GIAMA requirements, Treasury Regulations and National Treasury Sector Specific Guide on Accounting for Immovable Assets (Property).

2 Scope

2.1 This policy document addresses the policies relevant to the different phases within the immovable asset life cycle as well as the accounting treatment of immovable assets.

2.2 The policy applies to all divisions and functions within the PMTE, including Regions.

2.3 This policy supersedes all previous policies which were applicable to Immovable Asset Management.

3 Definitions

3.1 The terms included hereunder shall, unless the context indicates otherwise, have the meanings ascribed hereto:

- **Accounting Officer** is the accounting officer as defined in section 1 of the PFMA. The accounting officer of the PMTE is the Director-General of the National Department of Public Works.
- **Accounting period** refers to a twelve months period commencing on 1 April of one year and ending on 31 March of the following year.
- **Accounting policies** are the specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting financial statements.
- An **active market** is a market in which all the following conditions exists:
    - The items traded within the market are homogeneous;
    - Willing buyers and sellers can normally be found at any time; and
    - Prices are available to the public.
- **Acquire** in relation to an immovable asset for national government, means acquisition through construction, purchase, lease, acceptance of a gift, expropriation, exchange or transfer of custodianship between custodians in that sphere of government.
- **Asset acquisition** is the process by which an entity assumes control of an asset.
- **Asset disposal** is the process by which an entity relinquishes control of an asset.
- **Assets** are resources controlled by an entity as a result of past events and from which future, economic benefits or service potential are expected to flow to the entity
- **Capitalisation** is the recognition of a resource acquired in the current or previous years in accordance with the definition of an asset and consequently presented and disclosed as such in the financial statements. Thus the process whereby expenditure is charged to an asset account rather than an expense account.

- **Carrying amount** is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
- **Cash generating assets** are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-orientated entity.
- **Class of assets** means a grouping of assets of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements. Within this policy classes of assets are also referred to as categories of assets.
- **Condition assessment** is an assessment of the current condition of an asset (and its components) in relation to its service performance, as well as the maintenance or renovation required and associated costs.
- **Cost** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.
- **Costs of disposal** are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expenses. Examples of such costs are legal costs, stamp duty and similar transaction taxes, costs of removing the asset, and direct incremental costs to bring an asset into condition for its sale.
- **Custodian** means a national or provincial department referred to in Section 4 of the Government Immovable Asset Management Act, 2007, represented by the Minister of such national department, Premier of a province or MEC of such provincial department, so designated by the Premier of that province;
- **Custodianship** means the execution of functions contemplated in section 4(2) of the Government Immovable Asset Management Act, 2007
- **Depreciable amount** is the cost of an asset, or other amount substituted for cost, less its residual value.
- **Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation represents the gradual exhaustion of the asset's service potential.
- **Economic Life** the period over which an asset is expected to yield economic benefits or service potential to one or more users, or the number of production or similar units expected to be obtained from the asset by one or more users.
- **Entity** refers to the Property Management Trading Entity (PMTE).
- **Fair Value** refers to the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties at arms' length transaction.
- **Finance lease** is a lease that transfers substantially all the risks and rewards incidental to ownership of the leased asset from the lessor to the lessee, without transferring the legal ownership. Title may or may not eventually be transferred. Situations indicative of the above are:
    - Ownership is transferred at the end of the period;
    - Option to purchase assets at end of period at lower than the fair value so that at inception the exercising of the option is almost certain;
    - Lease term is for major part of the economic life of the asset even though ownership might not pass;

- At inception the present value of the minimum lease payments amounts to at least the fair value of the asset;
- Asset is of such specialised nature that it cannot be used by another without major modifications being made.
- At the end of the initial lease, the lessee has the option to extend the lease at a rent that is substantially lower than market rent.

- **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.
- **Immovable asset** means any tangible asset acquired or owned by government, excluding any right contemplated in the Mineral and Petroleum Resources Development Act, 2002 (Act No.28 of 2002). Immovable assets may include land, fixed structures such as buildings and infrastructure assets. Plant that is built-in to the fixed structures and is an essential part of the functional performance of the primary asset is considered an immovable asset (though it may be temporarily removed for repair)
- **Immovable asset management** means those management processes which ensure that the value of an immovable asset is optimised throughout its life cycle
- An, **impairment** is a 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. Impairment, therefore, reflects a decline in the utility of an asset to the entity that controls it.
- An **impairment loss of a non-cash-generating asset** is the amount by which the carrying amount of an asset exceeds its recoverable service amount.
- An **impairment loss of a cash-generating asset** is the amount by which the carrying amount of an asset exceeds its recoverable amount
- **Infrastructure assets** are assets that usually display some or all of the following characteristics:
  - They are part of a system or network;
  - They are specialised in nature and do not have alternative uses;
  - They are immovable, and
  - They may be subject to constraints on disposal.
  - Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.
- **Investment property for purposes of accounting classification,** is land or a building (or part of a building), held by the owner or by the lessee under a finance lease to earn rentals or for capital appreciation or both, rather than for:
  - Use in the production or supply of goods or services or for administrative purposes; or
  - Sale in the ordinary course of operations.
- **Life-cycle** means the period during which a custodian or user expects to derive benefits from the control or use of an immovable asset.
- **Maintenance** is defined as work carried out at a certain frequency to sustain functionality of the asset or prevent breakdown.

- **Management** comprises those persons responsible for planning, directing and controlling the activities of the entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.
- **Non-cash generating assets** are assets other than cash generating assets. The primary objective of holding non-cash generating assets are for service delivery.
- **Non-exchange transactions** are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
- **Organ of state** means any department of state or administration contemplated in paragraph (a) of section 239 of the Constitution of the Republic of South Africa, of 1996, but excluding the department or administration in the local sphere of government.
- **Owner-occupied property** is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services or for administrative purposes.
- **Portfolio** means the total extent of immovable assets controlled or used by a national or provincial department.
- **Property, plant and equipment** 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 (more than 12 months)
- **Recognition** is the process of incorporating in the statement of financial position or statement of financial performance, an item that meets the definition of an element (of financial statements) and satisfies the criteria for recognition namely:
    - It is probable that future economic benefits or service potential associated with the item will flow to or from the entity, and
    - The item has a cost or fair value that can be measured reliably
- **Recoverable amount** is the higher of a cash-generating asset's fair value less costs to sell and its value in use
- **Recoverable service amount** is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.
- **Refurbishment** entail major maintenance works carried out on an asset to restore it to acceptable condition. Refurbishment work does not extend the life of the asset, but are necessary for the useful life to be achieved. Thus restores rather than increases.
- **Rehabilitation/Enhancement** is an improvement or augmentation of an existing asset (including separately depreciable parts) beyond its originally recognised service potential for example remaining useful life, capacity, quality, size and functionality.
- **Repairs** entail the restoration of assets to their working order, enabling an asset to achieve its originally expected useful life.
- **Surplus asset** in relation to an immovable asset means that the immovable asset no longer supports the service delivery objective of a user.

- **Tangible assets** are assets that have a physical form. The opposite of a tangible asset is an intangible asset. Non-physical assets, such as patents, trademarks, copyrights, goodwill and brand recognition, are all examples of intangible assets
- **The residual value of an asset** is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.
- **Unitary payment** is the charge payable by the entity to the private party in connection with the performance of the private party's obligations included in project deliverables.
- **Useful life** is:
  - the period over which an asset is expected to be available for use by an entity, or
  - The number of production or similar units expected to be obtained from the asset by an entity.
- **User** means an organ of state or part thereof that requires an immovable asset to discharge its duties, functions and to deliver public services.
- **Value in use of a non-cash-generating asset** is the present value of the asset's remaining service potential.
- **Vesting** - The process by which a non-forfeitable right accrues to a party for present or future enjoyment.

4 Legislative framework

4.1 The Public Finance Management Act (PFMA) no 1 of 1999, Section 38(1) requires the Accounting Officer of a Department to ensure that the Department, trading entity or constitutional institution has and maintains and effective, efficient and transparent system of financial and risk management and internal control.

4.2 This document was developed in accordance with the requirements of the PFMA section 38(1)(d), 42 and 45(e), the Treasury Regulations 5.2.2(e), 10, 16A7.3, 19.6 and 21.3, the GIAMA section 6 and 13 and Standards of Generally Recognised Accounting Practice (GRAP).

4.3 The Property Management Trading Entity (PMTE) is a trading entity of the Department of Public Works (DPW) as defined by the PFMA. This Immovable Asset Management Policy has been developed within the specific governance framework applicable to the Department.

4.4 The policy document has been developed on the basis that the PMTE must conform to the Standards of Generally Recognised Accounting Practice ("GRAP").

5 Background

5.1 The National Department of Public Works (herein referred to as the "Department") is mandated to provide land and accommodation to national government departments and institutions, administer such land and accommodation and therefore plays a custodial function of government's immovable assets.

5.2 The PMTE is the entity of the Department tasked with the execution of the mandate to be the custodian of state owned immovable assets and provide accommodation to government departments.

5.3 Prior to 27 April 1994, state immovable properties were registered in the name of a multitude of authorities such as the Union of South Africa, the Republic of South Africa, the TBVC states, the Provincial Administrations, the South African Development Trust, the Community Development Board, Education Trustees and Hospital Trustees, as well as certain office-bearers such as the Governor-General, the State President, the Minister of Lands, the Administrator of Transvaal, etc.

5.4 The 1993 Constitution (Act 200 of 1993) separated the ownership of State-owned immovable property between the National Government and the Provincial Governments, based on the designated functions of such governments and the legislation administered by the respective spheres of Government. As a result the Department of Public Works assumed control and custodianship of all immovable properties which fall under the following categories:

5.4.1 All facilities used by the national government on un-surveyed land or surveyed but unregistered land including those from the former TBVC States and Self Governing Territories and state land in the former territory of the Republic of South Africa (pre 27 April 1994), or located on land governed by the KwaZulu-Natal Ingonyama Trust Act (pre 24 April 1994) as amended;

5.4.2 All land in the former territory of the Republic of South Africa (pre 27 April 1994) registered in the name of the National Government of the Republic of South Africa, where custodial powers have not been assigned to another national department in terms of section 4 of the GIAMA;

5.4.3 All land in the former territory of the Republic of South Africa (pre 27 April 1994) registered in the name of any of the historical holders of state land (e.g. Governor of the Cape of Good Hope; Union of South Africa; Minister of Lands, Republic of South Africa; etc.) before the advent of the democratic dispensation in 1994, that vest or is deemed to vest in the national government, where custodial powers have not been assigned to another national department in terms of section 4 of the GIAMA;

5.4.4 All land vested with national government and situated in the former TBVC states and Self Governing Territories occupied by a national department in support of its service delivery objectives (e.g. a magistrate's court or prison) and where DPW performs the custodial functions (barring the disposal thereof) in terms of section 4 of the GIAMA;

5.4.5 All former South African Development Trust land, which by proclamation vest with DPW; and

5.4.6 All properties acquired by DPW for the discharge of its mandate.

5.5 The Property Management Trading Entity (PMTE) as the trading entity of the Department as defined by the PFMA is considered to control on behalf of the National Government all the immovable assets which fall under the above categories, to the extent that these immovable assets have not been transferred out to another custodian in compliance with section 42 of the PFMA, and Section 28(1) of schedule 6 of the Constitution of South Africa.

