uMzinyathi District Municipality
Annual Financial statements
for the year ended 30 June 2021

General Information

Nature of business and principal activities	The uMzinyathi District Municipality is a municipality that is operating within its constitutional mandate as a water service authority in the form of service delivery to the citizens of South Africa.
Mayoral committee	
Mayor	Cllr Alderman PMS Ngubane
Deputy Mayor	Cllr NG Mdlalose
Speaker	Cllr FJ Sikhakhane
Executive Committee	Cllr LWS Ngubane
	Cllr MS Yengwa
Chief Whips	Cllr BP Madondo
	Cllr RN Ngubane
MPAC Chairperson	Cllr XS Xaba
Councillors	Cllr BS Mdluli
	Cllr NC Xaba
	Cllr BS Chambule
	Cllr CZ Mbatha
	Cllr LG Mabaso
	Cllr B Mthethwa
	Cllr SK Radebe
	Cllr XP Ndlovu
	Cllr TH Mchunu
	Cllr EM Mkhwanazi
	Cllr PM Ngobese
	Cllr LC Moloi
	Cllr TJ Motloung
	Cllr PS Hlophe
	Cllr M Phakathi
	Cllr IL Shabalala
Grading of local authority	04
Accounting Officer	Mr LH Mthembu
Chief Finance Officer (CFO)	Mrs NT Mkhwanazi
Registered office	39 Victoria Street Princess Magogo Building Dundee 3000
Business address	39 Victoria Street Princess Magogo Building Dundee 3000
Postal address	PO Box 1965 Dundee 3000
Bankers	First National Bank
Auditors	Auditor General

General Information

	Registered Auditors
Telephone	(034) 219 1500
Website	www.umzinyathi.gov.za
Email	rc3@umzinyathi.gov.za

Index

The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

Index

ABSA	Amalgamated Banks of South Africa
AG	Auditor General of South Africa
COGTA	Department of Coopoerative Governance and Traditional Afrairs
CPI	Consumer Price Index
DM	District Municipality
DORA	Division of Revenue Act
DPW	Department of Public Works
DWS	Department of Water and Sanitation
EPWP	Expanded Public Works Programme
FMCMM	Finance Management Capacity Maturity Model
FMG	Finance Management Grant
FNB	First National Bank
GRAP	Generally Recognised Accounting Practice
IDP	Integrated Development Plan
JSE	Johannesburg Stock Exchange
KZN	Kwa-Zulu Natal
LED	Local Economic Development
LGSETA	Local Government Sector Education and Training Authority
LM	Local Municipality
MEC	Member of Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MPAC	Municipal Public Accounts Committee
MSCOA	Municipal Standard Chart of Accounts
NRA	Normal Retirement Age
PAYE	Pay As You Earn
PFMA	Public Finance Management Act
RPAMS	Rural Road Asset Manageemnt Systems
SARS	South African Revenue Service
SCM	Supply Chain Management
SDL	Skills Development Levy

Index

UIF	Unemployment Insurance Fund
VAT	Value Added Taxation
WTW	Water Treatment Works
WSDP	Water Services Development Plan

Accounting Officer's Responsibilities and Approval

The Umzinyathi Municipality is situated at Princess Magogo Building, 39 Victoria Street, Dundee. It is a grade 4 Municipality established in terms of section 12(1) of the Municipal Structures Axt, No.117 and published in terms of Provinvial Government Notice 346 on the 19th of September 2000. The Local Government Operations of the municipality are assigned by Section 156 and 229 of the South African Constitution and defined specifically in terms of section 83 od the Municipal Structures Act. The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is largely dependent on the Provincial and National Government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Provincial and National Government have neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The annual financial statements set out on pages 7 to 83, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed on its behalf by:

Accounting Officer
Designation

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	3	1 491 520	1 026 947
Receivables from non-exchange transactions	4	-	1 120 491
Receivable from Exchange Transactions	6	140 530 231	116 950 767
Cash and cash equivalents	7	11 378 811	2 375 322
		153 400 562	**121 473 527**
Non-Current Assets			
Investment property	8	2 067 958	1 152 793
Property, plant and equipment	9	2 384 783 044	2 263 345 901
Intangible assets	10	1 734 148	3 740 378
Heritage Assets	11	8 655	8 655
Investments in associates	12	99 650 995	129 037 638
		2 488 244 800	**2 397 285 365**
Total Assets		**2 641 645 362**	**2 518 758 892**
Liabilities			
Current Liabilities			
Finance lease obligation	13	6 018 697	15 787 127
Payables from exchange transactions	14	305 711 663	257 053 002
VAT payable	5	11 797 804	1 265 033
Consumer Deposits	15	451 314	451 314
Employee benefit obligation	16	2 023 000	1 064 835
Unspent conditional grants and receipts	17	7 109 788	1 001 648
Provisions	18	26 088 636	17 663 467
		359 200 902	**294 286 426**
Non-Current Liabilities			
Finance lease obligation	13	-	6 293 525
Employee benefit obligation	16	23 707 000	21 524 720
		23 707 000	**27 818 245**
Total Liabilities		**382 907 902**	**322 104 671**
Net Assets		**2 258 737 460**	**2 196 654 221**
Accumulated surplus		2 258 737 460	2 196 654 221

* See Note 39

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service Charges	21	74 786 933	82 818 892
Rental of Facilities and Equipment	22	460 666	216 966
Interest Earned on Outstanding Debtors	23	36 392 239	31 275 620
Other Income	25	826 291	219 271
Interest on Investments	24	2 859 616	8 814 806
Total revenue from exchange transactions		**115 325 745**	**123 345 555**
Revenue from Non-Exchange Transactions			
Taxation revenue			
Acturial Gain from Post Retirement	16	776 344	5 433 086
Donation Income	38	-	7 954 824
Transfer revenue			
Government Grants and Subsidies	26	713 698 120	643 473 917
Total Revenue From Non-Exchange Transactions		**714 474 464**	**656 861 827**
Total Revenue	20	**829 800 209**	**780 207 382**
Expenditure			
Employee Related Costs	27	(208 129 582)	(173 436 396)
Remuneration of Councillors	28	(5 754 338)	(5 982 001)
Penalties on court judgements		-	(4 000 000)
Depreciation and Amortisation	29	(98 447 633)	(96 711 120)
Finance Costs	30	(5 429 234)	(6 732 939)
Operating Leases	32	(898 110)	(579 721)
Provision for Debt Impairment	33	(58 806 424)	(36 487 166)
Bad Debts		-	(8 652 448)
Post Retirement Benefits	16	(4 218 270)	(2 985 707)
Bulk Purchases	34	(18 699 089)	(17 365 793)
Contracted Services	35	(161 354 987)	(135 421 986)
Loss on Disposal of Assets and Liabilities		(4 528 593)	(9 949 824)
Share on Deficit from Associate	12	(29 386 643)	(30 303 447)
General Expenses	36	(172 029 535)	(171 361 318)
Total expenditure		**(767 682 438)**	**(699 969 866)**
Surplus for the year		**62 117 771**	**80 237 516**

* See Note 39

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2019	**2 137 226 734**	**2 137 226 734**
Changes in net assets		
Surplus for the year	80 237 516	80 237 516
Total changes	80 237 516	80 237 516
Adjustments		
Prior year adjustments	(20 810 028)	(20 810 028)
Restated* Balance at 01 July 2020	**2 196 654 221**	**2 196 654 221**
Changes in net assets		
Surplus for the year	62 117 771	62 117 771
Total changes	62 117 771	62 117 771
Balance at 30 June 2021	**2 258 737 460**	**2 258 737 460**
Note(s)		

* See Note 39

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		30 825 514	42 015 594
Grants		719 806 260	644 266 524
Interest income		2 859 616	8 814 806
		753 491 390	695 096 924
Payments			
Employee costs		(205 458 751)	(175 862 452)
Suppliers		(295 332 687)	(326 918 023)
Finance costs		(516 151)	(492 314)
		(501 307 589)	(503 272 789)
Net cash flows from operating activities	38	**252 183 801**	**191 824 135**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(230 855 519)	(229 437 006)
Proceeds from sale of property, plant and equipment	9	-	(1 457 538)
Purchase of investment property	8	(1 005 671)	(419 760)
Purchase of other intangible assets	10	(170 251)	(471 879)
Net cash flows from investing activities		**(232 031 441)**	**(231 786 183)**
Cash flows from financing activities			
Finance lease payments		(11 148 872)	(15 839 827)
Net increase/(decrease) in cash and cash equivalents		**9 003 488**	**(55 030 283)**
Cash and cash equivalents at the beginning of the year		2 375 323	57 405 606
Cash and cash equivalents at the end of the year	7	**11 378 811**	**2 375 323**

* See Note 39

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service Charges	67 883 681	-	**67 883 681**	74 786 933	**6 903 252**	N01
Rental of Facilities and Equipment	600 500	-	**600 500**	460 666	**(139 834)**	N02
Interest Earned on Outstanding Debtors	16 197 500	-	**16 197 500**	36 392 239	**20 194 739**	N04
Other income - (rollup)	245 500	10 000	**255 500**	826 291	**570 791**	N05
Interest	9 000 000	5 000	**9 005 000**	2 859 616	**(6 145 384)**	N03
Gains	950 000	(950 000)	**-**	-	**-**	N06
Total revenue from exchange transactions	**94 877 181**	**(935 000)**	**93 942 181**	**115 325 745**	**21 383 564**	
Revenue from non-exchange transactions						
Transfer revenue						
Government Grants & Subsidies	683 392 000	37 564 371	**720 956 371**	713 698 120	**(7 258 251)**	N07
Total revenue	**778 269 181**	**36 629 371**	**814 898 552**	**829 023 865**	**14 125 313**	
Expenditure						
Employee Related Costs	180 672 068	51 828 251	**232 500 319**	208 129 582	**(24 370 737)**	N08
Remuneration of Councillors	8 478 328	(2 761 393)	**5 716 935**	5 754 338	**37 403**	N09
Depreciation and Amortisation	45 009 439	1 843 130	**46 852 569**	98 447 633	**51 595 064**	N10
Finance Costs	-	100 000	**100 000**	5 429 234	**5 329 234**	N11
Operating Leases	10 108 250	6 241 750	**16 350 000**	898 110	**(15 451 890)**	N12
Debt Impairment	14 056 071	-	**14 056 071**	58 806 424	**44 750 353**	N15
Post Retirement Benefits	-	-	**-**	4 218 270	**4 218 270**	N17
Bulk Purchases	21 596 080	-	**21 596 080**	18 699 089	**(2 896 991)**	N13
Contracted Services	95 930 141	(25 531 007)	**70 112 605**	161 354 987	**91 242 382**	N14
General Expenditure	95 640 245	(22 627 349)	**78 456 314**	171 699 535	**93 243 221**	N16
Total expenditure	**471 490 622**	**9 093 382**	**485 740 893**	**733 437 202**	**247 696 309**	
Operating surplus	**471 490 622**	**9 093 382**	**480 584 004**	**650 419 111**	**137 109 655**	
Loss on disposal of assets and liabilities	-	-	**-**	(4 528 593)	**(4 528 593)**	N18
Share in Associate	-	-	**-**	29 386 643	**29 386 643**	N19
Inventories losses/write-downs	-	-	**-**	5 451 862	**5 451 862**	
	-	**-**	**-**	**30 309 912**	**30 309 912**	
Surplus before taxation	**471 490 622**	**9 093 382**	**480 584 004**	**680 729 023**	**200 145 019**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**471 490 622**	**9 093 382**	**480 584 004**	**680 729 023**	**200 145 019**	
Reconciliation						

