KING CETSHWAYO
DISTRICT MUNICIPALITY

# Annual Financial Statements for the year ended 30 June 2021

# GENERAL INFORMATION

| | |
|---|---|
| **Legal form of entity** | Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the Republic of South Africa (Act 108 of 1996) |
| **Nature of business and principal activities** | The provision of services (water, sanitation & waste management) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment |
| **Legislation governing the municipality's operations** | Constitution of the Republic of South Africa (Act 108 of 1996)<br>Local Government: Municipal Finance Management Act (Act 56 of 2003)<br>Local Government: Municipal Systems Act (Act 32 of 2000)<br>Local Government: Municipal Structures Act (Act 117 of 1998)<br>Division of Revenue Act (Act 1 of 2007) |
| **Mayor** | BL Phungula |
| **Municipal Manager** | MTB Ndlovu |
| **Registered office** | King Cetshwayo District Municipality<br>Krugerrand, CBD<br>RICHARDS BAY<br>3900 |
| **Business address** | King Cetshwayo District Municipality<br>Krugerrand, CBD<br>RICHARDS BAY<br>3900 |
| **Postal address** | Private Bag X1025<br>RICHARDS BAY<br>3900 |
| **Bankers** | Nedbank Limited |
| **Auditors** | Auditor-General of South Africa |
| **Senior Legal Advisor** | G Dlamini |
| **Municipal demarcation code** | DC 28 |
| **Members of the audit and performance committee** | M Ncube - Chairperson<br>RL Monyokolo<br>P Mbanjwa<br>B Dladla |

# INDEX

The reports and statements set out below comprise the annual financial statements for the year ended 30 June 2021 presented to the Council:



The following supplementary information does not form part of the annual financial statements and is unaudited:

# INDEX

| | |
|---|---|
| AUC | Assets Under Construction |
| COVID -19 | Corona Virus Disease of 2019 |
| DWS | Department of Water and Sanitation |
| EQS | Equitable Share |
| EPWP | Expanded Public Works Programme |
| FMG | Finance Management Grant |
| GRAP | Generally Recognised Accounting Practice |
| IPSAS | International Public Sector Accounting Standards |
| LGSETA | Local Government Sector Education and Training Authority |
| MDRG | Municipal Disaster Relief Grant |
| MFMA | Municipal Finance Management Act (Act No. 56 of 2003) |
| MIG | Municipal Infrastructure Grant |
| MPAC | Municipal Public Accounts Committee |
| RBIG | Regional Bulk Infrastructure Grant |
| RRAMS | Rural Roads Asset Management Systems |
| RUL | Remaining Useful Lives |
| SARS | South African Revenue Services |
| VAT | Value Added Tax Act (Act No. 89 of 1991) |
| WSIG | Water Services Infrastructure Grant |

# STATEMENT OF MUNICIPAL MANAGER'S RESPONSIBILITY

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 101, in terms of Section 126(1) of the Municipal Finance Management Act (Act no. 56 of 2003), which I have signed on behalf of the municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 25 and 38 of these annual financial statements, are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act (Act no. 20 of 1998) and the Minister of Provincial and Local Government determination in accordance with this Act.

The King Cetshwayo District Municipality, situated in the central business district, Richards Bay, is a category C municipality established in terms of Section 12(1) of the Municipal Structures Act, 1998 (Act no. 117 of 1998).

As required by Section 45 of the Municipal Systems Act and Section 121 (4) (a) and (b) of the Municipal Finance Management Act (Act no. 56 of 2003), the annual financial statements were submitted to the Auditor-General South Africa (AGSA) on 31 August 2021.

**MTB Ndlovu**
**Municipal Manager**

**Richards Bay**

**Tuesday, 31 August 2021**

# STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

| Figures in Rands | Note(s) | 2021 | Restated* 2020 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Inventories | 2 | 8 416 302 | 13 089 304 |
| Receivables from exchange transactions - consumer debtors | 3 | 48 366 937 | 47 519 289 |
| Receivables from exchange transactions - VAT receivable | 4 | 107 788 339 | 84 572 080 |
| Receivables from non-exchange transactions | 5 | 12 847 014 | 15 775 982 |
| Current portion of long-term receivables from exchange transactions | 6 | 51 920 | 49 193 |
| Cash and cash equivalents | 7 | 369 491 412 | 507 309 434 |
| Investments in municipal entities | 11 | - | 760 849 |
| Investments in financial assets - shares | 12 | - | 66 955 |
| | | **546 961 924** | **669 143 086** |
| **Non-Current Assets** | | | |
| Long-term receivables from exchange transactions | 6 | 13 789 | 66 063 |
| Property, plant and equipment | 8 | 2 751 669 351 | 2 591 481 943 |
| Intangible assets | 9 | 6 991 896 | 7 975 090 |
| Heritage assets | 10 | 700 000 | 700 000 |
| | | **2 759 375 036** | **2 600 223 096** |
| **Total Assets** | | **3 306 336 960** | **3 269 366 182** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Borrowings | 13 | 8 485 501 | 7 528 864 |
| Payables exchange transactions | 14 | 339 767 366 | 359 730 672 |
| Consumer deposits | 15 | 10 115 897 | 10 100 052 |
| Defined employee benefit obligations | 16 | 2 097 000 | 801 000 |
| Unspent transfers and subsidies | 17 | 1 176 024 | 53 794 242 |
| Provisions | 18 | 2 497 233 | 2 818 136 |
| | | **364 139 021** | **434 772 966** |
| **Non-Current Liabilities** | | | |
| Borrowings | 13 | 15 849 428 | 24 334 928 |
| Defined employee benefit obligations | 16 | 33 348 000 | 37 825 000 |
| Provisions | 18 | 55 133 424 | 25 643 302 |
| | | **104 330 852** | **87 803 230** |
| **Total Liabilities** | | **468 469 873** | **522 576 196** |
| **Net Assets** | | **2 837 867 087** | **2 746 789 986** |
| Accumulated surplus | | 2 837 867 087 | 2 746 789 986 |
| **Total Net Assets** | | **2 837 867 087** | **2 746 789 986** |

* See Note 46

# STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2021

| Figures in Rands | Note(s) | 2021 | Restated* 2020 |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 19 | 96 503 274 | 87 487 893 |
| Rental income | 20 | 52 000 | 53 565 |
| Interest received | 21 | 19 995 607 | 42 110 793 |
| Other income | 22 | 3 145 160 | 1 414 928 |
| Fair value adjustments in investments | 11&12 | 11 814 | 13 138 |
| Gain on adjustment to rehabilitation provision | 18 | - | 10 451 481 |
| **Total revenue from exchange transactions** | | **119 707 855** | **141 531 798** |
| **Revenue from non-exchange transactions** | | | |
| Transfers and subsidies | 23 | 899 424 419 | 930 770 863 |
| Donations | 8&2 | - | 11 056 791 |
| **Total revenue from non exchange transactions** | | **899 424 419** | **941 827 654** |
| **Total revenue** | | **1 019 132 274** | **1 083 359 452** |
| **Expenditure** | | | |
| Employee related costs | 24 | (234 607 325) | (233 451 489) |
| Remuneration of councillors | 25 | (12 297 336) | (12 962 831) |
| Depreciation, amortisation and impairment | 26 | (106 705 605) | (103 072 079) |
| Finance costs | 27 | (6 976 071) | (9 175 281) |
| Debt impairment | 3 | (7 385 165) | (6 259 592) |
| Bulk purchases | 28 | (129 360 773) | (75 545 639) |
| Transfers and subsidies | 29 | - | (2 000 000) |
| Contracted services | 31 | (322 197 312) | (353 998 652) |
| Operational costs | 32 | (110 363 456) | (111 014 335) |
| **Total expenditure** | | **(929 893 043)** | **(907 479 898)** |
| Gain/(Loss) on disposal of property, plant and equipment | 8 | 1 837 878 | (7 299 680) |
| **Surplus for the year** | | **91 077 109** | **168 579 874** |

* See Note 46

# STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2021

| Figures in Rands | Accumulated surplus | Total net assets |
|---|---|---|
| Balance as at 01 July 2019 as previously reported | 2 527 556 749 | 2 527 556 749 |
| Prior-year adjustments - refer to note 46 | 44 218 832 | 44 218 832 |
| **Restated balance as at 01 July 2019** | **2 571 775 581** | **2 571 775 581** |
| Surplus for the year restated: Prior year adjustments - refer to note 46 | 168 579 874 | 168 579 874 |
| Gain from transfer of functions between entities under common control - refer to note 43 | 6 434 531 | 6 434 531 |
| | 175 014 405 | 175 014 405 |
| **Restated balance as at 01 July 2020** | **2 746 789 978** | **2 746 789 978** |
| Surplus for the year | 91 077 109 | 91 077 109 |
| | 91 077 109 | 91 077 109 |
| **Balance at 30 June 2021** | **2 837 867 087** | **2 837 867 087** |

* See Note 46

# CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2021

| Figures in Rands | Note(s) | 2021 | Restated* 2020 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Receipts from consumers and other | | 95 236 207 | 86 584 065 |
| Transfers and subsidies | 17 | 846 806 201 | 891 669 935 |
| Interest | | 19 995 607 | 42 110 793 |
| | | 962 038 015 | 1 020 364 793 |
| **Payments** | | | |
| Employee costs | | (246 904 661) | (246 414 320) |
| Suppliers | | (612 394 425) | (533 313 687) |
| Transfers and subsidies | | - | (2 000 000) |
| | | (859 299 086) | (781 728 007) |
| **Net cash flows from operating activities** | 33 | **102 738 929** | **238 636 786** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant, equipment and intangibles | 8 | (231 483 687) | (216 855 994) |
| Poceeds from the sale of property, plant and equipment | 8 | 2 127 672 | - |
| Proceeds from transfer of functions between entities under common control | 43 | - | 1 141 717 |
| Proceeds from long-term receivables | | 49 547 | 54 113 |
| **Net cash flows from investing activities** | | **(229 306 468)** | **(215 660 164)** |
| **Cash flows from financing activities** | | | |
| Repayment of borrowings | 13 | (7 528 864) | (6 669 522) |
| Finance costs | 27 | (3 721 619) | (4 580 961) |
| **Net cash flows from financing activities** | | **(11 250 483)** | **(11 250 483)** |
| **Net (decrease) /increase in cash and cash equivalents** | | **(137 818 022)** | **11 726 139** |
| Cash and cash equivalents at the beginning of the year | | 507 309 434 | 495 583 295 |
| **Cash and cash equivalents at the end of the year** | 7 | **369 491 412** | **507 309 434** |

* See Note 46

# King Cetshwayo District Municipality

Annual Financial Statements For The Year Ended 30 June 2021

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

**Budget on Accrual Basis**

| Figures in Rands | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance For The Year Ended 30 June 2021** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 103 119 276 | (3 264 130) | **99 855 146** | 96 503 274 | **(3 351 872)** | |
| Rental income | 115 052 | 8 077 714 | **8 192 766** | 52 000 | **(8 140 766)** | 39.1 |
| Interest received | 32 909 009 | (12 812 063) | **20 096 946** | 19 995 607 | **(101 339)** | |
| Other income | 4 502 896 | 1 456 247 | **5 959 143** | 3 145 160 | **(2 813 983)** | 39.2 |
| **Total revenue from exchange transactions** | **140 646 233** | **(6 542 232)** | **134 104 001** | **119 696 041** | **(14 407 960)** | |
| **Revenue from non exchange transactions** | | | | | | |
| **Transfer revenue** | | | | | | |
| Transfers and subsidies | 838 761 000 | 62 422 151 | **901 183 151** | 899 424 419 | **(1 758 732)** | |
| **Total revenue** | **979 407 233** | **55 879 919** | **1 035 287 152** | **1 019 120 460** | **(16 166 692)** | |
| **Expenditure** | | | | | | |
| Employee related costs | (280 420 765) | 34 926 308 | **(245 494 457)** | (234 607 325) | **10 887 132** | |
| Remuneration of councillors | (14 436 372) | 2 139 023 | **(12 297 349)** | (12 297 336) | **13** | |
| Depreciation, amortisation and impairment | (89 656 068) | (19 474 781) | **(109 130 849)** | (106 705 605) | **2 425 244** | |
| Finance costs | (3 721 615) | (3 254 453) | **(6 976 068)** | (6 976 071) | **(3)** | |
| Debt impairment | (7 816 979) | 113 198 | **(7 703 781)** | (7 385 165) | **318 616** | |
| Bulk purchases | (71 810 790) | (58 255 547) | **(130 066 337)** | (129 360 773) | **705 564** | |
| Transfers and subsidies | (1 025 000) | 1 025 000 | **-** | - | **-** | |
| Contracted services | (177 417 200) | (124 746 119) | **(302 163 319)** | (322 197 312) | **(20 033 993)** | |
| Operational costs | (147 492 583) | 34 150 980 | **(113 341 603)** | (110 363 456) | **2 978 147** | |
| **Total expenditure** | **(793 797 372)** | **(133 376 391)** | **(927 173 763)** | **(929 893 043)** | **(2 719 280)** | |
| **Operating surplus/(loss)** | **185 609 861** | **(77 496 472)** | **108 113 389** | **89 227 417** | **(18 885 972)** | |
| Gain on disposal of property, plant and equipment | - | - | **-** | 1 837 878 | **1 837 878** | |
| Fair value adjustments in investments | - | - | **-** | 11 814 | **11 814** | |
| | **-** | **-** | **-** | **1 849 692** | **1 849 692** | |
| **Surplus** | **185 609 861** | **(77 496 472)** | **108 113 389** | **91 077 109** | **(17 036 280)** | |

# STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

**Budget on Accrual Basis**

| Figures in Rands | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Position As At 30 June 2021** | | | | | | |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Inventories | 5 843 562 | - | **5 843 562** | 8 416 302 | **2 572 740** | 39.3 |
| Receivables exchange transactions - consumer debtors | 51 496 208 | 2 064 130 | **53 560 338** | 48 366 937 | **(5 193 401)** | |
| Receivables exchange transactions - VAT | - | - | **-** | 107 788 339 | **107 788 339** | 39.4 |
| Receivables from non-exchange transactions | 26 025 117 | - | **26 025 117** | 12 847 014 | **(13 178 103)** | 39.5 |
| Current portion of long-term receivables exchange transactions | 97 067 | - | **97 067** | 51 920 | **(45 147)** | |
| Cash and cash equivalents | 555 118 054 | (50 195 549) | **504 922 505** | 369 491 412 | **(135 431 093)** | 39.6 |
| | **638 580 008** | **(48 131 419)** | **590 448 589** | **546 961 924** | **(43 486 665)** | |
| **Non-Current Assets** | | | | | | |
| Long-term receivables exchange | 68 113 | - | **68 113** | 13 789 | **(54 324)** | |
| Property, plant and equipment | 2 949 617 388 | (71 670 897) | **2 877 946 491** | 2 751 669 351 | **(126 277 140)** | |
| Intangible assets | 13 329 314 | (8 284 288) | **5 045 026** | 6 991 896 | **1 946 870** | 39.7 |
| Heritage assets | - | - | **-** | 700 000 | **700 000** | 39.7 |
| Other non-current assets | 1 515 665 | - | **1 515 665** | - | **(1 515 665)** | 39.8 |
| | **2 964 530 480** | **(79 955 185)** | **2 884 575 295** | **2 759 375 036** | **(125 200 259)** | |
| **Total Assets** | **3 603 110 488** | **(128 086 604)** | **3 475 023 884** | **3 306 336 960** | **(168 686 924)** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Borrowings | 7 626 208 | - | **7 626 208** | 8 485 501 | **859 293** | 39.9 |
| Payables exchange transactions | 159 034 298 | (95 910 034) | **63 124 264** | 339 767 367 | **276 643 103** | 39.10 |
| Consumer deposits | 23 137 061 | - | **23 137 061** | 10 115 897 | **(13 021 164)** | 39.11 |
| Defined employee benefit obligations | - | - | **-** | 2 097 000 | **2 097 000** | 39.12 |
| Unspent transfers and subsidies | - | - | **-** | 1 176 024 | **1 176 024** | 39.13 |
| Provisions | 31 346 521 | - | **31 346 521** | 2 497 233 | **(28 849 288)** | 39.14 |
| | **221 144 088** | **(95 910 034)** | **125 234 054** | **364 139 022** | **238 904 968** | |
| **Non-Current Liabilities** | | | | | | |
| Borrowings | 23 378 292 | - | **23 378 292** | 15 849 428 | **(7 528 864)** | 39.9 |
| Defined employee benefit obligations | 24 226 906 | - | **24 226 906** | 33 348 000 | **9 121 094** | 39.12 |
| Provisions | 83 247 879 | - | **83 247 879** | 55 133 424 | **(28 114 455)** | 39.14 |

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

**Budget on Accrual Basis**

| Figures in Rands | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| | **130 853 077** | **-** | **130 853 077** | **104 330 852** | **(26 522 225)** | |
| **Total Liabilities** | **351 997 165** | **(95 910 034)** | **256 087 131** | **468 469 874** | **212 382 743** | |
| **Net Assets** | **3 251 113 323** | **(32 176 570)** | **3 218 936 753** | **2 837 867 086** | **(381 069 667)** | |
| **Reserves** | | | | | | |
| Accumulated surplus | 3 251 113 323 | (32 176 570) | **3 218 936 753** | 2 837 867 086 | **(381 069 667)** | |
| **Total Net Assets** | **3 251 113 323** | **(32 176 570)** | **3 218 936 753** | **2 837 867 086** | **(381 069 667)** | |

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

**Budget on Accrual Basis**

| Figures in Rands | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Cash Flow Statement For The Year ended 30 June 2021** | | | | | | |
| **Cash flows from operating activities** | | | | | | |
| **Receipts** | | | | | | |
| Receipts from consumers and other | 107 737 224 | 6 269 831 | **114 007 055** | 95 236 207 | **(18 770 848)** | 39.15 |
| Transfers and subsidies | 838 761 000 | 62 422 151 | **901 183 151** | 846 806 201 | **(54 376 950)** | |
| Interest | 32 909 009 | (12 812 063) | **20 096 946** | 19 995 607 | **(101 339)** | |
| | **979 407 233** | **55 879 919** | **1 035 287 152** | **962 038 015** | **(73 249 137)** | |
| **Payments** | | | | | | |
| Employee costs | (294 857 137) | 34 926 308 | **(259 930 829)** | (246 904 661) | **13 026 168** | |
| Suppliers | (396 720 573) | (148 850 686) | **(545 571 259)** | (612 394 425) | **(66 823 166)** | 39.16 |
| Transfers and subsidies | (1 025 000) | 1 025 000 | **-** | - | **-** | |
| | **(692 602 710)** | **(112 899 378)** | **(805 502 088)** | **(859 299 086)** | **(53 796 998)** | |
| **Net cash flows from operating activities** | **286 804 523** | **(57 019 459)** | **229 785 064** | **102 738 929** | **(127 046 135)** | |
| **Cash flows from investing activities** | | | | | | |
| Payment for property, plant, equipment and intangibles | (296 130 376) | 12 701 789 | **(283 428 587)** | (231 483 687) | **51 944 900** | 39.17 |
| Proceeds from the sale of property, plant and equipment | - | - | **-** | 2 127 672 | **2 127 672** | 39.18 |
| Repayment of home loans (non-current/current receivables) | - | - | **-** | 49 547 | **49 547** | |
| **Net cash flows from investing activities** | **(296 130 376)** | **12 701 789** | **(283 428 587)** | **(229 306 468)** | **54 122 119** | |
| **Cash flows from financing activities** | | | | | | |
| Finance costs | (3 721 615) | - | **(3 721 615)** | (3 721 619) | **(4)** | |
| Repayment of borrowings | (956 687) | - | **(956 687)** | (7 528 864) | **(6 572 177)** | 39.19 |
| **Net cash flows from financing activities** | **(4 678 302)** | **-** | **(4 678 302)** | **(11 250 483)** | **(6 572 181)** | |
| Net decrease in cash and cash equivalents | (14 004 155) | (44 317 670) | **(58 321 825)** | (137 818 022) | **(79 496 197)** | |
| Cash and cash equivalents at the beginning of the year | 493 988 794 | - | **493 988 794** | 507 309 434 | **13 320 640** | |
| **Cash and cash equivalents at the end of the year** | **479 984 639** | **(44 317 670)** | **435 666 969** | **369 491 412** | **(66 175 557)** | |

# 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) including any interpretations, guidelines and directives 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 in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rands and the statements have been rounded to the nearest rand.

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

### 1.1 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 and sources of estimation uncertainty include:

#### 1.1.1 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.

#### 1.1.2 Useful lives of property, plant, equipment and intangible assets

As described in accounting policies 1.6 & 1.8 the municipality depreciates/amortises its property, plant and equipment and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets become available for use. The useful lives and residual values of the assets are based on industry knowledge and are reviewed annually.

#### 1.1.3 Defined benefit plan liabilities

As described in accounting policy 1.4, the municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are post retirement health benefit obligations and long service awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in note 16 to the financial statements.

#### 1.1.4 Impairment of financial assets

The accounting policy 1.3 on financial instruments describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considers the detailed criteria of impairment of financial assets as set out in GRAP 104: Financial Instruments and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

On receivables from exchange transactions consumer debtors, an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired.

The calculation in respect of the impairment of consumer debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per the approved council policy on credit control and debt collection.

