



# **FIXED ASSET POLICY**

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# **1. Capitalisation**

All assets of the Municipality must be recorded in a fixed asset register or an inventory register. In order to assess the classification of the items in the fixed asset register, the following should be considered:

- The item's price,
- The item's economic life span,
- The service centre in which the asset will be utilised

All items with a cost price (VAT exclusive) of more than R2 500 and/or an economic life span of more than 3 years should be included in the Municipality's fixed asset register. The latter is subject to the judgement of the Municipal Manager and Municipal Treasurer.

All other items should be included in the inventory register.

A clear distinction should be made between capital expenditure and maintenance cost of assets. Only capital expenditure must be capitalised as part of the original cost of the assets.

## **2. Additions**

The yearly budget will include a list of projects and/or capital expenditure to be undertaken during the next financial year.

The approval of the budget will serve as authorisation for all capital expenses.

Additional capital projects not budgeted for must be approved by Council in advance. All additions to fixed assets must be recorded at the original cost price (excluding VAT).

## **3. Disposals**

Assets with no useful purpose for Council must be disposed of and eliminated from the asset register.

All disposals must be authorised by Council. Disposals can be made by way of one of the following methods:

- Scrapping (at net book value)
- Sale (by auction or tender)

## **4. Revaluations**

Land and buildings may be revalued.

The revaluation must be based on the market value of the property.

All municipal valuations will only be done by valuers registered as a Valuer or Associated Valuer in terms of the Valuers' Act of 1982.

Whenever buildings are valued at a price higher than cost price an annual depreciation charge will be made against such building.

## **5. Depreciations**

All assets, other than land and heritage assets, must be depreciated. These assets should be depreciated over their expected useful life.

Fixed assets should be disclosed in the financial statements at the net book value, which represents historical cost (plus any revaluations or capital expenditure) less accumulated depreciation.

Whenever assets are not maintained properly a higher depreciation rate should be used since the useful life of asset will be shorter than expected. Minimum depreciation rates as prescribed by National Treasury must be adhered to.

## **6. Finance**

A capital budget must be approved yearly by Council;. This budget must stipulate the method and way of financing of the assets budgeted for. Council's approval of the capital budget will also deem to be an approval of the method and way of financing of the capital program.

Application for loans must be completed by the Municipal Manager and the Municipal Treasurer.

Ad hoc projects not budgeted for in the yearly budget must be approved by Council in advance and a revised budget must be prepared and submitted to the National Treasury for approval. If additional financing is required from external sources in respect of such expenditure, approval of Council must be obtained prior to the application for external finance.

## **6.1 External loans**

External loans must be paid into an External Finance Fund (EFF). The balance on this EFF must be invested in a separate bank account or investment account.

As soon as money is needed for the acquisition of fixed assets, the Fund makes an “advance” to the Municipality. This advance has to be recorded in the Fund financial records.

Repayments of this advance must be made each year, in equal installments over the economic life of the fixed asset to acquired.

The total annual loan repayments must equal the total amount transferred from the EFF.

## **6.2 Internal sources**

The balance of the statutory fund providing the internal finance, must be reduced by the amount expended.

The amount expended from the fund, must be transferred to a non-distributable reserve.

Transfers from the non-distributable reserve, must be made to the income statement in installments over the same period as the estimated useful life of the fixed asset financed.

## **6.3 Revenue contributions**

Fixed assets may be financed from income if the cash flow of the Municipality allows for such an expenditure.

Fixed assets financed from income must capitalised at cost.

The fixed assets acquired in this way, should be depreciated over their estimated useful lives.

## **6.4 Government grants, subsidies, donations & public contributions**

These moneys can only be used for purposes specified by the benefactor. The moneys must be credited to a non-distributable reserve.

On utilisation of these funds, the reserves are transferred to the income statement (the appropriation section) in installments over the estimated useful life of the fixed asset so financed.

## **7. Security**

All fixed assets, moveable assets and inventory items must be insured.

The Municipal Treasurer must ensure that adequate preventative mechanisms are in place to eliminate theft, losses, wastage and the misuse of Municipal assets.

## **8. Responsibilities**

The responsibility for adequate maintenance and securing of any asset under the control of a department shall vest in the Head of that Department.

The overall accounting control of assets including the asset register must be exercised by the Municipal Treasurer who will determine the appropriate records, charges for the use of such assets and other incidental matters in consultation with the Head of a Department concerned.

The Head of a Department is responsible for an annual inventory count of furniture, equipment and other moveable property with a life expectancy of more than one year, and which are under his department's control.