



Ndlambe Local Municipality
Annual Financial Statements
for the year ended 30 June 2021

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

General Information

Legal form of entity	Ndlambe Municipality (EC 105) is a local municipality performing the functions as set out in the Constitution. (Act no 108 of 1996)
Grading of local authority	Grade 3
Executive committee	
Mayor	Councillor KC Ncamiso - Corporate Services Portfolio
Speaker	Councillor NV Maphaphu
Executive Councillors	Councillor T Mazana - Infrastructure Portfolio Councillor N Xhasa - Community Protection Portfolio Councillor LR Schenk - Finance Portfolio
Councillors	Councillor TM Mbunge - MPAC Chair Councillor AL Marasi - Chief Whip Councillor N Ngamlashe Councillor A Ngqosha Councillor CB James Councillor M Raco Councillor JP Guest Councillor MW Yali Councillor SI Melani Councillor M Mateti Councillor K Daweti Councillor PY Kani Councillor S Venene Councillor TD Mbekela Councillor X Runeli
Accounting Officer	R Dumezweni rdumezweni@ndlambe.gov.za
Chief Finance Officer (CFO)	M Klaas mklaas@ndlambe.gov.za
Business address	47 Campbell Street Port Alfred 6170
Postal address	P O Box 13 Port Alfred 6170
Bankers	First National Bank
Auditors	Auditor General
Jurisdiction	The Ndlambe Local Municipality includes the following areas: Port Alfred Bathurst Alexandria Kenton-on-Sea Cannon - Rocks Seafield Marselle

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Index

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

	Page
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Statement of Comparison of Budget and Actual Amounts	8 - 11
Accounting Policies	12 - 45
Notes to the Annual Financial Statements	46 - 103

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
LED	Local Economic Development
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
MSIG	Municipal Systems Improvement Grant
FMG	Financial Management Grant
DSRAC	Department of Sports, Recreation, Arts and Culture
DME	Department of Minerals and Energy
DWAF	Department of Water and Forestry
ACIP	Accelerated Capital Infrastructure Project
DoRA	Division of Revenue Act
DME	Department of Minerals and Energy
DWS	Department of Water and Sanitation
SBDM	Sarah Baartman District Municipality
CoGTA	Department of Co-operative Governance and Traditional Affairs
VAT	Value Added Tax

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Municipal Finance Management Act (Act 56 of 2003) and Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

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

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

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

The annual financial statements set out on page 4 to 103, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed on its behalf by:



R Dumezweni
Accounting Officer

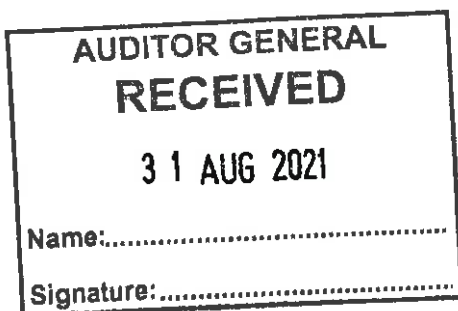
Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

Figures in Rand

	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories			
Receivables from non-exchange transactions	3	1 094 900	1 297 616
Receivables from exchange transactions	4	17 796 981	17 944 135
VAT receivable	5	21 860 667	21 971 002
Cash and cash equivalents	6	13 895 311	4 886 999
Operating lease asset	7	77 077 363	30 738 562
	8	128 191	217 109
		131 853 413	77 055 423
Non-Current Assets			
Investment property	9	260 119 983	261 296 421
Property, plant and equipment	10	1 040 123 665	952 722 828
Intangible assets	11	266 369	381 197
Heritage assets	12	16	16
Other financial assets	13	49 246	49 246
		1 300 559 279	1 214 449 708
Total Assets		1 432 412 692	1 291 505 131
Liabilities			
Current Liabilities			
Consumer deposits			
Payables from exchange transactions	15	2 382 641	2 191 712
Unspent conditional grants and receipts	16	53 946 886	49 593 994
Financial liabilities - DBSA	17	1 048 439	1 041 458
Operating lease liability	18	1 738 010	1 995 124
Employee benefit obligation	8	57 445	98 938
Provisions	19	3 768 000	3 353 962
	20	13 658 880	12 941 151
		76 600 301	71 216 339
Non-Current Liabilities			
Financial liabilities - DBSA	18	4 370 245	6 108 252
Employee benefit obligation	19	64 358 000	55 963 264
Provisions	20	50 133 550	39 643 715
		118 861 795	101 715 231
Total Liabilities		195 462 096	172 931 570
Net Assets		1 236 950 596	1 118 573 561
Accumulated surplus		1 236 950 596	1 118 573 561
Total Net Assets		1 236 950 596	1 118 573 561



* See Note 43

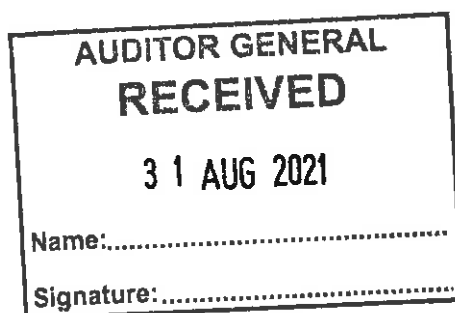
Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

Figures in Rand

	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	149 607 704	137 689 720
Rendering of services		407 750	375 306
Rental of facilities and equipment		667 429	34 584
Interest received - trade and other receivables		4 739 159	5 448 742
Licences and permits		2 981 737	1 944 400
Housing debtor income		1 543 583	2 338 455
Other income	23	4 780 265	2 390 517
Interest received - investment	24	2 942 458	3 919 309
Total revenue from exchange transactions		167 670 085	154 141 033
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	124 563 224	119 177 412
Licences and Permits (Non-exchange)		984 234	1 171 779
Environmental levies		4 673 053	4 406 567
Interest received - non-exchange receivables		1 726 274	3 138 798
Transfer revenue			
Government grants & subsidies	26	288 142 632	137 495 007
Public contributions and donations	27	1 366 921	363 571
Fines, Penalties and Forfeits		371 854	246 342
Total revenue from non-exchange transactions		421 828 192	265 999 476
Total revenue	21	589 498 277	420 140 509
Expenditure			
Employee related costs	28	(163 348 705)	(144 394 885)
Remuneration of councillors	29	(7 547 525)	(7 474 067)
Depreciation and amortisation	30	(45 461 175)	(45 965 335)
Finance costs	31	(4 566 801)	(5 152 056)
Lease rentals on operating lease		(2 165 147)	(2 015 486)
Debt Impairment	32	(36 459 241)	(37 310 719)
Renewable Energy Programmes		(2 425 709)	(951 443)
Bulk purchases	33	(65 590 380)	(61 559 340)
Contracted services	34	(74 268 733)	(58 623 295)
Transfers and Subsidies		(3 309 889)	(2 978 408)
General Expenses	35	(59 360 593)	(61 117 987)
Total expenditure		(464 503 898)	(427 543 021)
Operating surplus (deficit)		124 994 379	(7 402 512)
Gain on disposal of assets and liabilities		1 041 457	226 480
Fair value adjustments	36	(7 512 729)	(8 323 663)
Impairment loss	37	(146 094)	-
		(6 617 366)	(8 097 183)
Surplus (deficit) for the year		118 377 013	(15 499 695)



* See Note 43

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets

Figures in Rand	Note	Accumulated surplus	Total net assets
Opening balance as previously reported		1 048 081 387	1 048 081 387
Adjustments			
Prior year adjustments	43	85 991 869	85 991 869
Balance at 01 July 2019 as restated*		1 134 073 256	1 134 073 256
Changes in net assets			
Surplus for the year		(15 499 695)	(15 499 695)
Total changes		(15 499 695)	(15 499 695)
Restated* Balance at 01 July 2020		1 118 573 583	1 118 573 583
Changes in net assets			
Deficit for the year		118 377 013	118 377 013
Total changes		118 377 013	118 377 013
Balance at 30 June 2021		1 236 950 596	1 236 950 596
Note(s)			



* See Note 43

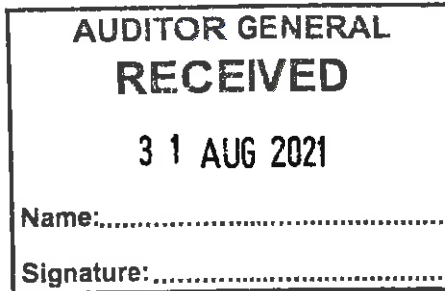
Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement

Figures in Rand

	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Rates and services		240 041 988	220 173 483
Government Grants and Subsidies		288 142 632	137 495 007
Interest income		9 407 891	12 506 849
Other receipts		6 695 719	4 975 311
		<u>544 288 230</u>	<u>375 150 650</u>
Payments			
Employee costs		(170 896 230)	(151 868 952)
Suppliers		(186 540 592)	(173 152 259)
Finance costs		(4 566 801)	(5 152 056)
Grants and subsidies		(3 309 889)	(2 978 408)
		<u>(365 313 512)</u>	<u>(333 151 675)</u>
Net cash flows from operating activities	39	178 974 718	41 998 975
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(131 682 252)	(54 416 219)
Proceeds from sale of property, plant and equipment	10	1 041 457	-
		<u>(130 640 795)</u>	<u>(54 416 219)</u>
Net cash flows from investing activities		(130 640 795)	(54 416 219)
Cash flows from financing activities			
Repayment of financial liabilities - dbsa		(1 995 121)	(2 169 243)
		<u>(1 995 121)</u>	<u>(2 169 243)</u>
Net cash flows from financing activities		(1 995 121)	(2 169 243)
Net (decrease) in cash and cash equivalents		46 338 802	(14 586 487)
Cash and cash equivalents at the beginning of the year		30 738 562	45 325 049
Cash and cash equivalents at the end of the year	7	77 077 364	30 738 562



* See Note 43

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	47 588 837	12 180 364	159 769 201	149 607 704	(10 161 497)	51.1
Rendering of services	350 517	-	350 517	407 750	57 233	51.2
Rental of facilities and equipment	19 245	(161 269)	33 292	667 429	634 137	51.3
Interest received	6 221 590	-	6 221 590	4 739 159	(1 482 431)	51.4
Licences and permits	12 629 493	-	12 629 493	2 981 737	(9 647 756)	51.3
Housing debtor income	664 533	-	664 533	1 543 583	879 050	51.5
Other income	2 905 488	-	2 905 488	4 780 265	1 874 777	51.6
Interest received - investment	3 557 449	-	3 557 449	2 942 458	(614 991)	51.7
Total revenue from exchange transactions	174 112 452	12 019 111	186 131 563	167 670 085	(18 461 478)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	132 265 746	-	132 265 746	124 563 224	(7 702 522)	51.8
Licences and Permits (Non-exchange)	2 100 838	-	2 100 838	984 234	(1 116 604)	51.9
Environmental levies	4 687 044	-	4 687 044	4 673 053	(13 991)	51.10
Interest received - non-exchange receivables	3 372 797	-	3 372 797	1 726 274	(1 646 523)	51.11
Transfer revenue						
Government grants & subsidies	148 637 849	170 243 436	318 881 285	288 142 632	(30 738 653)	51.12
Public contributions and donations	-	-	-	1 366 921	1 366 921	51.13
Fines, Penalties and Forfeits	699 359	-	699 359	371 854	(327 505)	51.14
Total revenue from non-exchange transactions	291 763 633	170 243 436	462 007 069	421 828 192	(40 178 877)	
Total revenue	465 876 085	182 262 547	648 138 632	589 498 277	(58 640 355)	
Expenditure						
Personnel	(159 926 136)	1 781 120	(158 145 016)	(163 348 705)	(5 203 689)	51.15
Remuneration of councillors	(7 274 345)	-	(7 274 345)	(7 547 525)	(273 180)	51.16
Depreciation and amortisation	(36 144 122)	-	(36 144 122)	(45 461 175)	(9 317 053)	51.17
Impairment loss	-	-	-	(146 094)	(146 094)	51.18
Finance costs	(1 236 679)	400 801	(835 878)	(4 566 801)	(3 730 923)	51.19
Lease rentals on operating lease	(2 653 821)	67 576	(2 586 245)	(2 165 147)	421 098	51.20
Debt Impairment	(22 779 024)	(976 692)	(23 755 716)	(36 459 241)	(12 703 525)	51.21
Renewable Energy Programmes	-	(4 317 499)	(4 317 499)	(2 425 709)	1 891 790	51.22
Bulk purchases	(63 136 539)	(127 686)	(63 264 225)	(65 590 380)	(2 326 155)	51.23
Contracted Services	(68 489 354)	(12 043 198)	(80 532 552)	(74 268 733)	6 263 819	51.24
Transfers and Subsidies	(2 944 350)	(290 000)	(3 234 350)	(3 309 889)	(75 539)	51.25
General Expenses	(64 561 966)	(3 386 685)	(67 948 651)	(59 360 593)	8 588 058	51.26
Total expenditure	(429 146 336)	(18 892 263)	(448 038 599)	(464 649 992)	(16 611 393)	
Operating surplus	36 729 749	163 370 284	200 100 033	124 848 285	(75 251 748)	

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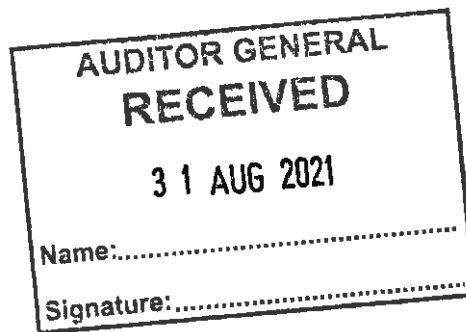
Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Gain on disposal of assets and liabilities	-	-	-	1 041 457	1 041 457	51.27
Fair value adjustments	-	-	-	(7 512 729)	(7 512 729)	51.28
	-	-	-	(6 471 272)	(6 471 272)	
Surplus before taxation	36 729 749	163 370 284	200 100 033	118 377 013	(81 723 020)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	36 729 749	163 370 284	200 100 033	118 377 013	(81 723 020)	