### 1.1 Significant judgements and sources of estimation uncertainty (continued)

#### 1.1.5 Revenue recognition

Accounting policy 1.13 on Revenue from Exchange Transactions and accounting policy 1.14 on Revenue from Non - Exchange Transactions describe the conditions under which revenue is recorded by the management of the municipality. In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 Revenue from Exchange Transactions and GRAP 23 Revenue from Non-Exchange Transactions and in particular, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

#### 1.1.6 Financial assets and liabilities

The classification of financial assets and liabilities, into categories, is outlined in 1.3 below and is based on managements judgement.

#### 1.1.7 Impairment of property, plant and equipment, intangible assets, heritage assets and write down of inventory

The accounting policies on impairment of non-cash generating assets 1.10 as well as inventory 1.12 describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Estimates and judgements are made relating to the impairment of property, plant and equipment, intangible assets and heritage assets and the write down of inventories to the lower of cost and net realisable values (NRV).

### 1.2 Guidelines approved not yet effective

**Accounting for Landfill Sites**

Effective date has not yet been determined.

The municipality expects that the Guideline would not have a material impact on the annual financial statements.

**The Application of Materiality to Financial Statements**

Effective date has not yet been determined.

The municipality expects that the Guideline would not have a material impact on the annual financial statements.

### 1.3 Financial instruments

**Classification**

The municipality has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
| --- | --- |
| Cash and cash equivalents | Financial asset measured at amortised cost |
| Long-term receivables from exchange transactions | Financial asset measured at amortised cost |
| Receivables from exchange transactions | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |
| Investment in municipal entities | Financial asset measured at amortised cost |
| Investments in financial assets - shares | Financial asset measured at fair value |

# ACCOUNTING POLICIES

### 1.3 Financial instruments (continued)

The municipality has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Class | Category |
|---|---|
| Borrowings | Financial liability measured at amortised cost |
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Consumer deposits | Financial liability measured at amortised cost |

The municipality measures all financial assets and financial liabilities after initial recognition using the following category:

- Financial instruments at amortised cost except for investments in financial assets measured at fair value through surplus or deficit.

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 the allowance account. The amount of the reversal is recognised in surplus or deficit.

### 1.4 Employee benefits

**Short-term employee benefits**

Remuneration to employees is recognised in the statement of financial performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual, included under current liabilities.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is included in payables from exchange transactions.

**Defined contribution plans**

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those funds. Contributions are recognised in the statement of financial performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

**Defined benefit plans**

Post-retirement health care benefits

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the medical aid fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

### 1.4 Employee benefits (continued)

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Long-service allowance

The municipality has an obligation to provide long-service allowance benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 5, 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method is used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Other defined benefit plans

The municipality contributes to various defined benefit plans on behalf of its qualifying employees. These funds are multi-employer funds (refer to Note 16 of the Annual Financial Statements for details). The contributions to fund obligations for the payment of retirement benefits are charged to surplus or deficit in the year they become payable. These defined benefit funds are actuarially valued triennially on the discounted cash method basis. Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

These contributions are recognised in the statement of financial performance when employees have rendered the service entitling them to the contribution.

### 1.5 Provisions

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. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in Surplus or Deficit as a finance cost as it occurs. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities.

# ACCOUNTING POLICIES

### 1.6 Property, plant and equipment

All property, plant and equipment are measured at cost, less accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation on assets other than land is calculated using the Straight-line method.

The depreciation rates are based on the following estimated useful lives:

| Item | Useful life |
|---|---|
| Buildings -other | 30 years |
| Buildings - permanent | 30 - 50 years |
| Plant and equipment | 2 - 15 years |
| Furniture | 10 years |
| Motor vehicles | 5 - 15 years |
| Office equipment | 5 years |
| IT equipment | 5 years |
| Infrastructure - plant and equipment | 15 years |
| Infrastructure - sewerage services | 50 years |
| Infrastructure - solid waste and cemetery services | 15 years |
| Infrastructure - water services | 20 - 50 years |

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.

### 1.7 Heritage assets

A class of heritage assets is carried at its cost less any accumulated impairment losses.

Heritage assets which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives.

The gain or loss arising from the derecognition of a heritage asset should be determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the item is derecognised.

### 1.8 Intangible assets

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

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

| Item | Useful life |
|---|---|
| Computer software, other | 3-5 years |

### 1.9 Investments financial assets - shares

An investment in a financial asset - shares is carried at fair value at each reporting date.

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

### 1.10 Impairment of non-cash-generating assets

The municipality classifies all assets held with the primary objective of generating a commercial return as cash generating assets. All other assets are classified as non-cash generating assets. The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

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

The recoverable (service) amount of a asset is the higher of its fair value less costs to sell and its value in use.

For non-cash generating assets the value in use is determined using the Depreciated Replacement Cost approach. An impairment loss is recognised immediately in Surplus or Deficit. An impairment loss is recognised for (non-)cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable (service) amounts of those assets are estimated. 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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss is recognised immediately in Surplus or Deficit.

### 1.11 Leases

**Operating leases - The municipality as a lessee**

Payments made under operating leases (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

### 1.12 Inventories

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

Inventories are measured at the lower of cost and, net realisable value or current replacement cost.

### 1.13 Revenue from exchange transactions

**Measurement**

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

**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.

Service charges relating to water are based on consumption. Meters are read on a monthly basis and when the meter is not read provisional estimates are made and based on those readings the revenue is invoiced monthly and recognised. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period.

Service charges relating to refuse are recognised on a monthly basis in arrears and on an accrual basis by applying the approved tariff to each consumer that makes use of the landfill site.

# ACCOUNTING POLICIES

### 1.13 Revenue from exchange transactions (continued)

Service charges from sanitation are raised on a monthly basis in accordance with the approved tariffs.

Other revenue from exchange transactions

Interest and rentals are recognised on a time proportion basis.

### 1.14 Revenue from non-exchange transactions

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

### 1.15 Tax

**Tax expenses**

The municipality is exempt from income tax in terms of section 10(1)(A) of the Income Tax Act.

**Value - Added Tax (VAT)**

The municipality accounts for VAT on the accrual basis, based on the approval received from the Commissioner for South African Revenue Services to an application by the Municipality. Permission has been given to remit or claim for value - added tax on the payments basis for debtors and creditors.

### 1.16 Grants in aid - transfers and subsidies

The municipality transfers money to individuals, organisations and other sectors of government from time to time.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

### 1.17 Statutory receivables

The municipality has the following categories under the ambit of statutory receivables:

-Receivables from exchange transactions - consumer debtors (Air quality licences)

-Receivables from exchange transactions -VAT

The municipality measures statutory receivables using the cost method.

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

### 1.18 Budget information

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

### 1.18 Budget information (continued)

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. Explanatory comments are provided in note 39 to the annual financial statements for a variance of 10% and greater than R500 000, providing reasons for the variance between actuals and budgets.

### 1.19 Unauthorised expenditure

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the 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

All 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 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, and disclosed exclusive of VAT.

### 1.22 Related parties

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 those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed. The municipality applies GRAP 20 for related parties.

### 1.23 Transfer of functions between entities under common control

**Assets transferred and liabilities assumed**

As of the transfer date, the municipality recognises all the assets acquired and liabilities assumed in a transfer of functions. The assets transferred and liabilities assumed are measured at their carrying amounts.

The difference between the carrying amounts of the assets transferred and the liabilities assumed is recognised in accumulated surplus or deficit.

### 1.24 Segment information

The amount of each segment item reported is the per measure reported to management. Management applies the measurement requirements per GRAP for the respective segment items and thus aligned to the entity's financial statements measurement basis.

Adjustments and eliminations made in preparing an entity’s financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit where relevant. Similarly, only those assets and liabilities that are included in the measures of the segment’s assets and segment’s liabilities are reported for that segment.

**1.24 Segment information (continued)**

Amounts allocated to reported segment surplus or deficit, assets or liabilities, are allocated on total segment expenses or total segment assets or liabilities basis. Revenues are segment specific and are not allocated.

The municipality is organised and operates in six key functional segments being community and public safety, economic and environmental services, trading services water, trading services waste water, trading services waste management and governance and administration. The segment information is outlined in note 45.

All other sources of income and expenditure is aggregated through means of the administrative function as these services are not significant to the other services of the municipality as a whole.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

## 2. Inventories

| | | |
|---|---|---|
| Consumable stores | 553 845 | 559 998 |
| Maintenance materials | 2 242 240 | 4 645 329 |
| Water - static tanks | 1 606 580 | 1 606 580 |
| Water stock | 4 013 637 | 6 277 397 |
| | **8 416 302** | **13 089 304** |

| | | |
|---|---|---|
| Inventories recognised as an expense for the period | 9 490 815 | 17 453 494 |

The comparative figure for inventories expensed has been adjusted by an amount of R9 138 215 from R8 315 280 to R17 453 494 to include water expensed. Refer to note 40 for water losses.

**2019/2020**

Donated static water tanks from the Department of Co-operative Governance and Traditional Affairs and the Department of Water and Sanitation was received as part of the KZN water sector COVID-19 integrated plan, amounting to R2 070 146.

No inventory was pledged as security.

| | | |
|---|---|---|
| Carrying value of inventories carried at net realisable value - water stock | 1 261 015 | 2 439 371 |
| Write-down of inventories - water stock | 191 867 | 1 337 455 |

## 3. Receivables from exchange transactions - consumer debtors

| | | |
|---|---|---|
| **Gross balances** | | |
| Water | 70 916 607 | 70 688 868 |
| Sanitation | 13 015 045 | 12 049 848 |
| Solid waste | 5 418 091 | 6 126 704 |
| | **89 349 743** | **88 865 420** |
| **Less: Allowance for impairment** | | |
| Water | (32 453 892) | (34 972 002) |
| Sanitation | (6 844 340) | (5 109 908) |
| Solid waste | (1 684 574) | (1 264 221) |
| | **(40 982 806)** | **(41 346 131)** |
| **Net balance** | | |
| Water | 38 462 715 | 35 716 866 |
| Sanitation | 6 170 705 | 6 939 940 |
| Solid waste | 3 733 517 | 4 862 483 |
| | **48 366 937** | **47 519 289** |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 3. Receivables from exchange transactions - consumer debtors (continued)

**Aged summary of debtors by service type**

| **Water** | | |
|---|---|---|
| Current (0 -30 days) | 7 827 916 | 10 978 821 |
| 31 - 60 days | 2 593 380 | 5 237 274 |
| 61 - 90 days | 1 653 238 | 2 282 296 |
| 91 - 120 days | 1 432 355 | 2 349 580 |
| > 120 days | 57 409 718 | 49 840 897 |
| Less: Allowance for impairment | (32 453 892) | (34 972 002) |
| | **38 462 715** | **35 716 866** |

| **Sanitation** | | |
|---|---|---|
| Current (0 -30 days) | 685 965 | 684 951 |
| 31 - 60 days | 442 424 | 439 333 |
| 61 - 90 days | 314 220 | 302 918 |
| 91 - 120 days | 270 117 | 303 889 |
| > 120 days | 11 302 319 | 10 318 757 |
| Less: Allowance for impairment | (6 844 340) | (5 109 908) |
| | **6 170 705** | **6 939 940** |

| **Solid Waste** | | |
|---|---|---|
| Current (0 -30 days) | 3 588 147 | 3 250 679 |
| 31 - 60 days | 38 333 | 935 620 |
| 61 - 90 days | 53 412 | 137 484 |
| 91 - 120 days | 34 809 | 116 675 |
| > 120 days | 1 703 390 | 1 686 246 |
| Less: Allowance for impairment | (1 684 574) | (1 264 221) |
| | **3 733 517** | **4 862 483** |

**Summary of debtors by customer classification**

| **Domestic Consumers** | | |
|---|---|---|
| Current (0 - 30 days) | 6 627 198 | 4 680 936 |
| 31 - 60 days | 1 049 755 | 1 188 996 |
| 61 - 90 days | 1 376 343 | 968 719 |
| 91 - 120 days | 1 204 561 | 1 208 396 |
| > 120 days | 56 752 528 | 55 043 062 |
| | 67 010 385 | 63 090 109 |
| Less: Allowance for impairment | (39 298 232) | (40 081 910) |
| | **27 712 153** | **23 008 199** |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 3. Receivables from exchange transactions - consumer debtors (continued)

**Industrial/Commercial Consumers**

| | | |
|---|---|---|
| Current (0 - 30 days) | 3 192 952 | 3 925 743 |
| 31 - 60 days | 924 105 | 2 808 504 |
| 61 - 90 days | 412 261 | 679 884 |
| 91 - 120 days | 316 923 | 523 171 |
| > 120 days | 7 858 043 | 6 495 142 |
| | 12 704 284 | 14 432 444 |
| Less: Allowance for impairment | (1 684 574) | (1 264 221) |
| | **11 019 710** | **13 168 223** |

**National and Provincial Government Consumers**

| | | |
|---|---|---|
| Current (0 - 30 days) | 2 281 879 | 3 042 730 |
| 31 - 60 days | 1 100 277 | 1 441 017 |
| 61 - 90 days | 232 266 | 936 611 |
| 91 - 120 days | 215 797 | 921 902 |
| > 120 days | 5 804 855 | 5 000 608 |
| | **9 635 074** | **11 342 868** |

**Total**

| | | |
|---|---|---|
| Current (0 -30 days) | 12 102 029 | 11 649 408 |
| 31 - 60 days | 3 074 137 | 5 438 517 |
| 61 - 90 days | 2 020 870 | 2 585 214 |
| 91 - 120 days | 1 737 281 | 2 653 469 |
| > 120 days | 70 415 426 | 66 538 812 |
| | 89 349 743 | 88 865 420 |
| Less: Allowance for impairment | (40 982 806) | (41 346 131) |
| | **48 366 937** | **47 519 289** |

**Less: Allowance for impairment**

| | | |
|---|---|---|
| Current (0 -30 days) | (1 607 725) | (4 586 901) |
| 31 - 60 days | (791 374) | (225 920) |
| 61 - 90 days | (664 500) | (137 484) |
| 91 - 120 days | (592 435) | (102 730) |
| > 120 days | (37 326 772) | (36 293 096) |
| | **(40 982 806)** | **(41 346 131)** |

**Reconciliation of allowance for impairment**

| | | |
|---|---|---|
| Balance at beginning of the year | (41 346 131) | (40 224 502) |
| Contributions to allowance | (7 385 165) | (6 259 592) |
| Debt impairment written off against allowance | 7 748 490 | 5 137 963 |
| | **(40 982 806)** | **(41 346 131)** |

### 3. Receivables from exchange transactions - consumer debtors (continued)

In the determination of the amounts deemed to be impaired at 30 June 2021, an analysis of each debtor is undertaken. The debtors are classified into one of three categories.

| | |
| --- | --- |
| Category A | Regular payers, government accounts, consumers with amounts owing not older than 60 days. |
| Category B | Irregular payers. |
| Category C | Indigent customers, customers with debts older than 60 days with no payments made within the last 6 months and inactive accounts. |

The value of the provision is determined for the detailed categories as follows:

| | |
| --- | --- |
| Category A | 0% of consumer's total debt. |
| Category B | 50% of consumer's debt less or equal to 180 days, 100% of consumer's debt > than 180 days. |
| Category C | 100% of consumer's total debt |

The collection rate from receivables from exchange transactions - consumer debtors as at 30 June 2021 and 30 June 2020 was 93% and 84% respectively.

**Statutory receivables**

**Transaction(s) arising from statute**

The municipality raises charges for the issuance of air quality licenses in terms of the National Environmental Management; Air Quality Act No. 39 of 2004. Upon the issuance of the license the municipality records all atmospheric licenses in the National atmospheric emissions database. These fees are received in full prior to the issuance of the license and thus no debtors are outstanding at the reporting date.

**Determination of transaction amount**

The air quality license amount is determined by the Minister of Environmental Affairs as issued through government gazette. The determination is per Gazette no. 39805 dated 11 March 2016. The revenue recognised as at 30 June 2021 and 30 June 2020 is included in note19.

**Interest or other charges levied/charged**

The municipality does not charge interest on the determined charges as all fees must be paid in full before the issuance of the license.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 4. Receivables from exchange transactions - VAT

| | | |
|---|---|---|
| VAT receivable | 107 788 339 | 84 572 080 |

King Cetshwayo Fresh Produce Market (PTY) Ltd

**2019/2020**

The Council resolved to de-establish the entity with all the assets and liabilities to be incorporated into the municipality. The culmination of entries at 14 February 2020,the date of de-registration resulted in the take on of a SARS debtor pertaining to VAT of R772 761- refer to note 36 & 43 for further VAT disclosure.

**Statutory receivables general information**

**Transaction(s) arising from statute**

The municipality raises input and output valued added tax in terms of the Value Added Tax Act no. 89 of 1991.

**Determination of transaction amount**

The municipality raises output VAT on services rendered and claims input VAT on qualifying purchases. As the municipality receives grant funding that is predominately zero rated, vat claimed against these grants thus results in the municipality being in a net refund status at year end.

### 5. Receivables from non-exchange transactions

| | | |
|---|---|---|
| Employee, councillor account and other transactions | 60 402 | 391 777 |
| Deposits | 8 518 459 | 8 384 687 |
| uMhlathuze municipality | 1 212 559 | 1 212 559 |
| King Cetshwayo Fresh Produce Market | 41 193 | 41 193 |
| Support service agent | - | 271 716 |
| Payments in advance | 2 615 732 | 2 641 466 |
| Investment interest accrual | 398 669 | 2 832 584 |
| | **12 847 014** | **15 775 982** |

King Cetshwayo Fresh Produce Market (PTY) Ltd

**2019/2020**

The Council resolved to de-establish the entity with all the assets and liabilities to be incorporated into the municipality. The culmination of entries at 14 February 2020, the date of de-registration, resulted in the take on of debtors amounting to R42 729 (subsequent debtors have paid to the value of R1 536) - refer to note 43.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
| --- | --- | --- |

### 5. Receivables from non-exchange transactions (continued)

**Statutory receivables included in receivables from exchange transactions and non-exchange transactions above are as follows:**

| | | |
| --- | --- | --- |
| Air quality license | - | - |
| Value Added Tax | 107 788 339 | 84 572 080 |
| | **107 788 339** | **84 572 080** |

**Debt impairment - exchange and non-exchange transactions**

The total debt impairment as recognised in the statement of financial performance is for receivables from exchange transactions only as an assessment has been made of the non-exchange transactions which indicates no impairment is necessary. The impairment of exchange transactions is detailed below:

| | | |
| --- | --- | --- |
| Debt impairment - receivables from exchange transactions | 7 385 165 | 6 259 592 |

### 6. Long-term receivables from exchange transactions

| | | |
| --- | --- | --- |
| Current portion of long-term receivables | **51 920** | **49 193** |
| Non-current long term-receivables | **13 789** | **66 063** |
| | 65 709 | 115 256 |

Staff home loans

Housing loans were granted to qualifying staff prior to 1 July 2004.

These loans attract interest per the fringe benefit interest rate as determined by the South African Revenue Services annually.

These loans will be repayable in accordance with the home loan agreement.

The interest received from these loans amounts to R4 852 (R10 480 - 2020) and is included in note 21, revenue from exchange transactions interest received.

| Figures in Rands | 2021 | Restated* 2020 |
| --- | --- | --- |

## 7. Cash and cash equivalents

Cash and cash equivalents consist of:

| | 2021 | 2020 |
| --- | --- | --- |
| Cash on hand | 5 800 | 6 400 |
| Cash book balances | 109 485 612 | 137 303 034 |
| Call Investment deposits | 260 000 000 | 370 000 000 |
| | **369 491 412** | **507 309 434** |

**2020/2021**

The municipality closed two satellite offices and thus the petty cash holding has decreased.

**Call investment deposits**

| Financial Institution | Maturity Date | 2021 | 2020 |
| --- | --- | --- | --- |
| ABSA | 28/07/2021 | 40 000 000 | - |
| NEDBANK | On call | 50 000 000 | - |
| NEDBANK | On call | 50 000 000 | - |
| NEDBANK | On call | 20 000 000 | - |
| STANDARD | 29/07/2021 | 100 000 000 | - |
| NEDBANK | 21/07/2020 | - | 100 000 000 |
| NEDBANK | 04/09/2020 | - | 30 000 000 |
| NEDBANK | On call | - | 200 000 000 |
| STANDARD | 30/09/2020 | - | 40 000 000 |
| | | **260 000 000** | **370 000 000** |

An average interest rate of 4.24% and 6.98% was received on investments placed for the period ending 30 June 2021 and 30 June 2020. The detailed investment register is available at the registered office of the municipality.

No cash and cash equivalents have been pledged as collateral.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**7. Cash and cash equivalents (continued)**

**The municipality had the following bank accounts**

| Account description / number | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | **30 June 2021** | **30 June 2020** | **30 June 2019** | **30 June 2021** | **30 June 2020** | **30 June 2019** |
| NEDBANK - Primary Account Account No 145 408 8885 | 105 808 468 | 125 589 075 | 115 984 681 | 105 807 700 | 125 582 503 | 115 982 109 |
| NEDBANK - Billing Account - Account No 145 408 8893 | 533 134 | 2 006 159 | 2 081 593 | 253 139 | 1 026 359 | 2 081 593 |
| NEDBANK - Expenditure Account Account No 145 408 9016 | 3 424 773 | 10 694 172 | 27 515 793 | 3 424 773 | 10 694 172 | 27 515 793 |
| **Total** | **109 766 375** | **138 289 406** | **145 582 067** | **109 485 612** | **137 303 034** | **145 579 495** |

Cash at banks earns interest on a consolidated daily balance. Detailed bank reconciliations in support of the cash book balances are available at the registered office of the municipality.

The difference in the reporting period between the cash book balance and bank statement balance for the primary account is attributable to unallocated deposits amounting to R768.