6 Guidance on recognition and classification

6.1 Before an item can be recognised and classified in the accounting records as an immovable asset in accordance with GRAP classifications it needs to meet certain definitions and criteria, such as:

a) All three components of the definition of an asset must be satisfied to qualify as an asset, namely: controlled by the PMTE, as a result of past event, from which future economic benefits or service potential is expected to flow to the PMTE. For more details and guidance on meeting the definition of an asset see paragraphs 6.2 to 6.5

b) If an item qualifies as an asset the period of use must be determined, which should be longer than 12 months to qualify as a non-current asset;

c) If a physical asset qualifies as a non-current asset, it needs to meet the definition of the asset type as set out in the GRAP statements listed below to establish the GRAP classification of the non-current asset:

- Property, plant and equipment (GRAP 17);
- Investment property (GRAP 16)
- Heritage assets (GRAP 103)

d) If a non-current asset meets one of the GRAP definitions above, it needs to meet the recognition criteria of the specific asset type per the GRAP statements, before it can be recognised and as such classified as any one of the above asset types. The basic requirements for recognition is if, and only if both of the following criteria are met:

- It is probable that future economic benefits or service potential associated with the item will flow to the entity, and
- The cost or fair value of the item can be measured reliably

6.2 An asset is:

a) a resource **controlled** by an entity,

b) as a result of **past events**, and

c)from which **future economic benefits or service potential** are expected to flow to the entity.

6.3 The PMTE's control over an asset.

6.3.1 The key point is that it is the control of the economic benefits or service potential of the asset rather than "physical" control that is important.

6.3.2 Legal title and physical possession are good indicators of control but they are not infallible.

6.3.3 In determining the existence of an asset the right of ownership is not essential.

6.3.4 The PMTE is deemed to control an asset if it:

- Has the power to benefit from the asset in pursuing its objectives;
- Is able to deny or regulate the access of others to that benefit, and
- Has the ability to secure the service potential or the future economic benefit.

6.3.5 The PMTE may assume control through the following examples:

- Purchase or construction of new immovable assets;
- Entering into a finance lease agreement;
- Assets vested in National government;

- Transfer of assets from another custodian within the sphere of government;
- Acceptance of a donation, gift or bequest;
- Seizure (bona vacantia). Property without an owner, if not claimed by a finder, the State usually automatically becomes the owner;
- Contingent control. Exists where an arrangement such as a private sector investment in infrastructure affords the PMTE the right to take control of an asset;
- Through a joint venture/Public Private Partnership (PPP)

6.4 Past transactions or events.

6.4.1 It is essential that the event giving rise to control be identified.

6.4.2 Assets are recognised from the point when some event or transaction transferred control to an entity. Transactions or events expected to occur in the future do not in themselves give rise to assets.

6.4.3 Good indicators of past transactions or events are:

- The entity paid for the asset;
- The entity accepted a donation, gift or bequeath;
- The entity constructed the asset for its own economic benefit or service potential.

6.5 Future economic benefits or service potential.

6.5.1 In applying the asset definition to the public sector environment, the focus is mostly on service potential rather than future economic benefits.

6.5.2 The future economic benefit embodied in an asset is the potential to contribute, directly or indirectly, to the flow of cash and cash equivalents to the entity.

6.5.3 Assets that are used to deliver goods or services in accordance with an entity's objectives, but do not directly generate cash inflows are often described as embodying "service potential". Service potential is thus the capacity of an asset, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of a public sector entity.

6.6 GRAP classifications and definitions.

Property, plant and equipment

6.6.1 Property, plant and equipment are tangible assets 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, thus for longer than a year.

6.6.2 Some assets are commonly described as "infrastructure assets". While there is no universal accepted definition of infrastructure assets, these assets meets the definition of property, plant and equipment and shall be classified as such. These assets display some or all of the following characteristics:

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

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

Heritage assets

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

6.6.5 Characteristics often displayed by heritage assets include the following:

- Their value in cultural, environmental, educational and historical terms is unlikely to be fully reflected in monetary terms.
- Ethical, legal and/or statutory obligations may impose prohibitions or severe stipulations on disposal by sale.
- They are often irreplaceable.
- Their value may increase over time even if their physical condition deteriorates.
- They have an indefinite life and their value appreciates over time due to their cultural, environmental, educational, natural, scientific, technological, artistic or historical significance.
- They are protected, kept unencumbered, cared for and preserved.

6.6.6 Some key features of heritage assets that can be used in identifying an asset as a heritage asset are:

- The asset is held indefinitely;
- The government has declared the asset as of historical significance;
- The asset is protected, cared for and preserved for present and future generations;
- The asset's value increases over time; and
- No monetary value can sometimes be placed on the asset.
- The service potential embodied in a heritage asset arises from the benefit to preserve the specific asset for present and future generations.

6.6.7 Some heritage assets have dual purposes, for example where a historical building meets the definition of a heritage asset, but it is also used for office accommodation the entity needs to determine whether the significant portion of the asset meets the definition of a heritage asset. The entity must use a judgement criteria to make the assessment and the judgement criteria should be applied consistently between all the assets. The asset should be classified as a heritage asset 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, otherwise the asset should be classified as property, plant and equipment.

Investment property

6.6.8 Investment property is:

- Land or a building (or part of a building);
- Held by the owner or by the lessee under a finance lease;
- To earn rentals or for capital appreciation or both, rather than for:

- o Use in the production or supply of goods or services or for administrative purposes; or
- o Sale in the ordinary course of operations.

6.6.9 Examples of investment property are:

- land held for long-term capital appreciation;
- land held for undetermined future use;
- Building leased out under an operating lease on a commercial basis;
- Vacant building held to be leased out under an operating lease on a commercial basis to external parties

6.6.10 Examples of items that are not investment property are:

- When property is used in the production or delivering of goods or services or for administrative purposes then it is called owner-occupied. Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by government employees such as housing for military personnel (whether or not the employees pay rent at market rates), and owner-occupied property awaiting disposal.
- Property held to provide goods and services and also generates cash inflows. For example an entity may hold a large housing stock used to provide housing to low income families at below market rental. In this situation, the property is held to provide housing services rather than for rentals or capital appreciation and rental revenue generated is incidental to the purpose for which the property is held. Such property is not considered an "investment property" and would be accounted for as Property Plant and Equipment.
- Property held for strategic purposes which would be accounted for in accordance with the Standards of GRAP on Property, Plant and Equipment.

6.6.11 Per GRAP 16, judgement is needed to determine whether a property qualifies as investment property, and the entity must develop criteria so that it can exercise that judgment consistently in accordance with the definition of investment property and with related guidance in GRAP 16.

Cash-generating or non-cash generating immovable assets

6.6.12 For purposes of classifying immovable assets that are subject to impairment either as cash-generating or non-cash generating, PMTE applies the following criteria:

- The purpose for which the asset is held;
- The intention to earn commercial (profit-making) return on the property;
- The ability to earn commercial return on the property, and
- The restrictions on the use of the property by PMTE.

6.6.13 The PMTE, as a trading entity of the National Department of Public Works, is accountable for these assets and needs to maintain these assets on behalf of national government. It cannot use these assets for any other purpose than to deliver on its mandate (consistent with GIAMA and the PFMA). The PMTE has to provide accommodation to other departments and to enable it to deliver on its mandate to maintain, the PMTE may recover an accommodation charge on certain properties it is holding. The accommodation charge is not commercially based, but rather to ensure that the PMTE is operating at a break-even level. Where the PMTE does asks market related rent on property that are not used by other departments, it is considered accidental, and not the main purpose for which the property is held. Management therefor assess its immovable assets to be non-cash generating for impairment purposes.

7 Policy statement – accounting for immovable assets

7.1 General background

7.1.1 This section outlines the policies that will be adopted by the PMTE in order to account for and report on financial transactions relating to immovable assets. These policies shall be applied consistently by the PMTE.

7.2 Recognition criteria

7.2.1 An item shall be recognised as an asset and classified as a non-current asset in the financial and asset records if, and only if it meets the following criteria:

- It is controlled by the PMTE;
- As a result of a past event;
- It is probable that future economic benefits or service potential associated with the item will flow to the PMTE;
- The cost or fair value of the item can be measured reliably; and
- The item is expected to be used during more than one financial year.

7.2.2 If on initial recognition of a heritage asset, its cost or fair value cannot be reliably measured by the PMTE, then it should not be recognised in the financial records. The asset must still be recorded in the immovable asset register at a zero value. Relevant and useful information that describe the heritage asset and its use must be disclosed in the notes to the financial statements. Any initial costs incurred to assess the state of such heritage assets that does not meet the recognition criteria and any costs incurred subsequently should be recognised in surplus or deficit as incurred.

7.3 Classification of assets, classes (categories) and components

7.3.1 The CFO must ensure that all immovable assets are, as prescribed by the current Standards of Generally Recognised Accounting Practice (Standards of GRAP), classified under the following headings in the Statement of Financial Position and in the Immovable Asset Register:

- Property plant and equipment (GRAP 17)
- Investment property (GRAP 16)
- Heritage assets (GRAP 103)

7.3.2 Per GRAP 16, classification of investment property versus property, plant and equipment is a matter of judgement. Thus judgement is applied when classifying immovable assets between property, plant and equipment and investment property. Consideration will be given to the following:

- The type of property;
- Why the property is held by national government, and
- The occupant. For example, where an employee of national government is occupying the property, the PMTE may conclude that the rental is still consistent with its service delivery objectives.

Management also considered the classification of properties that are earning rentals and concluded as follows:

a) The main reason that the PMTE manages and assumes control of the property, is to deliver a service to national government (consistent with GIAMA and the PFMA), rather than for earning of rentals or capital appreciation. The PMTE must provide accommodation services to other national departments and use state property, where available, to ensure that the cost of accommodation is at the lowest possible price – the accommodation charge is not to "earn rentals" but to cover the cost of maintaining state property. Therefore it is management's judgement that where state property is rented out to another government entity or public service employees to provide cost effective accommodation services, these properties be classified as property, plant and equipment as per GRAP 17;

b) Where the property is rented out to a party other than national government (surplus property), the PMTE classifies that property as investment properties unless the context indicate that the lease is still part of the service delivery objective rather than the earning of rentals.

7.3.3 Heritage assets with a dual purpose, e.g. an historic building, which in addition to meeting the definition of a heritage asset, is also used as office accommodation should be accounted for as an heritage asset if, and only if the definition of a heritage asset is met and only if an insignificant portion is held for supply of services or for administrative purposes, otherwise it should be classified as property, plant and equipment.