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	-	1 026 947	**1 026 947**	1 491 520	**464 573**	N20
Receivables from exchange transactions	30 500 000	78 737 584	**109 237 584**	140 530 231	**31 292 647**	N21
Receivables from non-exchange transactions	-	9 772 939	**9 772 939**	-	**(9 772 939)**	N22
Call Investment Deposits	-	-	**25 223 880**	-	**(25 223 880)**	N23
Cash and cash equivalents	111 481 041	(93 639 177)	**17 841 864**	11 378 811	**(6 463 053)**	N24
	141 981 041	**(4 101 707)**	**163 103 214**	**153 400 562**	**(9 702 652)**	
Non-Current Assets						
Investment property	379 900	-	**379 900**	2 067 958	**1 688 058**	N25
Property, plant and equipment	270 549 963	-	**2 369 521 416**	2 384 783 044	**15 261 628**	N26
Intangible assets	640 000	-	**3 142 284**	1 734 148	**(1 408 136)**	N27
Heritage Assets	-	8 655	**8 655**	8 655	**-**	N28
Investment in Associates	-	-	**-**	99 650 995	**99 650 995**	N29
	271 569 863	**8 655**	**2 373 052 255**	**2 488 244 800**	**115 192 545**	
Total Assets	**413 550 904**	**(4 093 052)**	**2 536 155 469**	**2 641 645 362**	**105 489 893**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	6 018 697	**6 018 697**	N30
Payables from exchange transactions	-	(157 073 076)	**(157 073 076)**	305 332 163	**462 405 239**	N31
VAT payable	-	-	**-**	11 797 804	**11 797 804**	N37
Consumer deposits	(279 395 000)	278 943 680	**(451 320)**	451 314	**902 634**	N32
Employee benefit obligation	-	-	**-**	2 023 000	**2 023 000**	
Unspent conditional grants and receipts	-	1 002 000	**1 002 000**	7 109 788	**6 107 788**	N33
Provisions	-	-	**-**	26 088 636	**26 088 636**	N34
	(279 395 000)	**122 872 604**	**(156 522 396)**	**358 821 402**	**515 343 798**	
Non-Current Liabilities						
Employee benefit obligation	-	-	**-**	23 707 000	**23 707 000**	N35
Total Liabilities	**(279 395 000)**	**122 872 604**	**(156 522 396)**	**382 528 402**	**539 050 798**	
Net Assets	**692 945 904**	**(126 965 656)**	**2 692 677 865**	**2 259 116 960**	**(433 560 905)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	692 945 904	60 312 698	**753 258 602**	2 407 075 983	**1 653 817 381**	N36

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference

Reference as per above table:

N01	-	Meter replacement consumption and slight water restrictions due to COVID-19
N02	-	Municipal properties being rented where vacant during the financial period
N03	-	Municipality is experiencing cash flow challenges resulting in a limited period of investment
N04	-	Issues of non-payment culture by municipal customers
N05	-	Sale of tender documents where higher than expected in the current financial period
N06	-	Gains was not budgetted for as there were no expected sale of municipal assets
N07	-	Unspent conditional grants for the current financial period relating to RBIG
N08	-	Unfilled vacant posts that were budgetted for in the current financial period
N09	-	Insignificant movement
N10	-	Changes due to assessment of Fixed Assets Register undertaken in the current financial period
N11	-	SMD interest charged & late payment penalties
N12	-	Savings due to new contractual agreement with ITEC
N13	-	Due to a decrease in service charges revenue
N14	-	Increase due to Operations and Maintenance expenditure
N15	-	The Municipality under budgeted for this transaction
N16	-	Increase due to Operations and Maintenance expenditure
N17	-	The Municipality only accounted for this transaction at year end
N18	-	No disposals had been budgetted for the current financial period
N19	-	The loss was not budgeted for by the municipality as it is a non-cash item
N20	-	Increase due to recognition of diesel in the current financial period
N21	-	This is due to a non-payment culture by municipality customers
N22	-	Write-Off of receivables in the current year
N23	-	The municipality has been experiencing cashflow difficulties in the current financial year
N24	-	The municipality has been experiencing cashflow difficulties in the current financial year
N25	-	Improvements on existing Investment Property
N26	-	Changes due to assessment of Fixed Assets Register undertaken in the current financial period
N27	-	The opening balance was not included, only additions were recognised
N28	-	The balance relates to a mayoral chain that was recognised in the prior period
N29	-	Balance sheet budgeting was not done accordingly as opening balances were not recognised
N30	-	The municipality was forced by cash flow challenges to enter into a finance lease agreement to reduce expenditure on water tankers
N31	-	SMD Interest charge and late payment penalties
N32	-	There were no new deposits for the financial period
N33	-	Unspent conditional grants for the current financial period relating to RBIG
N34	-	The provision was not budgeted for by the municipality as it is a non-cash item
N35	-	The municipality had not budgeted for the additional employee benefit obligation
N36	-	The accumulated surplus is a balancing figure on the budget
N37	-	The Municipality was not supposed to budget for VAT until MSCOA Circular 12 was issued in October to allow the municipalities to account for VAT (Included in MSCOA Circular 12)

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Service Charges	93 378 041	(36 760 385)	**56 617 656**	26 202 375	**(30 415 281)**	M01
Grants	305 395 000	(15 728 812)	**289 666 188**	1 770 240 540	**1 480 574 352**	M02
Interest income	10 000 000	(994 996)	**9 005 004**	19 426	**(8 985 578)**	M03
Other Revenue	846 000	9 996	**855 996**	2 351 244	**1 495 248**	M04
	409 619 041	**(53 474 197)**	**356 144 844**	**1 798 813 585**	**1 442 668 741**	
Payments						
Suppliers	30 000 000	(516 106 668)	**(486 106 668)**	(34 214 903)	**451 891 765**	M05
Finance costs	-	(99 996)	**(99 996)**	(4 442 050)	**(4 342 054)**	M06
Grants & Subsidies	-	(630 000)	**(630 000)**	2 580 000	**3 210 000**	M07
	30 000 000	**(516 836 664)**	**(486 836 664)**	**(36 076 953)**	**450 759 711**	
Net cash flows from operating activities	**439 619 041**	**(570 310 861)**	**(130 691 820)**	**1 762 736 632**	**1 893 428 452**	
Net increase/(decrease) in cash and cash equivalents	439 619 041	(570 310 861)	**(130 691 820)**	1 762 736 632	**1 893 428 452**	
Cash and cash equivalents at the end of the year	**439 619 041**	**(570 310 861)**	**(130 691 820)**	**1 762 736 632**	**1 893 428 452**	
Reconciliation						

Reference as per above table:

M01 - The estimated collection rate was lower than actual
M02 - The budget excluded 02 grants, massification and LGSeta
M03 - The municiplity is experiencing cashflow challenges and therefore had a lower amount to invest
M04 - Increased due to higher than budgeted tender document revenue
M05 - The budget is included in the suppliers, as the item says employees & suppliers
M06 - SMD interest charge and late payment penalties
M07 - Grants and subsidies are included on the supplier payments. There were no transfers

The accounting policies on pages 15 to 41 and the notes on pages 42 to 83 form an integral part of the annual financial statements.

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

1.1 Going Concern Assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Impairment Testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Useful Lives of Waste and Water Network and Other Assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Allowance for Doubtful Debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held 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

Accounting Policies

1.3 Investment property (continued)

- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Cost Model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	**Useful life**
Property - buildings	30 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment 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 was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Accounting Policies

1.4 Property, plant and equipment (continued)

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Infrastructure	Straight line	10-100 years
Buildings Work in Progress	Straight line	4-15 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least 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 is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

1.4 Property, plant and equipment (continued)

Assets which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.5 Infrastructure

The entity recognises infrastructure when, and only when:
- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Infrastructure are measured at cost.

A gain or loss arising on initial recognition of infrastructure at fair value less costs to sell and from a change in fair value less costs to sell of infrastructure is included in surplus or deficit for the period in which it arises.

Depreciation is provided on infrastructure where fair value cannot be determined, to write down the cost, less residual value, by equal instalments over their useful lives as follows:

Item	**Useful life**
Other Infrastructure	20-40 years

1.6 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Accounting Policies

1.6 Intangible assets (continued)

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, internally generated	Straight line	5 years

1.7 Heritage Assets

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

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent Measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

If a heritage asset’s carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

1.7 Heritage Assets (continued)

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Investments in associates

An investment in an associate is carried at cost.

The municipality applies the same accounting for each category of investment.

The municipality recognises a distribution in surplus or deficit in its separate annual financial statements when its right to receive the distribution is established.

1.9 Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

1.9 Financial Instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

1.9 Financial Instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Initial Recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial Measurement of Financial Assets and Financial Liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.9 Financial Instruments (continued)

Subsequent Measurement of Financial Assets and Financial Liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair Value Measurement Considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and Losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and Uncollectibility of Financial Assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

Accounting Policies

1.9 Financial Instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Accounting Policies

1.9 Financial Instruments (continued)

Derecognition

Financial Assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial Liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.9 Financial Instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Operating Leases - Lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating Leases - Lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Accounting Policies

1.11 Inventories (continued)

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

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

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 (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets used with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

1.12 Impairment of cash-generating assets (continued)

Identification

When the carrying amount of a cash-generating asset exceeds its recoverable amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the municipality also tests a cash-generating intangible asset with an indefinite useful life or a cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the municipality estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the municipality applies the appropriate discount rate to those future cash flows.

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

1.12 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

1.13 Impairment of non-cash-generating assets

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

Non-cash-generating assets are assets other than cash-generating assets.

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 (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

1.13 Impairment of non-cash-generating assets (continued)

Useful life is either:
- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

Identification

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The municipality assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also tests a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

Value in use

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset’s gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an “optimised” basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the municipality recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.13 Impairment of non-cash-generating assets (continued)

Reversal of an impairment loss

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the municipality estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is 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. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset’s revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

1.14 Employee benefits

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity’s own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity’s actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Accounting Policies

1.14 Employee benefits (continued)

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.:

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

1.14 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:
- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

Accounting Policies

1.15 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus (deficit).

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of an activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 52.

Accounting Policies

1.15 Provisions and contingencies (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.15 Provisions and contingencies (continued)

Significant judgements and sources of estimation uncertinty

Impact of COVID-19:

Municipal management considered uncertainty on service delivery which have caused by the outbreak of the COVID-19 pandemic. Several sections of the financial statements such as revenue, provision for bad debts calculations, leave pay provision, receivables collection rate, expenses and going-concern have been effected by the far reaching effects of the COVID-19 pandemic. Management also understand that if the number of effected people increased drastically in the near future, then the nation will be taken back into a national stage of lock down, which may negatively affect service delivery of the municipality.