The difference in the reporting period between the cash book balance and bank statement balance for the billing account is attributable to timing differences of cash received in the bank on 30 June 2021, which is then receipted in July 2021, amounting to R279 996.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 8. Property, plant and equipment

| | June 2021 | | | June 2020 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Buildings | 75 853 287 | (24 968 133) | 50 885 154 | 75 359 448 | (23 234 905) | 52 124 543 |
| Community assets | 28 775 025 | (6 148 754) | 22 626 271 | 28 775 023 | (4 833 204) | 23 941 819 |
| Computer equipment | 15 611 031 | (10 720 585) | 4 890 446 | 15 093 294 | (9 696 462) | 5 396 832 |
| Furniture | 7 338 577 | (5 128 345) | 2 210 232 | 7 309 121 | (4 684 213) | 2 624 908 |
| Infrastructure | 3 316 217 956 | (706 003 492) | 2 610 214 464 | 3 075 465 371 | (618 659 406) | 2 456 805 965 |
| Motor vehicles | 70 503 025 | (13 077 804) | 57 425 221 | 48 807 528 | (2 396 729) | 46 410 799 |
| Office equipment | 8 626 397 | (6 553 623) | 2 072 774 | 8 936 807 | (6 400 089) | 2 536 718 |
| Plant and machinery | 3 984 883 | (2 640 094) | 1 344 789 | 3 997 389 | (2 357 030) | 1 640 359 |
| **Total** | **3 526 910 178** | **(775 240 827)** | **2 751 669 351** | **3 263 743 981** | **(672 262 038)** | **2 591 481 943** |

**Reconciliation of property, plant and equipment - June 2021**

| | Opening Balance | Additions | Additions - AUC | Disposals | Rehabilitation adjustment | Depreciation | Impairment | Total |
|---|---|---|---|---|---|---|---|---|
| Buildings | 52 124 543 | 298 487 | 195 352 | - | - | (1 733 228) | - | 50 885 154 |
| Community assets | 23 941 819 | - | - | - | - | (1 315 548) | - | 22 626 271 |
| Computer equipment | 5 396 832 | 1 097 016 | - | (91 621) | - | (1 511 781) | - | 4 890 446 |
| Furniture | 2 624 908 | 48 492 | - | (4 031) | - | (459 137) | - | 2 210 232 |
| Infrastructure | 2 456 805 965 | 18 620 271 | 195 896 649 | - | 26 235 669 | (86 085 580) | (1 258 510) | 2 610 214 464 |
| Motor vehicles | 46 410 799 | 21 695 497 | - | - | - | (10 681 075) | - | 57 425 221 |
| Office equipment | 2 536 718 | 245 292 | - | (33 511) | - | (675 725) | - | 2 072 774 |
| Plant and machinery | 1 640 359 | 91 099 | - | (39 560) | - | (347 109) | - | 1 344 789 |
| | **2 591 481 943** | **42 096 154** | **196 092 001** | **(168 723)** | **26 235 669** | **(102 809 183)** | **(1 258 510)** | **2 751 669 351** |

**8. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - June 2020 restated**

| | Opening Balance | Additions | Additions - AUC | Disposals | Transfers Entity | Donations | Rehabilitation adjustment | Depreciation | Impairment | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Buildings | 53 351 162 | - | 1 033 661 | - | - | - | - | (2 260 280) | - | 52 124 543 |
| Community assets | 19 996 816 | - | - | - | 5 000 999 | - | - | (1 055 996) | - | 23 941 819 |
| Computer equipment | 5 483 049 | 1 800 968 | - | (35 796) | 87 972 | - | - | (1 939 361) | - | 5 396 832 |
| Furniture | 2 956 841 | 164 161 | - | (6 845) | 67 332 | - | - | (556 581) | - | 2 624 908 |
| Infrastructure | 2 310 809 771 | 7 693 094 | 236 512 952 | (732 245) | - | - | (4 700 268) | (92 419 472) | (357 867) | 2 456 805 965 |
| Motor vehicles | 10 616 501 | 35 119 508 | - | (6 520 193) | - | 8 986 645 | - | (1 791 662) | - | 46 410 799 |
| Office equipment | 3 143 845 | 274 170 | - | (3 541) | 57 311 | - | - | (935 067) | - | 2 536 718 |
| Plant and machinery | 1 380 397 | 614 123 | - | (1 060) | 174 587 | - | - | (527 688) | - | 1 640 359 |
| | **2 407 738 382** | **45 666 024** | **237 546 613** | **(7 299 680)** | **5 388 201** | **8 986 645** | **(4 700 268)** | **(101 486 107)** | **(357 867)** | **2 591 481 943** |

**Prior year adjustments**

The carrying value of property, plant and equipment was restated by an amount of R1 817 305 (opening balance 2019/2020 restated by an amount of R5 264 300 from R2 402 474 082 to R2 407 738 382 ) from R2 593 299 248 to R2 591 481 943 - refer to note 46.

**(Loss)/Gain on disposal of property, plant and equipment**

| | 30 June 2021 | 30 June 2020 |
|---|---|---|
| Computer equipment | (91 621) | (35 796) |
| Plant and machinery | (39 560) | - |
| Furniture | (4 031) | (6 845) |
| Infrastructure | - | (732 245) |
| Motor vehicles | - | (6 520 193) |
| Office equipment | (33 511) | - |
| Computer software and other | (121 072) | - |
| Office equipment | - | (3 541) |
| Plant and machinery | - | (1 060) |
| Proceeds from the sale of property, plant and equipment | 2 127 672 | - |
| | **1 837 877** | **(7 299 680)** |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 8. Property, plant and equipment (continued)

**Change in estimates**

The changes in estimates are evaluated at each financial year end.

In the financial year the review of the useful lives of assets resulted in the changes in estimates and the effects of the changes are as outlined below.

| Asset Class | Change in estimate | Effect in depreciation charge |
|---|---|---|
| Buildings | R 996 | Decrease |
| Computer equipment | R 493 068 | Decrease |
| Furniture | R 99 465 | Decrease |
| Infrastructure | R 6 732 314 | Decrease |
| Motor vehicles | R 608 874 | Increase |
| Office equipment | R 250 288 | Decrease |
| Plant and machinery | R 119 214 | Decrease |
| Community assets | R 187 | Decrease |

**Other information**

**2019/2020**

King Cetshwayo Fresh Produce Market

The Council resolved to de-establish the entity with all the assets and liabilities to be incorporated into the municipality. The culmination of entries at 14 February 2020, the date of de-registration, resulted in the take on of assets amounting to R5 388 201 and R164 851 for property, plant and equipment and intangibles (Refer to note 9 and note 43).

Donations

The municipality received donated yellow plant from the Department of Co-operative Governance and Traditional Affairs amounting to R8 986 645 as part of the operation Khawuleza project.

**Property, plant and equipment in the process of being constructed or developed**

**2020/2021**

The assets under construction (infrastructure) carrying values includes delayed water infrastructure projects amounting to R231.8 m. The delays are mainly due to completed project phases awaiting the completion of additional project phases within the network and previously halted projects that now have appointed contractors continuing with the scope of work.

**2019/2020**

The assets under construction (infrastructure) carrying values includes delayed water infrastructure projects amounting to R119 m. The delays are mainly due to completed project phases awaiting the completion of additional project phases within the network and previously halted projects that now have appointed contractors continuing with the scope of work.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**8. Property, plant and equipment (continued)**

**Assets under construction 30 June 2021**

| | Included within Infrastructure | Included within Community assets | Included within operational buildings | Total |
|---|---|---|---|---|
| Opening carrying value | 856 561 840 | 935 015 | 1 379 928 | 858 876 783 |
| Additions/capital expenditure | 195 896 649 | - | 195 352 | 196 092 001 |
| Transferred to completed items | (102 659 105) | - | (675 097) | (103 334 202) |
| | **949 799 384** | **935 015** | **900 183** | **951 634 582** |

**Assets under construction 30 June 2020**

| | Included within Infrastructure | Included within Community assets | Included within operational buildings | Total |
|---|---|---|---|---|
| Opening carrying value | 831 857 776 | 935 015 | 346 267 | 833 139 058 |
| Additions/capital expenditure | 236 512 952 | - | 1 033 661 | 237 546 613 |
| Other movements [specify] | (211 808 888) | - | - | (211 808 888) |
| | **856 561 840** | **935 015** | **1 379 928** | **858 876 783** |

**Expenditure incurred to repair and maintain property, plant and equipment**

| | 30 June 2021 | 30 June 2020 |
|---|---|---|
| Community assets | 815 622 | 280 892 |
| Furniture | - | 820 |
| Infrastructure | 178 739 573 | 180 596 047 |
| Motor vehicles | 1 974 938 | 1 594 077 |
| Plant and machinery | 880 413 | 1 606 730 |
| | **182 410 546** | **184 078 566** |

The comparative figure for assets under construction have been restated by an amount of R7 463 029 from R866 339 812 to R858 876 783.

A register containing the information required by section 63 of the Municipal Finance Management Act (Act No. 56 of 2003) is available for inspection at the registered office of the municipality. Refer to appendice b for further disclosure.

As at 30 June 2021 no assets have been pledged as security nor have any restrictions been placed on any assets under the control of the municipality and additions disclosed are inclusive of accruals.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 9. Intangible assets

| | June 2021 | | | June 2020 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software and other | 13 048 388 | (6 056 492) | 6 991 896 | 11 470 642 | (3 495 552) | 7 975 090 |

**Reconciliation of intangible assets - June 2021**

| | Opening balance | Additions | Disposals | Amortisation | Total |
|---|---|---|---|---|---|
| Computer software & other | 7 975 090 | 1 775 785 | (121 072) | (2 637 907) | 6 991 896 |

**Reconciliation of intangible assets - June 2020**

| | Opening balance | Additions | Transfers Entity | Amortisation | Total |
|---|---|---|---|---|---|
| Computer software & other | 3 909 045 | 5 129 299 | 164 851 | (1 228 105) | 7 975 090 |

**Change in estimates**

The changes in estimates are evaluated at each financial year end.

In the year the review of the useful lives of assets resulted in the changes in estimates and the effects of the changes are as outlined below.

| Asset Class | Change in estimate | Effect in depreciation charge |
|---|---|---|
| Intangibles | R 602 471 | Increase |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 10. Heritage assets

| | June 2021 | | | June 2020 | | |
|---|---|---|---|---|---|---|
| | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** | **Cost / Valuation** | **Accumulated impairment losses** | **Carrying value** |
| Historical monuments | 700 000 | - | 700 000 | 700 000 | - | 700 000 |

**Reconciliation of heritage assets - June 2021**

| | **Opening balance** | **Total** |
|---|---|---|
| Historical monuments | 700 000 | 700 000 |

**Reconciliation of heritage assets - June 2020**

| | **Opening balance** | **Total** |
|---|---|---|
| Historical monuments | 700 000 | 700 000 |

**Historical monument**

The municipality commissioned a historical monument of King Cetshwayo in the 2016/2017 financial year and as such deemed this as a cultural heritage asset. No heritage assets have been pledged as security nor any restriction imposed thereon.

A register containing the information required by section 63 of the Municipal Finance Management Act (Act No. 56 of 2003) is available for inspection at the registered office of the municipality. Refer to appendice b for further disclosure.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | | | 2021 | Restated* 2020 |
|---|---|---|---|---|

## 11. Investments in municipal entities

| | June 2021 | June 2020 | | |
|---|---|---|---|---|
| uThungulu House Development Trust | - % | 100,00 % | - | - |

The carrying amounts of municipal entities are shown net of impairment losses, refer to note 38 on related parties.

uThungulu House Development Trust

**2020/2021**

The Uthungulu House Development Trust has ceased trading for what it was established. The Trust has terminated with effect from 18 December 2020. The administrators have lodged all the deregistration documentation to the Master's office and at reporting date await the confirmation of the dissolution. The final distribution of R768 494 was transferred to the municipality on 8 December 2020.

**2019/2020**

The municipality had a controlling interest in the uThungulu House Development Trust, originally established to acquire a portion of the municipal building now known as King Cetshwayo House, through a head and sub lease agreement. As a result of the final lease payment being made on 31 October 2017 and the ownership of the property vesting in the municipality, Council had taken a resolution to dissolve the uThungulu House Development Trust which is administering the building.

King Cetshwayo Fresh Produce Market (PTY) Ltd

**2019/2020**

The municipality had a controlling interest in the King Cetshwayo Fresh Produce Market (PTY) Ltd since the Entities establishment on 23 June 2015. Council resolved (KCDMC:2187/2019 - 27 June 2019) to de-establish the entity with all the assets, liabilities and staff to be incorporated into the municipality. The Entity was deregistered on 14 February 2020 per CIPC publication notice number 25-A / 201917 in terms of section 82 (3) of the Companies Act, 2008. With effect from 14 February 2020, the transfer date, the municipality has acquired functions of King Cetshwayo Fresh Produce Market (PTY) Ltd and effective on the same date discontinued the operations of the physical market. Refer to note 43 for more information.

No investments in municipal entities have been pledged as security.

| | 2021 | 2020 |
|---|---|---|
| **Movements in carrying value** | | |
| Opening balance | - | 726 877 |
| Fair value adjustment uThungulu House Development Trust | - | 34 972 |
| Transfer of investment in uThungulu House Development Trust to current assets | - | (760 849) |
| Dissolution of investment in King Cetshwayo Fresh Produce Market (PTY) Ltd | - | (1 000) |
| | **-** | **-** |

| | 2021 | 2020 |
|---|---|---|
| **Current assets** | | |
| At amortised cost | 760 849 | 760 849 |
| Fair value adjustment uThungulu House Development Trust | 7 645 | - |
| Distribution received on dissolution | (768 494) | - |
| | **-** | **760 849** |

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 12. Investments in financial assets - shares

| Name of entity | Listed / Unlisted | No. of shares June 2021 | No. of shares June 2020 | | 2021 | 2020 |
|---|---|---|---|---|---|---|
| Sanlam Limited | Listed | - | 1 136 | - | - | 66 955 |

**Movements in carrying value**

| | 2021 | 2020 |
|---|---|---|
| Opening balance | - | 88 789 |
| Fair value adjustment | - | (21 834) |
| Transfer of investment in financial assets shares to current assets | - | (66 955) |
| | **-** | **-** |

**Current assets**

| | 2021 | 2020 |
|---|---|---|
| At fair value | 66 955 | 66 955 |
| Fair value adjustment | 4 169 | - |
| Net proceeds from the sale of shares | (71 124) | - |
| | **-** | **66 955** |

The municipality was one of numerous municipalities who became incidental shareholders in Sanlam Limited as a result of a demutualisation process undertaken by Sanlam Limited in 1998.

The shares in Sanlam Limited are measured at fair value with reference to quoted prices on the Johannesburg Stock Exchange as at each reporting date and the transactions have been applied accordingly.

**2020/2021**

In the previous financial year the municipality resolved to dispose of the share holding in Sanlam, KCDMC:2468/2020 dated 15 June 2020.

The municipality received the proceeds of the sale on 20 July 2020 amounting to R71 124 (R63.00 per share net of administrative fees).

**Reconciliation of fair value adjustment in 2020/2021**

Share value as at 30 June 2020 R66 955

Share value as at 20 July 2020 R71 124

**Gain on fair value adjustment R 4 169**

**Reconciliation of fair value adjustment in 2019/2020**

Share value as at 30 June 2019 R88 789

Share value as at 30 June 2020 R66 955

**Loss on fair value adjustment ( R21 834)**

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|
| **13. Borrowings** | | |
| **At amortised cost** | | |
| ABSA Bank 12.6%<br>The loan was raised originally for the development of the King Cetshwayo House building and the Greater Mthonjaneni Bulk Water Scheme. Subsequently infrastructure for the landfill site and sewer treatment plants were constructed there from. The original loan is repayable after a 14 year period (remaining period 3 years). Interest at 12.6% is payable 6 monthly in arrears on the last day of the month. | 16 773 042 | 21 130 446 |
| INCA 11.95%<br>The loan was raised to finance extensions to King Cetshwayo House and the development of the Regional Solid Waste Site cell 2. The original loan is repayable after a 14 year period (remaining period 2 years). Interest at 11.95% is payable 6 monthly in arrears on the last day of the month. | 7 561 887 | 10 733 346 |
| | **24 334 929** | **31 863 792** |
| **Non-current liabilities** | | |
| At amortised cost | **15 849 428** | **24 334 928** |
| **Current liabilities** | | |
| At amortised cost | **8 485 501** | **7 528 864** |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

## 14. Payables exchange transactions

| | | |
|---|---|---|
| Accrued leave pay | 16 498 522 | 16 868 474 |
| Amounts received in advance | 4 922 144 | 4 057 556 |
| Trade payables King Cetshwayo Fresh Produce Market | 499 956 | 1 036 034 |
| Retention payables | 45 478 368 | 45 763 585 |
| Trade payables and accruals | 263 348 576 | 291 967 462 |
| Employee payable transactions | 8 982 239 | - |
| uMhlathuze Municipality | 37 561 | 37 561 |
| | **339 767 366** | **359 730 672** |

King Cetshwayo Fresh Produce Market (PTY) Ltd

**2019/2020**

The Council resolved to de-establish the entity with all the assets and liabilities to be incorporated into the municipality. The culmination of entries at 14 February 2020, the date of de-registration, resulted in the take on of creditors amounting to R1 074 727 ,subsequent creditors have been settled to the value of R38 693) - refer to note 43 .

Payables are settled in terms of legislation, except for retentions which are settled in terms of the contract agreement. Payments received in advance are non interest bearing.

## 15. Consumer deposits

| | | |
|---|---|---|
| Water | 10 115 897 | 10 100 052 |

Consumer deposits are paid by consumers on application for new water and sanitation connections. The deposits are repaid when the accounts are terminated.

In terms of Council's by-laws no interest is raised or paid on consumer deposits.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 16. Defined employee benefit obligations

### Defined benefit plan

### Post retirement health care benefit liability

The municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the municipality is liable for a certain portion of the medical aid contributions.

The most recent actuarial valuations of the unfunded defined benefit obligation was carried out as at 30 June 2021 by ARCH Actuarial Consulting, a member of the Actuarial Society of South Africa.

The present value of the defined benefit obligation and the related current service cost, were measured using the projected unit credit funding method. No other post retirement benefits are provided by the municipality.

The municipality subsidies monthly contributions to the following medical aid schemes:

Bonitas, Keyhealth, Hosmed, Samwumed, and LA Health.

The post employment health care benefit plan is a defined benefit plan, of which the members are made up of 306 in-service member employees and 124 in-service non-member employees as at 30 June 2021 (2020 - 325 in-service members) and 6 continuation members - retirees, widowers and orphans (2020 - 6).

| Estimated liability in respect of past services | 2020/2021 | 2019/2020 |
|---|---|---|
| In-service members (Employees) | 18 385 000 | 26 101 000 |
| In-service non-members (Employees) | 438 000 | - |
| Continuation members (Retirees, widowers and orphans) | 3 029 000 | 2 774 000 |
| | **21 852 000** | **28 875 000** |

### Long service awards

A long service award is granted to municipal employees per the policy after the completion of fixed periods of continuous service (every five years, from five years to forty five years) with the municipality, which includes their uninterrupted service with the former Local Authorities amalgamated in December 2000. The said award comprises a certain number of vacation leave days which, in accordance with the option exercised by the beneficiary employee, can be converted into an amount based on his or her basic salary applicable at the time the award became due or, alternatively, credited to his or her vacation leave accrual.

The provision represents an estimation of the awards to which employees in the service of the municipality at 30 June 2021 may become entitled to in future, based on actuarial valuation performed at that date.

The most recent actuarial valuations of the unfunded defined benefit obligation was carried out as at 30 June 2021 by ARCH Actuarial Consulting , a member of the Actuarial Society of South Africa.

The present value of the defined benefit obligation and the related current service cost, were measured using the projected unit credit funding method.

No other long service benefits are provided by the municipality.

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 16. Defined employee benefit obligations (continued)

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

| | | |
|---|---|---|
| **Carrying value** | | |
| Present value of the defined benefit obligation - post employment medical aid benefits | (21 852 000) | (28 875 000) |
| Present value of the defined benefit obligation - long service awards | (13 593 000) | (9 751 000) |
| | **(35 445 000)** | **(38 626 000)** |

| | | |
|---|---|---|
| Non-current liabilities | (33 348 000) | (37 825 000) |
| Current liabilities | (2 097 000) | (801 000) |
| | **(35 445 000)** | **(38 626 000)** |

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

| | | |
|---|---|---|
| Opening balance | 38 626 000 | 36 631 876 |
| Net expense recognised in the statement of financial performance - total included in employee related costs | (3 181 000) | 1 994 124 |
| | **35 445 000** | **38 626 000** |

**Net expense recognised in the statement of financial performance**

| | | |
|---|---|---|
| Post employment medical aid benefit - current service cost | 2 389 000 | 2 470 000 |
| Long service awards - current service cost | 1 164 000 | 1 151 000 |
| Post employment medical aid benefit - interest cost | 3 812 000 | 2 987 000 |
| Long service awards - interest cost | 933 000 | 837 000 |
| Post employment medical aid benefit - actuarial (gain) / loss | (12 973 746) | (4 256 937) |
| Long service awards - actuarial (gain) / loss | 2 793 117 | (361 018) |
| Post employment medical aid benefit - actual benefits paid | (250 254) | (193 770) |
| Long service awards - actual benefits paid | (1 048 117) | (639 151) |
| | **(3 181 000)** | **1 994 124** |

**Calculation of actuarial gains and losses**

| | | |
|---|---|---|
| Post employment medical aid benefit - actuarial (gain) | (12 973 746) | (4 256 937) |
| Long service awards - actuarial (gain) / loss | 2 793 117 | (361 018) |
| | **(10 180 629)** | **(4 617 955)** |

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

**16. Defined employee benefit obligations (continued)**

**Expected future service and interest costs**

Post employment medical aid benefits

Based on the most recent actuarial valuation as at 30 June 2021, the estimated future service cost for the 2021/2022 financial year was established to be R1 418 000, whereas the interest cost is estimated to be R2 286 000 (2020 - R2 389 000 and R3 812 000 respectively).