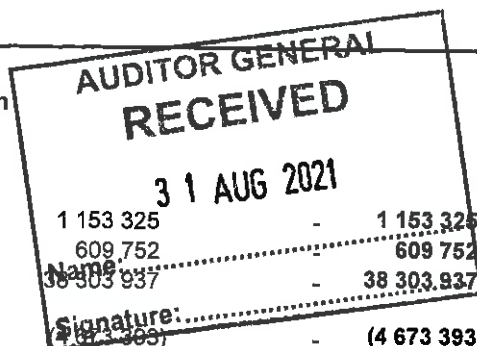
Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	1 153 325	-	1 153 325	1 094 900	(58 425)	51.29
Operating lease asset	609 752	-	609 752	128 191	(481 561)	51.30
Receivables from non-exchange transactions	38 303 937	-	38 303 937	17 796 981	(20 506 956)	51.31
VAT receivable	(4 673 393)	-	(4 673 393)	13 895 311	18 568 704	51.32
Receivables from exchange transactions	(14 124 627)	(1 705 328)	(15 829 955)	21 860 667	37 690 622	51.31
Cash and cash equivalents	77 174 445	20 609 538	97 783 983	77 077 363	(20 706 620)	51.33
	98 443 439	18 904 210	117 347 649	131 853 413	14 505 764	
Non-Current Assets						
Investment property	184 997 308	-	184 997 308	260 119 983	75 122 675	51.34
Property, plant and equipment	949 628 667	162 938 032	1 112 566 699	1 040 123 665	(72 443 034)	51.35
Intangible assets	1 134 414	(681 586)	452 828	266 369	(186 459)	51.36
Heritage assets	16	-	16	16	-	51.37
Other financial assets	59 389	-	59 389	49 246	(10 143)	51.38
	1 135 819 794	162 256 446	1 298 076 240	1 300 559 279	2 483 039	
Total Assets	1 234 263 233	181 160 656	1 415 423 889	1 432 412 692	16 988 803	
Liabilities						
Current Liabilities						
Consumer deposits	2 927 685	-	2 927 685	2 382 641	(545 044)	51.39
Payables from exchange transactions	36 715 143	17 591 372	54 306 515	53 946 890	(359 625)	51.40
Unspent conditional grants and receipts	589 983	199 000	788 983	1 048 439	259 456	51.41
Financial liabilities - DBSA	(1 956 262)	-	(1 956 262)	1 738 010	3 694 272	51.42
Operating lease liability	15 125	-	15 125	57 445	42 320	51.43
Employee benefit obligation	1 624 108	-	1 624 108	3 768 000	2 143 892	51.44
Provisions	12 268 947	-	12 268 947	13 658 880	1 389 933	51.45
	52 184 729	17 790 372	69 975 101	76 600 305	6 625 204	
Non-Current Liabilities						
Financial liabilities - DBSA	10 272 620	-	10 272 620	4 370 245	(5 902 375)	51.46
Employee benefit obligation	64 528 230	-	64 528 230	64 358 000	(170 230)	51.47
Provisions	27 886 468	-	27 886 468	50 133 550	22 247 082	51.48
	102 687 318	-	102 687 318	118 861 795	16 174 477	
Total Liabilities	154 872 047	17 790 372	172 662 419	195 462 100	22 799 681	
Net Assets	1 079 391 186	163 370 284	1 242 761 470	1 236 950 592	(5 810 878)	
Net Assets						
Accumulated surplus	1 079 391 186	163 370 284	1 242 761 470	1 236 950 592	(5 810 878)	51.49



Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Rates and services	271 893 000	7 308 000	279 201 000	240 041 988	(39 159 012)	51.50
Government Grants and subsidies	148 639 000	170 243 000	318 882 000	288 142 632	(30 739 368)	51.51
Other receipts	25 442 000	161 000	25 603 000	16 103 610	(9 177 390)	51.52
	445 974 000	177 390 000	623 364 000	544 288 230	(79 075 770)	
Payments						
Supplier and Employee costs	(366 043 000)	(18 076 000)	(384 119 000)	(357 436 823)	26 682 177	51.53
Finance costs	(1 237 000)	401 000	(836 000)	(4 566 801)	(3 730 801)	51.54
Grants and subsidies paid	(1 844 000)	(1 340 000)	(3 184 000)	(3 309 889)	(125 889)	51.55
	(369 124 000)	(19 015 000)	(388 139 000)	(365 313 513)	22 825 487	
Net cash flows from operating activities	76 850 000	158 375 000	235 225 000	178 974 717	(56 250 283)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(44 318 000)	(162 256 000)	(206 574 000)	(131 682 252)	74 891 748	51.56
Proceeds from sale of property, plant and equipment	-	-	-	1 041 457	1 041 457	51.57
Decrease in non-current investments	(10 000)	10 000	-	-	-	
Net cash flows from investing activities	(44 328 000)	(162 246 000)	(206 574 000)	(130 640 795)	75 933 205	
Cash flows from financing activities						
Decrease in consumer deposits	(78 000)	78 000	-	-	-	
Repayment of financial liabilities - dbsa	(1 956 000)	-	(1 956 000)	(1 995 121)	(39 121)	51.58
Net cash flows from financing activities	(2 034 000)	78 000	(1 956 000)	(1 995 121)	(39 121)	
Net increase/(decrease) in cash and cash equivalents	30 488 000	(3 793 000)	26 695 000	46 338 801	19 643 801	51.59
Cash and cash equivalents at the beginning of the year	45 310 000	-	45 310 000	30 738 562	(14 571 438)	51.60
Cash and cash equivalents at the end of the year	75 798 000	(3 793 000)	72 005 000	77 077 363	5 072 363	

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Signature:

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

Figures in Rand

Note(s)

2021

2020

1. Presentation of Annual Financial Statements

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

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

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality. All amounts are rounded to the nearest Rand.

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Significant judgements and sources of estimation uncertainty

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

Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

The carrying amount of available-for-sale financial assets would be an estimated - lower or - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Useful lives of waste and water network and other assets

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Post-retirement benefits

The present value of the post-retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post-retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

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

Accounting by principals and agent

The municipality makes assessments on whether it is the principal or agent in principal-agent relationships. Significant judgements applied are as follow -

The municipality considers the nature of the agreements entered into between itself and other entities. A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Should it render a service on behalf of another entity or vice versa, it will trigger the need to the related disclosure in terms of GRAP 109.

The municipality has identified that it acts as an agent for the collection of motor vehicle licence fees on behalf of the department of Transport.

Additional information is disclosed in Note 54.

Impairment of statutory receivables

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures and impairment loss. The impairment loss is measured as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, are reduced, either directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

1.5 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.5 Investment property (continued)

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

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

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

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

Cost model

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

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

Item	Useful life
Property - land	indefinite
Property - buildings	10 - 30 years

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

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 9).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 9).

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight-line	50 Years
Plant and machinery	Straight-line	5 - 15 Years
Motor vehicles	Straight-line	5 - 15 Years
Office equipment	Straight-line	5 - 15 Years
IT equipment	Straight-line	3 - 5 Years
Community	Straight-line	10 - 30 Years
Electricity Network	Straight-line	15 - 80 Years
Roads	Straight-line	15 - 80 Years
Wastewater Network	Straight-line	15 - 60 Years
Water Network	Straight-line	15 - 100 Years

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

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

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.7 Intangible assets (continued)

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	3 Years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

1.8 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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

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

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.8 Heritage assets (continued)

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

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

1.9 Financial instruments

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

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

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Financial instruments (continued)

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Financial instruments (continued)

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

The entity 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
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

The entity 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
Payables from exchange transactions	Financial liability measured at amortised cost
DBSA Loans	Financial liability measured at amortised cost

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

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

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

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

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

Fair value measurement considerations

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Financial Instruments (continued)

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

1.10 Statutory receivables

Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another entity in cash or another financial asset.

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

Impairment losses

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.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.10 Statutory receivables (continued)

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

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

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.11 Leases

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

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.11 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.12 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

1.13 Impairment of cash-generating assets

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

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

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

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

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

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

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

Useful life is either:

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

1.14 Impairment of non-cash-generating assets

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

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

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

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

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

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

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

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

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

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

Useful life is either:

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.15 Employee benefits

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

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

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

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

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

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

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

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

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Employee benefits (continued)

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognises the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measures the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognises the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

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

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

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognises past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determines the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Employee benefits (continued)

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measures the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Employee benefits (continued)

Other post retirement obligations

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

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

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

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

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.16 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

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

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

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

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

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

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

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.16 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
 - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.17 Revenue from exchange transactions

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

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

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

Measurement

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

The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the accounting policy on Statutory Receivables).

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.17 Revenue from exchange transactions (continued)

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

1.18 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Control of an asset arises when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, a municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Measurement

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.

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality.

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

1.19 Investment income

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

1.20 Borrowing costs

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

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

1.21 Accounting by principals and agents

Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.21 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

1.22 Comparative figures

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

1.23 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.24 Fruitless and wasteful expenditure

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

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

1.25 Irregular expenditure

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.25 Irregular expenditure (continued)

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

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

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

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

1.26 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

1.27 Budget information

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

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

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

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

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

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

1.28 Related parties

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

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

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.28 Related parties (continued)

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

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

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

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

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

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

1.29 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

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

1.30 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash. A commitment is disclosed to the extent that it has not already been recognised elsewhere in the financial statements.

At the end of the financial period the municipality determined commitments in respect of capital expenditure in terms of GRAP 17 that has been approved and contracted for.

1.31 Material Losses (Water and Electricity)

Water and electricity losses are required to be disclosed as part of the material loss disclosure of the MFMA Section 125. Losses are calculated on the following basis -

Nr of units of lost supply, being the difference between what was supplied and what has been sold at the per unit tariff rate.

The unit tariff rate, in the case of electricity being the lower rate of Kwh as charged per council and the case of water the lowest rate per KI (incl VAT).

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme 2021	01 April 2020	The impact of the guideline is not material.
• iGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	The impact of the interpretation is not material.
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	The impact of the standard is not material.
• GRAP 34: Separate Financial Statements	01 April 2020	The impact of the standard is not material.
• GRAP 35: Consolidated Financial Statements	01 April 2020	The impact of the standard is not material.
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	The impact of the standard is not material.
• GRAP 37: Joint Arrangements	01 April 2020	The impact of the standard is not material.
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	The impact of the standard is not material.
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	The impact of the standard is not material.
• iGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	The impact of the interpretation is not material.
• Directive 13: Transitional Provisions for the Adoption of Standards of GRAP by Community Education and Training (CET) Colleges	01 April 2020	The impact of the directive is not material.
• Directive 7 (revised): The Application of Deemed Cost	01 April 2020	The impact of the directive is not material.
• GRAP 18 (as amended 2016): Segment Reporting	01 April 2020	The adoption of this standard has not had a material impact on the results of the company, but has resulted in more disclosure than would have previously been provided in the financial statements

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 25: Employee Benefits (amended)	01 April 2099	Unlikely there will be a material impact
• iGRAP 7: Limit on a Defined Benefit Asset, Minimum Funding requirements and their interaction (amended)	01 April 2099	Unlikely there will be a material impact
• iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2099	Unlikely there will be a material impact

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

• GRAP 104 (amended): Financial Instruments	01 April 2099	Unlikely there will be a material impact
• Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards	01 April 2021	No impact
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2099	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2099	Unlikely there will be a material impact

As per the background to this Interpretation of the Standards of GRAP, there are a number of legislative and regulatory processes that govern how entities levy, charge or calculate revenue, in the public sector. Adjustments to revenue already recognised in terms of legislation or similar means arise from the completion of an internal review process within the entity, and/or the outcome of an external appeal or objection process undertaken in terms of legislation or similar means. Adjustments to revenue include any refunds that become payable as a result of the completion of a review, appeal or objection process. The adjustments to revenue already recognised following the outcome of a review, appeal or objection process can either result in a change in an accounting estimate, or a correction of an error.

As per the scope, this Interpretation of the Standards of GRAP clarifies the accounting for adjustments to exchange and non-exchange revenue charged in terms of legislation or similar means, and interest and penalties that arise from revenue already recognised as a result of the completion of a review, appeal or objection process. Changes to the measurement of receivables and payables, other than those changes arising from applying this Interpretation, are dealt with in accordance with the applicable Standards of GRAP. The principles in this Interpretation may be applied, by analogy, to the accounting for adjustments to exchange or non-exchange revenue that arises from contractual arrangements where the fact patterns are similar to those in the Interpretation.

The interpretation sets out the issues and relating consensus with accounting for adjustments to revenue.

The effective date of the interpretation is for years beginning on or after 01 April 2020.

The municipality expects to adopt the interpretation for the first time in the 2019/2020 annual financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

3. Inventories

Game		57 000
Water	57 366	117 933
Stores, materials and fuels	1 037 534	1 122 683
	1 094 900	1 297 616
Inventories recognised as an expense during the year	8 156 047	7 314 132

No Inventories were written down to net realisable value.

Game is held for recreational purposes in the form of viewing of game at the reserves by the public. These animals are held for the enjoyment of the public and not for resale. It is not the intention of the municipality to trade in wildlife and as such these animals have not been recognised as Biological assets or non-living resources. Game is measured at the lower of cost or current replacement cost. During the current year the giraffe included in the prior year passed on and was therefore derecognised.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
4. Receivables from non-exchange transactions		
Consumer debtors - Rates	56 362 725	56 456 184
Environmental Levies	6 491 329	5 681 337
Deposits	85 500	85 500
Housing Sundry	125 061	125 061
Recoverable legal expenses	326 494	326 494
Provision for doubtful debts - Environmental Levies	(6 637 474)	(5 643 274)
Provision for doubtful debts - Consumer debtors - Rates	(38 956 654)	(39 087 167)
	17 796 981	17 944 135
Statutory receivables included in receivables from non-exchange transactions above are as follows:		
Consumer debtors - Rates	56 362 725	56 456 184
Environmental Levies	6 491 329	5 681 337
Provision for doubtful debts - Receivables from Non-Exchange Transactions	(45 594 128)	(44 730 441)
	17 259 926	17 407 080
Financial asset receivables included in receivables from non-exchange transactions above	537 055	537 055
Total receivables from non-exchange transactions	17 796 981	17 944 135

Statutory receivables general information

Statutory receivables past due but not impaired

Statutory receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2021, 8 891 079 (2020: 8 970 151) were past due but not impaired.