1.16 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget covers the fiscal period from 2020/07/01 to 2021/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

1.19 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.21 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

(a) this Act; or

1.21 Irregular expenditure (continued)

(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22 Related parties

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control.

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Joint control is the agreed sharing of control over an activity by a binding arrangement, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the venturers).

Related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

Significant influence is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

The municipality is exempt from disclosure requirements in relation to related party transactions if that transaction occurs within normal supplier and/or client/recipient relationships on terms and conditions no more or less favourable than those which it is reasonable to expect the municipality to have adopted if dealing with that individual entity or person in the same circumstances and terms and conditions are within the normal operating parameters established by that reporting entity's legal mandate.

1.22 Related parties (continued)

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its annual financial statements.

1.23 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

1.24 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.25 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.26 Commitments

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.27 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

1.27 Revenue from exchange transactions (continued)

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

1.28 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Accounting Policies

1.28 Revenue from non-exchange transactions (continued)

Government grants

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Other grants and donations are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.29 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2020	The adoption had no effect
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	The adoption had no effect
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	The adoption had no effect
• Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	01 April 2019	The adoption had no effect
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2019	The adoption had no effect
• GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements	01 April 2019	The adoption had no effect
• GRAP 7 (as revised 2010): Investments in Associates	01 April 2019	The adoption had no effect
• GRAP 8 (as revised 2010): Interests in Joint Ventures	01 April 2019	The adoption had no effect
• Directive 7 (revised): The Application of Deemed Cost	01 April 2019	The adoption had no effect
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2019	The adoption had no effect
• GRAP 20: Related parties	01 April 2019	The adoption had no effect
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2019	The adoption had no effect
• GRAP 105: Transfers of functions between entities under common control	01 April 2019	The adoption had no effect
• GRAP 106 (as amended 2016): Transfers of functions between entities not under common control	01 April 2019	The adoption had no effect
• GRAP 107: Mergers	01 April 2019	The adoption had no effect
• GRAP 108: Statutory Receivables	01 April 2019	The adoption had no effect
• GRAP 109: Accounting by Principals and Agents	01 April 2019	The adoption had no effect
• IGRAP 11: Consolidation – Special purpose entities	01 April 2019	The adoption had no effect
• IGRAP 12: Jointly controlled entities – Non-monetary contributions by ventures	01 April 2019	The adoption had no effect
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2019	The adoption had no effect
• IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land	01 April 2019	The adoption had no effect
• IGRAP 19: Liabilities to Pay Levies	01 April 2019	The adoption had no effect

3. Inventories

	2021	2020
Water	84 468	138 347
Fuel (Diesel, Petrol)	400 236	-
Chemicals	1 006 816	888 600
	1 491 520	**1 026 947**

Inventories recognised as an expense during the year	32 367 401	22 847 951

Inventory is valued at lower of cost or net realisable value. Chemical inventory was restated to the report actual balances at year end.

Inventory pledged as security

No inventory was pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

4. Receivables from non-exchange transactions

Supplier Payments	-	1 120 491

The Uthukela Water (Pty) Ltd balance recievable from the prior year was written off of R8 652 448.

5. VAT Payable

VAT	11 847 304	1 265 033

VAT was accounted for on accrual basis and being claimed on a cash basis from SARS. Balances were restated for accrued expenses to correct mistatement,

6. Receivable from Exchange Transactions

Gross balances		
Water	257 238 564	216 728 197
Sewerage	71 666 015	59 400 360
Interest	52 423 994	29 602 833
Rental	438 409	318 817
Credit Balances	6 669 113	-
	388 436 095	**306 050 207**
Less: Allowance for impairment		
Water	(160 280 836)	(150 033 746)
Sewerage	(47 831 823)	(28 597 327)
Interest	(39 793 204)	(10 468 367)
	(247 905 863)	**(189 099 440)**
Net balance		
Water	96 957 727	66 694 450
Sewerage	23 834 192	30 803 033
Interest	12 630 790	19 134 466
Housing rental	438 409	318 817
Credit balances	6 669 113	-
	140 530 231	**116 950 766**
Water		
Current (0 -30 days)	7 995 957	8 192 206
31 - 60 days	8 339 435	(1 725 603)
61 - 90 days	7 110 360	5 825 750
91 - 120 days	5 722 191	4 111 705
121 - 365 days	228 070 621	200 324 139
Allowance for Impairment	(160 280 836)	(150 033 746)
	96 957 727	**66 694 450**
Sewerage		
Current (0 -30 days)	1 683 526	2 611 300
31 - 60 days	1 688 761	(7 502)
61 - 90 days	1 597 882	1 372 115
91 - 120 days	1 349 598	1 412 016
121 - 365 days	65 346 248	54 012 431
Allowance for Impairment	(47 831 823)	(28 597 327)
	23 834 192	**30 803 033**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

6. Receivable from Exchange Transactions (continued)

	2021	2020
Interest		
Current (0 -30 days)	426	2 842 046
31 - 60 days	1 280	1 114
61 - 90 days	-	1 649 258
91 - 120 days	-	3 339 223
121 - 365 days	52 422 288	21 771 193
Allowance for Impairment	(39 793 204)	(10 468 367)
	12 630 790	**19 134 466**

	2021	2020
Housing rental		
Current (0 -30 days)	10 974	20 391
31 - 60 days	10 974	-
61 - 90 days	10 974	20 391
91 - 120 days	10 974	20 391
121 - 365 days	394 512	257 646
	438 409	**318 817**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

6. Receivable from Exchange Transactions (continued)

Summary of debtors by customer classification

Residential		
Current (0 -30 days)	7 209 495	10 420 651
31 - 60 days	6 905 272	(1 031 849)
61 - 90 days	6 602 032	5 220 449
91 - 120 days	6 225 735	4 231 754
121 - 365 days	267 674 821	207 712 385
	294 617 355	226 553 390
Less: Allowance for impairment	(247 905 864)	(189 099 440)
	46 711 491	**37 453 950**

Industrial/ Commercial		
Current (0 -30 days)	2 016 723	2 276 022
31 - 60 days	1 536 468	(313 065)
61 - 90 days	924 368	1 638 007
91 - 120 days	1 016 536	1 448 484
121 - 365 days	41 612 944	36 338 751
	47 107 039	**41 388 199**

National and provincial government		
Current (0 -30 days)	464 666	969 269
31 - 60 days	1 598 709	(387 077)
61 - 90 days	1 192 816	2 009 057
91 - 120 days	(159 507)	1 106 695
121 - 365 days	36 945 905	35 549 167
	40 042 589	**39 247 111**

Total		
Current (0 -30 days)	9 690 884	12 997 452
31 - 60 days	10 040 449	(1 731 991)
61 - 90 days	8 719 216	8 867 514
91 - 120 days	7 082 763	8 883 334
121 - 365 days	346 233 669	276 365 408
	381 766 981	305 381 717
Less: Allowance for impairment	(247 905 864)	(189 099 440)
	133 861 117	**116 282 277**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(189 099 440)	(152 612 274)
Contributions to allowance	(58 806 424)	(36 487 166)
	(247 905 864)	**(189 099 440)**

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

7. Cash and cash equivalents (continued)

Cash on hand	218	6 100
Bank balances	11 378 593	2 369 223
	11 378 811	**2 375 323**

Cash and cash equivalents pledged as collateral

Total financial assets pledged as collateral:	70 000	70 000

The amount not exceeding the sum of R 70 000 for bulk posting agreement

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	**30 June 2020**	**30 June 2019**	**30 June 2021**	**30 June 2020**	**30 June 2019**
FNB 62358106279	8 789 196	11 182 513	15 104 897	11 382 518	1 880 993	21 826 008
FNB 62358438044	15 079	-	-	(31 412)	283 325	10 000
ABSA 9330621802	20 349	210	237	20 375	211	237
FNB 74321014438	-	631	14 352 510	-	631	14 352 510
FNB 62353578564	-	474	235 537	(80)	30 848	834 161
FNB 62821498476	-	13 425	-	-	13 425	-
FNB 62861386194	-	120	-	(74)	-	-
INVESTEC 1100-461-826-502	-	9 760	13 180 286	-	9 760	13 180 286
INVESTEC 1100-461-826-503	-	120	120	3 728	121	120
INVESTEC 1100-461-826-500	34	34	-	34	34	5 354 656
INVESTEC 1100-461-826-451	-	-	12 253 151	-	-	-
NEDBANK 7337000049	3 270	10 879	1 841 488	3 548	10 880	1 841 488
Standard Bank 308632095-003	-	-	-	-	138 821	-
Standard Bank 308632095-006	-	173	-	173	173	-
Standard Bank 308632095-009	-	-	-	-	-	40
Petty Cash	-	-	-	-	6 100	6 100
Total	**8 827 928**	**11 218 339**	**56 968 226**	**11 378 810**	**2 375 322**	**57 405 606**

Notes to the Annual Financial Statements

8. Investment property

	2021			2020		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	2 586 276	(518 318)	2 067 958	1 580 605	(427 812)	1 152 793

Reconciliation of investment property - 2021

	Opening balance	**Additions**	**Depreciation**	**Total**
Investment property	1 152 793	1 005 671	(90 506)	2 067 958

Reconciliation of investment property - 2020

	Opening balance	**Prior year restatement (Additions)**	**Depreciation**	**Total**
Investment property	771 725	419 760	(38 692)	1 152 793

The investment property is held for rental by tenants. The income is reported under other revenue. However, the properties were vacant throughout the financial year.