The municipality expects to make a contribution of R254 000 (2020 - R307 000) to the defined benefit plans during the 2021/2022 financial year. As at 30 June 2021 benefits paid amounts to R250 254.

Long service awards

Based on the most recent actuarial valuation as at 30 June 2021, the estimated future service cost for the 2021/2022 financial year was established to be R1 478 000, whereas the interest cost is estimated to be R1 210 000 (2020 - R1 164 000 and R933 000 respectively).

The municipality expects to make a contribution of R1 843 000, (2020 - R494 000 ) to the defined benefit plans during the 2021/2022 financial year. As at 30 June 2021 benefits paid amounts to R1 048 117.

**Key assumptions used**

Assumptions used at the reporting date:

| | | |
|---|---|---|
| Post employment medical aid benefits | | |
| Discount rate | 10,52 % | 12,74 % |
| Health care cost inflation rate | 7,07 % | 10,15 % |
| Net effective discount rate | 3,22 % | 2,35 % |
| Maximum subsidy inflation rate | 4,93 % | 8,15 % |
| Net-of-maximum-subsidy-inflation discount rate | 5,33 % | 4,24 % |
| Continuation of membership at retirement | 75 % | 100 % |
| Proportion of in-service non-members joining a scheme by retirement | 15 % | - |
| Long service awards | | |
| Discount rate | 9,53 % | 9,43 % |
| Normal salary increase rate | 5,87 % | 6,20 % |
| Net effective discount rate | 3,46 % | 3,04 % |
| Consumer price inflation | 4,87 % | 5,20 % |
| **Other assumptions** | | |
| Normal retirement age | 65 years | 65 years |
| Average retirement age for females and males | 63 years | 63 years |
| Mortality rate - males | SA85-90 | SA85-90 |
| Mortality rate - females | SA85-90 adjust | SA85-90 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**16. Defined employee benefit obligations (continued)**

**2020/2021**

The basis on which the discount rate and medical aid inflation rate has been determined as follows for post employment medical aid benefits:

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.

The actuaries have derived the discount rate of 10.52% per annum. This yield was obtained by calculating the duration of the liability and then taking the yield from the yield curve at that duration using an iterative process. The corresponding liability - index-linked yield is 4.22%. These rates do not reflect any adjustment for taxation, and were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 30 June 2021. These rates were calculated by using a liability-weighted average of the yields for the two components of the liability. Each component's fixed-interest and index-linked yields were taken from the respective bond yield curves at that component's duration, using an iterative process.

The health care cost Inflation rate assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 7.07% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.57%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 3.22% which derives from ((1+10.52%)/(1+7.07%))-1.

The expected inflation assumption of 5.57% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (4.22%) and those of fixed interest bonds (10.52%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: ((1+10.52%-0.50%)/(1+4.22%))-1.

The next contribution increase was assumed to occur with effect from 1 January 2022.

The expected consumer index inflation (CPI inflation) of 4.87% obtained from the differential between market yields on index-linked bonds(3.97%) consistent with the estimated terms of the liabilities and those of nominal bonds (9.53%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+9.53%-0.50%)/(1+3

The maximum subsidy inflation rate assumption is required to reflect estimated future changes in the maximum amount to which subsidies are limited. This maximum amount is set at R 4,964.04 per member per month for the year ending 30 June 2022. The annual increases to this maximum amount are periodically specified by the local government bargaining council.

Recent past annual increases balanced with sustainability needs of employees have resulted in this assumption being set at 75% of salary inflation. The future salary inflation assumption of 6.57%, was set to be 1.00% above expected CPI inflation. Thus a maximum subsidy inflation assumption of 4.93% was assumed. The next increase to the maximum subsidy was assumed to occur with effect from 1 July 2022.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**16. Defined employee benefit obligations (continued)**

The basis on which the discount rate and salary inflation has been determined as follows for long service awards:

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.

The actuaries have derived the discount rate of 9.53% per annum. This yield was obtained by calculating the duration of the liability and then taking the yield from the yield curve at that duration using an iterative process. The corresponding liability - weighted index-linked yield is 3.97%. These rates do not reflect any adjustment for taxation, and were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 30 June 2021.

The expected consumer index inflation (CPI inflation) of 4.87% obtained from the differential between market yields on index-linked bonds(3.97%) consistent with the estimated terms of the liabilities and those of nominal bonds (9.53%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+9.53%-0.50%)/(1+3.97%))-1.

Thus, a general earnings inflation rate of 5.87% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This reflects a net discount rate of 3.46%.

The salaries used in the valuation include an assumed increase on 01 July 2021 of 4%. The next salary increase was assumed to take place on 01 July 2021.

**2019/2020**

The basis on which the discount rate and medical aid inflation rate has been determined as follows for post employment medical aid benefits:

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.

The yield curves as at 30 June 2021 supplied by the Johannesburg Stock Exchange were used to determine the discount rates and inflation rates for the valuation. This was done by matching the implied duration with the yields on the curve at that duration.

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.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**16. Defined employee benefit obligations (continued)**

The basis on which the discount rate and salary inflation has been determined as follows for long service awards:

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.

The yield curves as at 30 June 2021 supplied by the Johannesburg Stock Exchange were used to determine the discount rates and inflation rates for the valuation. This was done by matching the implied duration with the yields on the curve at that duration.

The actuaries have derived the underlying future rate of consumer index inflation (CPI inflation) from the relationship between (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%. The salaries used in the valuation include an assumed increase on 01 July 2021 of 4%. The next salary increase was assumed to take place on 01 July 2021.

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

16. **Defined employee benefit obligations (continued)**

**Other assumptions**

Assumed healthcare cost trends, salary(general earnings) inflation rates and deviations from assumed level of mortality experience of the current employees and continuation members, amongst others will have a large impact on the actual cost to the municipality, with a significant effect on the amounts recognised in surplus or deficit. A change in assumed healthcare cost trends, salary inflation rates, mortality rates and withdrawal rates would have the following effects:

| | | |
|---|---|---|
| ***Increase of 1% / (Decrease of 1 %) - Health care cost trends*** | | |
| Effect on the post employment medical aid - pemab | 2 366 000 | 1 350 000 |
| Effect on the aggregate of the service cost and interest cost - pemab | 286 000 | 286 000 |
| Effect on the post employment medical aid - pemab | (2 677 000) | (1 801 000) |
| Effect on the aggregate of the service cost and interest cost - pemab | (385 000) | (385 000) |
| ***Increase of 1% / (Decrease of 1 %) - General earnings inflation rate*** | - | - |
| Effect on the long service awards - lsa | 902 000 | 767 000 |
| Effect on the aggregate of the service cost and interest cost - lsa | 179 000 | 179 000 |
| Effect on the long service awards - lsa | (811 000) | (688 000) |
| Effect on the aggregate of the service cost and interest cost - lsa | (160 000) | (160 000) |
| ***(Increase of 20%)/ Decrease of 20% in mortality rate*** | - | - |
| Effect on the post employment medical aid - pemab | - | (2 191 000) |
| Effect on the aggregate of the service cost and interest cost - pemab | - | (481 000) |
| Effect on the post employment medical aid - pemab | - | 2 654 000 |
| Effect on the aggregate of the service cost and interest cost - pemab | - | 581 000 |
| ***(Increase of 1 year/ Decrease of 1 year in post employment mortality*** | - | - |
| Effect on the post employment medical aid - pemab | (575 000) | - |
| Effect on the post employment medical aid - pemab | 567 000 | - |
| ***(Increase of x1,2/ Decrease of x0,8 in mortality rates*** | - | - |
| Effect on the aggregate of the service cost and interest cost - pemab | (481 000) | - |
| Effect on the aggregate of the service cost and interest cost - pemab | 581 000 | - |
| ***(Increase of 20%)/ Decrease of 20% in withdrawal rate*** | - | - |
| Effect on the long service awards - lsa | - | (596 000) |
| Effect on the aggregate of the service cost and interest cost - lsa | - | (149 000) |
| Effect on the long service awards - lsa | - | 670 000 |
| Effect on the aggregate of the service cost and interest cost - lsa | - | 170 000 |
| ***(Increase of 1%)/ Decrease of 1% in discount rate*** | | - |
| Effect on the post employment medical aid - pemab | (3 188 000) | - |
| Effect on the post employment medical aid - pemab | 4 050 000 | - |
| Effect on the long service awards - lsa | (834 000) | - |
| Effect on the long service awards - lsa | 944 000 | - |
| ***Increase of 2 years/(Decrease of 2 years) in average retirement age*** | - | - |
| Effect on the long service awards - lsa | 756 000 | - |
| Effect on the long service awards - lsa | (785 000) | - |
| ***Decrease of 1 year in average retirement age*** | - | - |
| Effect on the post employment medical aid - pemab | 1 976 000 | - |
| ***(Increase of x2)/Decrease of x0,5 in withdrawal rates*** | - | - |
| Effect on the long service awards - lsa | (2 137 000) | - |
| Effect on the long service awards - lsa | 1 481 000 | - |
| ***(Increase of x1,2)/(Increase of x0,8) in withdrawal rates*** | - | - |
| Effect on the aggregate of the service cost and interest cost - lsa | (149 000) | - |
| Effect on the aggregate of the service cost and interest cost - lsa | 170 000 | - |
| ***(Decrease by 10%) of membership continuation*** | - | - |
| Effect on the post employment medical aid - pemab | (2 744 000) | - |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**16. Defined employee benefit obligations (continued)**

**The history of the accrued liability is outlined below:**

| | 2020/2021 | 2019/2020 | 2018/2019 | 2017/2018 | 2016/2017 |
|---|---|---|---|---|---|
| Present value of post employment medical aid benefit | 21 852 000 | 28 875 000 | 27 868 707 | 25 963 000 | 24 392 000 |
| Present value of long service awards | 13 593 000 | 9 751 000 | 8 763 169 | 6 455 000 | 6 447 000 |

Defined benefits obligations

An amount of R26 514 315 (2020 - R26 970 504) was contributed by Council towards employment retirement funding. These contributions have been expensed.

A service benefit in the form of participation in the Zululand Joint Provident Fund (Uthungulu District Municipality Provident Fund) was in existence in previous financial years, whereby the municipality and employee co-contributed towards a group life cover. During the course of previous years, pursuant to ongoing and prior engagements with relevant stakeholders, the municipality ceased participation therein in October 2015. The fund had by 30 June 2016 initiated the appropriate liquidation processes as legislated. A liquidator was duly appointed, the fund liquidated and the draft preliminary accounts were submitted to the Financial Services Board (FSB) on 31 January 2017.

The FSB approval was received on 31 January 2017 and advertisements informing members and former members of the funds liquidation had been placed in newspapers. Benefits payments commenced at the beginning of May 2017 and during the 2018/2019 financial year an unclaimed benefit remained. The applications to transfer the unclaimed benefits from the fund to the unclaimed benefit fund have been signed by the administrator however had not yet been transferred in 2018/2019.

In the 2019/2020 financial year the liquidation process was finalised and the administrators have confirmed that there are no exits payable. Due to the fact that the fund is liquidated, no financial statements are required by the FSCA.

Municipal employees have since joined the Old Mutual Group Life scheme from 1 November 2015 which includes family cover, life insurance and group income protection. The municipality and employee each contribute to the scheme based on a percentage of the employees pensionable earnings.

| Description of Fund | Last Actuarial Valuation | Total assets R'000 | Total Liabilities R'000 |
|---|---|---|---|
| Government Employees Pension Fund | March 2020 | 1 649 365 | 1 649 365 |
| KwaZulu-Natal Joint Municipal Provident Fund | March 2020 | 4 843 047 | 4 843 047 |
| Natal Joint Municipal Pension Fund (Superannuation Fund) | March 2020 | 10 378 612 | 10 378 612 |
| Natal Joint Municipal Pension Fund (Retirement) | March 2020 | 3 597 765 | 3 597 765 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 17. Unspent transfers and subsidies

**Unspent conditional transfers and subsidies comprises of:**

| | | |
|---|---|---|
| Department of Water and Sanitation | - | 48 990 644 |
| KwaZulu-Natal Department of Co-operative Governance and Traditional Affairs | 354 199 | 3 350 401 |
| National Treasury | 167 677 | 683 119 |
| KwaZulu-Natal Department of Economic Development Tourism and Environmental Affairs | 654 148 | 700 000 |
| Public contributions | - | 70 078 |
| | **1 176 024** | **53 794 242** |

**Transfers and subsidies movement during the year**

| | | |
|---|---|---|
| Balance at the beginning of the year | 53 794 242 | 92 895 169 |
| Current year receipts | 846 806 201 | 891 669 935 |
| Revenue recognition during the year | (899 424 419) | (930 770 862) |
| | **1 176 024** | **53 794 242** |

The unspent conditional grants amounting to R1 176 024 are cash backed and included in cash and cash equivalents - refer to note 7.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 18. Provisions

**Reconciliation of provisions - June 2021**

| | Opening Balance | Additions | Adjustments change in estimates of provision | Reversed during the year | Unwinding of discount & other charges | Total |
|---|---|---|---|---|---|---|
| Performance bonus | 2 818 136 | 1 218 197 | - | (1 539 100) | - | 2 497 233 |
| Rehabilitation of refuse landfill site | 25 643 302 | - | 26 235 670 | - | 3 254 452 | 55 133 424 |
| | **28 461 438** | **1 218 197** | **26 235 670** | **(1 539 100)** | **3 254 452** | **57 630 657** |

**Reconciliation of provisions - June 2020 restated**

| | Opening Balance | Additions | Adjustments change in estimates of provision | Unwinding of discount interest | Total |
|---|---|---|---|---|---|
| Performance bonus | 1 591 182 | 1 226 954 | - | - | 2 818 136 |
| Rehabilitation of refuse landfill site | 36 200 730 | - | (15 151 748) | 4 594 320 | 25 643 302 |
| | **37 791 912** | **1 226 954** | **(15 151 748)** | **4 594 320** | **28 461 438** |

| | | |
|---|---|---|
| Non-current liabilities | **55 133 424** | **25 643 302** |
| Current liabilities | **2 497 233** | **2 818 136** |
| | 57 630 657 | 28 461 438 |

**18. Provisions (continued)**

Performance bonus

**2020/2021**

Performance bonuses are usually paid after the financial year end in arrears as the assessment of eligible employees only takes place after the year. The assessments for the 2017/2018, 2018/2019 and 2019/2020 financial years was finalised by the performance evaluation committee(PEC) on 29 July 2021 for all managers with exception of the evaluation for the Municipal Manager. Thus, the provision has been adjusted to best reflect the PEC outcome .

The payments will be effected once the Council has approved the performance evaluation committees assessments report.

Furthermore, provision has been made for the 2020/2021 financial year with exception for the Deputy Municipal Manager Technical Services and Deputy Municipal Manager Corporate Services, as the positions were vacant for the period.

**2019/2020**

Performance bonuses are usually paid after the financial year end in arrears as the assessment of eligible employees only takes place after the year. The assessments for the 2017/2018 and 2018/2019 financial year had not been finalised at 30 June 2020, thus the provision is for three financial years. Provision has been made for all managers with exception of the Municipal Manager and the Chief Operating Officer in 2018/2019, as the incumbents to the positions had not been in the employ of the municipality for a period greater than three quarters of the applicable year.

Furthermore, in the financial year no provision was made for the Deputy Municipal Manager Technical Services, as the incumbent was only appointed to the position on 1 March 2020.

Rehabilitation of refuse landfill site

**2020/2021**

The provision for rehabilitation is calculated for the existing Empangeni Landfill Site, situated on Lot 11425 Richards Bay. The site is classification is G:M:B+, which implies it is a site which may only be used for general waste between 150 to 500 tons per day. In terms of the permit as issued by the Department of Water Affairs and Forestry (DWAF) and the conditions of the permit requires the municipality to rehabilitate the site at the end of its useful life in order to obtain a closure permit.

In terms of licensing of the landfill refuse site, the provision for rehabilitation costs was R55m as at 30 June 2021 (R25,6m as at 30 June 2020) to restore the remaining portions of the old Empangeni refuse site at the end of their useful lives. Provision has been made at best estimate based on the current rehabilitation rate costs, determined by an independent professional engineer at for the current solid waste (Cell 1 & Cell 2) at the old Empangeni Site.

### 18. Provisions (continued)

The rehabilitation rate cost was escalated over the current developed waste footprint to determine the future liability and discounted using the cost of capital rate. Rehabilitation will take place as cells are fully utilised and per the site design of the cells which at the current used footprint and available airspace is expected to be approximately October 2029. The expected timing is subject to any significant changes to waste strategies of major customers. Based on the best estimate provided by the engineers, an applicable inflation rate of 8,0% (0,3% for 2019/2020) has been determined and a discount rate of 12.69% (12,69% for 2019/2020) has been utilised.

The municipality has restated the comparative figure for the provision for rehabilitation of the landfill site by an amount of R50 413 824 (opening balance for 2019/2020 - R38 954 533) from R76 057 126 to R25 643 302 - refer to note 46.

The related adjustment to the underlying asset for the rehabilitation provision had also been adjusted by R26 235 670 as at 30 June 2021 due to the annual review of the provision estimate. The adjustment for the 2019/2020 financial year resulted in a downward adjustment of R4 700 268 and the remaining adjustment of R10 451 480 was adjusted to profit and loss as the adjustment to the asset is limited to the carrying value of the asset at 30 June 2020.

**Change in estimates**

Grap 19 requires that provisions be reviewed at each period end and the following changes transpired during the financial year due to an increase (decrease in 2019/2020) in the rehabilitation of the landfill site.

in the escalation rates applied in calculating the future obligation.

**<u>2020/2021</u>**

| | | |
|---|---|---|
| Adjustment to provisions | R26 235 668 | Increase in Provision |

**<u>2019/2020</u>**

| | | |
|---|---|---|
| Adjustment to provisions | (R15 151 749) | Decrease in Provision |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

## 19. Revenue from exchange transactions - Service charges

| | | |
|---|---|---|
| Water revenue | 58 997 429 | 53 072 250 |
| Solid waste revenue | 28 859 677 | 26 091 261 |
| Sanitation revenue | 8 143 659 | 7 972 142 |
| Cemetery revenue | 473 903 | 297 240 |
| Air quality license revenue | 28 606 | 55 000 |
| | **96 503 274** | **87 487 893** |

## 20. Revenue from exchange transactions - Rental income

| | | |
|---|---|---|
| Rental income - parking | 52 000 | 53 565 |

## 21. Revenue from exchange transactions - Interest received

| | | |
|---|---|---|
| Outstanding debtors | 2 535 738 | 2 029 486 |
| Interest on long-term receivables from exchange transactions | 4 852 | 10 480 |
| Bank accounts | 5 642 140 | 11 674 956 |
| External investments | 11 812 877 | 28 395 871 |
| | **19 995 607** | **42 110 793** |

## 22. Revenue from exchange transactions - Other income

| | | |
|---|---|---|
| Insurance claim proceeds | 2 386 519 | 1 196 324 |
| Tender deposits and sale of maps | 95 916 | 142 949 |
| Bursary refunds and other | 500 896 | 31 784 |
| Administrative fees | 161 829 | 43 871 |
| | **3 145 160** | **1 414 928** |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

## 23. Revenue from non-exchange transactions - Transfers and subsidies

| | | |
|---|---|---|
| **Operating grants** | | |
| Levy Replacement Grant | 281 358 456 | 271 083 000 |
| Equitable Share | 313 238 544 | 243 857 000 |
| Department of Water and Sanitation | 4 259 907 | 37 312 167 |
| Department of Co-operative Governance and Traditional Affairs | 30 364 129 | 42 562 854 |
| Department of Public Works Grant | 5 276 000 | 6 763 000 |
| Department of Transport | 2 550 000 | 2 678 000 |
| National Treasury | 1 595 316 | 2 070 794 |
| KwaZulu-Natal Department of Economic Development Tourism and Environmental Affairs | 45 852 | - |
| KwaZulu-Natal Department of Co-operative Governance and Traditional Affairs | 2 996 202 | 199 599 |
| Public Contributions | 21 500 | 40 000 |
| | **641 705 906** | **606 566 414** |
| **Capital grants** | | |
| Department of Water and Sanitation | 132 139 737 | 195 949 302 |
| Department of Co-operative Governance and Traditional Affairs | 125 091 871 | 128 255 147 |
| National Treasury | 416 827 | - |
| Public contributions | 70 078 | - |
| | **257 718 513** | **324 204 449** |
| | **899 424 419** | **930 770 863** |

**National Government - Levy Replacement Grant (Unconditional Grant)**

| | | |
|---|---|---|
| Current-year receipts | 281 358 456 | 271 083 000 |
| Transferred to revenue | (281 358 456) | (271 083 000) |
| | - | - |

Regional council levies have been discontinued as from 30 June 2006, and the national fiscus has allocated a levy replacement grant to the district municipalities. The levy replacement grant is an interim measure to ensure the financial stability of the district municipalities while National Government is currently defining the overall fiscus streams to local government. The comparative amount was restated by R90 361 504 from R180 721 496 to R271 083 000 - refer to National Government- Equitable Share Grant (Unconditional Grant) below.