7.3.4 Infrastructure assets, meets the definition of property, plant and equipment and shall be classified as such.

7.3.5 Immovable assets of a similar nature or function within the PMTE's operations will be grouped together in classes/categories under each GRAP classification and disclosed as such in the disclosure notes to the financial statements as required by the Standards of GRAP.

7.3.6 When significant components of an item of property, plant and equipment have different useful lives they will be accounted for as separate items in the immovable asset register and linked to the main asset. These components are depreciated separately.

7.3.6 The asset classes (categories), and asset components adopted are listed in ***Annexure 3***

7.4 Identification of immovable assets

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

7.4.2 A coding system shall be adopted and applied in the assets register that will enable each immovable asset, at the lowest level in the adopted asset hierarchy, to be uniquely and readily identified.

7.5 Immovable asset register

7.5.1 An immovable asset register shall be established to provide the data required to apply the applicable GRAP accounting standards, as well as the other data considered by the PMTE to be necessary to support strategic asset management planning and operational management needs.

7.5.2 The Asset Register Management (ARM) unit shall be responsible for maintaining the immovable asset register.

7.5.3 All assets owned (state-owned) and controlled (which include leased assets) should be included in an asset register regardless of the funding source or value thereof, with clear indicators whether leased, freehold or permission to occupy (PTO).

7.5.4 Assets and components that must be depreciated separately shall be listed separately in the asset register and will be allocated an identification number and be linked to the main asset.

7.5.5 The immovable asset register shall be updated continually with movements and operational information and reconciled on a monthly basis to the general ledger, and where applicable, to other subsystems interfaced with the immovable asset register (e.g. the Works Control System). These movements and operational information may include:

- Additions:
  - New assets purchased, replacement of existing components with new components, assets constructed or received as a donation;
  - Completion of capital works projects relating to improvements made to existing assets;
  - Transfers from other custodians, etcetera
- Depreciation and impairment losses
- Disposals:
  - Assets sold, transferred to other custodians, or donated
- Transfers between financial classifications
- Change in asset condition, due to upgrades completed etcetera.
- Changes in useful lives and residual values

7.5.6 The information in the asset register should be of such a standard and quality to enable the use thereof to perform the needs analysis, matching the service delivery requirements and assets available in order to compile the asset strategy and detailed asset management plans such as the acquisition, maintenance and disposal plan.

7.5.7 Every state-owned land parcel in the immovable asset register must be supported by a title deed or an Aktex where it is not possible to obtain the title deed.

7.5.8 For more details on the minimum information (financial, and non-financial) that must be included in the immovable asset register. ***See Annexure 1***

7.6 Measurement at recognition

7.6.1 An item that qualifies for recognition shall be measured:

- at its cost

- Where an item is acquired through a non-exchange transaction (at no or nominal cost), its cost shall be measured at its fair value as at date of acquisition. This fair value measurement at initial recognition does not constitute a revaluation, it constitute the deemed cost of the item.

Elements of cost:

7.6.2 The cost of an asset comprises:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- Any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and
- The initial estimated costs of dismantling and removing the item and restoring the site on which it is located, to the extent that it is recognised as a provision.

7.6.3 Examples of directly attributable costs are listed in ***Annexure 2***.

Measurement of cost:

7.6.4 Cost of an item is the cash price equivalent at the recognition date. If payment is deferred beyond normal credit limits, the difference between the cash price equivalent and the total payment is recognised as interest over the period of credit.

7.6.5 The cost of an immovable asset held by the lessee under a finance lease is the fair value of the leased property, or if lower, the present value of the minimum lease payments, and is determined in accordance with the Standard of GRAP on Leases.

7.6.6 Where an immovable asset is acquired in exchange for a non-monetary asset or monetary assets or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

7.6.7 The cost of an immovable asset transferred from another department and/or custodian (acquisition through a non-exchange transaction) shall be the fair value (deemed cost) of the asset as at the transfer date.

7.6.8 The fair value (deemed cost) of immovable assets obtained through a non-exchange transaction shall be determined/calculated by the DPW valuations unit by applying any of the following generally accepted valuation methodologies, depending on available information and the nature of the asset obtained through the non-exchange transaction :

a) *Where active market exists, use quoted price in that market;*

b) *Direct sales comparison method;*

c) *Depreciated replacement cost method;*

d) *Income capitalisation method; and*

e) *Reproduction cost method.*

7.6.9 The Asset Register Management unit shall assist in providing the DPW valuations unit with the necessary information required to perform the fair value calculations of assets obtained through non-exchange transactions.

7.6.10 When heritage assets are used for more than one purpose, then the fair value should reflect both the heritage value and the value obtained from its use in the supply of goods or services.

7.7 Measurement after recognition

7.7.1 As the PMTE has the responsibility to manage and report on all state owned assets registered in the name of the National Government of South Africa it will not be cost effective to revalue these assets on an annual basis and therefore the PMTE has selected to adopt the cost model for subsequent measurement of the immovable assets it is required to report on in its financial and asset reports.

7.7.2 Subsequent to recognition the immovable assets will be stated as follows:

- Property, plant and equipment shall be stated at cost less accumulated depreciation and accumulated impairment losses, except for assets under construction, land and heritage assets with dual purposes recognised as property, plant and equipment.
- Assets under construction shall be stated at cost less accumulated impairment losses (where applicable such as where construction was halted and will not be completed in the foreseeable future).
- Investment property shall be stated at cost less accumulated depreciation and accumulated impairment losses.
- Heritage assets shall be stated at cost less accumulated impairment losses.

7.7.3 Transfers to, or from, investment property shall be made when, and only when, there is a change in use.

7.8 Residual values

7.8.1 As the PMTE plans to use the assets for their entire economic life for the supply of services or for administrative purposes, or to preserve for current and future generations, the residual values on these assets are estimated at zero.

7.8.2 The residual value of an asset shall be reviewed at least annually at each reporting date and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

7.9 Useful lives

7.9.1 An estimated original base useful live and remaining useful live shall be allocated to each depreciable immovable asset in the immovable asset register.

7.9.2 Management is of the opinion that the useful life of an asset will approximate the economic life of the asset, and therefore the original base useful life of all depreciable immovable assets at initial recognition is the same as the estimated original base useful lives as per **Annexure 3**.

7.9.3 The useful life of an asset shall be reviewed at least annually at each reporting date. The estimate is based on judgment taking into account historical usage patterns as well as the condition of the asset, and if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

7.9.4 With some exceptions, such as quarries and sites used for landfill, land has an unlimited useful life.

7.9.5 Heritage assets are considered to have indefinite useful lives.

7.9.6 The estimated useful lives of leased assets that are capitalised (finance leases) are usually equal to the term of the lease contract.

7.10 Depreciation

7.10.1 Management is of the opinion that the straight-line method of depreciation will reflect the pattern in which the assets' future economic benefits or service potential are expected to be consumed and therefore the straight-line method of depreciation will be applied at component level.

7.10.2 The depreciation method applied shall be reviewed at least annually at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method shall be changed to reflect the change in pattern. Such a change shall be accounted for as a change in an accounting estimate in accordance with Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

7.10.3 Depreciation of an asset will commence when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended, and ceases at the date it is derecognised. Therefore depreciation does not cease when an asset becomes idle, unless the asset is fully depreciated.

7.10.4 Depreciation is calculated on the depreciable amount of an asset and initially calculated from the day when an asset is acquired or available for use as intended until the end of the calendar month concerned. Thereafter, depreciation charges are calculated monthly and are recognised in surplus and deficit.

7.10.5 All immovable assets, except land, heritage assets and assets under construction shall be depreciated over their estimated useful lives.

7.10.6 Assets under construction are ready for its intended use only once the construction is completed and a final completion certificate is issued, and at this point transferred to completed property, plant and equipment.

7.11 Impairment

7.11.1 Management is of the view that the immovable assets are non-cash-generating, despite the fact that lease revenue are generated from these assets, as the primary objective of holding these assets is for service delivery purposes, and not for commercial gain at market related prices.

7.11.2 The PMTE delegated officials shall assess annually, at each reporting date whether there is any indication that an asset maybe impaired, or that an impairment loss recognised in prior periods for an asset no longer exists, or has decreased. If any such indication exists, they shall estimate the recoverable service amount of the asset.

7.11.3 The recoverable service amount is the higher of the non-cash-generating asset's fair value less the cost to sell and its value in use as determined by the depreciated replacement cost approach or restoration cost approach. The choice of the most appropriate approach to measuring value in use depends on the availability of data and the nature of the impairment.

7.11.4 It is not always necessary to determine both an asset's fair value less costs to sell and its value in use. If either of these amounts exceeds the asset's carrying amount, the asset is not impaired and it is not necessary to estimate the other amount.

7.11.5 If the recoverable service amount of the asset is less than the asset's carrying amount, the carrying amount of the asset shall be reduced to the recoverable service amount of the assets. This reduction is an impairment loss and shall be recognised immediately in surplus or deficit.

7.11.6 After the recognition of an impairment loss, the depreciation charge for the asset shall be adjusted in 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.

7.11.7 An impairment loss recognised in prior periods for an asset shall be reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset shall be increased to its recoverable service amount. This increase is a reversal of impairment loss and shall be recognised immediately in surplus or deficit.

7.11.8 The increased carrying amount of the asset attributable to the reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised for the asset in prior periods.

7.11.9 Compensation from third parties for assets that were impaired, lost or given up shall be included in surplus or deficit when the compensation becomes receivable.

7.11.10 Set out below are some examples of impairment indicators, the list is not exhaustive:

a) External sources of information:

- Cessation, or near cessation, of the demand or need for services provided by the asset.
- Significant long-term changes with an adverse effect on the entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the entity operates.

b) Internal sources of information:

- Evidence is available of physical damage of an asset.
- Significant long-term 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 manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operations to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

7.12 Derecognition

7.12.1 The carrying amount of an asset shall be de-recognised (eliminated from the statement of financial position and the immovable asset register):

- 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.

7.12.2 If the PMTE recognises in the carrying amount of an asset, the cost of a replacement for a significant component (components specifically identified per component list), then it derecognises the carrying amount of the replaced component.

7.12.3 Where the PMTE is the lessor of state owned immovable assets, it does not derecognise these assets from its asset register as risks and rewards of ownership does not transfer due to the fact that the obligation towards these leased assets remains with the PMTE operating within the administration of the DPW.

7.12.4 Where the PMTE enters into a finance lease agreement and immediately enters into a sublease with a user department, the assumption is made that risks and rewards are transferred to the user department. The PMTE will in its role as finance lease lessor, derecognise this previously recognised leasehold asset (property, plant and equipment) and recognise a finance lease asset for the lease costs recoverable from the user department.

7.12.5 The gain or loss arising from, the derecognition of an asset shall be determined between the net disposal proceed, if any, and the carrying amount of the item, and is recognised directly in surplus or deficit in the statement of financial performance when the item is derecognised.