9. Property, plant and equipment

	2021			2020		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	5 022 200	-	5 022 200	5 022 200	-	5 022 200
Buildings	29 414 086	(11 869 493)	17 544 593	29 033 820	(10 951 128)	18 082 692
Plant and machinery	37 671 214	(23 725 940)	13 945 274	37 320 213	(19 155 903)	18 164 310
Motor vehicles	76 975 917	(28 360 673)	48 615 244	73 022 392	(16 498 279)	56 524 113
Office equipment	14 876 744	(8 709 125)	6 167 619	13 560 805	(6 985 857)	6 574 948
Infrastructure	1 532 835 245	(668 145 580)	864 689 665	1 491 596 954	(581 465 578)	910 131 376
Infrastructure Work In Progress	1 393 859 592	-	1 393 859 592	1 214 201 244	-	1 214 201 244
Buildings Work in Progress	34 938 858	-	34 938 858	34 645 018	-	34 645 018
Total	**3 125 593 856**	**(740 810 811)**	**2 384 783 045**	**2 898 402 646**	**(635 056 745)**	**2 263 345 901**

Reconciliation of property, plant and equipment - 2021

	Opening balance	**Additions**	**Additions through transfer of functions / mergers**	**Disposals**	**Transfers**	**Depreciation**	**Impairment loss**	**Total**
Land	5 022 200	-	-	-	-	-	-	5 022 200
Buildings	18 082 692	380 266	-	-	-	(918 365)	-	17 544 593
Plant and machinery	18 164 310	351 001	-	-	-	(4 457 816)	(112 221)	13 945 274
Motor vehicles	56 524 113	3 953 525	-	-	-	(10 563 356)	(1 299 038)	48 615 244
Office equipment	6 574 948	1 608 135	-	(98 513)	-	(1 916 950)	-	6 167 620
Infrastructure	910 131 376	-	1 216 681	(3 168 981)	44 610 405	(79 585 258)	(8 514 559)	864 689 664
Infrastructure Work In Progress	1 214 201 244	224 268 753	-	-	(44 610 405)	-	-	1 393 859 592
Buildings Work in Progress	34 645 018	293 839	-	-	-	-	-	34 938 858
	2 263 345 901	**230 855 519**	**1 216 681**	**(3 267 494)**	**-**	**(97 441 745)**	**(9 925 818)**	**2 384 783 045**

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Restated Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Prior year restatement	Total
Land	-	-	-	-	-	-	5 022 200	5 022 200
Buildings	18 903 425	159 488	-	-	-	(980 978)	757	18 082 692
Plant and machinery	22 635 145	921 983	(452 742)	-	-	(4 541 503)	(398 573)	18 164 310
Motor vehicles	23 735 581	43 909 825	(1 907 484)	-	-	(8 329 924)	(883 885)	56 524 113
Office equipment	6 048 739	2 087 093	(51 026)	-	-	(1 509 858)	-	6 574 948
Infrastructure	897 002 849	-	(8 492 387)	72 509 277	-	(80 453 698)	29 565 335	910 131 376
Infrastructure Work In Progress	1 089 492 321	216 451 146	-	-	(72 509 277)	-	(19 232 946)	1 214 201 244
Buildings Work in Progress	34 645 018	-	-	-	-	-	-	34 645 018
	2 092 463 078	**263 529 535**	**(10 903 639)**	**72 509 277**	**(72 509 277)**	**(95 815 961)**	**14 072 888**	**2 263 345 901**

Pledged as security

No infrastructure assets or property, plant & equipment were pledged as security.

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Total
Opening balance	34 645 020	1 214 201 244	1 248 846 264
Additions/capital expenditure	293 839	224 268 753	224 562 592
Transferred to completed items	-	(44 610 405)	(44 610 405)
	34 938 859	**1 393 859 592**	**1 428 798 451**

Figures in Rand	2021	2020

9. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Total
Opening balance	34 645 018	1 167 030 941	1 248 846 262
Additions/capital expenditure	-	237 391 830	216 451 146
Other movements - Disposals	-	(25 762 652)	-
Other movements Prior period Restatement	-	(62 102 928)	-
Transferred to completed items	-	(72 509 277)	(72 509 277)
	34 645 018	**1 244 047 914**	**1 392 788 131**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance	2021	2020
Contracted services	12 977 349	9 432 016

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Disclosure - Halted/Delayed Property, Plant and Equipment:

Project:		Carrying Value:	Reason for Delay:
Muden Bulk Water (Kwa Latha)	2021	R 250 904 949	Covid-19 pandemic, project is in progress and contract is on site
Ophathe Water Supply Scheme	2021	R 17 772 614	Appointed contractor has been liquidated, project is in progress
Douglas Water Supply Scheme	2021	R 56 703 206	Covid-19 pandemic, project has different phases and phase 03 is almost complete as awaiting Eskom connection
Umzinyathi Disaster Centre	2020	R 34 645 019	
	2021	R 34 938 858	Project was under investigation for the past 03 years however currently the contractor is on site
Nquthu North Eastern Services	2021	R 3 759 719	Business Plan was approved but no funds allocated only a feasibility study has been conudcted
Hlimbithwa Water Supply	2021	R 2 123 112	Business Plan was approved but no funds allocated only a feasibility study has been conudcted
Kranskop BH	2021	R 703 791	Business Plan was approved but no funds allocated only a feasibility study has been conudcted
Hlazakazi Water Supply	2021	R 2 816 926	Business Plan was approved but no funds allocated only a feasibility study has been conudcte
Greytown Bulk Project	2020	R 325 088 337	
	2021	R 331 025 913	Delay due to funding challenges

10. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	3 233 770	(1 499 622)	1 734 148	6 531 894	(2 791 516)	3 740 378

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

10. Intangible assets (continued)

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Disposals	Amortisation	Total
Computer Software	3 740 378	170 251	(1 261 099)	(915 382)	1 734 148

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Computer software, other	4 124 966	471 879	(856 467)	3 740 378

Figures in Rand

11. Heritage Assets

	2021			2020		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Ornamental Chains	8 655	-	8 655	8 655	-	8 655

Reconciliation of Heritage Assets 2020

	Opening balance	**Total**
Ornamental Chains	8 655	8 655

Reconciliation of Heritage Assets 2019

	Opening balance	**Total**
Ornamental Chains	8 655	8 655

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

12. Investment in Associates

Name of company	Listed / Unlisted	Carrying amount 2021	Carrying amount 2020
uThukela Water (Pty) Ltd		99 650 995	129 037 638

The carrying amounts of Joint ventures are shown net of impairment losses.

Principal activities and reporting dates of Investment in Associates

Name of entity	Principal activity	Reporting date	Period of results included
uThukela Water (Pty) Ltd	Water provision	2021/06/30	1 July 2020 to 30 June 2021

The separate annual financial statements of the Associate are available at the registered office of the municipality.

Reconciliation of Investment in Associate		
Previously Reported	129 037 638	159 341 085
Share in deficit of Associate	(29 386 643)	(30 303 447)
	99 650 995	**129 037 638**

Summary of economic entity's interest in associate

Summary of the municipality's interests in the associate.

Revenue	166 797 465	150 539 715
Expenses	(255 962 593)	(242 368 342)
Net profit	(89 050 432)	(91 828 627)
Percentage share	33,00 %	33,30 %
Share in deficit of Associate	(29 386 643)	(30 303 447)
Total assets	984 164 522	1 019 212 208
Total liabilities	(433 999 596)	(379 996 850)
Net assets	550 164 926	639 215 358

13. Finance lease obligation

Minimum lease payments due		
- within one year	6 840 000	15 787 127
- in second to fifth year inclusive	-	6 293 525
Present value of minimum lease payments	**6 840 000**	**22 080 652**

Present value of minimum lease payments due		
- within one year	6 840 000	15 787 127
- in second to fifth year inclusive	-	6 293 525
	6 840 000	**22 080 652**

14. Payables from exchange transactions

Trade Payables	217 449 357	188 551 763
Payments Received in Advance	9 242 037	2 572 924
Salary Control	(660 077)	(986 935)
Retentions	74 311 433	61 981 294
Bonus Accrual	5 368 913	4 933 956
	305 711 663	**257 053 002**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

15. Consumer Deposits

Water	451 314	451 314

The Consumer deposits relates to monies paid for connections before any services could be rendered.

These amounts relates to prior period deposits.

16. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The amounts recognised in the statement of financial position are as follows:

Carrying value		
Post Employment Medical Benefit	(14 209 000)	(15 276 718)
Long Service Award	(11 521 000)	(7 312 837)
	(25 730 000)	**(22 589 555)**
Non-current liabilities	(23 707 000)	(21 524 720)
Current liabilities	(2 023 000)	(1 064 835)
	(25 730 000)	**(22 589 555)**

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	15 276 718	16 555 663
Current Service Costs	1 389 859	1 437 530
Interest costs	2 221 865	1 474 503
Benefits paid	(96 073)	(87 750)
Application of maximum summary	(847 000)	-
Actuarial gain	(3 736 369)	(4 103 228)
	14 209 000	**15 276 718**

Changes in the present value of long service awards liability are as follows:

Opening balance	7 312 837	7 608 656
Current Service Costs	739 634	792 272
Interest costs	630 266	660 746
Benefits paid	(968 762)	(418 979)
Policy Ammendments	2 314 000	(1 329 858)
Actuarial Loss/ (Gain)	1 493 025	-
	11 521 000	**7 312 837**

Calculation of actuarial gains and losses

Post Employment Benefits	(4 583 369)	(4 103 228)
Long Service Awards	3 807 025	(1 329 858)
	(776 344)	**(5 433 086)**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

16. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10,37 %	9,23 %
Consumer Price Index	5,48 %	4,57 %
Salary Increase Rate	6,48 %	5,57 %
Net Effect Discount Rate	3,17 %	3,47 %

Salaries - Changes in an index or other variable specified in the formal or constructive terms of a plan as the basis for future benefit increases.

The basis used to determine the overall expected rate of return on assets, including the effect of the major categories of plan assets, is as follows:

Other assumptions

Valuation assumptions used at the reporting date:

Effect on the aggregate of the service cost and interest cost	9
Effect on defined benefit obligation	4
	-
	3

Figures in Rand	2021	2020

16. Employee benefit obligations (continued)

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows: The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

We used the nominal and real zero curves as at 30 June 2021 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability.

Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period. South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 2% per annum over the foreseeable future.

Plan B

Health Care Cost Inflation Rate

This assumption is required to reflect estimated future changes in the cost of medicalservices, resulting from both inflation and specific changes in medical costs (forexample, due to technological advances or changes in utilisation patterns). Anyassumption regarding future medical scheme contribution increases is thereforesubjective.A health care cost inflation rate of 6.98% has been assumed. This is 1.50% in excess ofexpected CPI inflation over the expected term of the liability, namely 5.48%. A largerdifferential would be unsustainable, eventually forcing members to less expensiveoptions. This implies a net discount rate of 3.17% which derives from((1+10.37%)/(1+6.98%))-1.The expected inflation assumption of 5.48% was obtained from the differential betweenmarket yields on index-linked bonds consistent with the estimated term of the liabilities(4.16%) and those of fixed interest bonds (10.37%) with a risk premium adjustment forthe uncertainty implicit in guaranteeing real increases (0.50%). This was thereforedetermined as follows: ((1+10.37%-0.50%)/(1+4.16%))-1.

Average Retirement Age

The average retirement age for all active employees was assumed to be 65 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

Financial Variables

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

16. Employee benefit obligations (continued)

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the(yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%.