**National Government - Equitable Share Grant (Unconditional Grant)**

| | | |
|---|---|---|
| Current-year receipts | 313 238 544 | 243 857 000 |
| Transferred to revenue | (313 238 544) | (243 857 000) |
| | - | - |

In terms of the Constitution, this grant is unconditional and is used to subsidise the provision of basic services to the community. These subsidies includes 6 kilolitre free basic water per household to the entire district with the exception of KZ 282. The comparative amount was restated by (R90 361 504) from R334 218 504 to R243 857 000 - refer to National Government- Levy Replacement Grant (Unconditional Grant) above.

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 23. Revenue from non-exchange transactions - Transfers and subsidies (continued)

**Department of Water and Sanitation**

| | | |
|---|---|---|
| Balance unspent at beginning of the year: WSIG | 18 054 963 | 23 412 823 |
| Current year receipts: WSIG | 60 000 000 | 100 000 000 |
| Conditions met - transferred to revenue : WSIG | (78 054 963) | (105 357 862) |
| Balance unspent at beginning of the year: RBIG | 30 935 681 | 67 320 289 |
| Current year receipts: RBIG | 27 409 000 | 91 519 000 |
| Conditions met - transferred to revenue : RBIG | (58 344 681) | (127 903 606) |
| | **-** | **48 990 644** |

Conditions still to be met - remain liabilities (see note 17).

These grants are used for:

- water infrastructure and sanitation projects;

- drought relief and disaster relief programmes-(COVID-19 reprioritization);

- the reduction of water and sanitation backlogs;

- the sustainability of water and sanitation infrastructure;

- the upgrading and development of regional bulk water infrastructure;

- the implementation of water conservation and water demand management programmes, and

- the purchase of water tankers and tank stands.

Refer to note 44.

**Department of Co-operative Governance and Traditional Affairs**

| | | |
|---|---|---|
| Current year receipts: MIG | 155 456 000 | 170 818 000 |
| Conditions met - transferred to revenue : MIG | (155 456 000) | (170 818 000) |
| | - | - |

This grant is used for:

- the construction of water and sanitation infrastructure;

- the reduction of water and sanitation backlogs;

- the sustainability of water and sanitation infrastructure, and

- the upgrading and development of regional bulk infrastructure.

Furthermore in the 2019/2020 financial year the funder approved the reprioritization of funding to address COVID-19 related water issues. Refer to note 44.

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 23. Revenue from non-exchange transactions - Transfers and subsidies (continued)

**Department of Public Works Grant**

| | | |
|---|---|---|
| Current year receipts: EPWP | 5 276 000 | 6 763 000 |
| Conditions met - transferred to revenue : EPWP | (5 276 000) | (6 763 000) |
| | - | - |

This grant is used to expand job creation efforts in specific focus areas, where labour intensive delivery methods can be maximised.

The following areas have been identified:

- basic services infrastructure, including water and sanitation reticulation;

- parks and beautification;

- sustainable land based livelihoods, and

- social services programmes.

**Department of Transport**

| | | |
|---|---|---|
| Current year receipts: RRAMS | 2 550 000 | 2 678 000 |
| Conditions met - transferred to revenue: RRAMS | (2 550 000) | (2 678 000) |
| | - | - |

The Department of Transport grant is used to co-ordinate Rural Roads Asset Management Systems, and collect road, bridges and traffic data on municipal road networks in line with the Road Infrastructure Strategic Framework for South Africa.

**National Treasury**

| | | |
|---|---|---|
| Balance unspent at beginning of the year: LG SETA | 91 682 | 162 057 |
| Current year receipts : LG SETA | 296 701 | 381 857 |
| Conditions met - transferred to revenue: LG SETA | (220 706) | (452 232) |
| Current year receipts : FMG | 1 200 000 | 1 465 000 |
| Conditions met - transferred to revenue: FMG | (1 200 000) | (1 465 000) |
| Balance unspent at beginning of the year: Municipal disaster relief grant | 591 437 | - |
| Current year receipts : Municipal disaster relief grant | - | 745 000 |
| Conditions met - transferred to revenue - approved roll over from prior year: Municipal disaster relief grant | (591 437) | (153 563) |
| | **167 677** | **683 119** |

Conditions still to be met - remain liabilities (see note 17).

National Treasury grants are used for:

<u>Local Government Sector Education Training Authority grants</u>:

- the up-skilling of municipal staff through various training interventions

<u>Financial Management grant</u>:

- to promote and support reforms to municipal financial management,and

### 23. Revenue from non-exchange transactions - Transfers and subsidies (continued)

- the implementation of the Municipal Finance Management Act(Act no. 56 of 2003).

Municipal Disaster Relief grant:

The approved funding is meant to augment the resources of the municipality with regard to the following prioritised areas - refer to note 44:

- Sanitation;

- Decontamination of specific selected municipal spaces; Personal Protective

  Equipment, and hygiene packs; and

- Waste management.

**2020/2021**

An unspent amount of R167 677 for the LGSETA grant was received from SETA on 23 April 2021 which is after the municipal adjustments budget. The funding will be included in the 2021/2022 approved budget in order for spending to occur.

**2019/2020**

An unspent amount of R91 682 of the total unspent of R683 119 for the LGSETA grant was received from SETA in May 2020 which is after the municipal adjustments budget. The funding is included in the approved budget in order for spending to occur. In this regard the amount was brought into the 2020/2021 budget.

**KwaZulu-Natal Department of Economic Development Tourism and Environmental Affairs**

| | 2021 | 2020 |
| --- | --- | --- |
| Balance unspent at beginning of the year | 700 000 | - |
| Current year receipts : Tourism planning | - | 700 000 |
| Conditions met - transferred to revenue - approved rollover from prior year environmental | (45 852) | - |
| | **654 148** | **700 000** |

Conditions still to be met - remain liabilities (see note 17).

The grants received from the Department of Economic Development Tourism and Environmental Affairs is for the development of environmental framework plan, essential oils programmes and the facilitation of tourism development initiatives and tourism potential within the district.

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

## 23. Revenue from non-exchange transactions - Transfers and subsidies (continued)

**KwaZulu-Natal Department of Co-operative Governance and Traditional Affairs**

| | | |
|---|---|---|
| Balance unspent at beginning of the year : Spatial Development Framework | 1 000 000 | - |
| Current year receipts : Spatial Development Framework | - | 1 000 000 |
| Conditions met - transferred to revenue - approved rollover from prior year | (912 870) | - |
| Balance unspent at the beginning of the year : Planning Shared Services | 350 401 | - |
| Current year receipts : Planning Shared Services | - | 550 000 |
| Conditions met - transferred to revenue : Planning Shared Services | (286 996) | (199 599) |
| Balance unspent at beginning of the year : Feasibility study to establish the district shared legal service | 1 000 000 | 1 000 000 |
| Conditions met - transferred to revenue : Feasibility study to establish the district shared legal service | (999 961) | - |
| Balance unspent at beginning of the year :Expanded Richards Bay Industrial Development Zone | 1 000 000 | 1 000 000 |
| Conditions met - transferred to revenue : Expanded Richards Bay Industrial Development Zone | (796 375) | - |
| | **354 199** | **3 350 401** |

Conditions still to be met - remain liabilities (see note 17).

These grants are used:

- to build planning capacity within the district in order to enable effective performance of planning legislative mandates in line with the powers and functions of municipalities;

- for disaster programmes, fire fighting equipment, water service delivery planning, shared services unit and infrastructure;

- to supply portable water to specific areas per agreements;

- to provide for identified feasibility studies and to enable the development of critical nodal plans for orderly planning of current and future expansions areas in the municipality,and

- to enable the legislative review of the spatial development framework to promote orderly development in compliance with all applicable legislation.

**Public contributions**

| | | |
|---|---|---|
| Balance unspent at beginning of | 70 078 | - |
| Current-year receipts | 21 500 | 110 078 |
| Conditions met - transferred to revenue | (91 578) | (40 000) |
| | **-** | **70 078** |

Conditions still to be met - remain liabilities (see note 17).

The municipality received contributions from the public in 2019/2020 and the councillors of the municipality. These contributions were received to assist with combating the effects of the COVID 19 pandemic on the district. Refer to note 44.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

## 24. Employee related costs

| | | |
|---|---|---|
| Employee related costs - salaries and wages | 170 203 417 | 169 623 873 |
| Employee related costs - contributions for UIF, pensions and medical aid | 37 426 542 | 36 885 501 |
| Travel and vehicle allowances | 15 073 065 | 15 100 563 |
| Overtime and relief payments | 9 481 092 | 6 070 973 |
| Housing benefits and other allowances | 5 604 209 | 3 776 455 |
| Defined employee benefit obligations: post employment medical aid benefits & long service awards | (3 181 000) | 1 994 124 |
| | **234 607 325** | **233 451 489** |

**Included in the employee related costs are the salaries, allowances and benefits for the Municipal Manager and Deputy Municipal Managers, as outlined below.**

No increase was gazetted in the reporting year for these managers:

**Remuneration of Municipal Manager - MTB Ndlovu**

| | | |
|---|---|---|
| Annual remuneration | 1 785 200 | 1 770 763 |
| Backpay | - | 14 438 |
| Contributions to UIF and other | 1 931 | 1 896 |
| Travel allowance | 35 401 | 25 917 |
| | **1 822 532** | **1 813 014** |

**2019/2020**

The Council approved a yearly cost of living increase effective from 1 July 2019(KCDMC: 2198/2019 - 15 August 2019).

**Remuneration of Deputy Municipal Manager - Planning & Economic Development - Z Mbonane**

| | | |
|---|---|---|
| Annual remuneration | 1 094 547 | 1 062 653 |
| Backpay | - | 8 852 |
| Cell phone and data allowance | 33 712 | 31 783 |
| Contributions to UIF and other | 1 932 | 1 896 |
| Travel allowance | 364 849 | 365 133 |
| | **1 495 040** | **1 470 317** |

**2019/2020**

The Council approved a yearly cost of living increase effective from 1 July 2019(KCDMC: 2198/2019 - 15 August 2019).

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

## 24. Employee related costs (continued)

**Remuneration of Deputy Municipal Manager - Technical Services**

| | | |
|---|---|---|
| Annual remuneration | 256 586 | 569 423 |
| Acting allowance | 41 890 | 72 618 |
| Backpay | - | 11 803 |
| Contributions to UIF and other | 476 | 1 215 |
| Leave pay | - | 120 151 |
| | **298 952** | **775 210** |

**2020/2021**

During the year under review the position was vacant from 1 October 2020 to 30 June 2021. An acting allowance was paid to an incumbent amounting to R41 890 for the period November 2020 to February 2021.

**2019/2020**

The Council approved a yearly cost of living increase effective from 1 July 2019(KCDMC: 2198/2019 - 15 August 2019). During the year the position was vacant from 1 September 2019 to 29 February 2020. In this period an acting allowance was paid to an incumbent amounting to R72 618.

**Remuneration of Deputy Municipal Manager - Corporate Services**

| | | |
|---|---|---|
| Acting allowance | **115 381** | **103 824** |

**2020/2021**

During the year under review the position was vacant from 1 July 2020 to 30 June 2021. In this period an acting allowance was paid to an incumbent amounting to R 115 381. The position has been advertised and will undergo the recruitment process.

**2019/2020**

During the year the position was vacant for the full year. In this period an acting allowance was paid to an incumbent amounting to R103 824.

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 24. Employee related costs (continued)

**Remuneration of Deputy Municipal Manager - Community Services - TF Mnguni**

| | | |
|---|---|---|
| Annual remuneration | 937 492 | 906 283 |
| Acting allowance | - | 46 164 |
| Backpay | - | 10 344 |
| Cell phone and data allowance | 33 712 | 26 577 |
| Contributions to UIF, medical, pension and other | 175 303 | 172 812 |
| Leave pay | - | 181 250 |
| Travel allowance | 277 890 | 239 241 |
| | **1 424 397** | **1 582 671** |

**2019/2020**

The Council approved a yearly cost of living increase effective from 1 July 2019(KCDMC: 2198/2019 - 15 August 2019). In the year an acting allowance of R46 164 was paid to the incumbent for fulfilling the duties pertaining to the Deputy Municipal Manager Corporate Services Department.

**Remuneration of Chief Operating Officer - CK M'Marete**

| | | |
|---|---|---|
| Annual Remuneration | 1 316 615 | 1 305 966 |
| Backpay | - | 10 648 |
| Cell phone and data allowance | 16 856 | - |
| Contributions to UIF , pension funds and other | 238 923 | 238 009 |
| Travel allowance | 189 180 | 190 218 |
| | **1 761 574** | **1 744 841** |

**2019/2020**

The Council approved a yearly cost of living increase effective from 1 July 2019(KCDMC: 2198/2019 - 15 August 2019).

**Remuneration of Deputy Municipal Manager - Financial Services - MC Reddy**

| | | |
|---|---|---|
| Annual remuneration | 1 219 956 | 1 210 090 |
| Backpay | - | 9 866 |
| Cell phone and data allowance | 31 587 | - |
| Contributions to UIF and other | 1 932 | 1 896 |
| Travel allowance | 522 828 | 522 828 |
| | **1 776 303** | **1 744 680** |

**2019/2020**

The Council approved a yearly cost of living increase effective from 1 July 2019(KCDMC: 2198/2019 - 15 August 2019).

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

## 25. Remuneration of councillors

| | | |
|---|---|---|
| Mayor | 820 820 | 985 374 |
| Deputy Mayor | 777 820 | 640 954 |
| Speaker | 806 221 | 804 498 |
| Chief Whip | 762 731 | 817 370 |
| MPAC Chair | 706 295 | 704 795 |
| Executive Committee | 4 361 949 | 4 795 636 |
| Councillors | 2 999 481 | 3 127 422 |
| Councillors' pension contribution | 1 062 019 | 1 086 782 |
| | **12 297 336** | **12 962 831** |

### In-kind benefits

The Mayor, Deputy Mayor, Speaker, Chief Whip, MPAC Chair and Executive Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council, which is included with expenditure items in the statement of financial performance. The remuneration of councillors includes remuneration, cellular allowance, backpay, sitting allowance, pension and travel. The pension for all councillors is disclosed under the line item councillors pension contribution.

The Mayor, Deputy Mayor and Speaker have the use of a Council owned vehicle together with a driver for official duties, and security. Furthermore, personal security is provided for some Exco and Council members based on security assessments, as outlined in the Government Gazette on the Determination of upper limits of salaries, allowances and benefits of municipal councils.

Councillors receive the benefit of special risk insurance cover (SASRIA) as provided for in terms of the upper limits of salaries,allowances and benefits of the different members of municipal councils,as determined by the Minister of Cooperative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998. South African Special Risk Insurance Association (SASRIA) covers the loss of damage to a councillor's personal immovable and movable property and assets, as well as life and disability cover, for any loss or damage caused by riot, civil unrest, strike or public disorder.

The full breakdown of the councillor remuneration is disclosed under the note on related parties, note 38.

## 26. Depreciation, amortisation and impairment

| | | |
|---|---|---|
| Property, plant and equipment | 104 067 699 | 101 843 974 |
| Intangible assets | 2 637 906 | 1 228 105 |
| | **106 705 605** | **103 072 079** |

The comparative figure for depreciation, amortisation and impairment on property, plant and equipment has been restated by an amount of R631 337 from R 101 212 637 to R101 843 974, resulting in depreciation, amortisation and impairment being restated from R102 440 742 to R103 072 079 - refer to note 46.

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 27. Finance costs

| | | |
|---|---|---|
| Interest paid - borrowings | 3 721 619 | 4 580 961 |
| Provision for landfill site rehabilitation | 3 254 452 | 4 594 320 |
| | **6 976 071** | **9 175 281** |

Finance charges relate to the two annuity loans currently held with ABSA and INCA with balances of R16 773 042 (2019/2020 - R21 130 446) and R7 561 887 (2019/2020 R10 733 346) as at 30 June 2021. The comparative figure has been restated by an amount of R4 594 320 from R4 580 961 to R9 175 281 - refer to note 46.

### 28. Bulk purchases

| | | |
|---|---|---|
| Water | **129 360 773** | **75 545 639** |

**2020/2021**

In the previous financial years the municipality had lodged a dispute with the bulk water service provider regarding the tariff being applied to the municipality's account. In this regard included in the contingent liabilities for 2019/2020 was an amount of R54 540 317. The dispute raised has resulted in the City of uMhlathuze reducing the charged tariff to a lower tariff thus eliminating the contingent liability, however the municipality is still disputing the reduced tariff. A further contingent liability has been raised in respect of the charges levied by the bulk water service provider in the current financial year - refer to note 37.

### 29. Transfers and subsidies

| | | |
|---|---|---|
| **Other subsidies** | | |
| KZ 282 uMhlathuze Municipality | - | 500 000 |
| Transfers to organisations | - | 1 500 000 |
| | **-** | **2 000 000** |

### 30. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Approved and Contracted for:** | | |
| • Infrastructure | 317 947 390 | 315 325 542 |
| | | |
| **This expenditure will be financed from:** | | |
| Transfers and subsidies | 315 578 346 | 314 612 345 |
| Internal funding | 2 369 044 | 713 197 |
| | **317 947 390** | **315 325 542** |

**Total commitments**

| | | |
|---|---|---|
| Authorised capital expenditure | 317 947 390 | 315 325 542 |

The outstanding commitments relate to capital projects and other assets that have been committed by order, by the Bid Adjudication Committee and Municipal Manager prior to 30 June 2021.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

## 31. Contracted services

| | | |
|---|---|---|
| **Outsourced Services** | | |
| Burial services | 234 567 | 130 089 |
| Business and advisory | 777 270 | 612 530 |
| Call centre | - | 1 875 690 |
| Catering services | 616 125 | 3 022 625 |
| Cleaning services | 309 104 | 40 229 |
| Hygiene services | 22 130 658 | 311 033 |
| Internal auditors | 2 871 417 | 1 887 823 |
| Meter management | - | 379 096 |
| Medical services (medical health services & support) | 7 000 | 103 329 |
| Mini dumping sites | 12 310 167 | 12 267 306 |
| Professional staff | 1 926 008 | 679 367 |
| Security services | 4 053 728 | 4 706 987 |
| Transport services | 187 723 | 872 768 |
| **Consultants and Professional Services** | | |
| Business and advisory | 4 428 536 | 5 122 919 |
| Infrastructure and planning | 7 669 141 | 7 187 539 |
| Laboratory services | 60 788 | - |
| Legal cost | 19 431 447 | 17 830 250 |
| **Contractors** | | |
| Artists and performers | - | 410 420 |
| Auctioneers | 55 505 | - |
| Event promoters | - | 12 889 |
| Fire protection | - | 272 265 |
| Fire services | 50 736 | 2 500 |
| Inspection fees | 210 931 | 164 164 |
| Maintenance and operations | 143 836 276 | 189 677 567 |
| Medical Services | 122 576 | 86 859 |
| Pest control and fumigation | 4 253 | 7 800 |
| Safeguard and security | 8 924 240 | 6 527 275 |
| Sports and recreation | - | 69 430 |
| Stage and sound crew | 153 850 | 150 980 |
| Transportation | 91 825 266 | 99 586 923 |
| | **322 197 312** | **353 998 652** |

The comparative figure for maintenance and operations has been restated by an amount of R1 750 000 from R187 927 567 to R189 677 567, resulting in contracted services being restated from R352 248 652 to R353 998 652 - refer to note 46.

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

## 32. Operational Costs

| | | |
|---|---|---|
| Achievements and awards | 10 000 | 5 900 |
| Advertisements and publicity | 3 929 878 | 5 677 846 |
| Archives | 336 128 | 258 868 |
| Bank charges | 296 440 | 271 470 |
| Bursaries | 319 770 | 919 953 |
| Cleaning services | - | 6 600 |
| Courier and delivery services | 13 400 | 21 326 |
| Deeds | 12 408 | 15 659 |
| Delegations | 232 429 | 222 017 |
| Entrance fees | - | 8 400 |
| External audit fees | 3 866 122 | 4 145 622 |
| Insurance | 6 198 969 | 4 740 321 |
| Inventory consumable stores | 16 244 730 | 5 767 833 |
| Inventory - materials and supplies | 7 298 208 | 10 583 185 |
| Licenses | 5 881 812 | 5 586 884 |
| Municipal services | 42 578 905 | 40 837 359 |
| Operating leases | 13 249 994 | 15 688 681 |
| Personnel agency fees | - | 100 452 |
| Personal protective equipment | 1 228 640 | 1 092 943 |
| Postage | 513 444 | 391 270 |
| Professional and regulatory bodies fees | 2 550 788 | 2 088 921 |
| Skills development levy | 1 708 629 | 1 628 512 |
| Small tools | 62 230 | 79 180 |
| Subsistence and travelling | 1 560 700 | 6 818 280 |
| Telephone | 2 238 204 | 4 038 119 |
| Vehicle tracking services | 31 628 | 18 734 |
| | **110 363 456** | **111 014 335** |

The comparative figure for landfill site rehabilitation has been restated by an amount of R3 692 457 from R901 863 to R4 594 320 and reclassified as finance costs, resulting in operational costs being restated from R111 916 198 to R111 014 335 - refer note 18, 27 and note 46.

**Operating leases - as lessee (expense)**

| **Minimum lease payments due** | | |
|---|---|---|
| - not later than one year | 3 144 793 | 11 776 963 |
| - later than one year and not later than five years | 164 820 | 107 200 |
| | **3 309 613** | **11 884 163** |

**2020/2021**

Operating lease payments represent payments for the leasing of vehicles and commercial property by the municipality. Lease contracts for vehicles are entered into for a three year period and the lease payments are fixed for the lease period with no escalation. The current lease agreements were extended in the reporting period via section 116 of the Municipal Finance Management Act on a month to month basis not exceeding three months and the new tender is in the final stage of award.