Factors the entity considered in assessing statutory receivables past due but not impaired

The municipality has adopted a policy for the determination of the provision for doubtful debts based on the national treasury principals. These principals are used to rate debtors based on various risk criteria associated with the type and status of their accounts. Furthermore an analysis is undertaken to accumulate the risk associated with the long outstanding nature of each account. These factors produce an overall risk factor which is utilised to prepare an impaired amount. The collectable cashflow is therefore determined and present valued based on the average days outstanding on each account. The overall impairment is thereafter pro-rata'ed per non-exchange and exchange portions of each debtors' account. Lastly, this is accumulated to produce the provision for impairment as raised at year end. Refer to the municipal policy for full details.

Statutory receivables impaired

As of 30 June 2021, Statutory receivables of 45 594 128 (2020: 44 730 441) were impaired and provided for.

Reconciliation of provision for impairment for statutory receivables

Opening balance	(44 730 441)	(38 193 641)
Provision for impairment	(3 902 358)	(8 981 042)
Amounts written off as uncollectible	3 038 671	2 444 242
	(45 594 128)	(44 730 441)

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2021, 537 055 (2020: 537 055) were past due but not impaired.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
5. Receivables from exchange transactions		
Gross balances		
Electricity	19 590 492	19 125 320
Water	42 973 863	39 530 392
Waste water	16 424 159	14 717 750
Refuse	20 899 757	18 351 178
Prepaid Electricity Sales	426 191	402 317
Housing rental	1 449 828	1 550 277
Service charges and other	13 107 220	11 682 716
	114 871 510	105 359 950
Less: Allowance for impairment		
Provision for Doubtful debts - Electricity	(10 336 263)	(10 288 175)
Provision for Doubtful debts - Water	(36 102 029)	(31 781 179)
Provision for Doubtful debts - Waste water	(14 530 654)	(12 742 965)
Provision for Doubtful debts - Refuse	(18 748 707)	(16 294 379)
Provision for Doubtful debts - Housing rental	(1 388 685)	(1 524 376)
Provision for Doubtful debts - Service charges and other	(11 904 505)	(10 757 874)
	(93 010 843)	(83 388 948)
Net balance		
Electricity	9 254 229	8 837 145
Water	6 871 834	7 749 213
Waste water	1 893 505	1 974 785
Refuse	2 151 050	2 056 799
Prepaid electricity sales	426 191	402 317
Housing rental	61 143	25 901
Service charges and other	1 202 715	924 842
	21 860 667	21 971 002
Electricity		
Current (0 -30 days)	6 426 606	5 570 810
31 - 60 days	1 535 222	2 233 631
61 - 90 days	806 936	1 089 147
91 - 120 days	541 656	726 962
121 - 365 days	3 019 526	3 336 692
> 365 days	7 260 546	6 168 078
	19 590 492	19 125 320
Water		
Current (0 -30 days)	5 589 080	6 206 008
31 - 60 days	1 480 711	2 632 544
61 - 90 days	1 476 275	1 612 180
91 - 120 days	1 325 967	1 372 223
121 - 365 days	7 973 138	6 878 670
> 365 days	25 128 692	20 828 767
	42 973 863	39 530 392

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
5. Receivables from exchange transactions (continued)		
Waste water		
Current (0 -30 days)	1 258 796	1 377 954
31 - 60 days	601 562	661 374
61 - 90 days	484 473	487 904
91 - 120 days	447 634	455 828
121 - 365 days	2 654 160	2 322 401
> 365 days	10 977 534	9 412 289
	16 424 159	14 717 750
Refuse		
Current (0 -30 days)	1 532 284	1 586 347
31 - 60 days	760 566	768 974
61 - 90 days	593 375	593 759
91 - 120 days	535 383	550 551
121 - 365 days	3 081 376	2 913 469
> 365 days	14 396 773	11 938 078
	20 899 757	18 351 178
Prepaid electricity sales		
Current (0 -30 days)	426 191	402 317
Housing rental		
Current (0 -30 days)	63 048	69 243
31 - 60 days	52 804	46 852
61 - 90 days	34 732	46 899
91 - 120 days	33 973	48 609
121 - 365 days	174 883	386 935
> 365 days	1 090 388	951 739
	1 449 828	1 550 277
Service charges and other		
Current (0 -30 days)	342 849	230 267
31 - 60 days	233 769	210 211
61 - 90 days	227 765	191 423
91 - 120 days	228 309	197 916
121 - 365 days	1 321 771	1 350 705
> 365 days	10 752 757	9 502 194
	13 107 220	11 682 716
Reconciliation of allowance for impairment		
Balance at beginning of the year	(83 388 948)	(72 112 940)
Contributions to allowance	(37 139 352)	(32 217 621)
Debt impairment written off against allowance	27 517 457	20 941 613
	(93 010 843)	(83 388 948)

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2021, 7 536 598 (2020: 8 267 763) were past due but not impaired.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

5. Receivables from exchange transactions (continued)

Consumer debtors impairment process

The municipality has adopted a policy for the determination of the provision for doubtful debts based on the national treasury principals. These principals are used to rate debtors based on various risk criteria associated with the type and status of their accounts. Furthermore an analysis is undertaken to accumulate the risk associated with the long outstanding nature of each account. These factors produce an overall risk factor which is utilised to prepare an impaired amount. The collectable cashflow is therefore determined and present valued based on the average days outstanding on each account. The overall impairment is thereafter pro-rata'ed per non-exchange and exchange portions of each debtors' account. Lastly, this is accumulated to produce the provision for impairment as raised at year end. This process is similar to the process undertaken for the provision of doubtful debts as documented under note 4. Refer to the municipal policy for full details.

6. VAT receivable

VAT	13 895 311	4 886 999
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VAT receivable represents the Net amount of refunds outstanding along with the yet to be claimed Input VAT on accruals and yet to be declared Output VAT on outstanding Accounts receivable. This is as a result of the differences between the cash basis of declarations to SARS and the Accrual basis of accounting for the GRAP annual financial statements.

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5 111	5 111
Bank balances	9 864 837	8 791 768
Short-term deposits	67 207 415	21 941 683
	<u>77 077 363</u>	<u>30 738 562</u>

Ndlambe Municipality also holds four bank accounts with the New Republic Bank Limited. These accounts related to bank investments made by Port Alfred TLC. New Republic Bank Limited went into liquidation in 1999. These accounts do not show any withdrawable funds/balances and are not active on bank confirmation searches. The liquidation process is however ongoing and during the current year distributions have been made in accordance with the liquidation process as disclosed in note 23.

Cash and cash equivalents pledged as collateral

Total financial assets ceded to DBSA	1 300 000	1 300 000
There is a cession recorded against the account (FNB-71078484865) to this value. Refer to note regarding DBSA loans.		
Total financial assets pledged as guarantee to ESKOM	1 024 929	
There is a guarantee recorded against the FNB bank accounts in favour of ESKOM.		

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

7. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
	9 864 837	9 109 621	4 224 728	9 864 837	8 791 767	4 171 064
FIRST NATIONAL BANK General Account-Current	6 923 549	7 890 189	1 319 214	6 923 549	7 588 268	1 265 550
FIRST NATIONAL BANK Current Account-Housing	715 338	51 883	2 005 467	715 338	51 883	2 005 467
FIRST NATIONAL BANK Current Account - Revolving	2 225 950	1 167 549	900 047	2 225 950	1 151 616	900 047
	38 840 559	13 703 949	29 793 930	38 840 559	13 703 949	29 793 930
FIRST NATIONAL BANK CRR Call Accounts	32 576 527	7 439 917	23 529 898	32 576 527	7 439 917	23 529 898
FIRST NATIONAL BANK Fixed Deposit Account DBSA	3 124 438	3 124 438	3 124 438	3 124 438	3 124 438	3 124 438
FIRST NATIONAL BANK Call Account - Eskom	3 139 594	3 139 594	3 139 594	3 139 594	3 139 594	3 139 594
	5 288 493	3 548 656	7 449 702	5 288 493	3 548 656	7 449 702
STANDARD BANK Notice Bank - Alex	200 897	188 944	176 778	200 897	188 944	176 778
STANDARD BANK Call Account - FMG 003	778 610	-	163 676	778 610	-	163 676
STANDARD BANK Call Account - Ndlambe waste management 006	-	-	-	-	-	-
STANDARD BANK Call Account - LED Kapriver 007	-	-	-	-	-	-
STANDARD BANK Call Account - Fire Officer 008	483 647	483 687	99 006	483 647	483 687	99 006
STANDARD BANK Upgrade road 009	603 935	694 445	968 894	603 935	694 445	968 894
STANDARD BANK Upgrade Bathurst Bulkwater supply 010	1 289 307	-	-	1 289 307	-	-
STANDARD BANK Bathurts Water 011	937 711	6 409	6 405	937 711	6 409	6 405
STANDARD BANK PMU 012	-	8 060	138 641	-	8 060	138 641
STANDARD BANK Upgrade Roads 015	-	129 389	129 010	-	129 389	129 010
STANDARD BANK LED Mobile 016	-	-	14 266	-	-	14 266
STANDARD BANK Equitable Share Councillors 017	-	2 037 722	2 281 563	-	2 037 722	2 281 563
STANDARD BANK Revolving Account 018	-	-	491 000	-	-	491 000
STANDARD BANK EPWP 019	5 847	-	-	5 847	-	-
STANDARD BANK DEDEA West Beach 020	-	-	-	-	-	-
STANDARD BANK Drought Relief 021	-	-	2 980 463	-	-	2 980 463
STANDARD BANK MIG Upgrade Sewer 022	266 013	-	-	266 013	-	-

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021		2020		
7. Cash and cash equivalents (continued)					
STANDARD BANK	722 526	-	722 526	-	-
Water Service Infrastructure 023					
STANDARD BANK	4 020 813	-	4 020 813	-	-
Drought Relief 024					
STANDARD BANK	1 373 927	-	1 373 927	-	-
EC Sports 025					
STANDARD BANK	4 011 507	-	4 011 507	-	-
Ndlambe Building Acc's 026					
	2 300 652	4 029 970	3 613 414	2 300 652	4 029 970
INVESTEC BANK	-	-	-	-	-
Call Account - Disaster 501					
INVESTEC BANK	-	16 215	-	-	16 215
Call Account - FMG 502					
INVESTEC BANK	-	400 241	-	-	400 241
Call Account - FMG 503					
INVESTEC BANK	-	-	-	-	-
Call Account - LED Essential Oil 504					
INVESTEC BANK	-	1 916	55 555	-	1 916
Call account -Chicory 506					
INVESTEC BANK	-	-	-	-	-
Call Account - Cacadu IDP 510					
INVESTEC BANK	-	902 019	1 992 200	-	902 019
Call Account-EC Sports 511					
INVESTEC BANK	464 730	223 017	678	464 730	223 017
Call Account -LG Seta 512					
INVESTEC BANK	-	30 136	114 741	-	30 136
EPWP 514					
INVESTEC BANK	-	-	-	-	-
Call Account - EC Loc Gov LED Section Assist 515					
INVESTEC BANK	-	647 864	-	-	647 864
Equitable share Councillors 516					
INVESTEC BANK	1 835 922	1 808 562	1 430 265	1 835 922	1 808 562
Call Account-PrepwaterMete523					
INVESTEC BANK	-	-	19 975	-	-
Call Account-LED Initia 524					
INVESTEC BANK Call	104 118	104 140	105 430	104 118	104 140
Account-Retention 526					
INVESTEC BANK	-	129 151	129 468	-	129 151
Call Account-DME 509					
INVESTEC BANK	-	35 723	35 811	-	35 723
Call Account-Disaster relief 529					
INVESTEC BANK	-	35 021	37 093	-	35 021
Call Acc-MIG Water Ret. 530					
	1 575 136	464 888	-	1 575 136	464 888
ABSA BANK	-	383	-	-	383
Call Account - PMU 0075					
ABSA BANK	-	(771 383)	-	-	(771 383)
Call Account - Roads 0651					
ABSA BANK	-	1 120 028	-	-	1 120 028
Call Account - Sportsfield 1801					
ABSA BANK	-	1 015	-	-	1 015
Call Account - Sewer Projects 2132					
ABSA BANK	-	114 845	-	-	114 845
Call Account - Waterworks 2417					

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand				2021	2020
7. Cash and cash equivalents (continued)					
ABSA BANK	1 575 136	-	-	1 575 136	-
Call Account - Councillors Equitable Share 3669					
ABSA BANK	-	-	-	-	-
Call Account - Revolving 9340					
ABSA BANK	9 692 211	-	-	9 692 211	-
Call Account -Additional Equitable share - Covid19 9798					
Total	77 072 253	31 161 119	45 389 576	77 072 253	30 843 265
				30 843 265	45 335 912

8. Operating lease asset & liabilities

Current assets	128 191	217 109
Current liabilities	(57 445)	(98 938)
	70 746	118 171

Operating lease liabilities result from operating leases where the municipality is the lessee and have straight lined the rental expenditure over the period of the lease in accordance with GRAP 13.