Joint pension fund

Age Band	Promotional Increases
20	5%
25	4%
30	3%
35	2%
40	1%
	15

Withdrawal Assumptions

Age	2021 Males	2021 Females	2020 Males	2020 Females
20-24	9	9	16	24
25-29	8	8	12	18
30-34	6	6	10	15
35-39	5	5	8	10
40-44	5	5	6	6
45-49	4	4	4	4
50-54	3	3	2	2
55-59	-	-	1	1
	40	**40**	**59**	**80**

Long Service Awards

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 249 working days per year. The expected value of each employee’s long service award is projected to the next interval by allowing for future salary growth. The table below contains a summary of the benefit policy:

Completed Years of Service

	Total Long Service Award % of Annual Salary	Formula Used to Calculate Long Service Award
5	2%	05/249*Annual Salary
10	4%	10/249*Annual Salary
15	8%	20/249*Annual Salary
20, 25, 30, 35, 40 and 45	12%	30/249*Annual Salary

Membership Data

Current Employees	2021	2020

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

16. Employee benefit obligations (continued)

Number of Employees	504	426
Average Annual Salary	275 030	245 232
Average Age (Years)	42	42
Number of spouses	8	9
	275584	**245709**

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Regional Bulk Infrastructure Grant	7 109 788	-
Development Planning Shared Services	-	338 148
Spatial Development Framework Support Management	-	663 500
	7 109 788	**1 001 648**

See note 26 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

18. Provisions

Reconciliation of provisions - 2021

	Opening Balance	**Movements during the year**	**Total**
Leave Provision	17 663 467	8 425 169	26 088 636

Reconciliation of provisions - 2020

	Opening Balance	**Movements during the year**	**Total**
Leave Provision	14 107 522	3 555 945	17 663 467

19. Service in Kind

During the financial period, uMzinyathi District Municipality received services in kind from COGTA for financial support services from Mnthambo Group.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

20. Revenue

Service Charges	74 786 933	82 818 892
Rental of Facilities and Equipment	460 666	216 966
Interest Earned on Outstanding Debtors	36 392 239	31 275 620
Other Income	826 291	219 271
Interest Received - Investment	2 859 616	8 814 806
Actuarial Gain Post Retirement Benefit	776 344	5 433 086
Donation Income	-	7 954 824
Government Grants and Subsidies	713 698 120	643 473 917
	829 800 209	**780 207 382**

The amount included in revenue arising from exchanges of goods or services are as follows:

Service Charges	74 786 933	82 818 892
Rental of Facilities and Equipment	460 666	216 966
Interest Earned on Outstanding Debtors	36 392 239	31 275 620
Other Income	826 291	219 271
Interest on Investment	2 859 616	8 814 806
	115 325 745	**123 345 555**

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Actuarial Gain Post Retirement Benefit	776 344	5 433 086
Donation Income	-	7 954 824
Transfer revenue		
Government Grants & Subsidies	713 698 120	643 473 917
	714 474 464	**656 861 827**

21. Service Charges

Sale of Water	75 381 830	76 800 403
Sewerage and Sanitation Charges	16 471 563	15 208 649
Cost of Free Basic Services	(17 066 460)	(9 190 160)
	74 786 933	**82 818 892**

22. Rental of Facilities and Equipment

Premises		
Rental of Premises	460 666	216 966

23. Interest on Oustanding Debtors

Figures in Rand	2021	2020
Interest on Overdue Accounts	36 392 239	31 275 620

24. Interest on Investments

Interest revenue		
Bank	2 859 616	8 814 806

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

25. Other income

Tender Documents	406 961	185 473
Administration Fees	419 330	33 798
	826 291	**219 271**

Figures in Rand	2021	2020

26. Government Grants and Subsidies

Operating grants		
Equitable share	430 525 000	353 478 000
LGSETA	183 260	466 524
Expanded Public Works Programme	5 457 000	4 624 000
Local Government Finance Management Grant	1 500 000	1 785 000
RRAMS	2 300 000	2 415 000
Development Planning Shared Services	338 148	370 893
Spatial Development Framework Support Management	663 500	136 500
Disaster Relief Grant	-	536 000
	440 966 908	**363 811 917**
Capital grants		
Municipal Infrastructure Grant	184 868 000	188 488 000
Regional Bulk Infrastructure Grant	9 628 212	20 000 000
Water Services Infrastructure Grant	78 235 000	68 374 000
Massification Programme	-	2 800 000
	272 731 212	**279 662 000**
	713 698 120	**643 473 917**

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 6kilo litres @R8.01 exclusive of VAT, which is funded from the grant.

LGSETA

Current-year receipts	331 723	466 524
Conditions met - transferred to revenue	(331 723)	(466 524)
	-	-

All conditions for the grant were met.

Expanded Public Works Programme

Current-year receipts	5 457 000	4 624 000
Conditions met - transferred to revenue	(5 457 000)	(4 624 000)
	-	-

All conditions for the grant were met. EPWP projects must comply with the project selection criteria determined in the EPWP grant manual, the EPWP guidelines set by Department of Public Works (DPW) and the Ministerial Determination updated annually on 1 November each year Eligible municipalities must sign a funding agreement with the DPW before the first grant disbursement, with their final EPWP project list attached.Reports must be loaded on the EPWP reporting system within 15 days after the end of every quarter in order for progress to be assessed. Municipalities must maintain beneficiary and payroll records as specified in the audit requirements in the EPWP grant manual.The EPWP grant cannot be used to fund the costs of permanent municipal personnel; however, a maximum of five per cent of the grant can be used to fund contract based capacity required to manage data capturing and onsite management costs related to the use of labour intensive methods. The EPWP grant can only be utilised for EPWP purposes, for the projects approved in each municipality's EPWP project list. To receive the first planned grant disbursement, eligible municipalities must submit a signed Incentive. Subsequent grant disbursements are conditional upon eligible municipalities reporting quarterly on EPWP performance within the required timeframes. Municipalities must implement their approved EPWP project list and meet agreed job creation targets. EPWP branding must be incorporated on any existing signage as per corporate identity manual.

Local Government Finance Management Grant

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

26. Government Grants and Subsidies (continued)

Current-year receipts	1 500 000	1 320 000
Conditions met - transferred to revenue	(1 500 000)	(1 320 000)
	-	-

All conditions for the grant were met. Finance Management Grant funding can be used towards the following: establishment of a Budget and Treasury Office (BTO) with positions filled by appropriately qualified personnel establishment of SCM capacity, an Internal Audit unit and Audit Committees, at least five interns appointed over a multi-year period on-going review, revision and submission of FMG support plans to National Treasury that address weaknesses in financial management acquisition, upgrade and maintenance of financial management systems to produce multi-year budgets, in-year reports, Service Delivery and Budget Implementation Plans, Annual Financial Statements, annual reports and automated financial management practices including the municipal Standard Chart of Accounts review and adoption of a delegation system support the training of municipal officials in financial management towards attaining the minimum competencies, as regulated in Government Gazette 29967 of June 2007 preparation and timely submission of annual financial statements for audits support implementation of corrective actions to address audit findings in municipalities that received adverse and disclaimer opinions technical support in financial management to municipalities must include the transfer of skills to municipal officials, the preparation of a financial recovery plan and the implementation thereof, where appropriate, implementation of financial management reforms and addressing shortcomings identified in the Financial Management Capability Maturity Model (FMCMM) Assessment Report for that municipality, ensuring timely submission of the FMG support plan consistent with the conditions of the grant. Regular, timely submission of reports with completed information, Expenditure must be maintained at appropriate levels.

Rural Roads Asset Management Systems

Current-year receipts	2 300 000	2 415 000
Conditions met - transferred to revenue	(2 300 000)	(2 415 000)
	-	-

All conditions for the grant were met. The grant was utilised to provide local municipalities with validated information to enable municipalities to identify and prioritise road maintenance requirements within their own budgets, to improve the condition and extend the lifespan of road infrastructure within the district.

District Growth & Development Summit

Conditions of this grant were met.

Disaster Relief Grant

Current-year receipts	-	536 000
Conditions met - transferred to revenue	-	(536 000)
	-	-

All conditions of this grant were met in the prior year. In the current year, there were no allocations under this grant

Development Planning Shared Services

Balance unspent at beginning of year	338 148	209 041
Current-year receipts	-	500 000
Conditions met - transferred to revenue	(338 148)	(370 893)
	-	**338 148**

Some conditions for grants were not met during the prior year. An approval of grant wasobtained from KZN COGTA for funds to be carried forward to 2020/21 financial year. Conditions of this grant were met in the current year.

26. Government Grants and Subsidies (continued)

The grant was used to optimise planning function and resources in the district to increase efficieny and to reduce cost of service. Create an environment of learning where jounior and inexperienced staff can be mentored by more senior officials. Promote continuity where the loss of one staff member should not disprut services. Promote integration and alignment of IDP to spacial development initiatives.

Spatial Development Framework Support Management

	2021	2020
Balance unspent at beginning of year	663 500	-
Current-year receipts	-	800 000
Conditions met - transferred to revenue	-	(136 500)
Other	(663 500)	-
	-	**663 500**

Municipal Infrastructure Grant

	2021	2020
Current-year receipts	184 868 000	188 488 000
Conditions met - transferred to revenue	(184 868 000)	(188 488 000)
	-	**-**

All conditions of grant were met. Municipalities must prioritise MIG for eligible beneficiaries and infrastructure that includes: basic residential infrastructure for the poor for water, sanitation, roads, waste management, streetlighting, community facilities as well as associated municipal bulk and connector infrastructure new or upgrading of municipal bulk, connector and reticulation infrastructure to support existing areas and the formalisation of settlements renewal of eligible infrastructure servicing the poor subject to the confirmation by the relevant sector department of the state of infrastructure and a commitment from the municipality of how on-going operations and maintenance of the renewed infrastructure will be funded and performed maintenance of roads infrastructure mainly servicing the poor.

Regional Bulk Infrastructure Grant

	2021	2020
Current-year receipts	16 738 000	20 000 000
Conditions met - transferred to revenue	(9 628 211)	(20 000 000)
	7 109 789	**-**

All conditions for the grant were met.

Water Services Infrastructure Grant

	2021	2020
Current-year receipts	78 235 000	68 374 000
Conditions met - transferred to revenue	(78 235 000)	(68 374 000)
	-	**-**

All conditions for the grant were met. To facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services in prioritised district municipalities, especially in rural municipalities. Provide interim, intermediate water and sanitation services that ensure provision of services to identified and prioritised communities, including through spring protection, drilling, testing and equipping of boreholes and on-site solutions.To support drought relief projects in affected municipalities.

Massiffication Programme

	2021	2020
Current-year receipts	-	2 800 000
Conditions met - transferred to revenue	-	(2 800 000)
	-	**-**

All conditions for the grant were met.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

27. Employee related costs

Basic Salary	132 299 588	112 771 234
Bonus	9 164 859	7 934 266
Medical aid - company contributions	5 420 061	4 797 644
UIF	885 576	784 716
SDL	1 733 696	1 449 574
Leave Provision	960 028	5 444 376
Standby Allowance	5 333 135	3 614 751
Defined contribution plans	1 059 962	605 975
Overtime payments	15 868 495	13 574 931
Acting allowances	2 103 017	131 258
Car allowance	3 725 391	3 135 527
Housing benefits and allowances	722 289	4 087 920
Pension	17 898 534	14 574 324
Telephone Allowances	503 619	470 192
Bargaining Council and Other	94 146	59 708
	197 772 396	**173 436 396**

Remuneration of Municipal Manager

Annual Remuneration	748 605	688 847
Car Allowance	101 184	281 263
Housing	140 831	19 500
Acting allowances	-	190 584
Telephone	45 000	134 459
Other	-	174 703
	1 035 620	**1 489 356**

Remuneration of Chief Finance Officer

Annual Remuneration	600 300	600 300
Car Allowance	120 000	120 000
Housing allowance	29 217	29 217
Telephone	18 000	18 000
Other	6 292	38 281
	773 809	**805 798**

Remuneration of Senior Manager Technical Services

Annual Remuneration	99 384	661 551
Car Allowance	17 383	101 184
Housing allowance	7 468	74 937
Telephone	2 608	18 000
Other	-	12 747
	126 843	**868 419**

Remuneration of Senior Manager Corporate Services

Annual Remuneration	686 009	628 375
Car Allowance	66 000	136 598
Housing allowance	54 944	48 390
Telephone	18 000	18 000
Other	870	3 725
	825 823	**835 088**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

27. Employee related costs (continued)

Remuneration of Senior Manager Planning and Development

Annual Remuneration	628 375	686 009
Car Allowance	136 598	66 000
Housing allowance	48 390	54 944
Telephone	18 000	18 000
Other	-	202 174
	831 363	**1 027 127**

28. Remuneration of councillors

Executive Mayor	831 461	839 193
Deputy Executive Mayor	677 064	681 936
Mayoral Committee Members	1 375 863	836 728
Speaker	674 047	680 096
Councillors	2 664 050	2 944 048
	6 222 485	**5 982 001**

In-kind benefits

The Mayor, Deputy Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor, Deputy Mayor and Speaker each have the use of separate Council owned vehicles for official duties.