The commercial property leases are for business operations and the lease agreements are usually for a three to four year period.

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 32. Operational Costs (continued)

**2019/2020**

Operating lease payments represent payments for the leasing of vehicles and commercial property by the municipality. Lease contracts for vehicles are entered into for a three year period and the lease payments are fixed for the lease period with no escalation. A number of the previous lease agreements were extended in the 2016/2017 financial year via section 116 of the Municipal Finance Management Act on a month to month basis. The month to month arrangement ended in 2018/2019 through a phased in delivery period of the new fleet arrangement. The new awarded service provider(KCDM/08/2018) commenced with the provision of vehicles on 1 September 2018 with a contract end date of 30 June 2021. The commercial property leases are for business operations and the lease agreements are usually for a three to four year period.

### 33. Cash generated from operations

| | 2021 | 2020 |
|---|---|---|
| Surplus | 91 077 109 | 168 579 874 |
| **Adjustments for:** | | |
| Depreciation, amortisation and impairment | 106 705 605 | 103 072 079 |
| Gain on provision | - | (10 451 481) |
| Fair value adjustments | (11 814) | (13 138) |
| Finance costs | 3 721 619 | 4 580 961 |
| Debt impairment | 7 385 165 | 6 259 592 |
| Movements in defined employee benefit obligations | (3 181 000) | 1 994 124 |
| Movements in provisions | 29 169 219 | (48 285 007) |
| Transfer of functions between entities under common control | - | (260 237) |
| Proceeds from the sale of property, plant and equipment | (2 127 670) | - |
| **Changes in working capital:** | | |
| Inventories | 4 673 002 | (2 573 963) |
| Receivables from non-exchange transactions | 2 928 968 | 859 525 |
| Receivables from exchange transactions - consumer debtors | (8 232 813) | (14 331 366) |
| Investments in municipal entities | 768 495 | 1 000 |
| Investments in financial assets - shares | 71 125 | - |
| Payables exchange transactions | (19 963 307) | 124 555 314 |
| Receivables from exchange transactions - VAT | (23 216 259) | (37 224 582) |
| Unspent transfers and subsidies | (52 618 218) | (39 100 927) |
| Consumer deposits | 15 845 | 41 652 |
| Other non-cash items: accruals | (34 426 142) | (19 066 634) |
| | **102 738 929** | **238 636 786** |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 34. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process. Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that the accounting officer records the reasons for any deviations and reports the said deviations to the next meeting of Council and includes a note to the annual financial statements. All deviations are reported to Council on a quarterly basis with a detailed schedule and reasons thereto.

The deviations greater than R 200 000 are listed individually below for the period ended 30 June 2021 in categories as follows:

-36(1)(a) i - Dispense with official procurement processes in an emergency;

-36(1)(a) ii - Dispense with official procurement processes if such goods or services are produced or available from a single provider only;

-36(1)(a) v - Dispense with official procurement processes in any other exceptional case where it is impractical or impossible to follow the official procurement processes;

-36(1)(b) - To ratify any minor breaches of the procurement process.

| Project description | Nature | R |
|---|---|---|
| **Dispense with official procurement processes in any other exceptional case where it is impractical or impossible to follow the official procurement processes** | | |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 1 562 025 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 17 636 134 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 2 300 182 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 801 633 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 679 105 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 14 784 499 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 236 142 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 1 039 411 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 2 038 787 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 1 250 169 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 2 088 589 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 867 057 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 1 471 996 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 7 652 240 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 245 719 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 723 996 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 9 971 058 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 4 013 745 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 4 315 043 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 891 560 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 839 067 |
| Repairs and maintenance to water and sanitation schemes | 36 (1)(a) v | 765 736 |
| Non-revenue water reduction project | 36 (1)(a) v | 4 935 079 |
| Supply and installation of pre-paid water meters | 36 (1)(a) v | 2 838 140 |
| Upgrade of Nkolokotho pipeline | 36 (1)(a) v | 850 000 |
| Provision of security services | 36 (1)(a) v | 4 875 507 |
| Provision of internal audit services | 36 (1)(a) v | 1 235 192 |
| Tourism strategy for KCDM | 36 (1)(a) v | 458 516 |
| Supply and delivery of tank stands | | 556 450 |
| | | 91 922 776 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**34. Deviation from supply chain management regulations (continued)**

| | | |
|---|---|---|
| **Dispense with official procurement processes in an emergency** | | - |
| Provision of water tanker service - drought relief | 36 (1)(a) i | 10 407 343 |
| Provision of water tanker service - drought relief | 36 (1)(a) i | 67 770 655 |
| Restoration of electrical infrastructure | 36 (1)(a) i | 200 900 |
| | | 78 378 899 |
| **To ratify any minor breaches of the procurement process** | | |
| Provision of panel of civil works contractors | 36 (1) (b) | 22 774 020 |
| | | 193 075 695 |
| Total deviations less than R200 000 aggregated | Various | 32 251 467 |
| | | **225 327 162** |

The deviations as at 30 June 2020 amounted to R245 630 204.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 35. Awards to close family members of persons in the service of the state

Paragraph 45 of the Municipal Finance Management Act, 2003(Act no. 56 of 2003); Municipal Supply Chain Management Regulations states that the particulars of any award more than R 2 000 made to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve(12) months must be disclosed as a note in the financial statements. The details are listed below for the period ended 30 June 2021:

| | |
|---|---|
| **Name of person** | N Reddy |
| Relation | Spouse |
| Capacity | Prosecutor - NPA Verulam Court |
| Service provider | Fana Manufacturing cc |
| Number of transactions | 16 |
| Total amount | R195 765 |
| Declaration by supplier | MBD4, Annexure d |

| | |
|---|---|
| **Name of person** | Z Buthelezi |
| Relation | Mother |
| Capacity | Librarian - uMhlathuze Local Municipality |
| Service provider | Zidane Management Trading |
| Number of transactions | 6 |
| Total amount | R147 200 |
| Declaration by supplier | MBD4, Annexure d |

| | |
|---|---|
| **Name of person** | Mrs Msomi and Miss Msomi |
| Relation | Spouse and daughter |
| Capacity | Department of Education and Ethekwini Municipality |
| Service provider | Ngubane and Co |
| Number of transactions | 11 |
| Total amount | R3 035 651 |
| Declaration by supplier | MBD4, Annexure d |

| | |
|---|---|
| **Name of person** | T Jordan |
| Relation | Spouse |
| Capacity | Deputy Manager: Development Administration uMhlathuze Local Municipality |
| Service provider | Audio computer world |
| Number of transactions | 35 |
| Total amount | R393 198 |
| Declaration by supplier | MBD4, Annexure d |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

## 36. Additional disclosure in terms of Municipal Finance Management Act No 56 of 2003

**Contributions to organised local government**

| | | |
|---|---|---|
| Current year membership fee | 2 484 288 | 2 001 827 |
| Amount paid - current year | (2 484 288) | (2 001 827) |
| | - | - |

**Audit fees**

| | | |
|---|---|---|
| Current year fee | 3 866 122 | 4 060 722 |
| Amount paid - current year | (3 866 122) | (85 978) |
| Amount paid - previous years | - | (3 974 744) |
| | - | - |

**PAYE and UIF**

| | | |
|---|---|---|
| Current year subscription / fee | 44 073 493 | 40 974 593 |
| Amount paid - current year | (44 073 493) | (40 974 593) |
| | - | - |

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Current year subscription / fee | 33 850 008 | 32 961 523 |
| Amount paid - current year | (33 850 008) | (32 961 523) |
| | - | - |

**VAT**

| | | |
|---|---|---|
| VAT receivable | **107 788 339** | **84 572 080** |

**2020/2021**

All the VAT 201 returns have been submitted by the due date throughout the 12 months. The VAT 201 returns for the months of March to June 2021 had not yet been settled as at 30 June 2021.

**2019/2020**

All VAT 201 returns have been submitted by the due date throughout the 12 months. The VAT 201 returns for the months of March to June 2020 had not yet been settled as at 30 June 2020.

**Councillors arrear consumer accounts**

At the reporting date no Councillors had arrear accounts outstanding for more than 90 days.

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 37. Contingent liabilities and assets

Contingent liabilities

| A -Legal matters potential claims | | |
|---|---|---|
| 1. Public member 1 | 46 389 | 46 389 |
| 2. Service provider 3 | 7 438 548 | 7 438 548 |
| 3. Service provider 4 | 37 551 441 | 37 551 441 |
| 4. Public member 2 | 102 858 | - |
| 5. Ex-employee 2 | 1 000 000 | - |
| 6. Service provider 5 | 193 844 | - |
| | **46 333 080** | **45 036 378** |

**1. Public member 1**

This is a claim for damages arising from a motor vehicle collision between a Council employee and a member of the public. Pleadings have been closed and the plaintiff is to set the matter down for trial.

**2. Service provider 3**

This is a claim lodged by a service provider for an alleged breach of contract by the municipality. A ILPACOSA notice has been issued however no summons has been received at reporting date.

**3. Service provider 4**

This is a Section 197 labour related claim by a service provider. The matter is currently before the Labour Appeal Court.

**4. Public member 2**

This is a claim made against the municipality as a result of a contested cession agreement. The municipality is defeating this claim.

**5. Ex-employee 2**

The employee has lodged a claim against the municipality relating to the employee's dismissal.

**6. Service provider 5**

This claim relates to a service provider demanding payment for work allegedly done, which the municipality is defending.

**7. Ex-employee 3**

The employee has lodged a claim against the municipality relating to the employee's dismissal and no amount has yet been quantified therefore.

The contingent liabilities above relates to plaintiff's claims and does not include legal fees thereto.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**37. Contingent liabilities and assets (continued)**

**B - Dispute with the Department of Water and Sanitation (DWS)**

A dispute has arisen between the municipality and the DWS with regard to charges which have been levied by the department against the municipality pertaining to raw water abstraction.

The dispute has arisen due to the department charging the municipality for the maximum available water volumes as per water license agreement, from the abstraction points within the municipality. The application of the maximum volumes occurred when no water was available due to ongoing drought or meter failures in the region. The municipality believes that it should not be charged for water that could not be delivered due to the droughts in those years. Emanating from numerous meetings with DWS, the department has requested the municipality to make a formal application to the department, requesting the reversal of all interest charges, the crediting of erroneous invoices and the substitution of corrected invoices based on actual water abstracted from the various abstraction points. The municipal readings have been forwarded to the department for the process to be concluded.

A contingent liability has been disclosed as at 30 June 2021 for the period prior 30 June 2020.

In light of the above, an accrual has been made on the basis of the application being accepted by the department.

The table below outlines the contingent liability as listed above.

| | |
|---|---|
| Total raised by DWS since dispute | R65 656 308 |
| Less: Contingent liability - Pre 2012 invoices to be credited by DWS as per motivational correspondence from Provincial Treasury | (R 7 554 689) |
| Less: Contingent liability- interest to be reversed on disputed invoices | (R13 203 078) |
| Less: Contingent liability - Charges raised without supporting documentation | (R 6 411 971) |
| Contingent liability | **R 38 486 571** |

**C - Dispute with the Bulk water service provider**

A dispute has been raised with the service provider regarding the tariff being applied to the municipality account. In this regard the municipality has paid and accrued at a rate being charged by the service provider to all other customers and raised an amount of R41 103 091 for the difference between the charged rate and the rate charged by the service provider to other customers.

The municipality has raised the dispute with the service provider accordingly.

The table below outlines the contingent liability as listed above.

| | |
|---|---|
| Total raised by service provider | R 135 050 962 |
| Revised rate applied by KCDM to invoices | R 93 947 871 |
| Contingent liability | **R 41 103 091** |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**37. Contingent liabilities and assets (continued)**

**Contingent Asset**

D - Dispute with bulk water service provider

In the prior years, the municipality had lodged a dispute with the bulk water service provider regarding the tariff being applied to the municipality account. In this regard the applicable invoices raised by the service provider have been recorded by the municipality at a lower tariff as outlined in the service provider's tariff schedule.

In the 2020/2021 financial year, the bulk water service provider has considered the merits of the dispute and has applied a reduced tariff to the municipality's accounts and passed credits thereto in June 2021. This has resulted in the previous contingent liability not been recorded this year.

Although the previous contingent liability was eliminated as at 30 June 2021, the municipality is still disputing the reduced tariff through the Intergovernmental Relations Framework Act No. 13 of 2005, through Department of Co-operative Governance and Traditional Affairs. Furthermore the municipality has requested the bulk service provider to reduce the tariff further in line with the bulk tariff charged by Water Board serving the municipality. The municipality has thus disclosed a potential contingent asset amounting to R110 256 940.

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

## 38. Related parties

Municipal entities and other relationships

| | |
|---|---|
| uThungulu House Development Trust | Refer to note 11 |
| King Cetshwayo Fresh Produce Market (Pty) Ltd | Refer to note 11 |
| Members of key management | Refer to note 24 |
| Members of council | Refer to note 25 |

**Related party balances**

| | 2021 | 2020 |
|---|---|---|
| **Investment in municipal entities** | | |
| uThungulu House Development Trust | - | 760 849 |
| **Employee secondment to King Cetshwayo Fresh Produce Market (PTY) Ltd** | | |
| Acting Chief Financial Officer | 885 733 | 1 343 061 |

The municipality seconded a senior finance manager from the municipality to act as the Chief Financial Officer from January 2019 to the conclusion of the entity.

| | 2021 | 2020 |
|---|---|---|
| **% Interest in municipal entities** | | |
| uThungulu House Development Trust | - | 100 |
| **Transfers and subsidies** | | |
| uMhlathuze Municipality | - | 500 000 |

uThungulu House Development Trust

uThungulu House Development Trust leased immovable property to the uThungulu Financing Partnership in terms of a financing lease. The original lease period expired on 31 October 2017, resulting in the end of the uThungulu Financing Partnership. The municipality had consulted Council's attorneys regarding the different options in terms of the dissolution of the Trust. Council has taken a resolution to dissolve the uThungulu House Development Trust which is administering the building. The subsequent processes were initiated and the conveyance process was concluded on 19 November 2020 (Deed of transfer no. 38286-20). Furthermore the Trust was terminated on 18 December 2020 - refer to note 11.

King Cetshwayo Fresh Produce Market (PTY) Ltd

The Council embarked on the establishment of an entity known as the King Cetshwayo Fresh Produce Market (Pty) Ltd (formerly known as the uThungulu Fresh Produce Market (Pty) Ltd, which was incorporated on 23 June 2015 and commenced activities on 1 July 2015 (previously dormant). The municipality had taken cognisance that the King Cetshwayo Fresh Produce Market (Pty) Ltd has encountered challenges around being a going concern and as such Council resolved to de-establish the entity with all the assets and liabilities to be incorporated into the municipality. The Entity was deregistered on 14 February 2020 per CIPC publication notice number 25-A / 201917 in terms of section 82 (3) of the Companies Act, 2008.

The above mentioned entities are incorporated in South Africa.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**38. Related parties (continued)**

**Remuneration of councillors**

**2020/2021**

| | Remuneration | Cellular | Sitting | Backpay | Pension | Travel | Total |
|---|---|---|---|---|---|---|---|
| Mayor - NNP Mkhulisi | 558 873 | 24 140 | - | - | 59 747 | - | 642 760 |
| Mayor - BL Phungula | 227 608 | 10 200 | - | - | 34 141 | - | 271 949 |
| Deputy Mayor - BL Phungula | 546 259 | 30 600 | - | - | 81 939 | - | 658 798 |
| Deputy Mayor - JD Vilakazi | 190 761 | 10 200 | - | - | 18 638 | - | 219 599 |
| Speaker - KER Hadebe | 761 821 | 44 400 | - | - | 75 776 | - | 881 997 |
| Chief Whip - IT Gcabashe | 713 058 | 43 500 | - | - | 72 189 | 6 173 | 834 920 |
| MPAC Chair - N Naidoo | 662 795 | 43 500 | - | - | 99 419 | - | 805 714 |
| Cllr ES Mbatha - Exco | 687 452 | 43 500 | - | - | 97 795 | 12 556 | 841 303 |
| Cllr IJ Naidoo | 731 119 | 44 400 | - | - | 54 127 | - | 829 646 |
| Cllr PC Cele | 716 127 | 40 800 | - | - | 69 120 | 19 895 | 845 942 |
| Cllr CPG Cele | 708 429 | 44 400 | - | - | 76 817 | 16 381 | 846 027 |
| Cllr JD Vilakazi | 536 583 | 33 300 | - | - | 52 352 | 21 871 | 644 106 |
| Cllr FC Xulu | 661 664 | 40 100 | - | - | 58 146 | 3 372 | 763 282 |
| Cllr NR Xulu | 103 433 | 5 374 | - | - | - | - | 108 807 |
| Cllr PP Xulu - Council | 216 088 | 32 400 | - | 5 542 | 33 134 | - | 287 164 |
| Cllr NC Mthalane | 298 922 | 43 500 | - | - | 32 413 | 3 565 | 378 400 |
| Cllr MM Ngobese | 288 117 | 43 500 | - | - | 43 218 | - | 374 835 |
| Cllr JM Mathaba | 298 922 | 40 800 | - | - | 32 413 | - | 372 135 |
| Cllr TO Ndhlela | 24 910 | 3 700 | - | - | 2 701 | - | 31 311 |
| Cllr M Mtshali | 306 620 | 43 500 | - | - | 24 716 | 11 473 | 386 309 |
| Cllr BN Buthelezi | 288 117 | 40 800 | - | - | 43 218 | - | 372 135 |
| Cllr SW Mgenge | - | - | 27 581 | - | - | - | 27 581 |
| Cllr ZD Mfusi | - | - | 29 787 | - | - | - | 29 787 |
| Cllr XM Bhengu | 58 905 | - | - | - | - | - | 58 905 |
| Cllr MG Mhlongo | - | - | 24 271 | - | - | - | 24 271 |
| Cllr SG Mkhize | - | - | 36 407 | - | - | - | 36 407 |
| Cllr M Lourens | - | - | 43 026 | - | - | - | 43 026 |
| Cllr DJ Ndimande | - | - | 26 478 | - | - | - | 26 478 |
| Cllr KD Sibiya | - | - | 29 787 | - | - | - | 29 787 |
| Cllr KE Ndlovu-Nkosi | - | - | 29 787 | - | - | - | 29 787 |
| Cllr JZ Mabuyakhulu | - | - | 24 271 | - | - | 9 708 | 33 979 |
| Cllr EM Masikane | - | - | 27 581 | - | - | - | 27 581 |
| Cllr CJ Mkhulisi Khumalo | - | - | 36 407 | - | - | - | 36 407 |
| Cllr SP Mthembu | - | - | 28 684 | - | - | - | 28 684 |
| Cllr TB Zulu | - | - | 15 445 | - | - | - | 15 445 |
| Cllr CT Dlamini | - | - | 37 510 | - | - | - | 37 510 |
| Cllr BP Simelane | - | - | 35 303 | - | - | - | 35 303 |
| Cllr NL Ngidi | - | - | 35 303 | - | - | 4 751 | 40 054 |
| Cllr MJ Xulu | - | - | 31 994 | - | - | - | 31 994 |
| Cllr NR Xulu | - | - | 25 374 | - | - | - | 25 374 |
| Cllr TF Nxumalo | 58 905 | - | - | - | - | 11 589 | 70 494 |
| Cllr SS Cele | 58 905 | - | - | - | - | - | 58 905 |
| Cllr PT Mbatha | - | - | 31 994 | - | - | - | 31 994 |
| Cllr NPN Magubane | - | - | 35 303 | - | - | 4 057 | 39 360 |
| Cllr ME Dlamini | - | - | 9 929 | - | - | - | 9 929 |
| Cllr AM Mtshali | 53 996 | - | - | 4 909 | - | - | 58 905 |
| MM Mkwanazi - Sec 81 | - | - | 1 750 | - | - | - | 1 750 |
| BS Mthembu - Sec 81 | - | - | 1 750 | - | - | - | 1 750 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**38. Related parties (continued)**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| ZD Mpungose - Sec 81 | - | - | 7 000 | - | - | - | 7 000 |
| VT Dube - Sec 81 | - | - | 1 750 | - | - | - | 1 750 |
| | **9 758 389** | **706 614** | **634 472** | **10 451** | **1 062 019** | **125 391** | **12 297 336** |

In February 2021 the Honourable Mayor NNP Mkhulisi passed away. The Honourable Deputy Mayor BL Phungula was then mandated with the mayoral responsibilities from 1 April 2021. Councillor JD Vilikazi then assumed the position of Deputy Mayor on 1 April 2021.