Operating lease assets result from operating leases where the municipality is the lessor and have straight lined the rental income over the period of the lease in accordance with GRAP 13. Refer to note 40 for disclosure in terms of GRAP 13 future minimum cashflows.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

9. Investment property

	2021		2020			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	268 061 990	(7 942 007)	260 119 983	268 061 990	(6 765 569)	261 296 421

Reconciliation of investment property - 2021

	Opening balance	Depreciation	Total
Land	233 814 086	-	233 814 086
Buildings	27 482 335	(1 176 438)	26 305 897
	261 296 421	(1 176 438)	260 119 983

Reconciliation of investment property - 2020

	Opening balance	Depreciation	Total
Land	233 814 086	-	233 814 086
Investment property	28 658 772	(1 176 437)	27 482 335
	262 472 858	(1 176 437)	261 296 421

Pledged as security

No Investment Property has been pledged as security.

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

Amounts recognised in surplus or deficit

Ndlambe Local Municipality
Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	82 260 691	-	82 260 691	82 260 691	-	82 260 691
Buildings	131 111 022	(31 398 914)	99 712 108	130 559 924	(27 445 202)	103 114 722
Plant and machinery	9 413 225	(6 680 135)	2 733 090	9 181 202	(5 943 796)	3 237 406
Motor vehicles	39 869 273	(24 754 800)	15 114 473	38 080 605	(22 183 600)	15 897 005
Office equipment	9 903 503	(7 359 926)	2 543 577	9 238 863	(6 516 102)	2 722 761
IT equipment	6 733 262	(4 486 883)	2 246 379	5 828 534	(3 921 451)	1 907 083
Electrical Network	145 478 276	(50 908 254)	94 570 022	145 478 277	(46 483 192)	98 995 085
Work in progress	172 567 688	-	172 567 688	58 359 892	-	58 359 892
Roads	463 289 941	(145 273 092)	318 016 849	456 788 240	(131 263 334)	325 504 906
Wastewater network	184 012 467	(45 854 457)	138 158 010	180 522 884	(39 622 525)	140 900 359
Water network	222 329 219	(110 128 441)	112 200 778	218 860 748	(99 037 830)	119 822 918
Total	1 466 968 567	(426 844 902)	1 040 123 665	1 335 139 860	(382 417 032)	952 722 828

Ndlambe Local Municipality
Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)
Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	82 260 691	-	-	-	-	-	82 260 691
Buildings	103 114 722	515 804	-	-	(3 918 418)	-	99 712 108
Plant and machinery	3 237 406	232 023	-	-	(736 339)	-	2 733 090
Motor vehicles	15 897 005	2 646 696	-	-	(3 429 228)	-	15 114 473
Office equipment	2 722 761	664 640	-	-	(843 824)	-	2 543 577
IT equipment	1 907 083	901 324	-	-	(562 028)	-	2 246 379
Electrical Network	98 995 085	-	-	-	(4 425 063)	-	94 570 022
Work in progress	58 359 892	118 365 824	(3 879 601)	(132 333)	-	(146 094)	172 567 688
Roads	325 504 906	2 642 100	3 879 601	-	(14 009 758)	-	318 016 849
Wastewater network	140 900 359	2 387 995	-	-	(5 130 344)	-	138 158 010
Water network	119 822 918	3 468 471	-	-	(11 090 611)	-	112 200 778
	952 722 828	131 824 877	-	(132 333)	(44 145 613)	(146 094)	1 040 123 665

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Transfers	Depreciation	Total
Land	82 260 691	-	-	-	82 260 691
Buildings	106 178 572	771 686	73 527	(3 909 063)	103 114 722
Plant and machinery	3 952 246	76 915	-	(791 755)	3 237 406
Motor vehicles	16 613 231	3 280 299	-	(3 996 525)	15 897 005
Office equipment	3 317 924	318 499	-	(913 662)	2 722 761
IT equipment	2 162 770	369 971	-	(625 658)	1 907 083
Electrical Network	103 420 148	-	-	(4 425 063)	98 995 085
Work in progress	40 120 104	44 699 387	(26 459 599)	-	58 359 892
Roads	323 449 163	5 263 033	10 546 736	(13 754 026)	325 504 906
Wastewater network	146 025 706	-	-	(5 125 347)	140 900 359
Water network	115 008 034	-	15 839 336	(11 024 452)	119 822 918
	942 508 589	54 779 790	-	(44 565 551)	952 722 828

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

10. Property, plant and equipment (continued)

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

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected

Construction of Reverse Osmosis plant 18 833 698
 The process was delayed due to court action over the awarding of the contract in the previous year and has subsequently moved to subsequent phases that are not significantly delayed.

- 18 833 698

Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)

Building of Library at TT Jonas Centre 146 094
 Project has not been implemented beyond the design phase, was halted during the prior year and impaired during the current year due to the project being officially terminated.

- 146 094

Reconciliation of Work-in-Progress 2021

	Included within Buildings	Included within Roads	Included within Water Network	Included within Sewerage Network	Total
Opening balance	3 012 441	3 879 601	45 238 502	6 229 348	58 359 892
Additions/capital expenditure	9 884 555	-	70 794 929	37 686 340	118 365 824
Impairment	(146 094)	-	-	-	(146 094)
Other changes, movements	-	-	-	(132 333)	(132 333)
Transferred to completed items	-	(3 879 601)	-	-	(3 879 601)
	<u>12 750 902</u>	<u>-</u>	<u>116 033 431</u>	<u>43 783 355</u>	<u>172 567 688</u>

Reconciliation of Work-in-Progress 2020

	Included within Buildings	Included within Roads	Included within Water Network	Included within Sewerage Network	Total
Opening balance	219 621	10 501 257	24 845 623	4 553 603	40 120 104
Additions/capital expenditure	2 866 347	3 925 080	36 232 215	1 675 745	44 699 387
Transferred to completed items	(73 527)	(10 546 736)	(15 839 336)	-	(26 459 599)
	<u>3 012 441</u>	<u>3 879 601</u>	<u>45 238 502</u>	<u>6 229 348</u>	<u>58 359 892</u>

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Contracted services 16 089 111 10 293 920

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

Ndlambe Local Municipality
Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

11. Intangible assets

	2021		2020	
Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment
Computer software, other	3 402 629	(3 136 260)	266 369	3 378 334
				(2 997 137)
				381 197

Reconciliation of intangible assets - 2021

Computer software, other	Opening balance	Additions	Amortisation	Total
	381 197	24 296	(139 124)	266 369

Reconciliation of intangible assets - 2020

Computer software, other	Opening balance	Amortisation	Total
	604 544	(223 347)	381 197

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

12. Heritage assets

	2021		2020			
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Conservation areas	16	-	16	16	-	16

Reconciliation of heritage assets 2021

Conservation areas	Opening balance	Total
	16	16

Reconciliation of heritage assets 2020

Conservation areas	Opening balance	Total
	16	16

Age and/or condition of heritage assets

The following information relating to age and/or condition of heritage assets is provided for better appreciation: Heritage assets all are of considerable age as they mostly relate to remains of old infrastructure, such as the pier, mooring posts and parts of ship wrecks. These have ages between 60 - 150 years.

Restrictions on heritage assets

The heritage assets, disclosed below have restrictions in terms of their disposal due to the fact that they are registered with the National Heritage Council and therefore cannot and will not be disposed of in the course of operations of the municipality.

Carrying value of heritage assets with restrictions:

Conservation	16	16
Disposal restrictions due to registration at National Heritage Council.		

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

	2021	2020
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13. Other financial assets

Designated at fair value

Listed shares	49 246	49 246
Old Mutual shares held at fair value determined at the quoted market value.		

Non-current assets

Designated at fair value	49 246	49 246
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14. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	21 860 667	21 860 667
Receivables from non-exchange transactions	-	17 796 981	17 796 981
Cash and cash equivalents	-	77 077 363	77 077 363
Other financial assets	49 246	-	49 246
	49 246	116 735 011	116 784 257

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	53 946 887	53 946 887
Financial liabilities - DBSA	6 108 255	6 108 255
	60 055 142	60 055 142

2020

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	21 971 002	21 971 002
Receivables from non-exchange transactions	-	17 944 135	17 944 135
Cash and cash equivalents	-	30 738 562	30 738 562
Other financial assets	49 246	-	49 246
	49 246	70 653 699	70 702 945

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	49 593 994	49 593 994
Financial liabilities - DBSA	8 103 376	8 103 376
	57 697 370	57 697 370

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

	2021	2020
15. Consumer deposits		
Electricity	1 709 771	1 647 810
Water	646 147	520 308
Housing rental	26 723	23 594
	2 382 641	2 191 712

16. Payables from exchange transactions

Trade payables	9 280 922	1 426 908
Payments received in advanced	6 486 978	6 197 572
Accrued leave pay	8 447 596	8 521 540
Accrued bonus	3 724 897	3 535 170
Accrued expense	4 283 231	20 699 269
Unidentified Direct Deposits	7 611 957	4 926 903
Retention monies	12 717 443	3 768 233
Overtime Accrual	678 525	466 516
Human Settlements	715 337	51 883
	53 946 886	49 593 994

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

MIG	-	-
EC Sports, Arts and Culture	1 044 562	548 123
SBDM: Fire Officers	-	482 104
EPWP	145	180
FMG	2 013	11 051
Water Services Infrastructure Grant	1 719	-
Disaster Management Grant - COVID 19	-	-
	1 048 439	1 041 458

Movement during the year

Balance at the beginning of the year	1 041 458	1 607 452
Additions during the year	57 838 000	34 979 680
Income recognition during the year	(57 831 019)	(35 545 674)
	1 048 439	1 041 458

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

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

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
18. Other financial liabilities		
At amortised cost		
DBSA Loan 101161/2 20 Years @ 10.89%	3 280 760	3 883 594
DBSA Loan 13478/101 20 Years @ 17%		421 197
DBSA Loan 102557/1 15 Years @ 8.81%	2 827 495	3 798 585
	6 108 255	8 103 376
Total other financial liabilities	6 108 255	8 103 376
Non-current liabilities		
At amortised cost	4 370 245	6 108 252
Current liabilities		
At amortised cost	1 738 010	1 995 124
19. Employee benefit obligations		
Defined benefit plan		
Post retirement medical aid plan		
The amounts recognised in the statement of financial position are as follows:		
Carrying value of defined benefit obligation-wholly unfunded		
Present value of the defined benefit obligation-wholly unfunded	(52 499 290)	(59 171 458)
Benefits paid during the year	2 676 070	2 120 221
Current service costs	(2 490 020)	(2 372 632)
Interest Costs	(5 543 332)	(5 444 976)
Actuarial Gain/(Loss)	(2 116 428)	12 369 555
	(59 973 000)	(52 499 290)
Non-current liabilities	(57 442 000)	(49 965 253)
Current liabilities	(2 531 000)	(2 534 037)
	(59 973 000)	(52 499 290)
The fair value of plan assets includes:		
Net expense recognised in the statement of financial performance		
Current service cost	2 490 020	2 372 632
Interest cost	5 543 332	5 444 976
Actuarial (gains) losses	2 116 428	(12 369 555)
Benefits paid during the year	(2 676 070)	(2 120 221)
	7 473 710	(6 672 168)

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

19. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10.03 %	10.82 %
General earnings inflation rate (long term)	4.71 %	5.33 %
Health cost inflation rate (health cost trend)	6.78 %	6.83 %
Net discount rate	3.04 %	3.73 %
Average retirement age (Years)	62	62

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

19. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on defined benefit obligation - movement in health care inflation	66 411 000	53 396 000
Effect on Interest Costs - movement in health care inflation	6 345 814	4 880 081
Effect on Service Costs - movement in health care inflation	3 036 559	2 058 948

Amounts for the current and previous four years are as follows:

	2021	2020	2019	2018	2017
Defined benefit obligation	(59 973 000)	(52 499 290)	(59 171 458)	(62 299 488)	(60 823 620)

Long Service Awards

Ndlambe Municipality offers long service bonus awards to active employees, the amount of which is dependent on the annual salary of the individual employee. Councillors are not eligible for this benefit and were not taken into account. The award comprises of a percentage of their annual salaries as well as additional leave days to employees at the end of the specified time period.

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

Carrying value of the defined benefit obligation-wholly unfunded

Present value of the defined benefit obligation-wholly unfunded	(6 817 936)	(6 980 880)
Benefits paid during the year	340 886	479 460
Current service costs	(764 911)	(816 169)
Interest Costs	(501 104)	(509 874)
Actuarial Gain/(Loss)	(409 935)	1 009 527
	(8 153 000)	(6 817 936)
Non-current liabilities	(6 916 000)	(5 998 011)
Current liabilities	(1 237 000)	(819 925)
	(8 153 000)	(6 817 936)

The fair value of plan assets includes:

Net expense recognised in the statement of financial performance

Current service cost	764 911	816 169
Interest cost	501 104	509 874
Actuarial (gains) losses	409 935	(1 009 527)
Benefits paid during the year	(340 886)	(479 460)
	1 335 064	(162 944)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	8.98 %	7.82 %
General earnings inflation rate (long term)	5.74 %	3.86 %

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
19. Employee benefit obligations (continued)		
Net discount rate	3.07 %	3.81 %
Average retirement age (Years)	62	62

Other assumptions

Assumed inflation & discount trends have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed discount rates would have the following effects:

	One percentage point increase	One percentage point decrease
Effect on Long service Award - discount rate	8 622 000	7 731 000
Effect on Interest Costs - discount rate	712 000	640 000
Effect on Service Costs - discount rate	913 000	1 022 000

Amounts for the current and previous four years are as follows:

	2021	2020	2019	2018	2017
Defined benefit obligation	(8 153 000)	(6 817 936)	(6 980 880)	(6 278 398)	(6 266 372)

Summary of Employee benefit obligations

The Employee benefit obligations disclosed above can be summarised as follows:

Current Liabilities - Employee benefit obligations

Post retirement medical aid plan	2 531 000	2 534 037
Long service awards	1 237 000	819 925
	3 768 000	3 353 962

Non-Current Liabilities - Employee benefit obligations

Post retirement medical aid plan	57 442 000	49 965 253
Long Service Awards	6 916 000	5 998 011
	64 358 000	55 963 264

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

20. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Fair Value Adjustments	Interest costs/Unwinding of Interest	Total
Environmental rehabilitation	52 584 866	7 395 161	3 812 403	63 792 430

Reconciliation of provisions - 2020

	Opening Balance	Fair Value Adjustments	Interest costs/Unwinding of Interest	Total
Environmental rehabilitation	40 155 415	8 313 521	4 115 930	52 584 866
Non-current liabilities			50 133 550	39 643 715
Current liabilities			13 658 880	12 941 151
			63 792 430	52 584 866

Ndlambe Municipality operates 10 landfill sites which by law will have to be permitted and closed in accordance with the "Minimum Requirements" and in accordance with the Environment Conservation Act. (Act no.73 of 1989) Closure will involve, inter alia, the application of final cover, topsoiling, vegetating, drainage maintenance and leachate management.