The Mayor, the Deputy Mayor and Speaker have bodyguards.

29. Depreciation and amortisation

Depreciation and Amortisation	98 447 633	96 711 120

30. Finance costs

Interest on Long Term Liability	4 913 083	6 240 652
Interest on Late Payments	516 151	492 287
	5 429 234	**6 732 939**

31. Operating Leases

The municipality (lessee) is renting out office space from Aheers (Lessor) from which a monthly rental is payable by the municipality (Lessee).

The municipality (lessee) also rents photocopiers from Minolta (lessor) and the contract termination date is 30 September 2020.

32. Lease Rentals on Operating Lease

Premises		
Contractual amounts	334 068	142 513
Lease Rentals on Operating Leases		
Contractual amounts	564 042	437 208
	898 110	**579 721**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

33. Debt Impairment

Debt impairment	58 806 424	36 487 166

34. Bulk Purchases

Water	18 699 089	17 365 793

35. Contracted services

Outsourced Services		
Business and Advisory	1 410 050	2 226 113
Catering Services	864 143	1 712 995
Professional Staff	82 439 624	83 079 025
Security Services	24 633 831	11 542 412
Sewerage Services	7 331 175	9 446 853
Consultants and Professional Services		
Business and Advisory	17 426 013	9 997 444
Legal Cost	-	3 974 430
Contractors		
Artists and Performers	-	20 000
Event Promoters	-	496 400
Maintenance of Buildings and Facilities	5 399 305	1 520 050
Maintenance of Equipment	2 408 605	888 963
Maintenance of Unspecified Assets	9 341 728	9 870 089
Medical Services	14 668	297 135
Sewerage Services	9 541 061	-
Sports and Recreation	544 784	337 777
Stage and Sound Crew	-	12 300
	161 354 987	**135 421 986**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

36. General Expenses

Advertising	4 162 624	7 206 477
Auditors Remuneration	4 317 057	3 938 284
Bank Charges	423 166	248 473
Cleaning Services	-	1 760
Bursaries	(659 962)	57 957
Consumables	20 454 133	23 724 197
Entertainment	264 753	-
Hire Charges	33 620 239	29 608 918
Commision	2 916 140	2 790 240
Personnel Labour	-	210 674
Conferences and seminars	-	5 000
IT expenses	3 687 630	2 079 245
Staff Hiring	15 840 375	19 622 409
Fuel and oil	42 315 793	37 357 635
Postage and courier	2 223	320 548
Protective clothing	2 062 628	641 737
Project Management	103 300	1 104
Learnerships	4 862 555	5 433 571
Subscriptions and Membership Fees	133 358	102 490
Telephone	1 244 805	983 886
Transport and freight	18 500	876 068
Training	-	9 000
Travel - Local	5 517 956	9 380 863
Water and Electricity	24 414 995	26 421 364
Specimen and Samples	83 289	94 478
Information Technology Consumables	493 353	-
Awards	280 000	-
Other Expenses	5 470 625	244 940
	172 029 535	**171 361 318**

37. Auditors' remuneration

Fees	4 317 057	3 938 284

38. Cash generated from operations

Surplus	62 117 771	82 391 858
Adjustments for:		
Depreciation and amortisation	98 447 633	94 556 778
Loss on Disposal of Assets and Liabilities	4 528 593	9 949 824
Finance Costs	4 913 083	6 240 625
Loss from equity accounted investments	29 386 643	30 303 447
Debt impairment	58 806 424	36 487 166
Bad debts written off	-	8 652 448
Movements in retirement benefit assets and liabilities	3 140 445	1 574 764
Movements in provisions	8 425 169	3 555 945
Donation income	-	(7 954 824)
Changes in working capital:		
Inventories	(464 573)	172 591
Receivables from exchange transactions	(82 416 959)	(77 948 241)
Other receivables from non-exchange transactions	1 120 491	-
Payables from exchange transactions	59 191 432	3 049 147
Unspent conditional grants and receipts	6 108 140	792 607
	253 304 292	**191 824 135**

39. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments to address audit findings up to 2019/20 financial year:

Error 01 - During the 2018/2019 financial year receiveables from non-exchange transactions were over-stated by R 8 652 448 that related to debt that was not recoverable from Uthekela water and accumulated surplus was overstated by the same amount. Consequently Accumulated surplus was overstated by the same amount.

Error 02 - In the 2019/2020 financial year receivables from exchange was understated by R 668 490 relating to accured billing for the year and service charges were understated by the same amount.

Error 03 - During the 2018/2019 financial year, PPE (land) was understated by R5 022 200, and Investment property by R 419 760, relating to a land valuation carried out by Mills Fitchet and consequently accumulated surplus was understated by the total amount (R 5 441 960).

Error 04 - During the 2019/2020 financial year, Property plant and equipment (Transport assets) was overstated, relating to donated assets included in motor vehicles. The assets were initally recognised at cost and not at fair value. The error consequently overstated other income by the same amount.

During the 2020/2021 financial year, as assessment of the finance lease obligation was performed, and it was identified that the training costs for the transport assets (Motor Vehicles) was not capitalised and depreciated, this has been corrected resulting in an increase of PPE and accumulated surplus.

The net adjustment to Motor Vehicles is R 883 885.

Error 05 - During the 2020/2021financial year, the municipality undertook an assessment of the accuracy and appropriateness of the Fixed Asset Register, and performed a reconcilation to the TB, the TB value was adjusted to the amount per the finalised Fixed Asset Register as at 1 July 2020, this investigation lead to PPE being understated by R 14 072 886. The error consequently lead to accumulated surplus being understated. Total impact on PPE for all errors lead to PPE being understated by a total of R 14 072 886 (R 14 640 266 as a restatement through Net Surplus directly and -(R 567 380) as a restatement through Statement of Financial Performance) as follows:

Infrastructure: The transfers received from Infrastructure WIP was presented as R 72 509 377, but should have reflected a balance of R 72 509 277 and this has been restated on Note 09 (above). The restatement as a result of the review of the Fixed Assets Register totalled R 29 565 231. A mapping error in the prior period Annual Financial Statements of R 104 was identified. Net restatement in note 09 of R 29 565 335.

Infrastructure WIP: The transfers received from Infrastructure WIP was presented as R 72 509 377 but should have reflected a balance of R 72 509 277 and this has been restated on Note 09 (above). The restatement as per the FAR rework is -(R 29 434 585). A mapping error in the prior period Annual Financial Statements of R 10 201 639 was identified. The net restatement as per note 09 is -(R 19 232 946).

Plant and Machinery:
The sum of the above restatements on Note 09 restatement column are R 398 573.
The restatement as a result of the review of the Fixed Assets Register totalled - (R 428 992). A mapping error in the prior period Annual Financial Statements of R 30 419 was identified.

Buildings: The municipality undertook a review of the Fixed Assets Register in the current financial period and adjusted the assets balances as follows:
The restatement as a result of the review of the Fixed Assets Register totalled R 954. A mapping error in the prior period Annual Financial Statements of - (R 197) was identified.
The resulting impact to buildings is R 757.

Error 06 - During the 2020/2021 financial year, a reassessment of the receivables from exchange transactions ageing analysis was performed, this resulted in a restatement of the 2019/2020 receivables from exchange transactions balance, which included a vote with an amount of R 2 163 614 which was incorrectly classified. This vote relates to payables from exhange transactions and was reclassified in the current financial year. The opening balance of trade and other payables was restated to R 255 268 888. Further, adjustments to this balance was made as indicated in this error and as per Error 11.

Figures in Rand	2021	2020

39. Prior-year adjustments (continued)

Error 07 - During the 2020/2021 financial year, an error in the prior period employee benefits obligations balance was identified and corrected. The balance was over stated by R1 191 195. Consequently, accumulated surplus was overstated by the same amount.

Error 08 - During the 2020/2021 financial year, an error in the VAT (Value Added Taxation) accruals for VAT Output from Trade Receivables from Exchange Transactions and VAT Input from Trade Payables from Exchange Transactions was identified and corrected. The VAT Receivable balance was overstated by R 27 868 205. Consequently, accumulated surplus was overstated by the same amount.

Error 09 - During the 2019/2020 financial year, Property Plant and Equipment which was donated to the municipality, this donation was originally valued by the letter from the donor with the value of R 7 419 775, this was not recorded in the 2018/2019 financial year. Upon verification in the current financial year of the donated assets, the municipality only recognised those assets that were verified to the value of R 4 164 388. Accumulated surplus was adjusted by the same amount.

Error 10 - During the 2019/2020 financial year, Property Plant and Equipment (Plant and machinery) to the value of R428 992 was reclassified to Infrustructure, this was a transfer between PPE categories, and therefore there was no adjustment to the PPE balance for this prior period restatement.

Error 11 - During the 2019/2020 financial year, Consumables (General expenses) to the value of R330 000 (excl VAT), R379 500 (Incl VAT) was recorded incorrectly, as the goods had only been delivered in the next financial year (2020/2021), therefore the expenses balance was overstated by R330 000 (excl VAT), the Trade payables balance overstated by R379 500 Iincl VAT) and the VAT input balance overstated by R49 500

Error 12 - During the 2019/2020 financial year, interest on overdue debtors was not charged for 1 month, subsequently a calculation was done and an adjustment of R2 096 470 was processed, as revenue from exchange transactions and receivables from exchange transactions was understated by this amount.

Error 13 - During the 2019/2020 financial year, the allowance for impairment of recievables from exchange transactions was calculated inclusive of VAT, thus overstating the allowance for impairment by R5 473 075, this has been corrected in the current year.

Error 14 - During the 2020/2021 financial year, an assessment of the finance lease obligation was performed, and it was identified that the finance lease obligation was overstated by R1 115 160 and the finance cost relating to this lease was overstated by R 149873.

Error 15 - During the review of the opening balances of assets for the AFS it was found that a mapping error occurred between infrastructure cost and infrastructure accumulated depareciation in the closing balances for the 2020 financial year. This has been corrected in the opening balances for the 2021 financial year AFS. The adjustment between the two balances is R 430 888 567,32. There is no net impact on the PPE balance for this corrected error.

Error 16 - During the 2020/2021 financial year the debtors aging was reassessed and the gross debtors opening balance was adjusted to R 303 285 930. This is a restatement of R 2644 892.