7.13 Disclosure

7.13.1 Disclosure of immovable assets in the financial statements shall be in accordance with the requirements of the applicable Standard of GRAP based on the classification of the asset, and the requirements of the applicable National Treasury Sector Specific Guide.

8 Policy statement - Capitalisation of costs

8.1 General background

8.1.1 This section outlines the policies that will be adopted by the PMTE on costs that will be capitalised and as such recognised as assets in the statement of financial position and the immovable asset register in compliance with prevailing GRAP accounting standards.

8.1.2 An item should only be capitalised if it meets the recognition criteria.

8.1.3 Listed below are costs that will be capitalised if it meets the recognition criteria.

8.2 Costs at initial recognition

8.2.1 The cost of purchased assets. The cost will generally include the purchase price, including import duties and non-refundable purchase taxes, less trade discounts and rebates, and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended. For examples of directly attributable costs see ***Annexure 2***

8.2.2 The present value of the estimated future costs of dismantling and removing the asset and restoring the site on which it is located, to the extent that it is recognised as a provision.

8.2.3 The fair value (deemed cost) at date of acquisition, of assets acquired through non-exchange transactions.

8.2.4 Progressive costs incurred for the construction of new immovable assets will be capitalised to assets under construction per asset category until the assets are complete and ready for use, and a final completion certificate is issued. At this point the assets under construction will be transferred to the completed assets categories. Construction projects may deliver different assets that will need to be recognised separately in the asset register, thus to ensure accurate recognition of individual assets in the asset register the project feasibility, design and contract specifications should define the asset components before the project is commenced.

8.2.5 The cost of an immovable asset held by the PMTE as lessee under a finance lease. The cost is the fair value of the leased property, or if lower, the present value of the minimum lease payments, and is determined in accordance with the Standard of GRAP on Leases. The PMTE shall recognise a finance lease liability and a related leasehold asset, which will be disclosed as part of property, plant and equipment.

Where the PMTE enters into a finance lease agreement and immediately enters into a sublease with a user department the assumption is made that the risk and rewards are transferred to the user department. The PMTE then in its role as finance lease lessor, deregocnise this previously recognised leasehold asset (property, plant and equipment) and recognise a finance lease asset for the lease costs recoverable from the user department.

8.2.6 Costs for improvements made to lease assets, can be capitalised as leasehold improvements if they meet the definition of property, plant and equipment.

8.2.7 Costs of assets that were acquired for safety and environmental purposes which may not necessarily increase the economic benefit of the asset directly or the service potential, but may be necessary for the PMTE to derive economic benefits or service potential from other assets.

8.2.8 Costs of major spare parts and standby equipment which is expected to be used for more than one year are capitalised and are included in property, plant and equipment. In addition, spare parts and standby equipment which can only be used in connection with an item of property, plant and equipment are capitalised and accounted for as property, plant and equipment.

8.2.9 The cost of an immovable asset transferred from another department and/or custodian can be capitalised. The cost shall be the fair value (deemed cost) of the asset as at date of transfer.

8.3 Costs subsequent to initial recognition

8.3.1 Subsequent costs are included in the assets carrying amount or recognised as a separate asset only when it is probable that the future economic or service potential benefits associated with the item will flow to the PMTE and the cost of that item can be reliably measured.

8.3.2 Costs incurred to add to an asset, replace a component, or service (excluding day-to-day service) an asset that meets the recognition criteria and:

- Contributes to the increase in the useful life of an asset which is beyond the original useful life expectation;
- Increase productivity of the asset;
- Expands capacity of the asset;
- Increase size; and
- Change its shape and use

Will be capitalised and although listed separately in the asset register for depreciation purposes, it will be linked to the asset and thus added to the cost of the existing asset in the immovable asset register.

8.3.3 Set out below are examples of abovementioned subsequent costs incurred on existing assets that can be capitalised if it meets the recognition criteria.

8.3.3.1 Cost to replace a significant component of an asset can be capitalised and the replaced component must be derecognised.

8.3.3.2 Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria can be capitalised as a replacement. Any remaining inspection costs from the previous inspection are derecognised.

8.3.3.3 Rehabilitation/Enhancements/Upgrades of existing assets. These costs will be capitalised to assets under construction per applicable asset class/category and on completion of the construction work the assets under construction will be transferred to the completed assets classes/categories.

8.3.3.4 The costs incurred by user departments for improvements to state-owned assets controlled by the PMTE are capitalised by the PMTE to assets under construction, and on completion of the capital project the assets under construction that are then ready for use are transferred to the completed assets categories. On completion of the project the user department will issue a section 42 transfer certificate to the PMTE acknowledging the transfer of the improvements and the costs to the PMTE.

8.3.4 Exchanges of assets. Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary asset, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired asset's fair value was not determinable, it's deemed cost is the carrying amount of the asset given up.

8.3.5 Maintenance/Refurbishment work does not extend functionality or the life of the asset, but are necessary for the planned life to be achieved or maintained. In such cases, the value of the asset is not affected, and the costs of the maintenance or refurbishment are regarded as current expenses and recognised in the statement of financial performance. This follows that these costs are inherent to the nature of the asset and it can be foreseen at the acquisition stage that the expense will be necessary to achieve the estimated useful life of the asset.

9 Policy statement - Immovable asset life cycle management

9.1 General background

9.1.1 This section outlines the policies that are to be adopted by the PMTE to ensure effective and efficient management of its immovable assets through out there life cycle to optimise the cost of service delivery.

9.2 Planning and budgeting

9.2.1 The PMTE must prepare and submit annually as part of its annual strategic plan to National Treasury a user immovable asset management plan which relates to all the immovable assets which the PMTE uses or intends to use in support of its own service delivery objectives, and prepare a custodian immovable asset management plan for all the assets that is under its control and must take into account the immovable asset management plans submitted by User's. The custodian immovable asset management plan should comprise of the following sections:

a) An **Introduction** that should summarise the overall strategic intent of the PMTE regarding the management of its portfolio. The PMTE must set objectives to improve the overall performance of its portfolio and how it is going to measure itself to achieve such objectives, by addressing:

- Improvement strategies;
- Improvement objectives and targets; and
- Performance measures

b) **Portfolio strategy and management plan** that should provide an overview of the portfolio strategy, with specific reference to the prioritisation framework for asset management activities in response to national priorities and each User's service delivery framework.

c) **Immovable asset performance summary** that should address the asset performance summary of all the assets in the PMTE's portfolio. The asset performance summary should provide the baseline against which immovable asset decisions are made. The PMTE must establish and maintain management processes to monitor the performance and regularly assess the condition of the immovable assets under its control. This section should include an analysis of the user's perspective of the functional performance of assets, as well as the PMTE's analysis based on technical condition assessments.

d) **Acquisition plan** that addresses the planned acquisitions by the PMTE. The plan must cover:

- All new assets to be constructed or purchased (including the acceptance of donations)
- Any new leases (including extension of existing leases after the lease contracts have expired); and
- Any existing asset that requires capital works such as renovations, upgrade, extension or rehabilitation.

e) **Maintenance plan** must summarise the maintenance plan of the PMTE. Through its maintenance plan, the PMTE should strive to optimise the life cycle of its assets whilst ensuring that the service delivery objectives of the user are met.

f) **Disposal plan** should include all assets identified for disposal, with specific reference to the rationale for the disposal decision and alternative uses considered.

g) **Funding plan and budget requirements** should outline the PMTE's overall funding requirement and options considered for funding, both capital and current expenditure. The PMTE should acquaint itself with the budget processes prescribed by National Treasury.

9.2.2 Prior to preparing the custodian immovable asset management plan, PMTE should assure that :

- the occupation of the assets has been verified;
- Information on the condition of assets is available, using the user's assessment augmented by PMTE inspections;
- Alternatives have been considered where user's priorities so indicated, including options analysis where such analysis have been completed;
- Lifecycle plans have been modeled per asset type; and finally
- Its immovable asset register has been updated,

9.2.3 Revise annually the custodian immovable asset management plan after receipt of the revised and amended users' immovable asset management plans, or where other factors necessitate such revision.

9.2.4 The strategic planning process should thus identify the gap between existing immovable assets and those required to meet service delivery requirements. Include the analysis of the current portfolio of immovable assets with a view to determine:

- The need for additional immovable assets to efficiently address increases and geographical changes in the demand for services, or to replace inadequate existing immovable assets;
- Those immovable assets currently used and which are to be efficiently kept operational to function in the manner in which they were originally, or subsequently intended to function; and
- Those immovable assets that are, redundant due to a decrease or a geographical change in the demand for services.

9.3 Acquisition of immovable assets

9.3.1 An immovable asset acquisition plan must be prepared if the immovable asset strategic plan indicated that the PMTE needs additional immovable assets or major improvements or upgrades to the existing immovable asset portfolio to support its service delivery requirements. It is therefore necessary to assess all options available to address the identified immovable asset needs and/or improvements/upgrades. The options are listed below:

- To purchase new immovable assets;
- To enter into an operating lease for immovable assets;
- To construct new immovable assets;

- To involve private sector through the various forms of public private partnerships (PPPs) to provide immovable assets;
- To adapt, extend or refurbish existing immovable assets;
- To expropriate private properties, or rights therein, in terms of relevant legislation

9.3.2 The above mentioned options should be assessed against the service delivery baseline, needs and gap and in accordance with the following criteria:

- Physical factors;
- Risk factors;
- Economic factors;
- Financial factors;
- Environmental factors;
- Social impact factors, and
- Implementation rationale

9.3.3 The preferred option must also not result in undue risk being assumed by the PMTE and government. In the event that it does pose additional risk, these risks must be manageable through a specific risk management plan. In accounting for private involvement in public investment, however, the PMTE should arrange for an appropriate sharing of risk.

9.3.4 The relevant treasury's approval must be obtained, before the PMTE accepts any gifts or donations of immovable property. It must submit to the relevant treasury the reasons for and conditions under which the immovable property is accepted. The same is applicable if the PMTE wants to donate any immovable property (thus dispose the property by way of a gift or donation).

9.3.5 Acquisitions must be recorded in the asset register per asset, and where applicable, its components, in a timely manner, and newly acquired assets shall be allocated an identification number (e.g. property number) in the asset register.

9.4 Operation and maintenance of immovable assets

9.4.1 Facilities shall be maintained in accordance with predetermined standards in regard to physical condition, functional quality and operational performance.

9.4.2 Condition standards and any associated performance indicators shall be part of any arrangements for the implementation of maintenance, rehabilitation, or replacement. Appropriate condition standards and performance indicators shall be developed and implemented.

9.4.3 Condition assessment of an asset should be done at least every 5th year of its life cycle. Condition assessment is "the continuous or periodic measurement and interpretation of data to decide the condition of an item to determine the need for maintenance" in relation to the appropriate condition standards

9.4.4 Procedures and guidelines for condition assessment shall be developed and implemented.

9.4.5 As and when maintenance, repairs, rehabilitation and replacements are undertaken the condition assessment data shall be updated in the Immovable Asset Register once the work and the inspection thereof are completed.