Closure of the landfill sites are dependant on a number of external factors, such as amongst others, waste minimisation and population changes. During the prior year there has been a court order to affect the closure of the Bushmens' landfill site, thereby directly affecting the provision estimation as the closure is now projected within the timeframes set out by the court ruling.

The site assessments and provision calculation was conducted by Bosch Munitech.

21. Revenue

Burial services	407 750	375 306
Service charges	149 607 704	137 689 720
Rental of facilities and equipment	667 429	34 584
Interest received - trade and other receivables	4 739 159	5 448 742
Licences and permits (Exchange transactions)	2 981 737	1 944 400
Housing debtor income	1 543 583	2 338 455
Licences and Permits (Non-exchange)	984 234	1 171 779
Other income	4 780 265	2 390 517
Interest received - investment	2 942 458	3 919 309
Property rates	124 563 224	119 177 412
Environmental levies	4 673 053	4 406 567
Interest, Dividends and Rent on Land	1 726 274	3 138 798
Government grants & subsidies	288 142 632	137 495 007
Public contributions and donations	1 366 921	363 571
Fines, Penalties and Forfeits	371 854	246 342
	589 498 277	420 140 509

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

21. Revenue (continued)

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

Service charges	149 607 704	137 689 720
Burial services	407 750	375 306
Rental of facilities and equipment	667 429	34 584
Interest received - trade and other receivables	4 739 159	5 448 742
Licences and permits	2 981 737	1 944 400
Housing debtor income	1 543 583	2 338 455
Other income	4 780 265	2 390 517
Interest received - investment	2 942 458	3 919 309
	167 670 085	154 141 033

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

Taxation revenue

Property rates	124 563 224	119 177 412
Licences and permits	984 234	1 171 779
Environmental levies	4 673 053	4 406 567
Interest, Dividends and Rent on Land	1 726 274	3 138 798

Transfer revenue

Government grants & subsidies	288 142 632	137 495 007
Public contributions and donations	1 366 921	363 571
Fines, Penalties and Forfeits	371 854	246 342

421 828 192 **265 999 476**

22. Service charges

Sale of electricity	69 753 222	67 853 942
Sale of water	50 331 182	42 191 118
Solid waste	16 411 584	15 379 582
Sewerage and sanitation charges	13 111 716	12 265 078
	149 607 704	137 689 720

23. Other income

Building plan fees	2 391 433	1 308 891
Encroachments	2 428	2 018
Insurance claim refund	-	237 720
Refund received - SALA	1 319 734	-
Subdivisions	69 110	39 261
Sundry income	634 410	459 893
Town planning income	125 188	88 434
Camping fees	156 324	254 300
Funds collected - New Republic Bank	81 638	-
	4 780 265	2 390 517

Funds collected - New Republic Bank relates to monies received from the sequestration and liquidation process undertaken by the administrators. The bank accounts were fully impaired previously and these monies represent recoveries from this process.

24. Investment revenue

Interest revenue

Bank	2 942 458	3 919 309
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Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
25. Property rates		
Rates received		
Property rates	<u>124 563 224</u>	<u>119 177 412</u>
Valuations		
All	<u>14 154 174 842</u>	<u>14 179 131 174</u>

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
26. Government grants and subsidies		
Operating grants		
Unconditional: Equitable share	99 534 000	93 156 914
Unconditional: Equitable share: Cllrs & Ward Contribution	4 267 000	3 559 086
Unconditional: Equitable share: Covid-19	16 419 000	-
Unconditional: LG SETA Grants	241 094	263 659
Unconditional: SBDM Grant Revenue	-	146 400
Unconditional: Environmental Health Subsidy	1 550 000	1 465 200
Financial Management Grant	2 809 038	2 425 499
SBDM: Fire Officers	482 104	-
Chicory Grants	-	29 310
Municipal Infrastructure Grant	1 345 955	1 359 285
Library Grant (DSRAC)	2 253 561	2 877 819
Expanded Public works Prog Grant(EPWP) (operating)	-	171 213
Disaster Management Grant - COVID19	-	1 043 000
	128 901 752	106 497 385
Capital grants		
Unconditional: OTP Grant	27 272 691	3 166 787
Unconditional: SBDM Grant	-	192 825
Unconditional: Regional Bulk Infrastructure Grant (RBIG)	61 534 828	-
Unconditional: Department of Co-operative Governance and Traditional Affairs	19 493 000	-
Water Services Infrastructure Grant (Capital)	14 998 280	-
Library Grant (DSRAC) (Capital)	-	872 570
Municipal Infrastructure Grant (Capital)	34 741 045	25 934 178
Expanded Public Works Prog Grant (EPWP) (Capital)	1 201 036	831 262
	159 240 880	30 997 622
	288 142 632	137 495 007
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	57 838 000	34 979 680
Unconditional grants received	230 311 613	101 952 076
	288 149 613	136 931 756
Unconditional: Equitable share: Covid-19		
Current-year receipts transferred to revenue	16 419 000	-
Expenditure	(7 591 159)	-
Roll-over application	(8 827 841)	-
	-	-

The unconditional grant for COVID-19 Equitable share allocation has been disclosed in terms of circular 108. This facilitates the disclosure of expenditure incurred on this grant. The grant is unconditional, as there is no stipulations as defined in GRAP 23 attached to this grant.

Refer to Note 52 for a breakdown of the expenditure that the COVID 19 grant was utilised for. Classification has been made in accordance with the intended function as specified in the DoRA.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

26. Government grants and subsidies (continued)

MIG

Current-year receipts	36 087 000	27 295 000
Conditions met - transferred to revenue	(36 087 000)	(27 295 000)
	-	-

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

EC Sports/Arts and Culture

Balance unspent at beginning of year	548 123	1 548 512
Current-year receipts	2 750 000	2 750 000
Conditions met - transferred to revenue	(2 253 561)	(3 750 389)
	1 044 562	548 123

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

SBDM: Fire Officers

Balance unspent at beginning of year	482 104	27 424
Current-year receipts	-	454 680
Conditions met - transferred to revenue	(482 104)	-
	-	482 104

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

EPWP: Public Works

Balance unspent at beginning of year	180	656
Current-year receipts	1 201 000	1 002 000
Conditions met - transferred to revenue	(1 201 035)	(1 002 476)
	145	180

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

FMG

Balance unspent at beginning of year	11 051	1 550
Current-year receipts	2 800 000	2 435 000
Conditions met - transferred to revenue	(2 809 038)	(2 425 499)
	2 013	11 051

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

Water Services Infrastructure Grant

Current-year receipts	15 000 000	-
Conditions met - transferred to revenue	(14 998 281)	-
	1 719	-

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

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021 2020

26. Government grants and subsidies (continued)

Disaster Management Grant - COVID 19

Current-year receipts	-	1 043 000
Conditions met - transferred to revenue	-	(1 043 000)
	-	-

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

27. Public contributions and donations

Sarah Baartman District Municipality - cash	1 200 000	-
Sarah Baartman District Municipality - PPE	-	25 056
South African Library for the Blind	166 921	-
Department of Water and Sanitation	-	278 525
Department of Co-operative Governance and Traditional Affairs	-	59 990
	1 366 921	363 571

Sarah Baartman District Municipality donated the following funds during the current financial - :

Cash donation towards the acquisition of a Vacuum tanker:	R 500 000
Cash donation towards the acquisition of a Water tanker:	R 400 000
Cash donation towards SMME support:	R 300 000

The South African Library for the Blind donated the following assets during the current financial year -

IT Equipment to the value of:	R 103 493
Office equipment to the value of:	R 39 132
Specialised computer software - Intangible assets to the value of:	R 24 296

Sarah Baartman District Municipality donated the following assets during the previous financial year -

Computer equipment to the value of:	R 25 056
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Department of Co-operative Governance and Traditional Affairs (COGTA) donated the following assets during the previous financial year

Water tanks classified in WIP to the value of:	R 59 990
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Department of Water and Sanitation (DWS) donated the following assets during the previous financial year

Water tanks classified in WIP to the value of:	R 128 550
Water tanks classified in WIP to the value of:	R 149 975

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

28. Employee related costs

	2021	2020
Basic	89 102 888	82 976 677
Bonus	7 510 552	6 926 302
Allowances	4 784 373	5 131 004
Post-employment benefits	25 618 957	9 852 476
Medical aid - company contributions	11 869 118	10 758 968
UIF	889 709	848 377
Leave pay provision charge	574 125	577 347
Overtime payments	9 986 684	12 196 898
Car allowance	3 687 020	2 855 675
Housing benefits and allowances	607 078	842 922
Group insurance	249 384	222 306
Industrial levy	77 613	69 294
	154 957 501	133 258 246

Remuneration of municipal manager

Annual Remuneration	1 239 082	1 125 841
Backpay	61 050	930 345
Car Allowance	180 569	175 986
Performance Bonuses	-	63 213
Contributions to UIF, Medical and Pension Funds	270 864	246 909
Telephone allowance	15 940	15 535
13th Cheque	106 235	179 395
Leave Pay	94 302	153 343
	1 968 042	2 890 567

Remuneration of chief finance officer

Annual Remuneration	932 950	848 654
Backpay	48 872	443 425
Acting allowance	-	70 165
Car Allowance	184 688	180 000
Performance Bonuses	-	18 775
Contributions to UIF, Medical and Pension Funds	222 428	204 242
Telephone allowance	24 625	24 000
13th Cheque	78 244	109 101
Leave pay	97 584	129 840
	1 589 391	2 028 202

Remuneration of director Infrastructural Development

Annual Remuneration	919 309	839 153
Backpay	49 135	563 517
Car Allowance	209 313	204 000
Performance Bonuses	-	31 812
Contributions to UIF, Medical and Pension Funds	207 292	182 838
Telephone Allowance	36 938	36 000
13th Cheque	70 720	108 664
Leave pay	65 101	101 693
	1 557 808	2 067 677

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
28. Employee related costs (continued)		
Remuneration of director Corporate Services		
Annual Remuneration	993 859	897 183
Backpay	49 000	446 005
Acting allowance	69 925	101 285
Car Allowance	147 750	144 000
Performance Bonuses	70 706	56 067
Contributions to UIF, Medical and Pension Funds	207 073	199 498
Telephone allowance	12 313	12 000
13th Cheque	83 626	113 037
Leave pay	76 981	103 457
	1 711 233	2 072 532
Remuneration of director Community Protection Services		
Annual Remuneration	934 128	851 894
Backpay	48 872	537 841
Acting allowance	-	5 325
Car Allowance	184 688	180 000
Performance Bonuses	-	66 399
Contributions to UIF, Medical and Pension Funds	221 912	203 247
Telephone allowance	24 625	24 000
13th Cheque	78 366	117 153
Leave pay	72 139	91 802
	1 564 730	2 077 661
Reconciliation of employee costs		
Employee costs - ex S57 managers	154 957 501	133 258 246
Remuneration of municipal manager	1 968 042	2 890 567
Remuneration of chief financial officer	1 589 391	2 028 202
Remuneration of director Infrastructural Development	1 557 808	2 067 677
Remuneration of director Corporate Services	1 711 233	2 072 532
Remuneration of director Community Protection Services	1 564 730	2 077 661
	163 348 705	144 394 885
29. Remuneration of councillors		
Executive Major	894 911	880 951
Speaker	723 436	723 625
Executive Members	1 192 524	1 192 851
Councillors	4 736 654	4 676 640
	7 547 525	7 474 067
In-kind benefits		
The Mayor and Speaker are full-time. Each is provided with an office and secretarial support at the cost of the Council.		
The Mayor and the Speaker each have the use of separate Council owned vehicles for official duties.		