Debtors Restatements Summary:

	2020 Restated	**2020 Prior Period**	**Difference**
Gross Balance	303 285 316	305 930 208	(2 644 892)
Impact Impairment Error 09	(189 099 440)	(194 572 516)	5 473 076
Impact of Error 02	668 489		668 489
Impact of Error 12	2 096 401		2 096 401
	116 950 766	**111 357 692**	**5 593 074**

Statement of financial position

39. Prior-year adjustments (continued)

2020

	Note	2020 - As Previously Reported	Correction of Error	Reclassification	2020 - Restated	Impact on Net Surplus
Error 1 -Receivables from non exchange transactions	4	9 772 939	(8 652 448)	-	1 120 491	-
Error 6, 16 -Receivables from exchange transactions	5	111 357 693	(5 593 074)	2 163 614	116 950 767	(2 644 891)
Error 6 -Payables from exchange transactions	6	(251 831 828)	(5 221 174)	(2 163 614)	(257 053 002)	(5 551 174)
Error 3,4, 5, 9, 10 - Property, Plant and Equipment	9	2 249 273 015	14 072 886	-	2 263 345 901	14 640 266
Error 3 -Investment Property	8&1.3	733 033	419 760	-	1 152 793	419 760
Error 8, 11 -VAT Receivable	14	26 652 762	(26 652 762)	-	-	(26 708 703)
Error 14 - Finance lease obligation	17	(22 230 525)	1 115 160	-	(23 345 685)	(965 287)
		2 123 727 089	**21 555 824**	**-**	**2 102 171 265**	**20 810 029**

2020

Statement of financial performance

2020

	Note	2020 - As Previously Reported	Correction of Error	2020 - Restated	Impact on Net Surplus
Error 2- Service Charges		(82 150 403)	(668 489)	(82 818 892)	(668 489)
Error 1 - Bad Debts		-	8 652 448	8 652 448	8 652 448
Error 4 - Other income		(9 609 096)	9 389 825	219 271	9 389 825
Error 4 - Donation Income		-	(7 954 824)	(7 954 824)	(7 954 824)
Error 12 - Interest on overdue debtors		(29 179 219)	(2 096 401)	(31 275 620)	(2 096 401)
Error 11 - General Expenses		171 691 318	(330 000)	171 361 318	(330 000)
Error 13 - Finance costs		6 882 812	(149 873)	6 732 939	(149 873)
Error 3,4,5,9,10 - Depreciation		96 143 740	567 380	96 711 120	567 380
Error 13 - Provision for debt impairment		41 960 241	(5 473 075)	36 487 166	(5 473 075)
Error 7 - Post retirement benefits		4 176 902	(1 191 195)	2 985 707	(1 191 195)
		199 916 295	**745 796**	**200 662 091**	**745 796**

Errors

Reconciliation of Net Surplus as a result of Prior Period Errors:

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

39. Prior-year adjustments (continued)

Net surplus as at 01 July 2019		**2 137 226 734**
Total adjustments directly to Net Surplus		**(20 810 029)**
Receivables from Non-exchange transactions	0	
VAT Receivable	(26 708 703)	
Receivables from Exchange Transactions	(2 644 891)	
Investment Property	419 760	
Property, Plant & Equipment	14 640 266	
Finance Lease Obligation	(965 287)	
Payables from exchange transactions	(5 551 174)	
Surplus 01 July 2019 - After Adjustments Above		**2 116 416 705**
Adjusted Surplus for FY 2020 (recon below)		80 237 516
Restated Surplus as at 30 June 2020		**2 196 654 221**

Reconciliation for Adjusted Surplus FY 2020:

Surplus previously reported	**80 983 312**
Service Charges	668 489
Interest on Outstanding Debtors	2 096 401
Other Income	(9 389 825)
Donation Income	7 954 824
Depreciation	(567 380)
Finance Costs	149 873
Provision for Debt Impairment	5 473 075
Bad Debts	(8 652 448)
Post Retirement Benefit	1 191 195
General Expenses	330 000
Restated Surplus	**80 237 516**

Change in accounting estimate

There was a change in accounting estimate that had occurred during the year under review. This change related to the depreciation method, which was reviewed in the current year.

Depreciation: R 81 515 746,50

Revised Dpereciation: R 84 096 600,65

Effect of Change in Estimate: (R 2 580 854,15)

It is impracticable to determine the future effect of this change in estimate

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

40. Related parties

Relationships

Associates	uThukela Water (Pty) Ltd 12
Associates	The entity, uThukela Water (Pty) Ltd is an investment in associate of Amajuba District Municipality, Newcastle Local Municipality and uMzinyathi District Municipality, and is responsible for supplying these municipalities with bulk water services.

Loans key management and close member of family	**2021**	**2020**
uThukela Water (Pty) Ltd - Operations and Maintenance Outstanding Balance	64 191 401	64 191 401
uThukela Water (Pty) Ltd - Creditor's Balance	6 290 707	5 416 863
uMzinyathi Development Agency	3 357 657	-
	73 839 765	**69 608 264**

Related Parties:

uMzinyathi Development Agency:
The uMzinyathi Development Agency was in the process of been established in the 2020/2021 financial period, however this entity will only become functional in the next financial period (i.e. 2021/2022 financial period). The uMzinyathi Development Agency had an approved budget of R 7 500 000 for the 2020/2021 financial period, since the inception of the Development Agency, the budget was based on critical income avaliability assumptions. The Agency has spent an amount of R 1 157 656,84 through the parent municipality, funds of R 1 200 000 for operational costs and office furniture was transferred to the agency in May 2021 and an amount of R 1 000 000 was transferred directly to the Agency in March 2021.

Key Management:
Please refer to Note 28 above for a detailed breakdown of the remuneration of key management personal as the municipality considers key management personal a related party of the municipality.

COGTA:
The KZN Department of COGTA is considered a related party of the municipality as the municipality is currently placed under administration and COGTA has appointed a Ministerial representative (at the cost of the KZN Department of COGTA) to assist the municipality with the implementation of governance systems and procedures. The Ministerial representative participates in the financial and operating policy decisions of the municipality, hence the KZN Department of COGTA has significant influence over the municipality. Therefore, due to the significant influence exercised by the KZN Department of COGTA, the municipality and COGTA are related parties.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

41. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Authorised Capital Expenditure	363 373 885	317 229 720

Total capital commitments		
Already contracted for but not provided for	363 373 885	317 229 720

Authorised operational expenditure

Already contracted for but not provided for		
• Authorised Operational Expenditure	13 628 839	17 308 060

Total operational commitments		
Already contracted for but not provided for	13 628 839	17 308 060

Total commitments

Total commitments		
Authorised capital expenditure	363 373 885	317 229 720
Authorised operational expenditure	13 628 839	17 308 060
	377 002 724	**334 537 780**

This committed expenditure relates to property and operating expenditure will be financed by government grants and own revenue generated. Commitments are more than 12 months.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	809 134	377 550
- in second to fifth year inclusive	13 633 989	450 211
	14 443 123	**827 761**

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

42. Fruitless and wasteful expenditure

Opening balance as previously reported	4 777 538	492 287
Fruitless expenditure - current year	276 625	4 285 251
Opening balance as restated	**5 054 163**	**4 777 538**
Closing balance	**5 054 163**	**4 777 538**

Figures in Rand	2021	2020

43. Deviation from supply chain management regulations

Quotations:

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.

Bids:

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council.

SCM Regulations 36		
Expenditure Incurred	-	110 722

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44. Irregular expenditure

Opening balance as previously reported	1 388 196 058	1 366 125 788
Opening balance as restated	**1 388 196 058**	**1 366 125 788**
Add: Irregular Expenditure - current	299 928 152	298 373 582
Less: Amounts Written-Off	-	(276 303 312)
Closing balance	**1 688 124 210**	**1 388 196 058**

Cases under investigation

Municipal Bearers Act	1 023 653 895	1 624 084 312
Municipal Systems Act	-	(276 303 312)
	1 023 653 895	**1 347 781 000**

45. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Current year subscription / fee	4 317 057	3 938 284
Amount paid - current year	(4 317 057)	(3 938 284)
	-	**-**

PAYE and UIF

Current year subscription / fee	28 605 445	27 101 218

Pension and Medical Aid Deductions

Current year subscription / fee	22 820 409	19 364 762

VAT

VAT payable	11 797 804	1 265 033

All VAT returns were submitted by the due date throughout the year.

45. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following councillors and employees had arrear accounts outstanding for more than 90 days at 30 June 2021:

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Balwanth D Ramlakan	3 056	72 716	75 772
Yengwa Mbangiseni Shad	247	14 431	14 678
Nhlebela Sabelo S	(743)	2 279	1 536
Buthelezi AF	194	2 002	2 196
Zungu Zanele	188	1 769	1 957
Shangase CB	551	1 024	1 575
Thungo BP	19	941	960
Mnguni NM	10	1 071	1 081
Ndlovu NZT	5	559	564
	3 527	**96 792**	**100 319**

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Bonga E	392	-	392
Buthelezi AF	684	2 285	2 969
Chambule BS	923	833	1 756
Madonsela TC	1 374	-	1 374
Maphumulo SM	75	-	75
Mawila MP	344	-	344
Mkhize SC & NSS	573	-	573
Mnguni NM	161	996	1 157
Moodley S	1	46	47
Mtshali TC	326	7 350	7 676
Munessar A	59	-	59
Ndlovu ZNT	336	234	570
Shangase CB	1 141	1 797	2 938
Thungo BP	1 110	1 206	2 316
Twala NB	724	1 582	2 306
Yengwa MS	739	14 186	14 925
Zulu L	585	-	585
Zulu VD	57	1 041	1 098
Zungu Z	561	1 584	2 145
	10 165	**33 140**	**43 305**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident	2021	2020
Social crime prevention	1 740 961	1 618 879

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

46. Water distribution losses

Water Produced per Water Treatment Plant		
Msinga Fabeni WTW	18 062	12 446
Msinga Keats Drift WTW	69 632	54 670
Msinga Sampofu (Tugela Ferry) WTW	1 475 096	1 282 022
Msinga Sampofu Weir (Pomeroy) WTW	29 003	30 280
Umvoti Makhabeleni WTW Meter	176 729	569 666
Umvoti Greytown WTW	1 734 617	1 553 783
Umvoti Muden WTW	1 083 860	726 013
Umvoti Kranskop WTW	210 114	179 071
Nquthu Isandlwana WTW	81 647	74 526
Nquthu Nonqweni WTW	359 160	426 630
Nquthu /Vant's Drift WTW	2 825 890	2 656 050
Nquthu Qudeni WTW	123 464	132 212
Endumeni Biggarsberg WTW	5 808 881	5 214 998
	13 996 155	**12 912 367**

Total Water Loss		
Total Water Produced	(13 996 155)	(12 912 367)
Total Water Sold	5 144 432	6 037 607
	(8 851 723)	**(6 874 760)**

The monetary value of water loss in 2021 is R33 725 064,63 (2020: R23 786 670). The water loss percentage in 2021 is 63% (2020: 53%)
The purchase price from for raw water from Uthukela Water was at R3,81 for 2021, (2020: R3,46)
Umzinyathi District Municipaliry is mostly dominated with rural areas. Most of the rural areas have stand pipes per standards set by Water Affairs. Other rural areas have no water infastructure therefore water water tankers are delivering water to them and these tankers are getting water from our plants and collection points sets in our network. The district municipality experienced a lot of burst pipes in our reticulation line due to aging infastructure Illegal connections in most of the rural areas have a huge impact in unaccounted water as they are most metered. The district municipality experienced increasing internal leaks from domestic consumers and there's a programme that we will be running to fix leaks.