Furthermore outlined below is the movement in councillors from 2019/2020 to 2020/2021:

- Councillor NR Xulu became an executive committee member on 14 May 2021;
- Councillor AM Mtshali replaced the resigned councillor FM Thusi on 1 July 2020;
- Councillor ME Dlamini replaced the late councillor TB Zulu on 01 March 2021, and
- Councillor PP Xulu replaced the resigned councillor TO Ndhlela on 25 September 2020.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 38. Related parties (continued)

**2019/2020**

| | Remuneration | Cellular | Backpay | Sitting | Pension | Travel | Total |
|---|---|---|---|---|---|---|---|
| Mayor - NNP Mkhulisi | 914 299 | 40 800 | 30 275 | - | 102 424 | - | 1 087 798 |
| Deputy Mayor - BL Phungula | 588 279 | 34 000 | 18 675 | - | 91 043 | - | 731 997 |
| Speaker - KER Hadebe | 737 256 | 42 000 | 24 200 | - | 76 122 | 1 023 | 880 601 |
| Chief Whip - IT Gcabashe | 690 092 | 42 000 | 22 706 | - | 72 449 | 62 573 | 889 820 |
| MPAC Chair - N Naidoo | 641 551 | 42 000 | 21 243 | - | 99 419 | - | 804 213 |
| Cllr ES Mbatha - Exco | 665 307 | 42 000 | 21 886 | - | 98 055 | 117 000 | 944 248 |
| Cllr IJ Naidoo | 707 952 | 42 000 | 22 706 | - | 54 589 | - | 827 247 |
| Cllr PC Cele | 571 226 | 34 000 | 18 165 | - | 64 981 | 76 777 | 765 149 |
| Cllr CPG Cele | 685 723 | 42 000 | 22 706 | - | 76 818 | 62 383 | 889 630 |
| Cllr JD Vilakazi | 691 352 | 42 000 | 22 706 | - | 71 189 | 79 983 | 907 230 |
| Cllr FC Xulu | 698 308 | 42 000 | 22 706 | - | 64 233 | 64 751 | 891 998 |
| Cllr MM Ngobese - Council | 278 883 | 42 000 | 9 235 | - | 43 218 | 372 | 373 708 |
| Cllr NC Mthalane | 289 341 | 42 000 | 9 581 | - | 32 414 | 85 540 | 458 876 |
| Cllr JM Mathaba | 289 341 | 40 800 | 9 581 | - | 32 414 | - | 372 136 |
| Cllr TO Ndhela | 289 341 | 42 000 | 9 581 | - | 32 414 | 57 146 | 430 482 |
| Cllr M Mtshali | 289 968 | 42 000 | 9 581 | - | 31 786 | 57 188 | 430 523 |
| Cllr BN Buthelezi | 278 883 | 40 800 | 9 235 | - | 43 214 | 744 | 372 876 |
| Cllr SW Mgenge | - | - | 721 | 20 240 | - | - | 20 961 |
| Cllr ZD Mfusi | - | - | 636 | 19 179 | - | - | 19 815 |
| Cllr XM Bhengu | 56 828 | - | 2 077 | 1 061 | - | 33 365 | 93 331 |
| Cllr MG Mhlongo | - | - | 636 | 19 179 | - | - | 19 815 |
| Cllr SG Mkhize | - | - | 636 | 18 076 | - | - | 18 712 |
| Cllr M Lourens | - | - | 764 | 23 422 | - | 2 614 | 26 800 |
| Cllr DJ Ndimande | - | - | 552 | 18 118 | - | - | 18 670 |
| Cllr KD Sibiya | - | - | 764 | 22 362 | - | - | 23 126 |
| Cllr KE Ndlovu - Nkosi | - | - | 764 | 22 362 | - | - | 23 126 |
| Cllr JZ Mabuyakhulu | - | - | 679 | 20 240 | - | 32 452 | 53 371 |
| Cllr EM Masikane | - | - | 509 | 15 997 | - | - | 16 506 |
| Cllr CJ Mkhulisi Khumalo | - | - | 891 | 27 751 | - | 23 671 | 52 313 |
| Cllr SP Mthembu | - | - | 679 | 20 240 | - | 186 | 21 105 |
| Cllr TB Zulu | - | - | 594 | 19 222 | - | - | 19 816 |
| Cllr CT Dlamini | - | - | 721 | 22 362 | - | - | 23 083 |
| Cllr BP Simelane | - | - | 594 | 18 118 | - | - | 18 712 |
| Cllr NL Ngidi | - | - | 976 | 28 726 | - | 41 537 | 71 239 |
| Cllr MJ Xulu | - | - | 679 | 20 240 | - | - | 20 919 |
| Cllr NR Xulu | - | - | 721 | 21 343 | - | 36 738 | 58 802 |
| Cllr TF Nxumalo | 56 828 | - | 2 077 | - | - | 29 576 | 88 481 |
| Cllr SS Cele | 56 828 | - | 2 077 | - | - | 9 528 | 68 433 |
| Cllr PT Mbatha | - | - | 764 | 23 422 | - | - | 24 186 |
| Cllr NPN Magubane | - | - | 467 | 15 997 | - | 34 515 | 50 979 |
| Cllr FM Thusi | 28 320 | - | - | - | - | 9 658 | 37 978 |
| BS Mthembu - Sec 81 | - | - | - | 7 000 | - | - | 7 000 |
| VT Dube - Sec 81 | - | - | - | 5 250 | - | - | 5 250 |
| MT Zuma - Sec 81 | - | - | - | 1 750 | - | - | 1 750 |
| | **9 505 906** | **694 400** | **324 746** | **431 657** | **1 086 782** | **919 320** | **12 962 811** |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**39. Budget and Actual amount variances**

The budget has been prepared for the 2020/2021 financial year on the accrual basis of accounting in accordance with the prescripts of the Municipal Budget Regulations as well as the Municipal Finance Management Act budget circulars.

Variances between the approved and final budgets are mainly due to reallocations within the approved budget parameters allowed for by the approved virement policy of Council.

Variances greater than 10% and with a value greater than R500 000 between the final budget and actual amounts as referenced on the statement of comparison of budget and actual amounts, as reflected on page 10 to 13 have been deemed material and explanations thereto are set out below

Statement of financial performance

39.1 Rental income

The variance between the budget and actual amounts are attributable mainly to the inclusion of the right of use value incorporated into the bulk suppliers contract. As at 30 June 2021, the assessment of the right of use value had not been commissioned and no proper estimate is available, thus no revenue has been forthcoming.

39.2 Other income

The variance between the budget and actual amounts are attributable mainly to the insurance refunds expected being inclusive of claims for deceased employees and and tender deposits sales decreasing. The insurance refunds are based on estimates and depends on claims submitted.

Statement of financial position

39.3 Inventories

The variance is attributable to water stock holding which is not budgeted for as the municipality is busy with the ongoing water demand management systems implementation. A further variance is as a result of the donation of static tanks from the Department of Co-operative Governance and Traditional Affairs and the Department of Water and Sanitation as part of the KZN water sector COVID-19 plan, which had not be installed during the financial year.

39.4 Receivables from exchange transactions - VAT

The budget assumption for VAT receivable is that SARS will refund VAT claimable in a timely manner and thus no budget allocation is assigned thereto.

39.5 Receivables from non-exchange transactions

The variance is mainly attributable to the budget accommodating an anticipated increase in non-exchange transactions, and such was not realised at year end.

39.6 Cash and cash equivalents

The variance is mainly attributable to the budget based on previous trends of the municipality's cash holdings at year end, which were higher than realised as at 30 June 2021.

39.7 Intangible assets and Heritage assets

The variance in intangible assets is attributable to the municipality not budgeting for the additional costs related to licensing of the call centre. The variance in heritage asset is due to the fact that no budget was set aside for the purchase of new heritage assets or the current carrying value, while the asset register reflects the value of assets at 30 June 2021.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**39. Budget and Actual amount variances (continued)**

39.8 Other non-current assets

The variance is due to the municipality budgeting for non-current assets which did not materialise.

39.9 Borrowings

The variance is attributable to the budget on the long term portion not being adjusted to accommodate the current portion.

39.10 Payables from exchange transactions

The variance is mainly attributable to the increased payments and accruals made towards the end of the financial year which included the unauthorised expenditure incurred on bulk water.

39.11 Consumer deposits

The variance is mainly attributable to an amendment in the 2019/2020 credit control bylaws which exempts consumers from an additional deposit increase should their debts not be greater than 30 days as at review date. In this regard it is difficult to anticipate which consumers may or may not pay. Furthermore a number of consumers moved from a conventional meter to a prepaid metering system and thus no deposits for water services are raised.

39.12 Defined employee benefit obligations - current and non current

The variance for defined benefits is mainly attributable to the fact that the actuarial valuation is performed at year end and it is difficult to budget accurately for the many variables that contribute to the year end valuation.

39.13 Unspent transfers and subsidies

The municipality budgeted on fully expending grant allocations received for the year, however an amount of R1 176 024 remained unspent at 30 June 2021.

39.14 Provisions

The variance is mainly attributable to the prior year adjustment to the landfill site provision which was calculated at year end.

Cash flow statement

39.15 Receipts from consumers and other

Refer to 39.1 and 39.2 above.

39.16 Suppliers

The variance is attributable to the culmination of cash outflows for the year, which is difficult to calculate accurately at the budget stage.

39.17 Payment for property, plant , equipment and intangibles

The variance is mainly due to the underspending of internal capital budgets. VAT on capital grants is included in the budget while the actual expenditure is exclusive.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**39. Budget and Actual amount variances (continued)**

39.18 Insurance proceeds and the proceeds from the sale of property, plant and equipment

The variance is attributable to the fact that the municipality does not budget for gains as such is dependent on the items being disposed of and their condition at the time of sale.

39.19 Repayment of borrowings

The variance is due to challenges experienced with the exporting of data from the financial system onto the National Treasury standardized budget reporting templates on certain line items. A query was logged onto the National Treasury Database during the adjustment budget process.

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 40. Water distribution losses

**2020/2021**

The Department of Water and Sanitation considers any losses below that of 25 % as an acceptable norm while National Treasury circular 71 of the Municipal Finance management act 53 of 2006 prescribes a norm of 15% to 30 %. The calculated loss of 50.90% is therefore not within the acceptable norm. The appointed service provider is continuing with the project aimed at isolating the root causes ( like metering, illegal connections, leak detection and pressure reduction) in order to assist the municipality to calculate water losses and to implement water reducing loss strategies. The 50.90% represents 9 844 874 kl which equates to R123 266 453. The water loss is calculated for the entire water schemes within the District.

**2019/2020**

The Department of Water and Sanitation considers any losses below that of 25 % as an acceptable norm while National Treasury circular 71 of the Municipal Finance management act 53 of 2006 prescribes a norm of 15% to 30 %. The calculated loss of 56.60% is therefore not within the acceptable norm. The Technical Department has, during the course of 2019/2020, appointed consultants on a multi year project to address water loss management within King Cetshwayo District Municipality. This project is aimed at assisting the municipality to calculate water losses and to implement water reducing loss strategies. The 56.60% represents 9 631 344 kl which equates to R154 415 767 excl. vat.

### 41. Unauthorised, Fruitless, Wasteful and Irregular expenditure

**Unauthorised expenditure**

| | 2021 | 2020 |
|---|---|---|
| **Opening balance** | **10 475 709** | **21 501 205** |
| Less: Water management - contracted services overspending | - | (21 501 205) |
| Add: Depreciation, amortisation and impairment | - | 682 027 |
| Add: Bulk purchases | - | 9 793 682 |
| Less: Depreciation, amortisation and impairment | (682 027) | - |
| Less: Bulk water purchases | (9 793 682) | - |
| Add:Contracted services | 20 033 993 | - |
| **Closing balance** | **20 033 993** | **10 475 709** |

**2020/2021**

A) In the financial year the Council approved an adjustments budget on 25 June 2021 - KCDMC: 2972/2021 to account for the budget relating to the R10 475 709 which was recorded in 2019/2020 financial year.

B) In finalising the 2020/2021 annual financial statements and ensuring all expenditure has been recorded for, unauthorised expenditure was identified as follows:

Expenditure type level

| | |
|---|---|
| Contracted services | R20 033 993 |

Vote level

| | |
|---|---|
| Contracted maintenance | R33 521 820 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 41. Unauthorised, Fruitless, Wasteful and Irregular expenditure (continued)

On the contracted services expenditure type level the amount of unauthorised amounts to R20 033 993, however contracted services encompasses all the cost centres and as such the unauthorised on contracted maintenance vote level amounts to R33 521 820. The additional expenditure incurred is as a result of the increased vandalism and destruction of water infrastructure experienced in the year, which had to be restored to ensure service delivery to the communities affected.

In terms of Municipal Finance Management Act No. 56 of 2003 section 32, the Municipal Manager has informed the Honourable Mayor, Exco, Council, Provincial Treasury, National Treasury and Auditor General of the identified expenditure.

**2019/2020**

A) In the financial year the Council approved an adjustments budget on 15 June 2020 KCDMC: 2477/2020 to account for budget relating to the R21 501 205 which was recorded in 2018/2019 at an expenditure type level of contracted services (R18 689 877 expenditure recorded at a vote level and R40 460 289 expenditure recorded at an account level).

B)In finalising the 2019/2020 annual financial statements and ensuring all expenditure has been accounted for, unauthorised expenditure was identified amounting to R682 027, and R9 793 682 for depreciation, amortization and impairment and bulk purchases respectively; recorded at an expenditure type level.

In terms of Municipal Finance Management Act No. 56 of 2003 section 32, the municipal manager has informed the Honourable Mayor, Exco, Council, Provincial Treasury, National Treasury and Auditor General of the identified expenditure.

**Fruitless and wasteful expenditure**

| | | |
|---|---|---|
| Opening Balance | 14 685 | - |
| Eskom - interest charges | - | 12 578 |
| City of uMhlathuze - penalty charges | - | 2 107 |
| Reversal of City of uMhlathuze - penalty charges | (2 107) | - |
| Middledrift SSA 5 Phase 2: Construction of Reticulation within SSA 5 of Middledrift Phase 2 | 860 201 | - |
| | **872 779** | **14 685** |

**2020/2021**

City of uMhlathuze

The query between the City of uMhlathuze and King Cetshwayo District Municipality has been resolved and the charges raised have been reversed in June 2021.

ESKOM

Eskom have confirmed that the disputes raised by the municipality are under investigation and at the reporting date no outcome had been finalised.

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 41. Unauthorised, Fruitless, Wasteful and Irregular expenditure (continued)

Middledrift SSA 5 Phase 2: Construction of Reticulation within SSA 5 of Middledrift Phase 2

The municipality has incurred costs relating to standing time delays charged by the contractor on this project for the sod turning ceremony and specifications in relation to the prepaid meters.

**2019/2020**

Eskom has charged the municipality interest for late payments which the municipality is disputing. Eskom ,unfortunately, disconnects services where accounts are not settled in full which would have a severe negative impact of the municipality's ability to deliver services, as communities cannot be without their basic human rights. The municipality has raised objections on the interest charged and it is anticipated that the charges will be reversed.

The City of uMhlathuze has raised penalty charges relating to a query raised by the City, with regards to repairs done due to a contractor causing damages to City infrastructure while constructing a KCDM project. The query is being resolved between the City, the Contractor and Technical Services. Once resolved, it is anticipated that the penalty charges will be credited to the Municipality.

**Irregular expenditure**

| | | |
|---|---|---|
| Opening balance - overtime expenditure | 5 066 537 | 5 066 537 |
| Opening balance - non-compliance with MFMA | 2 290 958 | 1 609 561 |
| Add: non-compliance with MFMA | - | 681 397 |
| Less: written off non-compliance with MFMA | (2 290 958) | - |
| Add: non-compliance with Municipal Supply Chain Regulations, Regulation 22(1) | - | 29 007 447 |
| Opening balance: non-compliance with Municipal Supply Chain Regulations, Regulation 22(1) | 29 007 447 | - |
| Add: non-compliance with Municipal Supply Chain Regulations, Regulation 22(1) incurred in 2020/2021 - prior year contract | 5 007 032 | - |
| Less: written off non-compliance with Municipal Supply Chain Regulations, Regulation 22(1) - opening balance | (29 007 447) | - |
| Less: written off non-compliance with Municipal Supply Chain Regulations, Regulation 22(1) - current year expenditure | (5 007 032) | - |
| Add: non-compliance with MFMA section 1(e) | - | 27 837 251 |
| Opening balance - non-compliance with MFMA section 1(e) | 27 837 251 | - |
| Less: written off non-compliance with MFMA section 1(e) | (27 837 251) | - |
| Add: non-compliance with MFMA section 1(e) | - | 34 975 289 |
| Opening balance: non-compliance with MFMA section 1(e) | 34 975 289 | - |
| Less: written off non-compliance with MFMA section 1(e) | (34 975 289) | - |
| Add: non-compliance with Municipal Supply Chain Regulations, Regulation 36(1)a | - | 12 461 212 |
| Opening balance: non-compliance with Municipal Supply Chain Regulations, Regulation 36(1)a | 12 461 212 | - |
| Add: non-compliance with Municipal Supply Chain Regulations, Regulation 36(1)a incurred in 2020/2021 - prior year contract | 20 289 147 | - |
| Less: written off non-compliance with Municipal Supply Chain Regulations, Regulation 36(1)a - opening balance | (12 461 212) | - |
| Less: written off non-compliance with Municipal Supply Chain Regulations, Regulation 36(1)a - current year expenditure | (20 289 147) | - |
| Add: non-compliance with Municipal Supply Chain Regulations, Regulation 36 | - | 19 723 875 |
| Opening balance: non-compliance with Municipal Supply Chain Regulations, Regulation 36 | 19 723 875 | - |

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|
| **41. Unauthorised, Fruitless, Wasteful and Irregular expenditure (continued)** | | |
| Add: non-compliance with Municipal Supply Chain Regulations, Regulation 36 - incurred in 2020/2021 - prior year contract | 2 804 903 | - |
| Less: written off non-compliance with Municipal Supply Chain Regulations, Regulation 36 - opening balance | (19 723 875) | - |
| Less: written off non-compliance with Municipal Supply Chain Regulations, Regulation 36 - current year | (2 804 903) | - |
| Add: non-compliance with Basic Condition of Employment Act , section 10 | 2 601 163 | - |
| Add: non-compliance with Basic Condition of Employment Act, section 12 | 167 343 | - |
| | **7 835 043** | **131 362 569** |

Overtime expenditure - R5 066 537

Subsequent to the matter been reported to Council on 15 April 2019(KCDMC: 1881/2019), the matter was deliberated on at the municipal public accounts committee on 22 August 2019 (KCDMC: 89/2019). The MPAC noted the resolutions of Council, wherein the expenditure was condoned as necessary for the employees to work the time and there was no intention to prejudice Council. The MPAC further endorsed an investigation and the said report is still to serve through the applicable structures.

Non-compliance with Municipal Finance Management Act - R2 290 958

The expenditure emanates from a transaction which was entered into in the 2018/2019(R1 609 561) financial year and concluded in the 2019/2020 (R681 397) financial year upon being identified as irregular expenditure in the course of the 2018/2019 audit. The municipality commissioned an investigation as outlined in section 32 of the MFMA and the amounts have been certified as irrecoverable and written off per Council resolution KCDMC: 2764/2021, dated 17 February 2021.

Non-compliance with Municipal Supply Chain Regulations, Regulation 22(1) - R29 007 447 and R5 007 032

The expenditure emanated from an award that was made wherein a bid was advertised from 07/06/2018 to 06/07/2018 being 29.5 days. The municipality commissioned an investigation as outlined in section 32 of the MFMA and the amounts have been certified as irrecoverable and written off per Council resolution KCDMC: 2849/2021, dated 19 March 2021.

Non-compliance with MFMA section 1(e) - R27 837 251 and R34 975 289

The municipality had identified expenditure in 2019/2020 financial year relating to section 1(e) of the MFMA, in that portions of conditional grant allocations from National Government detailed below, have been used for a purpose other than that specified in the relevant conditional grant framework. The municipality commissioned an investigation as outlined in section 32 of the MFMA and the amounts have been certified as irrecoverable and written off per Council resolution KCDMC: 2849/2021 ,dated 19 March 2021.

**41. Unauthorised, Fruitless, Wasteful and Irregular expenditure (continued)**

*Water and Sanitation Infrastructure Grant*

The funding request for water supply through water tankers which was beyond the 2019/2020 provisions of the WSIG grant framework had not considered that COVID-19 expenditure may not be capital in nature due to community demands and the inherent nature of the District. In this regard the Council had taken the decision to reprioritise R32 012 839 incl vat (R27 837 251 excl vat) of the WSIG grant funding to cart water to the communities effected by the COVID-19 pandemic (KCDMC: 2480/2020 and KCDMC: 2624/2020).

*Regional Bulk Infrastructure Grant*

The Council had in 2019/2020 also considered the re-purposing of an amount of R40 221 585 incl vat(R34 975 289 excl vat) of the RBIG to the procurement of water tankers. The re-purposing of the grant was considered taking into account the basic needs of the communities during the COVID-19 pandemic and the impact of the pandemic on the health of the Districts citizens. The Council concluded that the re-purposing was in the best interest of the communities ensuring access to water and sanitation services in a sustainable manner (KCDMC:2544/2020).

<u>Non-compliance with Municipal Supply Chain Regulations, Regulation 36(1)a - R12 461 212 and R20 289 146</u>

During the 2019/2020 financial year transactions pertaining to the SCM processes had been identified as irregular expenditure. The municipality commissioned an investigation as outlined in section 32 of the MFMA and the amounts have been certified as irrecoverable and written off per Council resolution KCDMC: 2849/2021 ,dated 19 March 2021.

<u>Non-compliance with Municipal Supply Chain Regulations, Regulation 36 - R19 723 875 and R2 804 903</u>

During the 2019/2020 financial year transactions pertaining to the SCM processes had been identified as irregular expenditure. The municipality commissioned an investigation as outlined in section 32 of the MFMA and the amounts have been certified as irrecoverable and written off per Council resolution KCDMC: 2849/2021, dated 19 March 2021.

The municipality has applied to National Treasury for condonation of the above mentioned non-complaince in terms of section 170 of the MFMA and the municipality is awaiting such.