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021 2020

30. Depreciation and amortisation

Property, plant and equipment	44 145 613	44 565 551
Investment property	1 176 438	1 176 437
Intangible assets	139 124	223 347
	45 461 175	45 965 335

31. Finance costs

Non-current borrowings	754 398	1 036 126
Landfill Rehabilitation - Interest Cost	3 812 403	4 115 930
	4 566 801	5 152 056

32. Debt impairment

Electricity	1 037 904	2 139 429
Water	21 442 501	15 971 549
Refuse	4 187 248	4 219 538
Waste Water	4 294 565	3 746 710
Service charges	1 809 069	1 920 519
Housing debtors	(61 071)	497 880
Rates	2 285 745	7 217 306
Environmental levies	1 463 280	1 597 788
	36 459 241	37 310 719

33. Bulk purchases

Electricity - Eskom	50 646 614	49 779 984
Water	14 943 766	11 779 356
	65 590 380	61 559 340

34. Contracted services

Outsourced Services	9 039 172	8 893 593
Consultants and Professional Services	38 746 441	27 684 465
Contractors	26 483 120	22 045 237
	74 268 733	58 623 295

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
35. General expenses		
Advertising	864 662	595 075
Auditors remuneration	4 329 517	3 611 663
Bank charges	865 843	784 157
Commission paid	1 939 596	2 377 680
Delivery expenses	3 257	6 125
Electricity	11 612 514	13 442 403
Entertainment	-	3 049
Fines and penalties	16 300	23 860
Fuel and oil	5 031 521	5 002 753
Hire	7 844 587	8 394 167
IT expenses	4 738 626	3 534 180
Insurance	2 246 212	2 019 828
Levies	1 265 117	1 120 991
Other expenses	2 830 202	2 279 599
Other materials	9 432 751	8 361 963
Placement fees	-	10 423
Postage and courier	929 531	998 575
Printing and stationery	65 250	88 148
Protective clothing	1 472 303	1 047 910
Subscriptions and membership fees	1 591 160	1 554 787
Telephone and fax	1 402 739	2 859 052
Title deed search fees	60 464	99 078
Transport and Freight	-	592 524
Travel - local	818 441	2 309 997
	59 360 593	61 117 987
36. Fair value adjustments		
Other financial assets		
• Old Mutual shares		(10 143)
• FV Adjustment of Landfill rehabilitation provision	(7 395 161)	(8 313 520)
• Write-down of Water & Game Inventory	(117 568)	-
	(7 512 729)	(8 323 663)
37. Impairment of assets		
Impairments		
Property, plant and equipment	146 094	-
The Building of Library at TT Jonas Centre did not go pass the design phase and the project is not proceeding.		
38. Auditors' remuneration		
Fees	4 329 517	3 611 663

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021 2020

39. Cash generated from operations

Surplus (deficit)	118 377 013	(15 499 695)
Adjustments for:		
Depreciation and amortisation	45 461 175	45 965 335
Loss on sale of assets and liabilities	(1 041 457)	-
Fair value adjustments	7 512 729	8 323 663
Impairment deficit	146 094	-
Debt impairment	36 459 241	37 310 719
Movements in operating lease assets and accruals	47 425	89 080
Movements in retirement benefit assets and liabilities	8 808 774	(6 835 112)
Movements in provisions	3 694 835	4 105 787
Other non-cash items - Donated assets	(166 921)	(363 571)
Asset movement	132 333	-
Changes in working capital:		
Inventories	202 716	(145 560)
Receivables from exchange transactions	(3 638 690)	(48 678 483)
Receivables from non-exchange transactions	(32 563 062)	6 322 778
Other receivables	-	11 416
Payables from exchange transactions	4 352 915	14 167 710
VAT	(9 008 312)	(2 270 580)
Unspent conditional grants and receipts	6 981	(565 994)
Consumer deposits	190 929	61 482
	178 974 718	41 998 975

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

	2021	2020
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40. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	57 952 779	41 124 341
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Total capital commitments

Already contracted for but not provided for	57 952 779	41 124 341
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This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	648 021	1 186 520
- in second to fifth year inclusive	313 935	578 183
	961 956	1 764 703

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

Operating leases - as lessor (income)

Minimum lease payments due

- within one year	310 231	294 909
- in second to fifth year inclusive	44 120	347 276
- later than five years	7 508	11 720
	361 859	653 905

Certain of the municipality's properties are held to generate rental income. Lease agreements are non-cancellable and have terms from 3 to 20 years. There are no contingent rents receivable.

41. Contingencies

Campbell and Shelton vs Ndlambe LM- The claimant has instituted proceedings to suspend all approvals for building development on wetland area in Port Alfred. The financial effect of this cannot be determined.

KOSRA, Bushmans Kariega Estuary Care Management Forum & Natures Landing Homeowners Association vs Ndlambe LM - Legal proceedings have been instituted against the municipality regarding the state of the landfill site at Bushmans River Mouth and to put measures in place to rectify the state of the landfill. The financial effect of this cannot be estimated as the financial claim has not been made.

Agri EC vs Ndlambe Municipality & others - Agric EC has taken Ndlambe Municipality to court to force the municipality to apply its by-laws. This matter is ongoing, but as a financial claim was not made, the financial effect cannot be estimated.

McNamara and others vs Ndlambe municipality - McNamara and others have taken Ndlambe Municipality to court to enforce the municipality to ensure that wetland fencing have been erected, as was removed by another party. The matter is in ongoing, but a financial claim has not been made, the financial effect cannot therefore be estimated.

MEB Energy (Pty) Ltd vs Ndlambe Municipality - Legal proceedings were instituted by MEB, contesting the awards process of the RO plant award. Initially, the courts ruled in favour of Ndlambe Municipality as the matter was not considered urgent. The subsequent matter however was ruled in favour of MEB. This judgement was awarded with costs, yet the determination of this is still outstanding and a reasonable estimate of this costs has not been made.

Litigation is in the process against the municipality relating to various matters. The total estimated potential liability to the municipality at 30 June 2021 & 30 June 2020 cannot be determined reliably.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

42. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Close family member of key management	MG Ncamiso (husband of Mayor Ncamiso) Sole shareholder of Nakhe Security and Cleaning Solutions 50% Shareholder of Genkorald General Trading
	XM Ncamiso (son of Mayor Ncamiso) 50% Shareholder of Genkorald General Trading
Members of key management as defined in GRAP 20	1. Members of Council Full names and remuneration details provided below 2. Section 57 managers Remuneration details provided in note 29

Related party balances

Amounts included in Trade Payable regarding related parties

Nakhe Security and cleaning (Pty) Ltd - arm's length	-	90 000
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The amounts are unsecured and no security has been given.

Related party transactions

Capital expenditure from related parties - Property, plant and Equipment

Genkorald General Trading (Pty) Ltd - arm's length	624 515	-
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Purchases from related parties - Security services

Nakhe Security and cleaning (Pty) Ltd - arm's length	707 500	812 000
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Purchases from related parties - building maintenance

Genkorald General Trading (Pty) Ltd - arm's length	-	29 850
Nakhe Security and cleaning (Pty) Ltd - arm's length	21 674	-

Purchases from related parties- refuse collection services

Genkorald General Trading (Pty) Ltd - arm's length	-	28 750
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Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

42. Related parties (continued)

Remuneration of management

Management class: Council

2021

Name	Allowance	Transport	Telephone	Medical Aid	Pension	Total
Mayor - KC Ncamiso	562 893	189 504	40 800	17 280	84 434	894 911
Speaker - NV Maphaphu	541 377	83 376	40 800	17 280	40 603	723 436
Executive member - T Mazana	278 400	78 180	40 800	-	-	397 380
Executive member - N Xhasa	259 335	78 180	40 800	-	19 450	397 765
Executive member - LR Schenk	278 400	78 180	40 800	-	-	397 380
Chief Whip - AL Marasi	170 428	56 856	40 800	17 280	25 564	310 928
MPAC Chair - TM Bunge	249 577	78 180	40 800	-	18 718	387 275
Councillor - N Gamlashe	185 492	56 856	40 800	-	27 823	310 971
Councillor - CB James	182 119	56 856	40 800	17 280	13 659	310 714
Councillor - A Ngosha	212 787	56 856	40 800	-	-	310 443
Councillor - M Raco	198 215	56 856	40 800	-	14 867	310 738
Councillor - MW Yali	198 215	56 856	40 800	-	14 867	310 738
Councillor - M Mateti	185 492	56 856	40 800	-	27 823	310 971
Councillor - K Daweti	198 215	56 856	40 800	-	14 867	310 738
Councillor - PY Kani	212 787	56 856	40 800	-	-	310 443
Councillor - JP Guest	212 787	56 856	40 800	-	-	310 443
Councillor - S Venene	212 787	56 856	40 800	-	-	310 443
Councillor - T Mbekela	198 215	56 856	40 800	-	14 867	310 738
Councillor - X Runeli	198 027	56 856	40 800	-	14 852	310 535
Councillor - SI Melani	198 027	56 856	40 800	-	14 852	310 535
	4 933 575	1 381 584	816 000	69 120	347 246	7 547 525

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

42. Related parties (continued)

2020

Name	Allowance	Backpay	Transport	Telephone	Medical aid	Pension	Total
Mayor - KC Ncamiso	522 169	27 592	184 974	39 265	15 840	78 325	868 165
ex-Mayor - P Faxi	7 674	-	2 548	548	1 440	576	12 786
Speaker - NV Maphaphu	521 019	22 073	83 376	40 800	17 280	39 076	723 624
Executive member - T Mazana	266 969	11 545	78 180	40 800	-	-	397 494
Executive member - T Xhasa	248 687	11 545	78 180	40 800	-	18 651	397 863
Executive member - LR Schenk	266 969	11 545	78 180	40 800	-	-	397 494
Chief Whip - AL Marasi	162 892	8 732	56 856	40 800	17 280	24 434	310 994
MPAC Chair - TM Bunge	239 245	11 204	78 180	40 800	17 943	-	387 372
Councillor - N Gamlashe	177 955	8 732	56 856	40 800	-	26 693	311 036
Councillor - CB James	184 828	8 664	56 856	40 800	8 640	13 862	313 650
Councillor - A Ngosha	204 142	8 732	56 856	40 800	-	-	310 530
Councillor - M Raco	190 162	8 732	56 856	40 800	-	14 262	310 812
Councillor - MW Yali	190 162	8 732	56 856	40 800	-	14 262	310 812
Councillor - ME Njibana	44 112	-	14 214	10 200	-	6 617	75 143
Councillor - M Mateti	177 955	8 732	56 856	40 800	-	26 693	311 036
Councillor - K Daweti	190 162	8 732	56 856	40 800	-	14 262	310 812
Councillor - PY Kani	204 142	8 732	56 856	40 800	-	-	310 530
Councillor - JP Guest	204 142	8 732	56 856	40 800	-	-	310 530
Councillor - S Venene	204 142	8 732	56 856	40 800	-	-	310 530
Councillor - T Mbekela	190 162	8 732	56 856	40 800	-	14 262	310 812
Councillor - X Runeli	190 131	8 562	56 856	40 800	-	14 260	310 609
Councillor - SI Melani	108 504	4 281	31 332	22 484	-	4 832	171 433
	4 696 325	213 063	1 368 292	806 897	78 423	311 067	7 474 067

Also refer to note "Remuneration of councillors" Note 28

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

43. Prior period errors & reclassification

The correction of the errors results in adjustments as follows:

2020 Closing balance / 2021 Opening balances:

Statement of Financial Position	Previously reported	Adjustment	As restated	Reference
Inventories	1 295 966	1 650	1 297 616	1
Receivables from Non-exchange Transactions	27 960 653	(10 016 518)	17 944 135	2
Receivables from Exchange Transactions	10 769 733	11 201 269	21 971 002	3
Investment Property	184 053 335	77 243 086	261 296 421	4
Property, plant and Equipment	963 354 431	(10 631 603)	952 722 828	5
Payables from exchange transactions	(55 928 372)	6 334 378	(49 593 994)	6
Unspent Conditional grants and receipts	(1 172 988)	131 530	(1 041 458)	7
VAT Payable/Receivable	(6 866 396)	11 753 395	4 886 999	8
Accumulated surplus	(1 032 556 374)	(86 017 187)	(1 118 573 561)	9
	90 909 988	-	90 909 988	

1 - Inventories - Statement of Financial Position

Previously reported 2020 balance	1 295 966
Raise of additional Accruals 2020	1 650
Restated 2020 Closing balance	1 297 616

2 - Receivables from Non-Exchange transactions - Statement of Financial Position

Previously reported 2020 balance	27 960 653
Correction of provision for doubtful debts between exchange and non-exchange	(10 016 518)
Restated 2020 Closing balance	17 944 135

3 - Receivables from exchange transactions - Statement of Financial Position

Previously reported 2020 balance	10 769 733
Classification of Consumer debtors balances	10 016 519
Correction of Service charges migration misstatement	1 184 750
Restated 2020 Closing balance	21 971 002

4 - Investment Property - Statement of Financial Position

Previously reported 2020 balance	184 053 335
Recognition of land parcels previously omitted	77 243 086
Restated 2020 Closing Balance	261 296 421

5 - Property, plant and equipment - Statement of Financial Position

Previously reported 2020 balance	963 354 431
Raise of additional Accruals 2020	441 826
Reversal of RO Plant accrual	(10 434 624)
Raise retention on RO plant	1 883 370
Reversal of Input VAT not claimed	(2 542 549)
Additional retention payable identified	163 766
Correction of Roads cost	51 398
Net - write off of water tanks not identified as assets	(321 375)
Correction of misallocation Cost - Buildings	8 670 125
Correction of misallocation Accumulated depreciation - Buildings	(8 670 125)
Correction of Accumulated depreciation across asset classes	126 585
Restated 2020 Closing Balance	952 722 828

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

43. Prior period errors & reclassification (continued)

6 - Payables from exchange transactions - Statement of Financial Position

Previously reported 2020 balance	(55 928 372)
Raise of additional Accruals 2020	(2 438 574)
Reversal of RO Plant accrual	10 434 624
Raise retention on RO plant	(2 165 875)
Raise additional retention identified	(188 331)
Correction of Leave accrual for 2020	692 534
Restated 2020 Closing Balance	(49 593 994)

7 - Unspent conditional grants and receipts - Statement of Financial Position

Previously reported 2020 balance	(1 172 988)
Correction of MSIG balance not to be recognised	41
Correction of Municipal disaster grant not to be recognised	4 777
Correction of LG SETA Grant not to be recognised	49 735
Correction of DME Grant not to be recognised	2 967
Correction of SBDM LED Grant not to be recognised	39 064
Correction of EC Greenest Town Grant not to be recognised	34 946
Restated 2020 Closing Balance	(1 041 458)

8 - VAT (Payable)/Receivable - Statement of Financial Position

Previously reported 2020 balance	(6 866 396)
Raise of additional Accruals 2020	256 937
VAT on retention raised on RO plant	282 505
Raising Input VAT not claimed	2 542 549
VAT on provision for doubtful debt, pre 2020	7 161 074
VAT on provision for doubtful debt - 2020	1 485 764
VAT on additional retention raised	24 565
Restated 2020 Closing balance	4 886 998