47. Events after the reporting date

There was a event that occurred after the reporting period, whereby the Labour Matters between uMzinyathi District Municipality vs Lembede and uMzinyathi District Municipality vs Majola had been concluded after the end of the reporting period.

48. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. These basis presume that funds will be available to finance operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

49. Risk management

Financial risk management

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The municipality's approach is to ensure that sufficient liquidity is available to meet its liabilities when due. The municipality uses cash flow forecasts to ensure that sufficient cash is available to meet expected operating expenses.

Figures in Rand	2021	2020

49. Risk management (continued)

Credit risk

Receivables

Receivables are amounts owing by consumers and are presented net of impairment loss. The municipality has a credit control policy in place and the exposure to credit risk is monitored continuously. The municipality establishes an allowance for doubtful

debts that represents its estimate of anticipated losses in respect of receivables. Payments of accounts of consumer debtors who are unable to pay, are negotiated in line with the 'credit control policy and terms of payments are agreed upon with the consumer.

Cash and cash equivalents

The municipality limits its exposure to credit risk by investing with only reputable financial institutions and within specific

guidelines set in accordance with Council's approved investment policy. The municipality does not consider there to be any

significant exposure to credit risk.

Financial assets exposed to credit risk at year end were as follows:

	2021	2020
Financial Assets		
VAT Receivable	19 253 112	26 652 762
Receivable from Exchange Transactions	194 226 291	114 189 798
Receivable from Non-Exchange Transactions	-	1 120 491
Cash and Cash Equivalents	12 025 758	2 375 322
	225 505 161	**144 338 373**
Financial Liabilities		
Payables from Exchange Transactions	305 332 163	253 995 442
Consumer Deposits	451 514	451 514
	305 783 677	**254 446 956**

Market risk

Interest rate risk

The municipality's policy is to manage interest rate risk so that fluctuations in variable costs do not have a material impact on surplus. All long term debts are subject to fixed rates.

50. Transfer of functions between entities not under common control

Uthukela Water (Pty) Ltd is an entity of three WSA's, namely Amajuba DM, Newcastle LM and Umzinyathi DM. The interest in this joint venture is at 33,33%, 33,4% and 33,33% respectively.

The voting rights are represented by the percentage shareholding in the entity. The transfer of function was initiated by the directive from the MEC: COGTA.

It stipulated that the function, including the infrastructure assets must be transferred back to the WSA's. The process was started and completed by the 30 June 2014, This arrangement is currently in place. Refer to Note 12 for further details.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

51. COVID19 Expenditure

Capital Expenditure		
Msinga emergancy water supply	7 867 046	1 165 956
General Expenses	16 402 094	3 691 208
	24 269 140	**4 857 164**

52. Contingencies

Contingent liabilities of associates

1. **Umvoti / uThukela Water (Pty) Ltd**
Umvoti presented to the municipality an outstanding balance of R407 585 owing by uThukela Water (Pty) Ltd the water service authority whom was responsible for the water reticulation function within the district. Umvoti has liaised with uThukela Water (Pty) Ltd to pay the outstanding balance however uThukela Water (Pty) Ltd has advised Umvoti that the debt be settled by Umzinyathi, since uMzinyathi took over the reticulation function on the 1st of July 2013. The dispute arises because neither uThukela Water (Pty) Ltd or Umvoti has submitted proof of the liability or debt in a form an invoice or any relevant supporting documentation.

2. uThukela Water (Pty) Ltd
There's a dispute for an amount of R43 400 474 between uThukela water (Pty) Ltd and Umzinyathi District Municipality as uThukela water (Pty) Ltd claims that the municipality owes an amount of R110 734 609 which can not be proven in full.

Contingent Assets

Litigations and value of claims pending in favour of the municipality were estimated at R118 625 170, details are as follows:

1. Umzinyathi vs Soni

The Municipality is suing Mr Soni for domestic water usage, the estimated claim is R267 152.28.

2. Umzinyathi vs Trustees of Prembhai Family Trust

The municipality estimates a liability of R783493.98.

3. Umzinyathi vs Tsotetsi Mchunu Inc

The municipality is suing the law firm for undully benefiting from the services rendered.

4. Umzinyathi vs AC Industrial

The municipality is suing the service provider for assets with missing coordinates that were constructed by the service provider, the estimated claim is R95 000 000.00.

5. Umzinyathi vs Fusion Guarantee

The municipality won a counter claim against Soundrite who can no longer afford to pay the municipality whilst there is a guarantee contract allowing the municipality to institute a claim against Fusion Guarantee. The estimated claim is R5 760 963.48.

6. Umzinyathi vs Malunga

The municipality is suing the former official for the financial loss suffered with regards to the contract of the service provider that was terminated without following due process.

Contingent Liabilities

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

52. Contingencies (continued)

Litigations and value of claims pending against the municipality were estimated at R138 055 312.40, details are as follows:

1. Natal Joint Municipal Pension Fund (Superannuation) vs Umzinyathi [Case 1]

The claim is in respect of a pension adjustment which was not properly implemented,the estimate is R2 457 346.86

2. Natal Joint Municipal Pension Fund (Retirement) vs Umzinyathi [Case 2]

The claim is in respect of a pension adjustment which was not properly implemented, the estimate is included on the total on Case 1.

3. L Mthembu & Associates vs Umzinyathi

The claim is in respect of services rendered which were not verified by the municipality, the estimate is R309 000.

4. L Mthembu & Associates vs Umzinyathi

The claim is in respect of services rendered which were not verified by the municipality, the estimate is R261 200.

5. AB Projects vs Umzinyathi

The claim is in respect of services rendered by a service provider, the estimated liability is R12 330 854.64 with interest accumuating from the date of summons..

6. Thuthu Nibambo vs Umzinyathi

The claim is in respect of an unlawful appointment of a service provider, the etimated liability is R329 600.

7. National NDT Services vs Umzinyathi

The claim is in respect of services rendered under the cession agreement, the estimated liability is R3 711 221.64.

8. Mining Pressure Systems vs Umzinyathi

The claim is in respect of services rendered under a cession agreement, the estimated liability is R5146 926.45.

9. Zamokwakhe Construction CC

The claim is in respect of services rendered, the estimated liability is R750 072.90.

10. Ubuso Obuhle Trading (Pty) Ltd vs Umzinyathi

Figures in Rand	2021	2020

52. Contingencies (continued)

The claim is in respect of services rendered under a cession agreement, the estimated liability is R608 157.50.

11. Pipe Jack Gauteng vs Umzinyathi

The claim is in respect of services renderd under a cession agreement, the estimated liability is R96 727 257.63.

Labour Matters

Labour matters pending internally have not been quanitifed and estimated liability value was not available, they were as follows:

1. Umzinyathi vs Ndlovu
2. Umzinyathi vs Buthelezi
3. Umzinyathi vs Lembede (concluded after the end of the reporting period)
4. Umzinyathi vs Majola
5. Umzinyathi vs Ndlovu (concluded after the end of the reporting period)
6. Umzinyathi vs Buthelezi
7. Umzinyathi vs Dlamini
8. Umzinyathi vs Manqele

53. Unauthorised expenditure

	2021	2020
Opening balance as previously reported	176 988 447	-
Correction of prior period error	-	176 988 447
Opening balance as restated	**176 988 447**	**176 988 447**
Unauthorised expenditure for the year	292 553 407	-
Closing balance	**469 541 854**	**176 988 447**

54. Awards to suppliers with close family members in the service of the state

The following awards were made to suppliers with spouses and family members in the service of the state

	2021	**2020**
Brand Partners (Honourable Nomusa Dube Ncube: MEC)	1 734 775	2 899 581
Matthew Francis (B Sivparsad: Msunduzi Municipality)	216 617	950 820
Matthew Francis (S Mahlangu: iLembe District Municipality)	216 617	950 820
MDG (PK Gcaleka: uMzinyathi District Municipality)	1 512 850	1 013 538
Tradewind Maintenance (Unknown: Transnet)	578 680	524 400

Figures in Rand	2021	2020

55. Financial Viability

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The Provincial Executive Council of KwaZulu-Natal and MEC for Department of Co-operative Governance and Traditional Affairs, resolved to intervene in terms of Section 139 (1) (b) of the Constitution at the municipality and appointed the Ministerial representative. The terms of reference specified the functions of the Ministerial representative which also include the implementation of governance systems and procedures including oversight of the administration including the ratification of decisions taken by the Municipal Council, the Executive Committee, Municipal Manager and Section 56 Managers in terms of the authority. The Provincial intervention does not have an impact on the municipality's ability to continue as a going concern.

In assessing the financial viability, management identified indicators casting doubt to the municipality's ability to continue operating as a going concern. These indicators are summarised below:
Impact of COVID-19 pandemic on municipal finance and operations.

Adverse liquidity ratios which were calculated as follows:

Current ratio
The municipality recorded a current ratio of 58% in 2021 (2020: 50%) in the current year. The municipality is required to maintain the current ratio of at least 150% in order to ensure that current assets are adequate to cover its current liabilities.

Cash ratio
The municipality recorded a cash ratio of 3% in 2021 (2020: 1%) in the current year. The municipality is required to maintain the cash ratio of at least 100% in order to ensure that are adequate funds are available to cover its current liabilities.

Quick ratio
The municipality recorded a current ratio of 58% in 2021 (2020: 50%) in the current year. The municipality is required to maintain the quick ratio of at least 100% in order to ensure that are adequate funds are available to cover its current liabilities.
The outstanding gross receivables from exchange transactions balance has increased significantly by almost 33% (2021: R112 026 179 ;2020: R112 026 179), and the majority of the debtors have been outstanding for over 365 days.
The surplus for the year of the municipality has also decreased by 36% due to below norm collection rates from debtors.
Deteriorating creditors days.
The increase in net debtors' balances.

The following measures will be implemented by management as part of the revenue enhancement strategy and cost containment strategy:
The expenditure committee will be formed to monitor the implementation of the cost containment strategy and to ensure economically efficient spending.

The revenue enhancement task team will be appointed to implement and monitor the revenue enhancement strategy and identification of additional revenue streams.
The debt collection strategies have been implemented to reduce the issue of debtors not paying timeously.
The debt collectors were appointed to recover long outstanding debtors.
The financial recovery plan was adopted and monitored on a monthly basis.
Management is monitoring and implementing safety precautions provided by World Health Organisation to mini rise the risk of COVID- 19.

55. Financial Viability (continued)

Despite the above negative indicators, the municipality continues to adopt the going concern assumption as it is management's view that the municipality will continue to operate in its present form in the foreseeable future, as it is primarily funded by government grants and will continue to be funded from the DoRA in the foreseeable future. In addition, management has embarked on an aggressive programme of debt recovery to ensure improved future cash inflows. The improvement by and large from the previous financial year position is encouraging and testament to the measures put in place.1