9.4.6 The rating scale below shall be used to rate an asset's condition. The information obtained on the condition of the assets must be recorded in the immovable asset register and included in the information for the maintenance plan.

Condition assessment ratings			
C1	=	20%	Very poor (unfit for occupancy)
C2	=	40%	Poor (serious structural defects)
C3	=	60%	Fair (average condition, surface deterioration)
C4	=	80%	Good (minor defects, superficial wear)
C5	=	100%	Excellent (no apparent defects/as new)

9.4.7 The PMTE need to prepare an immovable asset maintenance plan that forms part of the overall custodian immovable asset management plan. The purpose of the plan is to define how the PMTE will ensure that existing immovable assets will be maintained and operated.

9.4.8 As part of the immovable asset maintenance plan, immovable asset performance assessments must be done to assess the ability of the immovable asset to meet the target levels of service. Performance assessment will cover the following assessment areas:

- Asset functionality;
- Asset utilisation, and
- Asset financial performance

9.4.9 A maintenance activity list must be created, using the condition and performance assessment information obtained, and rank the maintenance works in order of priority, based on supporting service objectives.

9.4.10 The criteria that determine the importance and urgency of maintenance may include:

- Routine maintenance norms and standards;
- Statutory requirements (i.e. heritage considerations);
- Occupational health and safety;
- Commercial (i.e. rehabilitation versus demolition);
- Social ; and
- Financial and risk considerations.

9.4.11 The management of maintenance services must provide for:

- Resource and contractor management arrangements, depending on whether services are provided in-house or are contracted out; and
- Systems for the control of works.

9.4.12 The PMTE and the Users must capture maintenance expenditure against the respective categories of immovable assets on a system (where possible, the immovable asset register) per immovable asset.

9.4.13 The PMTE must establish a process to monitor maintenance performance and must undertake a periodic review of maintenance performance in accordance with the performance assessment criteria determined. The review must consider aspects relating to:

- Maintenance service delivery performance;
- Maintenance service quality performance;
- Immovable asset performance;
- Maintenance management performance;
- Maintenance cost performance; and
- User satisfaction.

9.5 Disposal of assets

9.5.1 An immovable asset disposal plan must be prepared if the immovable asset strategic plan indicated that the PMTE has immovable assets that no longer support the service delivery requirements.

9.5.2 PMTE must in preparing and implementing its custodian immovable asset management plan seek to achieve the following objectives:

- To ensure that immovable assets identified as being surplus or redundant are assessed in detail to establish that there are no alternative uses for these immovable assets;
- To facilitate the effective and efficient re-use and co-use of surplus immovable assets for purposes of social development and investment;
- To ensure co-ordination, integration and enhancement of investment and social development initiatives;
- To create an enabling environment for effective disposals;
- To ensure that the desired development outcomes and benefits from the disposal of a state immovable asset are maximised within financial and other resources constraints;
- To support government's objectives, in particular with regard to land reform, black economic empowerment, alleviation of poverty, creation of jobs and the redistribution of wealth.

9.5.3 Assets transferred out to other Custodians, must be done with a Section 42 letter signed by PMTE's accounting officer and accounting officer of the receiving custodian

9.5.4 Any disposal of immovable property must be at market-related value, unless the National Treasury approves otherwise.

9.5.5 When assets are disposed of other than in the ordinary course of the business of the trading entity, the relevant treasury must approve the transaction.

9.5.6 When an asset is disposed of or permanently withdrawn from use, the asset should be removed from the asset register.

9.6 Safeguarding

9.6.1 An asset safeguarding plan shall be prepared for all immovable assets indicating measures that are considered effective to ensure that all immovable assets under the control of the PMTE are appropriately safeguarded from inappropriate use or loss.

9.7 Procurement and supporting documents

9.7.1 All the procurement in relation to asset management (acquisition, maintenance, disposals etc.) must be done in accordance with the supply chain management policy and budget.

9.7.2 All supporting documents for asset management related transactions should be filed in an orderly manner, kept in a safe place and be readily available for audit purposes.

9.8 Performance management

9.8.1 The implementation of the immovable asset management plans must be monitored and reviewed by the accounting officer to ensure compliance and accountability

9.8.2 The immovable asset management plan must define key performance measures, standards and indicators for monitoring and reviewing the implementation of the plan.

9.8.3 The accounting officer must in each immovable asset management plan, report on the attainment of performance measures, standards and indicators contained in the previous plan.

10 Implementation

10.1 This policy shall be implemented through formal training to key users and on-going support by process owner.

10.2 The Chief Financial Officer is responsible for ensuring that users understand the policy and complies with its requirements.

11 Non-compliance

11.1 This policy has been prepared in terms of the requirements of the GIAMA, PFMA and Treasury Regulations

11.2 Any deviation from this policy constitutes a misconduct which if identified, should be reported immediately to the Chief Financial Officer who should take the necessary corrective measures.

12 Responsibility

12.1 The overall responsibility for adherence to this policy lies with the Asset Investment Management (AIM) Directorate of the PMTE.

13 Approval of the Policy

13.1 This policy shall be approved in terms of the delegation of authority by the Accounting Officer.

14 Review of policy

14.1 The Accounting Officer, with the support of the Asset Investment Management (AIM) Directorate and the Financial Planning and Reporting Directorate of the PMTE, shall review this policy, at least, once annually to ensure that it enables the achievement of the PMTE's strategic priorities and complies with legislation and regulations.

14.2 Any request to amend this policy shall be approved by the Accounting Officer before it becomes policy.

15 Acronyms

HVAC	Central heating, ventilation and air conditioning system
NDPW	National Department of Public Works
GIAMA	Government Immovable Asset Management Act, Act No. 19 of 2007
GRAP	Generally Recognised Accounting Practice
PFMA	Public Finance Management Act, Act No. 1 of 1999, as amended
PMTE	Property Management Trading Entity
PPE	Property, plant and equipment
SFPER	Statement of Financial Performance
SFPOS	Statement of Financial Position
TR	Treasury Regulations issued by National Treasury, 2005
Dr	Debit
Cr	Credit

16 . Annexure 1: Immovable Asset Register Information

Information required in immovable asset register	GUIDANCE On Source Document	Example of Information
Property Identification		
Property Code	Ideal End State / NT	113358
Asset Number /Property Number/Serial number	NT	Same as
Old Asset Number (e.g. PMIS number)	NT	118965
ERF Number of Land Parcel	NT/OAG	43
ERF Portion Number of Land Parcel	NT/OAG	0
Farm Number of Land Parcel	NT/OAG	123
Farm Portion no of Land Parcel	OAG	12
In the case of a **sectional title unit**, the unit description as determined by the Registrar of Deeds and reflected on the sectional title plan.	Ideal End State	Sectional Title Unit
In the case of **engineering infrastructure** (e.g. roads, bridges, water purification & sewage treatment works, dams & other water works) the identification number determined by the appropriate authority.	Ideal End State	Checklist of roads, parking, etc
Extent of land parcel [recorded in Hectares] (Farms and Agricultural holdings - recorded in Hectares)** Recorded in hectares or m2	NT/OAG	0.8348
(Land Parcel Identifier) LPI CODE	Business Requirement	F03900070000004300000
Type of property (i.e. Farm or Erven or Agricultural Holdings)	Business Requirement	Erf
Extent of building/structure (recorded in m²) ** Add 2/3 fields - floors, measurement and total	NT	300
Occupancy/level of utilisation	NT	80%
Location		
Farm Name	Business Requirement	N/A
Common name of property (Property name/Building	NT	Ndinaye Building

Information required in immovable asset register	GUIDANCE On Source Document	Example of Information
name)		
Street Address	OAG	
Street / Building number	Business Requirement	178
Street name	Business Requirement	Schoeman Street
Suburb	OAG	Pretoria Central
Town name	Business Requirement	Pretoria
Region	OAG	Pretoria
Province	OAG	Gauteng
District (District Municipality)	OAG	Tshwane
Urban/rural	OAG	Urban
Local Municipality	OAG	Tshwane
Registration Division	Business Requirement	Pretoria RD
Global positioning coordinates (decimal degrees) according to WGS 84 (e.g. 23.5ºS, 30,5ºE).	Ideal End State / NT	S 27 58.623º
Global positioning coordinates (decimal degrees) according to WGS 84 (e.g. 23.5ºS, 30,5ºE).	Ideal End State / NT	E 26 44.344º
Complex / Facility number	OAG	1475
Complex / Facility name	OAG	WELKOM MAGISTRATE/RECEIVER REVENUE
Type of facility [e.g. hospital; school; prison; police station; military base].	OAG	WELKOM MAGISTRATE/RECEIVER REVENUE
Type of Asset (Describe the function of the asset for example hospital , police station, clinic, vacant land, residential accommodation	NT/OAG	MAGISTRATE OFFICE
Current use of property (describing the function for which the property is currently utilised, e.g. school hall being utilised as a court, house being utilised as offices).		MAGISTRATE OFFICE
Photographs of buildings / structures. *[electronic link to scanned documentation]*	NT/OAG	Scanned Photo

Information required in immovable asset register	GUIDANCE On Source Document	Example of Information
Ownership		
Indicate if state-owned or leased, or PTO - Permission to Occupy	NT/OAG	Freehold / Leasehold
Deeds Office	Business Requirement	Pretoria
If registered, title deed number [e.g. T 3344/1999]. *[electronic link to scanned documentation]*	NT/OAG	T934/1952
If registered, name of owner as stated in title deed [e.g. Republic of South Africa, National Government of the Republic of South Africa, Mpumalanga Provincial Government].	OAG	Republic Of South Africa
If surveyed, Surveyor-General diagram number [e.g. SG 3938/1988]. *[electronic link to scanned documentation]*	OAG	SG 3938/1988
If unregistered (e.g. state coastal reserves; nature conservation areas) grounds on which ownership is claimed by the State.	Ideal End State	N/A
Vesting status (according to stages in vesting process). E.g. IDENTIFY state land within area, INVESTIGATE land use on each parcel; PREPARE PSDLC application, OBTAIN PSLDC resolution #	Ideal End State	INDENTIFY INVESTIGATE PREPARE PSDLC application etc
If a Section 239 / Item 28(1) certificate has been endorsed against the title deed – provide the number and date of such endorsement. *[electronic link to scanned documentation]*	OAG	Desktop - Drop Down; No, Yes - Not Endorsed, Yes - Endorsed.
If not yet vested, name of "deemed custodian" (interim custodian pending confirmation of vesting).	Ideal End State	NAT: Republic of South Africa
Details of acquisition [land parcel or sectional title unit only]:		
Method acquisition	Ideal End State	Donation
Registration date (as is on the Title deed)	NT/OAG	12/12/2010
Restrictive / Title condition - Title deed will be attached. (Servitude, right of way, usufruct etc.)	OAG	Servitude
Date of Ministerial approval for disposal. *[electronic link to scanned documentation]*	OAG	01/02/2011
Method of disposal	Ideal End State	SALE