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

43. Prior period errors & reclassification (continued)

9 - Accumulated Surplus - Statement of Financial Position

Previously reported 2020 Opening balance	(1 048 081 387)
Effect of opening balance corrections relating to -	(85 991 869)
Correction of Roads costs	(51 398)
VAT on provision for doubtful debt, pre 2020	(7 161 074)
Overstatement of previously recognised provision for doubtful debts at 2019	(93 446)
Recognition of land parcels previously omitted	(77 243 086)
Correction of useful lives PPE - prior to 2018	(126 585)
Correction of Service charges migration misstatement	(1 184 750)
Correction of Grants incorrectly brought forward	(131 530)
RESTATED 2019/20 OPENING BALANCE	(1 134 073 256)
RESTATED 2019/20 (Surplus)/Deficit	15 499 695
Previously reported Surplus	15 525 013
Net corrections as per 2019/20 Statement of Financial Performance (see below)	(25 318)
RESTATED 2019/20 CLOSING BALANCE	(1 118 573 561)

2020 Comparative restatements

Statement of Financial Performance	Previously reported	Adjustment DT/(CT)	As restated	Reference
REVENUE				
Public contributions and donations	153 606	(209 965)	363 571	
EXPENDITURE				
Employee related costs	(145 087 419)	(692 534)	(144 394 885)	ii
Debt Impairment	(38 703 039)	(1 392 320)	(37 310 719)	iii
Bulk purchases	(61 420 962)	138 378	(61 559 340)	iv
Contracted services	(57 113 109)	1 510 186	(58 623 295)	v
General expenses	(60 497 050)	620 937	(61 117 987)	vi
	(362 667 973)	(25 318)	(362 642 655)	

i) Public Contributions and Donations - Statement of Financial Performance

As previously reported	153 606
Recognition of additional Donations identified	209 965
Reclassification of SBDM donation to DWS	(128 550)
Reclassification of SBDM donation to DWS	128 550
	363 571

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

43. Prior period errors & reclassification (continued)

ii) Employee related costs - Statement of Financial Performance

As previously reported

Correction of classification of licence and levies as non-exchange revenue

Correction of prior period accrual - 2020

-
(145 087 419)
692 534
(144 394 885)

iii) Debt Impairment - Statement of Financial Performance

As previously reported

VAT on provision for doubtful debt - 2020

Effect of decrease in provision raised

(38 703 039)
1 485 764
(93 444)
(37 310 719)

iv) Bulk Purchases - Statement of Financial Performance

As previously reported

Additional Accruals raised 2020

(61 420 962)
(138 378)
(61 559 340)

v) Contracted Services - Statement of Financial Performance

As previously reported

Additional Accruals raised 2020

(57 113 109)
(1 510 186)
(58 623 295)

vi) General Expenses - Statement of Financial Performance

As previously reported

Additional Accruals raised 2020

Expensing Water tanks received

(60 497 050)
(89 597)
(531 340)
(61 117 987)

The following disclosures have been restated:

Unauthorised expenditure - Note 44

Previous Disclosure

Opening balance - 2019/20

Add: Unauthorised Expenditure - current year

237 476 069
70 955 368
308 431 437

New disclosure

Opening balance - 2019/20

Add: Unauthorised Expenditure - current year

237 476 069
70 283 110
307 759 179

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

43. Prior period errors & reclassification (continued)

Irregular expenditure - Note 46

Previous Disclosure

Opening balance - 2019/20	556 180 038
Add: Irregular Expenditure - current year	55 338 298
Less: Amount written off - current	(222 151 354)
	<u>389 366 982</u>

New disclosure

Opening balance restated - 2019/20	572 411 958
Add: Irregular Expenditure - current year	95 415 907
Less: Amount written off - current	(222 151 354)
	<u>445 676 511</u>

44. Unauthorised expenditure

Opening balance as previously reported	307 759 179	237 476 069
Opening balance as restated	307 759 179	237 476 069
Add: Expenditure identified - current	33 203 257	-
Add: Expenditure identified - prior period	-	70 283 110
Less: Condoned by council	(237 308 708)	-
Closing balance	103 653 728	307 759 179

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

Non-cash	33 129 358	63 679 794
Cash	73 899	6 603 316
	<u>33 203 257</u>	<u>70 283 110</u>

Unauthorised expenditure: Budget overspending – per municipal department:

Executive and Council	-	469 965
Finance: Budget and Treasury	7 009 451	2 590 986
Waste Management	8 538 521	18 165 271
Electricity	4 070 996	9 063 675
Water	3 028 686	17 367 742
Waste Water Management	4 566 276	5 072 309
Technical	956 007	17 553 162
Corporate Services	4 959 421	-
Finance - Supply Chain	73 899	-
	<u>33 203 257</u>	<u>70 283 110</u>

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021 2020

45. Fruitless and wasteful expenditure

Opening balance as previously reported	11 055 970	11 044 162
Opening balance as restated	11 055 970	11 044 162
Add: Expenditure identified - current	60 601	-
Add: Expenditure identified - prior period	-	11 808
Less: Amount written off - current	(11 037 052)	-
Closing balance	79 519	11 055 970

Fruitless and wasteful expenditure incurred in the current year was due to fines on municipal vehicles, late payments and payment to the account of an incorrect casual worker.

Fruitless and wasteful prior year expenditure was incurred as a result of interest charged on late payments.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
46. Irregular expenditure		
Opening balance as previously reported	445 676 511	556 180 038
Correction of prior period error	-	16 231 920
Opening balance as restated	445 676 511	572 411 958
Add: Irregular Expenditure - current	187 491 702	-
Add: Irregular Expenditure - prior period	-	95 415 907
Less: Amount written off - prior period	-	(222 151 354)
Closing balance	633 168 213	445 676 511
Incidents/cases identified in the current year include those listed below:		
	Disciplinary steps taken/criminal proceedings	
- Supply Chain Management Regulation and/or Policy Deviations	Items will be referred to MPAC for Investigation and the need for criminal proceedings to be determined.	187 491 702
-Lack of Supporting documentation	Goods and/or services were received in all instances and none of the payments were made in vain.	
- Deviations not in accordance with S36 of the SCM regulations		
		187 491 702
47. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	1 583 112	1 474 079
Current year subscription / fee	1 727 176	1 583 112
Amount paid - current year	(1 583 060)	(1 474 079)
	1 727 228	1 583 112
Audit fees		
Opening balance	6 888	-
Current year subscription / fee	4 951 750	4 011 161
Amount paid - current year	(4 948 644)	(4 004 273)
Credit note	(1 179)	-
	8 815	6 888
PAYE and UIF		
Amount paid - current year	18 366 273	20 209 724
Pension and Medical Aid Deductions		
Amount paid - current year	28 373 462	25 960 956
VAT		
VAT receivable	13 895 311	4 886 999

VAT output payables and VAT input receivables are shown in note 6.

All VAT returns have been submitted by the due date throughout the year.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

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

Councillors' arrear consumer accounts

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

30 June 2021	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor - JP Guest	3 185	1 029	4 214

30 June 2020	Outstanding less than 90 days	Outstanding more than 90 days	Total
Mayor - KC Ncamiso	11 229	3 067	14 296

Supply chain management regulations

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

Incident

S36(1)(a)(i) - Emergency	13 864 498	26 727 219
S36(1)(a)(ii) - Sole Supplier	1 541 891	427 485
S36(1)(a)(v) - Impractical / Impossible (other)	26 301 854	34 797 511
	41 708 243	61 952 215

48. Water and electricity losses

Material Losses

Water	17 358 336	20 217 881
Electricity	6 532 744	6 395 950
	23 891 080	26 613 831

Water Losses

In 2021 the water reticulation losses were 40 % (2 852 685 kl supplied and 1 707 676 kl sold) (2020: 43% (3 291 957 kl supplied and 1 876 139 kl sold). In both years these losses are predominantly due to physical losses from leaks, burst pipes and reservoir overflows. Furthermore apparent losses are realised due to metering inefficiencies, meter faults, unauthorised and unmetered consumption.

Electricity Losses

In 2021, the electricity losses were 13.3% (2020: 12.77%). Electricity purchased was 39 047 317 kWh and 33 862 599 kWh was sold (2020: 42 101 141 kWh purchased and 36 726 393 kWh sold). These losses are predominantly due to MV and LV losses in switchgear, overheadlines, obsolete aluminium lines, underground cables and transformers. Furthermore losses are attributed to metering and meter reading losses and losses due to tampering.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

49. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk, credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

Financial instrument	2021	2020
Receivables from Non-exchange transactions	17 796 981	17 944 135
Receivables from exchange transactions	21 860 667	21 971 002
Cash and cash equivalents	77 077 363	30 738 562
Other financial assets	49 246	49 246

The municipality holds deposits of R 2 382 641 (2020: R 2 191 712) from consumer deposits. No guarantees of collateral was provided to third parties.

Market risk

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

49. Risk management (continued)

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at fixed rates which means that the municipality is not exposed to interest rate risk, as any change in interest rates will not affect the repayment terms of the long term liabilities. During 2021 and 2020, the municipality has no borrowings at variable rates.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other payables	- %	53 946 887	-	-	-	-
Financial liabilities - DBSA Loans	8.8 % - 17 %	1 872 077	1 438 818	943 700	-	-

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the consolidated statement of financial position either as available-for-sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the municipality.

50. Going concern

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.

Management has considered the ongoing effects of the national state of disaster and does not consider that this has a fundamental impact on the municipality's ability to continue as a going concern.

51. Budget differences

Material differences between budget and actual amounts

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

51. Budget differences (continued)

The variances are considered to be material for the GRAP 24 variance disclosure where it exceeds 10%. Below are details of the relevant material variances as per the Statement of Comparison of Budget and Actual:

STATEMENT OF FINANCIAL PERFORMANCE

51.1) Service Charges: Immaterial variance

51.2) Rendering of services:

The nature of burial fees is such that it is not easily forecast. The demand for plots and burial fees were however higher than expected which resulted in the variance.

51.3) Rental of facilities & Housing debtor income:

The variance is due to inadequate budgeting which is based on incremental budgeting that have resulted in the understatement of projected income from the rental of housing and other building rentals. This is further compounded by the effect of straight-lining of leases not being taken into account. The variances are combined as this line item is budgeted as one item in the budget schedules.

51.4) Interest received

The budgeted figure for interest received was not aligned to the prior year actual figures. The interest received budgeted figure was adjusted by larger rate allowing for more debtors outstanding. The Overall accounts receivable balance however has not increased by these expected values and such the interest received is lower than anticipated due to sustained collection rates.

51.5) Licences and Permits

The budgeting process relating to the forecast of licences and permits was flawed as there was an overestimate of the agency revenue and the figure budgeted for more closely relates to overall collections from motor vehicle licences and permits, rather than just the portion earned as municipal portion of the agency services.

51.6) Other income

The nature of other income is such that revenue from auxiliary services is classified as Other income, such as building plan fees. The nature of these services, even based on past trends make it difficult to forecast and was even more complicated in the current year with the lockdowns easing up releasing the backlog of economic activity.

51.7) Interest received - investment

Grant income along with cash holdings were at lower levels than initially anticipated during the year, due to projects proceeding and cash reserves diminishing. The lending rates have also stayed low for longer than anticipated.

51.8) Property rates: Immaterial variance

51.9) Licences and permits (non-exchange)

The licencing and permits relate to boat and trading licence. The budgeted figure has not been zero-based as is reflected by the current year income being less than half of the budgeted figure.

51.10) Environmental levies: Immaterial variance

51.11) Interest received - non-exchange receivables

The budgeted figure for interest received was not aligned to the prior year actual figures. The interest received budgeted figure was adjusted by larger rate allowing for more debtors outstanding. The Overall accounts receivable balance however has not increased by these expected values and such the interest received is lower than anticipated due to sustained collection rates and lower than anticipated interest rates.

51.12) Government Grants and subsidies

The budget increase relates to funding secured from DWS and OTP in relation to the RO plant & Thornhill. The grants are schedule 6 grants and as such are only received when the claims are submitted, yet recognised for budget processes when awarded.

51.13) Public Contributions and donations

The donations amount was not budgeted for as donations by its nature is gratuitous and were transferred as in-kind donations and other donations - there was no expectation to receive donations during the year.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

51. Budget differences (continued)

51.14) Fines, Penalties and Forfeits

The budget for fines, penalties and forfeits was prepared, with the expectation of historical traffic volumes. However with less road traffic due to working from home conditions, the number of fines issued during the year remain subdued.

51.15) Personnel - Immaterial variance

51.16) Remuneration of councillors - Immaterial variance

51.17) Depreciation and amortisation

During the budget process the depreciation budget was drastically reduced to in turn reduce the impact to ratepayers and consumers as a result of increased rates. The depreciation budget is seen as a non-cash budget item where there will not be a reduction to an actual revenue flow to the municipality if the budget is reduced.

51.18) Impairment loss

The impairment loss amount was not budgeted for as impairments by its nature are unplanned - there was no expectation to have any impairment losses during the year.

51.19) Finance costs

The finance costs budget does not include the material interest component related to the provision on the landfill site rehabilitation. This resulted in the variance as identified.

51.20) Lease rentals on operating lease

New lease contracts are largely fixed term and the actual amounts did not significantly increase from prior periods. The budget however was adjusted to include new lease terms that will only come into effect after 2021.

51.21) Debt impairment

A budget estimation was based on the actual write-off of doubtful debts during the current year. However due to increase in debtors and slow collections the increase in the provision in for doubtful debts was higher than anticipated, resulting in the expenditure exceeding the budget.

51.22) Renewable Energy Programmes

The budgeting process did include the provision of these programmes, but at a rate higher than actually required based on distribution of gel and gel stoves.