<u>Non-compliance with the Basic Conditions of Employment Act No. 75 of 1997 - R2 768 506</u>

During the 2020/2021 financial year, irregular expenditure amounting to R2 768 506, resulting from the payment of overtime to employees who worked in excess of 40 hrs per month and those over the threshold, has been incurred. The municipality will follow the process as outlined in MFMA section 32(2)(b) and Circular 68.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 42. Risk management

### Capital risk management

The municipality's objectives when managing capital are to safe guard the municipality's ability to continue as a going concern in order to provide returns and benefits for all stakeholders, while delivering sustainable services and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt , which includes the long term liabilities as disclosed in note 13, cash and cash equivalents disclosed in note 7 and equity as disclosed in the statement of financial position.

### Financial risk management

Financial Risk Management Objectives

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities.

The municipality’s financial services function monitors and manages the financial risks relating to the operation of the municipality. These risks include credit risk and liquidity risk.

### Liquidity risk

The municipality’s liquidity risk pertains to whether funds are available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit obligations. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored. The trade payables under payables from exchange transactions under note 14 are paid in accordance with Council's creditors, councillors and staff payment policy, being within thirty days of the date of receipt of all correct supporting documents, invoices and statement.

The liquidity ratio is outlined below:

| | | |
|---|---|---|
| Current assets | 546 961 924 | 669 143 086 |
| Current liabilities | 364 139 022 | 434 772 966 |
| Liquidity ratio | 1,501 | 1,54:1 |

| **At 30 June 2021** | **Carrying value** | **Less than 1 year** | **Between 1 and 2 years** | **Between 2 and 4 years** |
|---|---|---|---|---|
| Borrowings | 24 334 930 | 11 250 482 | 11 250 482 | 6 887 349 |

| **At 30 June 2020** | **Carrying value** | **Less than 1 year** | **Between 1 and 2 years** | **Between 2 and 5 years** |
|---|---|---|---|---|
| Borrowings | 31 863 792 | 11 250 482 | 11 250 482 | 18 137 831 |

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

## 42. Risk management (continued)

### Controlling entity

The gearing ratio as at June 2021 and June 2020 respectively were as follows:

| | | |
|---|---|---|
| **Total borrowings** | | |
| Long term liabilities | 24 334 929 | 31 863 792 |
| Less: Cash and cash equivalents | 369 491 412 | 507 309 434 |
| Net cash | (345 156 483) | (475 445 642) |
| Total equity | 2 837 867 087 | 2 746 789 986 |
| Total capital | **2 492 710 604** | **2 271 344 344** |
| | 0,98% | 1,40% |

### Credit risk

Credit risk consists mainly of cash investment deposits, cash equivalents, receivables from exchange and non-exchange transactions. The municipality manages credit risk in its investing activities by only dealing with well established financial institutions of high credit standing and by spreading its exposure over a range of such institutions in accordance with its approved cash banking and investment policy.

Credit risk pertaining to consumer debtors comprise of mainly water, sanitation and refuse users, dispersed across different industries and geographical areas. Ongoing evaluations are performed on the financial condition of these debtors and have been presented in these financial statements net of a provision for impairment. In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", which ever procedure is applicable in terms of Council's credit control and debt collection policy. Furthermore the consumer debtors neither past due nor impaired are considered in the impairment assessment at year end as collectible debts as they are further secured by deposits held.

The carrying amount of consumer debtors whose terms have been re-negotiated through an acknowledgment of debt whereby payment terms were extended amounts to R6 821 968 (2020 - R8 076 887).

Certain categories of consumer debtors are recorded as past due, however such debtors are not impaired in compliance with the prescripts of Councils credit control policy which does not permit the impairment of such classes of consumers. Inclusive hereto are debtors within the different organs of State. The disclosure and analysis hereto is reflected in the annual financial statements under note 3 receivables from exchange transactions consumer debtors (National and Provincial Government consumers) and note 5 receivables from non-exchange transactions (uMhlathuze Municipality).

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties have similar characteristics. The credit risk on liquid funds is limited because the counterparties are banks with credit ratings. The carrying amount of financial assets recorded in the annual financial statements which is net of impairment losses, represents the municipality's maximum exposure to credit risk.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

## 42. Risk management (continued)

Financial assets exposed to credit risk at 30 June 2021 and 30 June 2020 end were as follows:

| | | |
|---|---|---|
| Investments | 260 000 000 | 370 000 000 |
| Cash and cash equivalents | 109 491 412 | 137 309 434 |
| Receivables from exchange transactions - consumer debtors | 48 366 937 | 47 519 289 |
| Receivables from exchange transactions - VAT | 107 788 339 | 84 572 080 |
| Receivables from non-exchange transactions | 12 847 014 | 15 775 982 |
| Receivables from exchange transactions - long term | 65 709 | 115 256 |
| Investments in municipal entities | - | 760 849 |
| Investments in financial assets - shares | - | 66 955 |
| Maximum exposure to credit risk | 538 535 628 | 656 119 845 |

**Interest rate risk**

The municipality limits its exposure to interest rate fluctuations by only dealing with well-established institutions and opting for fixed interest rates rather than variable rates.

## 43. Transfer of functions between entities under common control

**Transfer of functions between entities under common control occurring during the current reporting period**

**20192020**

Entities involved in the transfer of functions were:

King Cetshwayo Fresh Produce Market (PTY) Ltd, and

King Cetshwayo District Municipality.

The following functions were transferred:

The expansion of an economic base of the District through the establishment of sustainable and wide ranging employment opportunities by strengthening and diversifying of economic sectors. The diversification of crop production by supporting emerging farmers in the growth of vegetable crops. The support of emerging farmers with inputs as well as technical and financial mentorship.

The transfer was due to the loss of a primary contract with the Department of Education which resulted in going concern challenges and the intention of Council to establish a District Development Agency in the future, which will continue with the functions of the King Cetshwayo Fresh Produce Market (PTY) Ltd, amongst other developmental goals.

The transfer of function took place during the 2019/2020 financial year.

The effective date of the transfer was Friday, 14 February 2020.

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

| Figures in Rands | 2021 | Restated* 2020 |
|---|---|---|

### 43. Transfer of functions between entities under common control (continued)

**Carrying amount of the assets acquired and liabilities assumed**

| | | |
|---|---|---|
| **Assets acquired** | | |
| Property, plant and equipment | - | 5 388 200 |
| Intangibles | - | 164 851 |
| Receivables from exchange transactions - VAT | - | 772 761 |
| Receivables from non-exchange transactions | - | 42 729 |
| Cash and cash equivalents | - | 1 141 717 |
| | **-** | **7 510 258** |
| **Liabilities assumed** | | |
| Payables from exchange transactions | - | 1 074 727 |
| Difference between carrying amounts of the assets acquired and liabilities assumed | - | 6 435 531 |

**Other information**

In terms of GRAP 105 paragraph 58, the following are not applicable:

No consideration was paid to the transferor and no adjustments were required in terms of the basis of accounting as both entities apply the GRAP framework;

No contingent liabilities or contingent assets have been identified, and

No revenue and expenditure attributable to the transfer of functions subsequent to the transfer.

### 44. COVID-19

| | 2021 | 2020 |
|---|---|---|
| Repairs & maintenance of water infrastructure - COGTA -refer to note 23 | - | 34 687 240 |
| Uniform & protective clothing, cleaning services & cleaning supplies - National Treasury MDRG - refer to note 23 | 70 261 | 146 488 |
| Cleaning services & cleaning supplies - Public Contributions - refer to note 23 | - | 40 000 |
| Delivery of water through tankers - DWS - refer to note 23 | - | 27 837 252 |
| Purchase of water tankers and tank stands - DWS - refer to note 23 | 14 851 804 | 34 975 289 |
| Uniform & protective clothing, cleaning services & cleaning supplies and water tanks/stands - refer to note 8, 30 & 31 | 792 878 | 960 485 |
| Refurbishment of leachate line and berm - National Treasury MDRG - refer to note 23 | 362 458 | - |
| | **16 077 401** | **98 646 754** |

**2020/2021**

As outline above, the municipality has incurred expenditure as a result of the ongoing global pandemic of COVID - 19. The expenditure was incurred in the main for the supply of protective clothing, cleaning services supplies, purchase of water tankers ,tank stands and sanitising of work spaces and are reflected exclusive of VAT.

The municipality applied to the Department of Water and Sanitation for WSIG grant funding to be re-purposed to accommodate the supply, installation of galvanised steel tank stands, static tanks and the purchase of water tankers for interim emergency water services.

Other than the impairment related to receivables from exchange transactions consumer debtors, no known significant impacts/impairments have been assessed for assets and liabilities.

As part of the deviations disclosed in note 34, two(2) deviations amounting to R102 945 related to COVID-19.

**2019/2020**

A nationwide lockdown came into effect from 27 March 2020. The municipality has assessed the impact of COVID-19 on the balances at reporting date in the annual financial statements. The primary impact was that of the delayed and non payment by consumers for water and sanitation services. In this regard the municipality has reviewed each debtor at year end and made an impairment which has been disclosed under note 3. The impairment has thus taken into account the impact of COVID on the outstanding debtors.

Furthermore capital projects under construction were temporarily halted during the months of April 2020 and May 2020 as the appointed contractors adhered to the regulations.

Other than the impairment related to receivables from exchange transactions consumer debtors, no known significant impacts/impairments have been assessed for assets and liabilities.

The municipality in line with the issued circulars and regulations from National Treasury approved an adjustments budget in June 2020 to accommodate expenditure related to COVID-19. The municipality has applied the COVID-19 regulations for procurement.

As outline above, the municipality has incurred expenditure as a result of the global pandemic of COVID - 19. The expenditure was incurred in the main to effect repairs to and maintenance of water infrastructure, the supply of protective clothing, cleaning services, supplies and sanitising of work spaces and are reflected exclusive of VAT.

As part of the deviations disclosed in note 34, seven(7) deviations amounting to R992 936 related to COVID-19.

## 45. Segment information

### General information

### Identification of segments

The municipality is organised and operates in six key functional segments. The segments are organised around the type of service delivered. Management uses these same segments for determining strategic objectives. Segments are aggregated for reporting purposes.

Information reported about these segments is used by management as a basis for evaluating segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

### Aggregated segments

The municipality operates throughout the District of King Cetshwayo situated in the KwaZulu Natal Province. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout the district were sufficiently similar to warrant aggregation.

### Types of services by segment

These reportable segments as well as the services for each segment are set out below:

| Reportable segment | Services |
|---|---|
| Community and public safety | Community and social services |
| Economic and environmental services | Planning and development and environmental services |
| Trading services - water management | Provision of water services |
| Trading services - waste water management | Provision of sanitation services |
| Trading services - waste management | Provision of refuse services |
| Other - Governance and Administration | Provision of support services - finance, corporate, municipal managers office and board |

**45. Segment information (continued)**

**Segment surplus or deficit, assets and liabilities**

**2020/2021**

| | Community and public safety | Economic and environmental services | Trading service - water management | Trading service - waste water management | Trading service - waste management | Other - governance and administration | Total |
|---|---|---|---|---|---|---|---|
| **Revenue** | | | | | | | |
| Service charges | 473 903 | 28 606 | 58 997 429 | 8 143 659 | 28 859 677 | - | 96 503 274 |
| Rental income | - | - | - | - | - | 52 000 | 52 000 |
| Interest received | - | - | - | - | - | 19 995 607 | 19 995 607 |
| Other income | - | - | 436 645 | - | - | 2 708 515 | 3 145 160 |
| Gain on disposal of property, plant and equipment | - | - | - | - | - | 1 837 877 | 1 837 877 |
| Fair value adjustments in investment | - | - | - | - | - | 11 814 | 11 814 |
| Revenue from non-exchange transactions | - | 18 627 578 | 294 610 966 | 22 809 198 | - | 563 376 677 | 899 424 419 |
| **Total segment revenue** | **473 903** | **18 656 184** | **354 045 040** | **30 952 857** | **28 859 677** | **587 982 490** | **1 020 970 151** |
| **Total revenue** | | | | | | | **1 020 970 151** |
| **Expenditure** | | | | | | | |
| Employee related costs | 18 455 558 | 31 183 664 | 89 494 943 | 1 932 504 | 4 756 871 | 88 783 785 | 234 607 325 |
| Remuneration of councillors | - | - | - | - | - | 12 297 336 | 12 297 336 |
| Depreciation, amortisation and impairment | 1 443 993 | 78 236 | 95 045 042 | 2 906 219 | 249 467 | 6 982 648 | 106 705 605 |
| Finance costs | - | - | 720 480 | 247 495 | 4 428 397 | 1 579 699 | 6 976 071 |
| Debt impairment | - | - | 6 284 415 | 1 100 750 | - | - | 7 385 165 |
| Bulk purchases | - | - | 129 360 773 | - | - | - | 129 360 773 |
| Contracted services | 1 443 581 | 3 968 407 | 236 492 096 | 25 567 954 | 12 385 624 | 42 339 650 | 322 197 312 |
| Operational costs | 941 845 | 1 115 693 | 71 600 777 | 104 526 | 438 658 | 36 161 957 | 110 363 456 |
| **Total segment expenditure** | **22 284 977** | **36 346 000** | **628 998 526** | **31 859 448** | **22 259 017** | **188 145 075** | **929 893 043** |
| **Total segmental (deficit)/surplus** | **(10 837 522)** | **(2 212 927)** | **(88 286 620)** | **(4 910 872)** | **4 373 386** | **221 205 587** | **91 077 108** |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

## 45. Segment information (continued)

| | Community and public safety | Economic and environmental services | Trading service - water management | Trading service - waste water management | Trading service - waste management | Other - governance and administration | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Inventories | - | - | 1 606 580 | - | - | 6 809 722 | 8 416 302 |
| Receivable from exchange transactions - consumer debtors | - | - | 38 462 715 | 6 170 705 | 3 733 517 | - | 48 366 937 |
| Receivable from exchange transactions - VAT | - | - | - | - | - | 107 788 339 | 107 788 339 |
| Receivable from non-exchange transactions | - | - | 8 101 883 | - | - | 4 745 131 | 12 847 014 |
| Current portion of long-term receivables from exchange transactions | - | - | - | - | - | 51 920 | 51 920 |
| Cash and cash equivalents | - | - | - | - | - | 369 491 412 | 369 491 412 |
| Long-term receivables from exchange transactions | - | - | - | - | - | 13 789 | 13 789 |
| Property, plant and equipment | 34 285 924 | 253 490 | 2 498 639 959 | 138 373 108 | 32 436 806 | 47 680 064 | 2 751 669 351 |
| Intangible assets | - | - | - | - | - | 6 991 896 | 6 991 896 |
| Heritage assets | - | - | - | - | - | 700 000 | 700 000 |
| **Total segment assets** | **34 285 924** | **253 490** | **2 546 811 137** | **144 543 813** | **36 170 323** | **544 272 273** | **3 306 336 960** |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Borrowings | - | - | - | - | - | 8 485 501 | 8 485 501 |
| Payables exchange transactions | - | - | - | - | - | 339 767 367 | 339 767 367 |
| Consumer deposits | - | - | - | - | - | 10 115 897 | 10 115 897 |
| Defined employee benefit obligations | - | - | - | - | - | 2 097 000 | 2 097 000 |
| Unspent transfers and subsidies | - | - | - | - | - | 1 176 024 | 1 176 024 |
| Provisions | - | - | - | - | - | 2 497 233 | 2 497 233 |
| Borrowings | - | - | - | - | - | 15 849 428 | 15 849 428 |
| Defined employee benefit obligations | - | - | - | - | - | 33 348 000 | 33 348 000 |
| Provisions | - | - | - | - | 55 133 424 | - | 55 133 424 |
| **Total segment liabilities** | **-** | **-** | **-** | **-** | **55 133 424** | **413 336 450** | **468 469 874** |

**45. Segment information (continued)**

| | Community and public safety | Trading service - water management | Trading service - waste water management | Trading service - waste management | Other - governance and administration | Total |
|---|---|---|---|---|---|---|
| **Other information** | | | | | | |
| Capital expenditure | 42 114 | 212 914 660 | 20 972 693 | 2 904 960 | 3 129 529 | 239 963 955 |

**Measurement of segment surplus or deficit, assets and liabilities**

**Basis of accounting for transactions between reportable segments**

The accounting policies of the segments are the same as those described in the summary of significant accounting policies, except that pension expense for each segment is recognised and measured on the basis of cash payments to the pension plan.

**Information about geographical areas**

The municipality's operations encompass the entire district of King Cetshwayo DC 28 and includes the water and sanitation functions within the following local municipalities:

uMlalazi local municipality (KZN 284),

uMthonjaneni local municipality (KZN 285), and

uMfolozi local municipality (KZN 281).

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 45. Segment information (continued)

The table below indicates the relevant geographical information:

**2020/2021**

| | External revenues from non-exchange transactions | External revenues from exchange transactions | Total expenditure | Non-current assets* |
|---|---|---|---|---|
| Administrative or head office | 899 424 419 | 121 545 732 | 172 927 640 | 75 645 773 |
| Whole of the district | - | - | 668 095 399 | 1 708 587 240 |
| KZN284 uMlalazi | - | - | 41 365 146 | 510 863 133 |
| KZN285 uMthonjaneni | - | - | 12 023 251 | 204 239 419 |
| KZN281 uMfolozi | - | - | 15 468 706 | 34 531 039 |
| KZN 283 Nkandla | - | - | 15 140 660 | 113 107 670 |
| KZN 282 uMhlathuze | - | - | 4 872 241 | 112 386 991 |
| **Total** | **899 424 419** | **121 545 732** | **929 893 043** | **2 759 361 265** |

*Excludes additions to financial instruments and post-employment benefit assets.

### 46. Prior-year adjustments

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice and the aggregate effect of the prior year adjustments in the annual financial statements for the period ended 30 June 2021 presented below are items contained in the statement of financial position, statement of financial performance, and statement of changes in net assets that have been affected by prior-year adjustments:

**Adjustments to property, plant and equipment and landfill site provision:**

A) The municipality effected adjustments to the cost, depreciation, accumulated depreciation and provision of the rehabilitation of the landfill site asset in order to account for the correct treatment of the landfill site per GRAP 19 and IGRAP 2. This was necessitated due to the municipality not accounting for the adjustment of the landfill site provision by adjusting the asset on an annual basis and adjusting the underlying asset as per the prescripts of GRAP 19.

B)An amount of R1 750 000 was recorded as capital expenditure work in progress in 2019/2020 instead of repairs and maintenance under contracted services.

C) A portion of the asset value was transferred from work in progress to completed assets in 2019/2020 and not the full value of the work completed in 2019/2020 - R5 713 028.

D)Depreciation was adjusted by an amount of R67 305 to accommodate the asset referred to in C above.

**Adjustment to the disclosure of National Government - Equitable Share Grant (Unconditional Grant) and National Government - Levy Replacement Grant (Unconditional Grant):**

In the 2019/2020 financial year National Treasury allocated R514 940 000 being for Equitable Share(EQS) and Levy Replacement Grant (LRG). The prior year allocation to EQS was reduced by R90 361 504 while the LRG was increased by R90 361 504.

The effect on the statement of position, performance and changes in net assets is outlined below: 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:

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

**46. Prior-year adjustments (continued)**

**Statement of financial position**

**2019/2020**

| | | As previously reported | Landfill site adjustment | Provision adjustment landfill site | Adjustments to AUC | Adjustments to accumulated depreciation | Restated |
|---|---|---|---|---|---|---|---|
| Effect on current liabilities - provisions | 18 | 7 180 037 | (4 361 901) | - | - | - | 2 818 136 |
| Effect on non current assets - Property, plant and equipment | 8 | 2 593 299 248 | - | - | (1 750 000) | (67 305) | 2 591 481 943 |
| Effect on non current assets - provisions | 18 | 71 695 225 | 4 361 901 | (50 413 824) | - | - | 25 643 302 |

**Statement of financial performance**

**2019/2020**

| | | As previously reported | Landfill site adjustments | Adjustment for landfill site and other | Adjustment unwinding provision discount | Adjustment assets to expenditure | Restated |
|---|---|---|---|---|---|---|---|
| Effect on gain on adjustments to rehabilitation | | - | (10 451 481) | - | - | - | (10 451 481) |
| Effect on depreciation, amortisation & impairment | 26 | 102 440 742 | - | 631 337 | - | - | 103 072 079 |
| Effect on finance charges | 27 | 4 580 961 | - | - | 4 594 320 | - | 9 175 281 |
| Effect on contracted services | 31 | 352 248 652 | - | - | - | 1 750 000 | 353 998 652 |
| Effect on operational costs | 32 | 111 916 198 | - | - | (901 863) | - | 111 014 335 |
| Effect on surplus for the year | | 164 202 187 | 10 451 481 | (631 337) | (3 692 457) | (1 750 000) | 168 579 874 |
| **Surplus for the** | | **735 388 740** | **-** | **-** | **-** | **-** | **735 388 740** |

**Statement of changes in net assets**

**2019/2020**

| | As previously reported | | Adjustment assets to expenditure | Adjustment provision landfill site | Adjustments accumulated depreciation | Restated |
|---|---|---|---|---|---|---|
| Effect on balance as at 1 July 2019 | 2 527 556 749 | - | - | 44 218 832 | - | 2 571 775 581 |
| Effect on balance as at 1 July 2020 | 2 698 193 467 | - | (1 750 000) | 50 413 824 | (67 305) | 2 746 789 978 |

# NOTES TO THE ANNUAL FINANCIAL STATEMENTS

### 47. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R2 837 867 087 and that the municipality's total assets exceed its liabilities by R2 837 867 087.

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, dependent on the receiving of equitable share allocations.

### 48. Events after the reporting date

At the date of submission of the annual financial statements there were no known adjusting events. There is however an inauguration of new political office bearers based on the results of the new municipal elections held on 1 November 2021.