Information required in immovable asset register	GUIDANCE On Source Document	Example of Information
Date of Treasury approval	Ideal End State	24/01/2011
Disposal date		31/03/2011
Market Value (at date of disposal)	Ideal End State	R 200,000
Price (In the event of a sale); or Agreed value (in the event of an exchange).	Ideal End State	R 195,000
Valuation		
Acquisition Cost (Purchase price or fair value)	NT/OAG	R 100,000
Date of acquisition.	NT	22/04/1974
Useful life (original)	GRAP	25 years
Useful life (remaining)	GRAP	15 years
Depreciation method	GRAP	Straight-line
Residual value (where applicable)	GRAP	R 50,000
Information on changes in accounting estimates (as a result of change in useful life or residual value) – date reassessed etc.	GRAP	
Depreciation	GRAP	R 15,000
Impairment losses recognised or reversed	GRAP	R5,000
Accumulated depreciation	GRAP	R30,000
Accumulated impairment	GRAP	R5,000
Carrying amount – at beginning of reporting period	OAG/GRAP	R 100,000
Carrying amount – at end of reporting period	OAG/GRAP	R 90,000
Current municipal valuation of property (if property is rated in municipal valuation roll).	Ideal End State	R 80,000
Date of municipal valuation.	Ideal End State	06/07/2010
Asset components, Asset classes (categories) and GRAP Classifications,		
Refer to paragraph 13 – Annexure 3 • Asset components with different useful lives must be listed separately in the IAR to calculate depreciation separately, but must be linked to the main asset (Asset type)		

Information required in immovable asset register	GUIDANCE On Source Document	Example of Information

• The main assets (Asset types) must be linked to an asset class (category).
• The asset classes must be linked to a GRAP classification applicable to the class namely:
  • Property, plant and equipment
  • Investment property, or
  • Heritage assets		

Management Responsibility		
User department(s).details	NT/OAG	Justice and Constitutional Development
Branch / Unit of User Department occupying the property.	Ideal End State	Department of Health
Name of responsible official	NT/OAG	
Related expenditure (per property) • Property rates (Including rates account number) • Property service charges • Maintenance • Management cost • Type and contact details of all relevant guarantees, warranties and maintenance contracts	NT/OAG	
Encumbrances		
• Leases over the asset (both short and long term) • Name of lessee, and contact details • Nature of lease • Term of lease • Expiry date of lease • Special conditions of lease • Rental (income per month/annum) and escalation rate and date of escalation • Reference to lease agreement, property and debtors management systems • Land restitution claims lodged against the	NT	Yes - MTN

Information required in immovable asset register	GUIDANCE On Source Document	Example of Information
asset (Restitution of Land Rights Act, 1994) • Rights granted over the State property in favour of another organ of state or private entity [e.g. servitude; right of way; right of first refusal; restriction in respect of utilisation / disposal].		
GIAMA		
Asset condition (see condition assessment rating scale paragraph 9.4.6	GIAMA/GRAP	C 4
Date on which last condition assessment was performed.	N/A	02/02/2011
Contact details of official / service provider who performed the assessment.	N/A	082 827 5158
Details of condition assessment. [Condition Assessment Checklist -separate templates to be developed for each category of immovable asset]. [electronic link to scanned documentation]	NT / GIAMA	Condition Assessment form
Town Planning		
Zoning of property.	NT/OAG	Clinic
Rights of the State over privately-owned immovable assets		
Description of right (e.g. servitude, right of resumption, right of first refusal, etc)	NT/OAG	
Formal property (cadastral) description	NT/OAG	
Location, preferably including global positioning coordinates	NT/OAG	
Extent of land parcel (pertaining to the right of the State	NT/OAG	
Zoning of property (as per relevant town planning legislation)	NT/OAG	
Is the right contained in the title deed? If so, provide number and holder of title deed	NT/OAG	
If right is not contained in the title deed, in terms of what documents, other than title deed does the State hold this right e.g. agreement of sale/donation, official correspondence etc.	NT/OAG	

Note: Assets Under Construction (WIP)

- Progressive costs incurred for the construction of improvements to existing immovable assets must also be listed/ included in the immovable asset register per "improvement asset", which must be linked to the existing main asset that is improved, the asset class and GRAP classification of the main existing asset, and with an, assets under construction indicator.

- New main assets (e.g. new building) that are constructed must be linked to an asset type, asset class (category) and GRAP classification, and with an, assets under construction indicator.

17 Annexure 2: Examples of directly attributable cost

17.1 Directly attributable costs for Land:

a) Legal and title fees;

b) Professional fees of engineers, attorneys, appraisers, financial advisors, etc.;

c) Surveying fees;

d) Appraisal and negotiation fees;

e) Damage payments;

f) Site preparation costs; and

g) Costs related to demolition of unwanted structures.

17.2 Directly attributable costs for Infrastructure:

a) Professional fees of engineers, attorneys; appraisers, financial advisors, etc.;

b) Survey fees;

c) Appraisal and negotiation fees;

d) Damage payments;

e) Site preparation costs; and

f) Costs related to demolition of unwanted structures

17.3 Directly attributable costs for Building and Building Improvements:

a) Professional fees of architects, engineers, attorneys, appraisers, etc.;

b) Damage payments

c) Costs of fixtures permanently attached to a building or structure

d) Insurance premiums, interest and related costs incurred during construction; and

e) Any other costs necessary to place a building or structure into its intended location and condition for use.

17.4 Directly attributable costs for heritage assets:

a) Costs initially incurred to acquire and assess the state of the heritage asset;

b) Costs to restore it;

c) Costs initially incurred to remove it or restore the site where it is located;

d) Professional fees;

e) Property transfer taxes;

f) Initial delivery and handling costs;

g) Installation and assembly costs; and

h) Any other transaction costs

18 Annexure 3: Table of asset classes (categories), components and original useful lives

18.1 As the PMTE has no history on the usage patterns of the immovable assets the expected original useful lives set out below are based on detailed industry research done by the portfolio analysis unit. The useful lives are reviewed annually and changes may be required as a result of new, updated or more reliable information being available.

GRAP Classification	Classes (Categories)	Asset Type	Group/ Component	Original useful life in years
Investment property	**Vacant land and fences**			**15 - 35**
		Land - vacant		N/A
		Fence	Chain link/Wood	15
			Brick/Stone	35
			Iron	30
Property, plant and equipment	**Non – residential properties**			**12 - 100**
		Land		N/A
		Building	High rise	50
			Low rise (max 4 floors)	30
			Campus	30
			Prison	100
			Warehouses/ Garages/ Storage rooms	60
		Building components	HVAC - Heating boilers – Oil, paraffin etc.	30
			HVAC - Ventilation	12
			HVAC - Air conditioning	15
			Electricals - Generator	25
			Electricals - Transformer	20
			Lifts	30
			Escalators	20
			Security Access control	15
			Fire protection system	20

GRAP Classification	Classes (Categories)	Asset Type	Group/ Component	Original useful life in years
Property, plant and equipment	**Residential properties**			**15 - 50**
		Land		N/A
		Building	Dwellings	50
			Apartment/Block of flats	50
			Barracks	15
		Building component	Lifts	30
Property, plant and equipment	**Infrastructure assets**			**15 - 100**
		Roads	Rail road	33
			Road	33
			Bridge	20
			Weight bridge	15
		Airports	Runways	50
		Water	Dams	100
			Meters	30
			Pump stations/pumps	50
			Water treatment structure	40
			Reservoirs	100
			Waterwheels, Turbines, Generators	35
		Harbors	Hoist	25
			Pontoons	33
		Mines	Quarries	30
		Communication	Networks	25
Property, plant and equipment	**Non – residential heritage properties**			N/A
		Land		N/A
		Building - Historical		N/A
Heritage assets	**Historical buildings**			N/A
	Conservation areas			N/A

GRAP Classification	Classes (Categories)	Asset Type	Group/ Component	Original useful life in years
	Historical monuments			N/A
	Cemeteries			N/A

19 Annexure 4: Illustrative Examples

19.1 Capitalisation

19.1.1 Construction of a Capital improvement to an existing state-owned building occupied by a National department. PMTE obtains the financing for the total costs of the improvement from the client department (budget holder).

- PMTE leased a state-owned office building to Department A for a period of 10 years (1 April 20X0 -31 Mar 20X10). During this period Department A required capital improvements to the building, which PMTE completed over a two year period, and PMTE obtained the financing for the required improvement from Department A as part of the lease agreement.

  Construction of the capital improvement commenced on 1 Apr 20X5 and was completed on 31 Mar 20X7 and was available for use by Department A from 1 Apr 20X7. The useful life of the completed capital improvement asset is 4 years. The costs incurred over the two years for the capital improvement were as follows:

  Year 1: 31 Mar 20X6 - R 20,000 construction; R 5,000 professional fees

  Year 2: 31 Mar 20X7 - R 70,000 construction; R 4,000 professional fees

  Total construction expenditure = R 90,000

  Total professional fees = R 9,000

  Total costs of capital improvement = R 99,000

- The entries in the books of PMTE will be as follows as and when the progress payments are made by PMTE to the vendors, and on completion of the contract (capitalisation entries)

Year	Description	Debit	Credit
31 Mar20X6	PPE: Assets under construction (SFPOS)	R25,000	
	Bank (SFPOS)		R25,000
Capitalisation of progress payments made to vendors by PMTE			
	Accommodation debtor (Dept A) (SFPOS)	R25,000	

Year	Description	Debit	Credit
	Operating lease creditor (Deferred revenue) (SFPOS)		R25,000
Finance for Capital improvement receivable from Dept A per lease agreement			
31 Mar20X7	PPE: Assets under construction (SFPOS)	R74,000	
	Bank (SFPOS)		R74,000
Capitalisation of progress payments made to vendors by PMTE			
	Accommodation debtor (Dept A) (SFPOS)	R74,000	
	Operating lease creditor (Deferred revenue) (SFPOS)		R74,000
Finance for Capital improvement receivable from Dept A per lease agreement			
	PPE: Non – residential properties (Building (SFPOS)	R99,000	
	PPE: Assets under construction (SFPOS)		R99,000
Transfer of assets under construction to complete assets – contract completed 31 Mar 20X17			

- In addition to the capitalisation entries above, the entries below illustrates the rest of the entries that will be in the books of PMTE that relates to the capital improvement in the above example.