51.23) Bulk purchases - Immaterial variance

51.24) Contracted services

Contracted services is dependant largely on the requirement for specialist based on the specific criteria relating to repairs and maintenance requirements of the municipality along with the level of activity during the year. As activities slowed down during the extended lockdown periods and this is reflected in the actual amounts being less than the budgeted figures.

51.25) Transfers and subsidies - Immaterial variance

51.26) General expenses - Immaterial variance

51.27) Gain on disposal of assets

The disposals of movable & immovable assets based on the derecognition of obsolete assets resulted in unbudgeted gains which contributed towards the variance between budget actual expenditure.

51.28) Fair value adjustments

At the time of the budget no budget was provided for fair value adjustments. It is also not known at the time of the budget what the effect of external factors would be on the landfill provision estimate. As such budget is not provided to the extent of the actual fair value losses incurred as this would have to be funded with revenue through rate increases.

STATEMENT OF FINANCIAL POSITION

51.29) Inventories - Immaterial variance .

51.30) Operating lease asset

The budget did not factor in the unwinding of future lease assets as the leases near the end of their term.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

51. Budget differences (continued)

51.31) Receivables from non-exchange transactions & Receivables from exchange transactions

The variance is due to budgeting misalignment between the receivables from exchange transactions and receivables from non-exchange transactions and along with not accounting for the increased provision for doubtful debts.

51.32) VAT receivable

The actual variance is due to the correction of the prior period error related to VAT on the provision for doubtful debts being accounted for against the VAT control account. This was not factored into the budgeted figures and as such the material variance.

51.33) Cash and cash equivalents

The lower than expected actual balance is due to variance on budgeting processes related to schedule 6 grants as noted above.

51.34) Investment property

The variance is due to the correction of the prior period error in relation to land parcels added was not budgeted for on Investment property.

51.35) Property, plant and Equipment

The variance is largely due to the prior period correction in 2018/19 which was not included in the 2020 budget as the 2020 budget is finalised prior to the audit completion for 2018/19.

51.36) Intangible assets

The variance is larger than anticipated due budgeting of the opening balances are not being aligned to the closing actual balances of 2020.

51.37) Heritage assets - Immaterial variance

51.38) Other financial assets

The expected market value of the listed shares are trading well below anticipated levels

51.39) Consumer deposits

The variance is due to larger than anticipated consumer deposits. The budgeting process did not align to the opening actual balances.

51.40) Payables from exchange transactions - Immaterial variance.

51.41) Unspent conditional grants and receipts

Balances of unspent grants per the budget did not factor in multi-year projects such as EPWP and DSRAC, which are ongoing and resulted in unspent amounts at year end.

51.42) & 51.46) Financial liabilities - DBSA

The budgeting process reflected the short term payment portions as debits, which then reflects correctly, but does not incorporate the opening balances and closing balances adjustments in the budget process. This resulted in misallocation between short and long term portions as well as overestimation of the budgeted liability as a whole.

51.43) Operating lease liability

The figures were based previously recognised 2019 figures when the 2021 budget was established. This does not take the 2020 restatement into account.

51.44 & 51.47) Employee Benefit obligation

The actual liability increased in the current year due to increased inflation & medical inflation over future periods. The long term portion has been estimated accurately.

51.45 & 51.48) Provisions

The provisions balances have not been re-aligned to the actual landfill rehabilitation which results in under-budgeting for the Provisions balance as a whole.

51.49) Accumulated surplus

The variance is a result of the above explanations combined. Due to the nature of the balance it will always represent the

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

51. Budget differences (continued)

balancing figure on the budgeted statement of financial position.

CASHFLOW STATEMENT VARIANCES

51.50) Rates and services

Overall budgeting process for rates and services were overbudgeted due to the matters raised in 51.1 - 51.11 above. This results in the variances as reported.

51.51) Government grants and subsidies

The budget increase relates to funding secured from DWS and OTP in relation to the RO plant and Thornhill. These amounts are budgeted for in full although not received upfront, resulting in the misalignment between budgeted and actual amounts.

51.52) Other receipts

The budgeted amount was overestimated due to cashflow workings not being matched to actual projected cashflows, which in turn resulted in the variance.

51.54) Supplier and Employee costs - Immaterial variance

51.55) Finance Costs

The finance costs budget does not include the landfill finance costs. This resulted in the variance as identified.

51.56) Grants and subsidies paid - Immaterial variance

51.57) Purchase of Property, plant and equipment

The budget increase relates to funding secured from DWS and OTP in relation to the RO plant and Thornhill project. Since budget includes receipt of the entire project award, the actual project is multi-year and will result in future asset additions only.

51.58) Repayment of financial liabilities - Immaterial variance

51.59) Net increase in cash and cash equivalents

The figure represents the net movements as explained above.

51.60) Cash and cash equivalents at the beginning of the year

The commencement budget does not relate to the actual cash balances at end of 2019/20 financial year.

52. COVID-19 DoRA Equitable Share

During the 2020-21 financial year, National Treasury allocated an additional R16 419 000 to the municipality. The grant was part of equitable share and is considered unconditional

In order to strengthen the transparency regarding the utilisation of this allocation, the following breakdown has been included:

	R
Personal protective equipment, Sanitation and screening	624 561
Providing emergency water supply	4 309 916
Free basic services	2 388 491
Cemetery services	268 191
	<hr/>
Total expenditure	7 591 159
Roll-over application	8 827 841
Total	<hr/> <hr/>

53. Segment information

General information

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

53. Segment information (continued)

Identification of segments

The municipality is organised and reports to management on the basis of the four major trading services: Electricity (Energy Sources), Water (Water management), Waste Water (Waste Water management) and Refuse (Waste Management) services. The segments were organised around the type of service delivered and the consumers. Management uses these same segments for determining strategic objectives. Segments were not aggregated for reporting purposes.

Information reported about these segments is used by management as a basis for evaluating the 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.

Types of goods and/or services by segment

These reportable segments as well as the goods and/or services for each segment are set out below:

Reportable segment

Electricity
Water
Sewerage and Sanitation
Solid Waste

Goods and/or services

Delivery of electrical services
Delivery of water services
Delivery of waste water services
Rendering of refuse removal

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

53. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2021

Revenue
 Revenue from non-exchange transactions
 Revenue from exchange transactions
 Interest received - trade and other receivables

Total segment revenue

Revenue from exchange transactions
 Revenue from non-exchange transactions

Total revenue reconciling items

Entity's revenue

Expenditure

Employee related costs
 Depreciation and amortisation
 Finance costs
 Debt impairment
 Collection costs
 Bulk purchases
 Contracted services
 General Expenses
 Fair value adjustments

Total segment expenditure

Total segmental surplus/(deficit)

	Electricity	Water	Sewerage and sanitation	Solid Waste	Total
	-	-	-	4 673 063	4 673 063
	69 753 222	50 331 182	13 111 716	16 411 584	149 607 704
	723 591	1 462 015	637 715	984 906	3 808 227
Total segment revenue	70 476 813	51 793 197	13 749 431	22 069 543	158 088 984
				14 254 152	14 254 152
				417 155 140	417 155 140
Total revenue reconciling items					431 409 292
Entity's revenue					589 498 276

	725 657	9 939 634	7 953 362	10 878 672	29 497 325
	4 425 063	11 090 611	5 130 344	-	20 646 018
	-	715 614	36 187	3 814 999	4 566 800
	1 037 904	21 442 501	4 294 565	4 187 248	30 962 218
	2 425 709	-	-	-	2 425 709
	50 646 614	14 943 766	-	-	65 590 380
	24 761 834	5 019 972	3 515 234	7 504 063	40 801 103
	2 616 115	4 877 982	7 748 465	4 504 366	19 746 928
	-	-	-	7 395 161	7 395 161
Total segment expenditure	86 638 896	68 030 080	28 678 157	38 284 509	221 631 642
Total segmental surplus/(deficit)					(63 542 658)

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

	Electricity	Water	Sewerage and sanitation	Solid Waste	Total
53. Segment information (continued)					
Employee related costs					(133 851 378)
Remuneration of councillors					(7 547 526)
Depreciation					(24 815 158)
Lease rentals					(2 165 146)
Debt impairment					(5 497 024)
Contracted services					(33 467 637)
Transfers and Subsidies					(3 309 889)
General expenses					(39 613 659)
Gain on disposal of assets					1 041 457
Fair value adjustments					(117 568)
Impairment loss					(146 094)
Total revenue reconciling items					431 409 292
Entity's surplus (deficit) for the period					118 377 012
Assets					
Receivables from exchange transactions	9 254 229	6 871 834	1 893 505	2 151 050	20 170 618
Property, plant and equipment	94 570 022	112 200 778	138 158 010	-	344 928 810
Property, plant and equipment - WIP	-	116 033 431	43 783 355	-	159 816 786
Total segment assets	103 824 251	235 106 043	183 834 870	2 151 050	524 916 214
Property, plant and equipment					535 378 069
Other non-current assets					260 435 614
Current assets					111 682 795
Total assets as per Statement of financial Position					1 432 412 692
Current liabilities					(76 600 302)
Non-current liabilities					(118 861 795)
Total liabilities as per Statement of financial Position					(195 462 097)

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

53. Segment information (continued)

2020

	Electricity	Water	Sewerage and sanitation	Solid waste	Total
Revenue					
Revenue from non-exchange transactions	-	-	-	4 406 567	4 406 567
Revenue from exchange transactions	67 853 942	42 191 118	12 265 078	15 379 582	137 689 720
Interest received - trade and other receivables	762 402	1 978 323	562 913	1 084 806	4 388 444
Total segment revenue	68 616 344	44 169 441	12 827 991	20 870 955	146 484 731
Revenue from exchange transactions					12 062 868
Revenue from Non-exchange transactions					261 592 910
Total revenue reconciling items					273 655 778
Entity's revenue					420 140 509
Expenditure					
Employee related costs	742 918	9 187 549	8 259 997	10 709 542	28 900 006
Depreciation and amortisation	4 425 063	11 024 452	5 125 347	-	20 574 862
Finance costs	-	866 014	169 992	4 116 050	5 152 056
Debt impairment	2 139 429	15 971 549	3 746 710	4 219 538	26 077 226
Collection costs	951 443	-	-	-	951 443
Bulk purchases	49 779 984	11 779 356	-	-	61 559 340
Contracted services	16 001 504	5 059 030	1 868 059	4 239 414	27 168 007
General expenses	2 411 293	5 962 205	4 342 536	6 619 389	19 335 423
Fair value adjustments	-	-	-	8 313 520	8 313 520
Total segment expenditure	76 451 634	59 850 155	23 512 641	38 217 463	198 031 883
Total segmental surplus/(deficit)					(51 547 152)

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

	Electricity	Water	Sewerage and sanitation	Solid waste	Total
53. Segment information (continued)					
Total revenue reconciling items					273 655 778
Employee related costs					(115 494 873)
Remuneration of councillors					(7 474 066)
Depreciation					(25 390 474)
Lease rentals					(2 015 486)
Debt impairment					(11 233 493)
Contracted services					(31 455 299)
Transfers and subsidies					(2 978 408)
General expenses					(41 782 559)
Gain on disposal of assets					226 480
Fair value adjustments					(10 143)
Entity's surplus (deficit) for the period					(15 499 695)
Assets					
Receivables from exchange transactions	8 837 145	7 749 213	1 974 785	2 056 799	20 617 942
Property, plant and equipment	98 995 085	119 822 918	140 900 359	-	359 718 362
Property, plant and equipment - WIP	-	45 238 502	6 229 348	-	51 467 850
Total segment assets	107 832 230	172 810 633	149 104 492	2 056 799	431 804 154
Other Property, plant and equipment					541 536 616
Other non-current assets					261 726 880
Current assets					56 437 481
Total assets as per Statement of financial Position					1 291 505 131
Current liabilities					(71 216 339)
Non-current liabilities					(101 715 231)
Total liabilities as per Statement of financial Position					(172 931 570)

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021 2020

54. Accounting by principals and agents

The entity is a party to a principal-agent arrangements.

Details of the arrangement(s) is/are as follows:

The municipality acts as an agent for the Department of Transport whereby it administers the provisioning of motor vehicle licences and registrations as well as drivers' licences. It receives compensation for these services based on a binding arrangement with the department.

The entity is the principal. Refer to note 1.4 for significant judgements applied in making this assessment.

Furthermore, the municipality acts as a principal in binding arrangements with vendors who sell prepaid electricity. The vendors earn commission on the prepaid electricity sales based on agreements.

Entity as agent

Revenue recognised

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the principal is 2 981 737 (2020: 1 944 400).

Additional information

Receivables and/or payables recognised based on the rights and obligations established in the binding arrangement(s)

Reconciliation of the carrying amount of payables

Category 1 - MV Licences and registrations

Opening balance	200 773	
Amount received on behalf of the principal	8 693 788	7 564 925
Amount transferred to the principal	(5 715 091)	(5 419 752)
Amount recognised as revenue for services rendered	(2 981 737)	(1 944 400)
	197 733	200 773

All categories

Opening balance	200 773	
Amount received on behalf of the principal	8 693 788	7 564 925
Amount transferred to the principal	(5 715 091)	(5 419 752)
Amount recognised as revenue for services rendered	(2 981 737)	(1 944 400)
	197 733	200 773

Entity as principal

Fee paid

Fee paid as compensation to the agent	561 701	900 935
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The fee paid relates to the commission paid to vendors for selling pre-paid electricity to the consumers on behalf of the municipality. The amount decreased in the current year due to a new contract being entered into with vending system service provider.

Ndlambe Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

55. Change in estimate

Property, plant and equipment

The useful life of certain plant was estimated in re-estimated in the current period. Management have revised their estimated respective useful lives. The effect of this revision has decreased the depreciation charges for the current period and increased it for the periods by R 1 154 732.

56. Events after the reporting date

The following was identified as a material non-adjusting event after the reporting date:

- A bank guarantee was issued in favour of Eskom during January 2022 to the value of R10 378 790,95.
- These monies are held in a separate investment account for the purposes of the bank guarantee.