Year	Description	Debit	Credit
31 Mar20X7	Bank	R99,000	
	Accommodation debtor (Dept A) (SFPOS)		R99,000
Payments received from Dept A to finance capital improvement as part of lease agreement			
31 Mar20X8	Operating lease creditor (Deferred revenue) (SFPOS)	R33,000	
	Exchange transaction : Accommodation – leasehold improvements (SFPER)		R33,000
Recognition of deferred revenue over the remaining lease period of 3 years			

Year	Description	Debit	Credit
(R99,000/3 = R33,000 per annum			
	Depreciation (SFPER)	R24,750	
	Accumulated depreciation – PPE non residential property (SFPOS)		R24,750
Depreciation for the year on capital improvement asset that was available for use from 1 Apr 20X7 (R99,000/4 years useful life) = R24,750 annual depreciation			
31 Mar20X9	Operating lease creditor (Deferred revenue) (SFPOS)	R33,000	
	Exchange transaction : Accommodation – leasehold improvements (SFPER)		R33,000
Recognition of deferred revenue over the remaining lease period of 3 years (R99,000/3 = R33,000 per annum			
	Depreciation (SFPER)	R24,750	
	Accumulated depreciation – PPE non residential property (SFPOS)		R24,750
Depreciation for the year on capital improvement asset that was available for use from 1 Apr 20X7 (R99,000/4 years useful life) = R24,750 annual depreciation			
31 Mar20X10	Operating lease creditor (Deferred revenue) (SFPOS)	R33,000	
	Exchange transaction : Accommodation – leasehold improvements (SFPER)		R33,000
Recognition of deferred revenue over the remaining lease period of 3 years (R99,000/3 = R33,000 per annum			
	Depreciation (SFPER)	R24,750	
	Accumulated depreciation – PPE non residential property (SFPOS)		R24,750
Depreciation for the year on capital improvement asset that was available for use from 1 Apr 20X7 (R99,000/4 years useful life) = R24,750 annual depreciation			
31 Mar20X11	Depreciation (SFPER)	R24,750	
	Accumulated depreciation – PPE non residential property (SFPOS)		R24,750
Depreciation for the year on capital improvement asset that was available for use			

Year	Description	Debit	Credit
from 1 Apr 20X7 (R99,000/4 years useful life) = R24,750 annual depreciation			

19.1.2 Fully constructed assets completed in the current financial year by PMTE. Costs financed by PMTE.

Year 1 - R 1,500 for construction; R 500 for professional fees

Year 2 - R 2,500; R 200 for professional fees

Year 3 - R 1,000; R 300 for professional fees

- The journal entries in the books of PMTE will be as follows:

Year	Description	Debit	Credit
1	PPE: Assets under construction (R 1,500 + R 500) (SFPOS)	R2,000	
	Bank / Creditor (SFPOS)		R2,000
2	PPE: Assets under construction (R 2,500 + R 200) (SFPOS)	R2,700	
	Bank / Creditor (SFPOS)		R2,700
3	PPE: Assets under construction (R1,000 +R300) (SFPOS)	R1,300	
	Bank / Creditor (SFPOS)		R1,300
	PPE: Non-residential properties (Building) (R 2,700 + R 2,000 + R 1,300) (SFPOS)	R6,000	
	PPE: Assets under construction (SFPOS)		R6,000

19.1.3 Department B spent R 5,000,000 on improvements to a state-owned office building, and the costs were not recovered by PMTE during construction. After completion of project Department B transferred the improvement asset to PMTE with Sec 42 certificate in terms of PFMA

Description	Debit	Credit
PPE : Non-residential property (Building) (SFPOS)	R5,000,000	
Revenue from Non-exchange Transactions (SFPER)		R5,000,000

19.1.4 PMTE spent R 5,000,000 for the rehabilitation of a state-owned building. Cost for the rehabilitation was financed by PMTE and project was completed within one financial year.

Description	Debit	Credit

PPE : Assets Under Construction (SFPOS)	R5,000,000	
Bank / Creditor (SFPOS)		R 5,000,000
PPE : Non-residential property (Building) (SFPOS)	R 5,000,000	
PPE: Assets Under Construction (SFPOS)		R 5,000,000

19.1.5 PMTE spent R 1,000,000 for improvements on a leased property, costs incurred recovered from client.

Description	Debit	Credit
PPE: Leasehold Improvements (SFPOS)	R1,000,000	
Bank / Creditor (SFPOS)		R1,000,000

19.1.6 Department C spend R 1,000,000 for improvements on a non state-owned leased property

Description	Debit	Credit
No transaction in PMTE books, as there is no transaction between PMTE and Department C		

19.2 Recognition

19.2.1 Recognition of an immovable asset acquired at cost

19.2.2 PMTE purchased a non-residential property for R 1,000,000 purchase price and R 100,000 for legal fees (transfer fees).

- The journal is as follows:

Description	Debit	Credit
PPE : Non-residential properties (Building / Land) (R 1,000,000 + R 100,000) (SFPOS)	R1,100,000	
Bank / Creditor (SFPOS)		R1,100,000

19.2.3 A residential house, valued at R 1,000,000 (fair value) was donated and transferred to PMTE

- The journal is as follows:

Description	Debit	Credit
PPE: Residential properties (Building / Land) (SFPOS)	R1,000,000	

Revenue from Non-exchange Transactions (SFPER)		R1,000,000

19.2.4 recognising an asset acquired through a finance lease

a) PMTE entered into a lease agreement on 1 April 2010 to lease an office building for a period of ninety years for own use to accommodate PMTE staff. The monthly lease payment is R50 000 payable in arrears beginning 30 April 2010 and the rate implicit in the lease is 5%. The journal entry at commencement of the lease will be as follows (Refer to 19.3.1 for calculations)

Description	Debit	Credit
PPE – Leasehold asset (SFPOS)	R11,865,431	
Finance lease liability (SFPOS)		R11,865,431

19.3 Measurement

19.3.1 Illustrative example – calculating the present value of the minimum lease payments due:

PMTE entered into a lease agreement on 1 April 2010 to lease an office building for a period of ninety years. The monthly lease payment is R50, 000 payable in arrears beginning 30 April 2010 and the rate implicit in the lease is 5%.

The present value of the minimum lease payments will be calculated as follows:

PMT	R50,000
I	0.00416667% (5% / 12)
N	1080 (90 X 12)
PV Excel formula for computing PV: =PV(rate, nper, PMT, FV) =PV(0.00416667,1080,50000,1)	R 11,865,431

19.4 Impairment

19.4.1 Indications of impairment (Identification)

19.4.1.1 Cessation, or near cessation, of the demand or need for services provided by the asset:

- A building whose principal occupant does not renew its occupancy agreement with the result that the facility is expected to close.
- A building closed because of a lack of demand for accommodation services arising from a population shift to other areas. It is not anticipated that this demographic trend affecting the demand for the accommodation services will reverse in the foreseeable future

- A building designed for 1 500 occupants currently has 150 occupants – the building cannot be closed because the nearest alternative building is 100 kilometres away. The PMTE does not envisage the increase in number of occupants. At the time of establishment occupation was 1 400 occupants – the PMTE would have acquired a much smaller facility had future accommodation been envisaged to be 150 occupants. The PMTE determines that demand has nearly ceased and the recoverable service amount of the school should be compared with its carrying amount;

19.4.1.2 Significant long-term changes with an adverse effect on the PMTE in the technological, legal or government policy environment in which it operates.

- A building that can no longer be used for accommodation purposes due to new safety regulations regarding its building materials or emergency exits;
- A drinking water plant that cannot be used because it does not meet new environmental standards.

19.4.1.3 Evidence is available of physical damage of an asset.

- A building damaged by fire or flood or other factors;
- A building that is closed due to identification of structural deficiencies;
- Sections of an elevated roadway that have sagged, indicating that these sections of roadway will need to be replaced in 15 years rather than the original design life of 30 years;
- A water treatment plant whose capacity has been reduced by an intake blockage and the removal of the blockage is not economical;

19.4.1.4 Significant long-term changes, with an adverse effect on the PMTE, in the extent to which an asset is used, or is expected to be used:

- If the asset is not being used in the same way as it was when originally put into service, the asset may be impaired. An example of an impaired asset that might be identified by this indication is a training facility that is being used for storage rather than for training purposes.

19.4.1.5 A decision to halt the construction of the asset before it is complete or in a usable condition:

- Construction was stopped due to identification of an archaeological discovery or environmental condition such as a nesting ground for a threatened or an endangered species; and
- Construction was stopped due to a decline in the economy.

NB: The circumstances that led to the stopping of construction will also be considered. If construction is deferred, that is, postponed to a specific future date, the project could still be treated as work in progress and is not considered as halted.

19.4.1.6 Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected:

- The expenditure report for a building may indicate that the building is impaired because the cost of maintaining the building has significantly exceeded that originally budgeted.

19.5 Calculation of Impairment loss:

19.5.1 Depreciated replacement cost approach

a) Significant long-term change with adverse effect on the PMTE in the manner of use – training facility used as storage facility:

PMTE constructed a training facility at a cost of R10 million. The estimated useful life of the facility is fifty years. In 20X7, the facility is closed because enrolments declined unexpectedly due to a population shift caused by the insolvency of a major employer in the area. The facility is converted to use as a storage warehouse, and management has no expectation that enrolments will increase in the future such that the building would be reopened for use as a training facility. The current replacement cost for a warehouse with the same storage capacity as the school is R4.2 million.

b) Evaluation of Impairment

Impairment is indicated because the purpose for which the building is used has changed significantly from a place for instructing students to a storage facility, and this is not anticipated to change for the foreseeable future. An impairment loss using Depreciated Replacement cost approach would be determined as follows:

Historical Cost – 20x1	R 10,000,000
Accumulated Depreciation, 20x7 (R 10,000,000 x 6 / 50)	R 1,200,000
Carrying Amount	**R 8,800,000**
Replacement cost of a storage facility of similar capacity	R 4,200,000
Accumulated Depreciation (R 4,200,000 x 6 / 50)	R 504,000
Recoverable Service Amount	**R 3,696,000**
Impairment loss (R 8,800,000 – R 3,696,000)	**R 5,104,000**

- Journal in books of PMTE is as follows:

Description	Debit	Credit
Impairment Loss (SFPER)	R5,104,000	
Accumulated Depreciation and Impairment: Buildings (SFPOS)		R5,104,000

19.5.2 Service units approach

a) Significant long-term change with adverse effect on the PMTE in the extent of use — high rise building partially unoccupied for the foreseeable future

In 20X1, PMTE constructed a 20 story office building for use by the Department of Public Works at the cost of R80 million. The building was expected to have a useful life of 40 years. In 20X16, after 15 years of use, fire safety regulations required that the top 4 stories of high rise buildings should be left unoccupied for the foreseeable future. The building has a fair value less costs to sell of R45 million in 20X16 after regulations came into force. The current replacement cost of a similar 20 story building is R85 million.

b) Evaluation of impairment

Impairment is indicated because the extent of use of the office building has changed from 20 floors to 16 floors as the result of new fire safety regulations. The reduction in the extent of use is significant and the occupation of the building is expected to remain at the reduced level (16 floors) for the foreseeable future. Impairment loss using the service units approach would be determined as follows:

Acquisition Cost – 20x1 Accumulated Depreciation, 20X16 (R 80,000,000 × 15 / 40 years) Carrying Amount	R 80,000,000 R 30,000,000 **R 50,000,000**
Replacement cost (20 story building) Accumulated Depreciation (R 85,000,000 x 15 / 40 years) Depreciated replacement cost before adjustment for remaining service units	R 85,000,000 R 31,875,000 **R 53,125,000**
Value in use of the building after the regulation came into force. (R53 125 000 x 16 /20 floors)	R 42,500,000
Fair value less costs to sell of the building after regulation came into force	R 45,000,000
Recoverable service amount (higher of value in use and fair value less cost to sell)	**R 45,000,000**
Carrying value of R50,000,000 > Recoverable service amount of R45,000,000, thus Impairment loss (R 50,000,000 – R 45,000,000)	R 5,000,000
New annual depreciation based on reduced carrying amount of R45,000,000 and remaining useful life of 25 years R45,000,000/25 years	R1,800,000

- Journal in PMTE books is as follows:

Description	Debit	Credit
Impairment Loss (SFPER)	R5,000,000	
Accumulated Depreciation and Impairment:		R5,000,000

Buildings (SFPOS)		

19.5.3 Restoration cost approach

a) Physical damage — building damaged by fire

In 20X1, a municipality built an office building at a cost of R50 million. The building was expected to provide service for 40 years. In 20X20, after 19 years of use, fire caused severe structural problems. Due to safety reasons, the office building is closed and structural repairs costing R35.5 million are to be made to restore the office building to a usable condition. The replacement cost of a new office building is R100 million.

b) Evaluation of impairment

Impairment is indicated because the office building has sustained physical damage due to the fire. Impairment loss using a restoration cost approach would be determined as follows:

Acquisition cost, 20X1	R50,000,000
Less Accumulated depreciation, 20X20 (R50,000,000 × 19/40 years)	R 23,750,000
Carrying amount, 20X20	**R26,250,000**
Replacement cost (new building)	R100,000,000
Accumulated Depreciation (R100,000,000 X 19/40 years)	R47,500,000
Depreciated replacement cost (undamaged)	**R52,500,000**
Less: Restoration cost	R35,500,000
Recoverable service amount	**R17,000,000**
Impairment loss (R26,250,000 – R17,000,000)	**R9,250,000**
New annual depreciation based on reduced carrying amount of R17,000,000 and remaining useful life of 21 years	
R17,000,000/21 years	R809,524

- Journal in PMTE books is as follows:

Description	Debit	Credit
Impairment Loss (SFPER)	R9,250,000	
Accumulated Depreciation and impairment: Buildings (SFPOS)		R9,250,000

19.6 Reversal of impairment loss

19.6.1 Reversal of impairment loss on asset carried at cost

a) Assume the same information as in Example 19.5.2 above. (In 20X1, PMTE constructed a 20 story office building for use by the Department of Public

Works at the cost of R80 million. The building was expected to have a useful life of 40 years. In 20X16, after 15 years of use, fire safety regulations required that the top four stories of high rise buildings should be left unoccupied for the foreseeable future. The building has a fair value less costs to sell of R45 million in 20X16 after regulations came into force. The current replacement cost of a similar 20 story building is R85 million).

b) At the end of 20X18, after 17 years of use the government decided to uplift the regulations. PMTE consequently can occupy the top four stories. Thus, there is an indication that the impairment loss might be reversed, and consequently the PMTE re-estimates the recoverable service amount. The calculations and relevant journal are as follows:

Acquisition Cost – 20X1 Accumulated Depreciation, 20X16 (R 80,000,000 × 15 / 40 years) Carrying Amount, before impairment loss Less Impairment loss 20X16 (per 9.5.2) Carrying amount after impairment loss 20X16	R 80,000,000 R 30,000,000 **R 50,000,000** (R 5,000,000) **R 45,000,000**
Remaining useful life at 20x16 (40 – 15 years)	25 years
New annual depreciation after 20X16 impairment loss R45,000,000/25 years	 R1,800,000
Carrying amount at the end of 20X18 after 17 years of use R 45,000,000 - (R1,800,000 x 2 years)	 **R41,400,000**
What carrying amount would have been 20X18 if no impairment loss was recognised in 20X16 Acquisition Cost – 20X1 Accumulated Depreciation, 20X18 (R 80,000,000 × 17 / 40 years) Carrying Amount, 20X18	 R 80,000,000 R 34,000,000 **R 46,000,000**
Replacement cost (20 story building) Accumulated Depreciation, 20X18 (R85,000,000 x 17/40 years) Depreciated replacement cost before adjustment for remaining service units	R 85,000,000 R 36,125,000 R 48,875,000
Value in use after uplifting of regulation 48,875,000 x 20/20 floors	R 48,875,000

Fair value less costs to sell of the building after regulation came into force (same as 20X16)	R 45,000,000
Recoverable service amount (higher of value in use and fair value less cost to sell)	**R 48,875,000**
Impairment loss reversal limited to what the carrying amount would have been - should be limited as R 46,000,000 is less than R 48,875,000 : (R 46,000,000 - R 41,400,000)	**R 4,600,000**
New annual depreciation based on new carrying amount (R 46,000,000/23 years remaining useful life)	R 2,000.000

- Journal in PMTE books is as follows:

Description	Debit	Credit
Accumulated depreciation and impairment (SFPOS)	R4,600,000	
Impairment loss reversal (SFPER)		R4,600,000

Note: *As the recoverable service amount is more than the carrying amount, the impairment loss will be reversed to increase the carrying amount of the asset, but the increase will be limited to what the carrying amount of the asset would have been if no impairment loss had been recognised.*

19.7 Depreciation

19.7.1 PMTE constructed a new building which was completed on 30 June 20X3 at a total cost of R 10,000,000. The useful life of the new building is 20 years. The year end is 31 March 20X4 and 31 March 20X.5.

- Depreciation will be calculated as follows:
  Year 20X4: R10,000,000/20 years x 9/12 months = R375,000
  Year 20X5: R10,000,000/20 years = R500,000
- Journal entries are as follows:

Year	Description	Debit	Credit
20X4	Depreciation: Building (SFPER)	R375,000	
	Accumulated Depreciation: Building (SFPOS)		R375,000
20X5	Depreciation: Building (SFPER)	R500,000	
	Accumulated Depreciation: Building (SFPOS)		R500,000

19.8 Review of useful life

19.8.1 Matrix that can be used to calculate re-estimated useful lives based on the assessment of an assets condition.

				Current remaining useful life as a percentage of original useful life				
Condition assessment ratings				Less than 20%	>20% <40%	>40% <60%	>60% <80%	>80%
Very poor (unfit for occupancy)	=	C1	20%	Test for impairment – no adjustment of remaining life needed unless not in use	Test for impairment - remaining life 10% or less of the original life	Test for impairment - remaining life 10% or less of the original life	Test for impairment - remaining life 10% or less of the original life	Test for impairment - remaining life 10% or less of the original life
Poor (serious structural defects)	=	C2	40%	Acceptable – no review required	Acceptable – no review required	Adjust remaining life to 30% of original useful life – test for impairment	Adjust remaining life to 40% of original useful life – test for impairment	Adjust remaining life to 40% of original useful life – test for impairment
Fair (average condition, surface deterioration)	=	C3	60%	Adjust remaining life to 50% of original life	Adjust remaining life to 50% of original life	Acceptable no review required	Test for impairment - Adjust remaining life to 50% of original life	Test for impairment - Adjust remaining life to 60% of original life
Good (minor defects, superficial wear)	=	C4	80%	Adjust remaining life to 70% of original life	Adjust remaining life to 70% of original life	Adjust remaining life to 70% of original life	Acceptable no review required	Adjust remaining life to 70% of original life
Excellent (no apparent defects/as new)	=	C5	100%	Adjust remaining life to 80% of original life	Adjust remaining life to 80% of original life	Adjust remaining life to 80% of original life	Acceptable no review required	Acceptable no review required

19.8.2 Asset of R100 with a carrying amount of R40 at the end of the financial year, and annual depreciation of R20 (straight-line) has a condition assessment of C5. The remaining useful life of the asset, at the end of the financial year and before the condition assessment is 2 years. The original (basis) useful life was 5 years.

- Calculations using above matrix

Remaining useful life as a percentage of original life	= 2 years/5 years x 100	= 40%
Adjusted remaining life	= 80% x 5 years (Original life)	= 4 years
Adjusted useful life	= Depreciation period to date + Adjusted remaining life (3 years + 4 years)	= 7 years
Adjusted annual depreciation	= Cost/adjusted useful life (R100/7 years)	= R14.29
Adjusted closing carrying amount	= Cost – Adjusted accumulated depreciation	= R57.13

	(R100 – (R14.29 x 3 years))	
Opening balance Accumulated depreciation adjustment	= R40 – (R14.29 x 2 years)	= R11.42
Current year depreciation adjustment	= R20 – R14.29	= R5.71
Closing balance Accumulated depreciation adjustment	= R60 – R57.13	= R2.87

- The above reassessment of the remaining useful life has extended the remaining life from 2years to 4 years, and increased the total useful life from 5 years to 7. The accumulated depreciation is reflecting an estimate, and as a result, has to be adjusted.

		Opening balance			Closing balance	
	Cost	Accumulated Depreciation	Carrying Amount	Depreciation for the year	Accumulated Depreciation	Carrying Amount
	R	R	R	R	R	R
Previously stated	100.00	(40.00)	60.00	(20.00)	(60.00)	40.00
Change in estimate		11.42		5.71	17.13	
Restated	100.00	(28.58)	71.42	(14.29)	(42.87)	57.13

- Journal in PMTE books

Description	Debit	Credit
Accumulated depreciation (SFPOS)	R17.13	
Depreciation (SFPER)		R17.13
Change in estimate as a result of the increase in useful life (R11.42 + R5.71)		

19.9 De-recognition of an asset

19.9.1 PMTE sold a property during the financial year ending 31 March 20X4.

Historical cost 1 Apr 20X0	R10,000,000
Useful life	20 years
Accumulated depreciation 31 Mar 20X3 (R10,000,000X 3/20)	R1,500,000
Date of disposal	28 Feb. 20X4
Selling price	R9,500,000
Calculations as follows: Depreciation for the year 20X.4 (R10,000,000/20 years x 11/12 months) Accumulated Depreciation 28 Feb 20X4 (R1,500,000 + R 458,333.33) Carrying amount 28 Feb 20X4 Surplus on disposal (R9,500,000 – R8,041,667)	 R 458,333 R1,958,333 R8,041,667 R1,458,333

- Journals in PMTE books are as follows:

Description	Debit	Credit
Depreciation (SFPER)	R458,333	
Accumulated depreciation (SFPOS)		R458,333
Depreciation for year till disposal date		
Bank (SFPOS)	R9,500,000	
Accumulated depreciation (SFPOS)	R1,958,333	
PPE: Property Cost (SFPOS)		R10,000,000
Surplus on sale of property (SFPER)		R1,458,333
Disposal of property – Recognition of proceed on sale, and derecognition of asset cost and accumulated depreciation		