



Sakhisizwe Local Municipality

Annual Financial Statements
for the year ended June 30, 2023

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	The entity functions as a local Municipality in terms of section 1 of the Local Government Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)
Nature of business and principal activities	Sakhisizwe Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (No 117 of 1998). The municipality's operations are governed by: - Municipal Finance Management Act (No 56 of 2003) - Municipal Structures Act (No 117 of 1998) - Municipal Systems Act (No 32 of 2000) and various other acts and regulations
The following is included in the scope of operations	The principal activities of the municipality are: Provide democratic activities and accountable government Ensure sustainable service delivery to communities Provide social and economic development Provide basic service to the community
Mayoral committee Honourable Mayor	Clr B. Ponoshe
Councillors	Clr N Mkati Speaker Clr A Mpakane Clr V Filana Clr Z J Phonoshe Clr W M Kumsha Clr T Tasana Clr: P Mahlombe Clr A Mbebe Clr M. J. Malungisa Clr M. Ngqayimbana Clr M. Mxhonywa Clr: N Miso Clr:L Thulelo Clr: N Nopote Clr: Mayongo Clr: N Stofile
Grading of local authority	Category B Grade 1
Accounting Officer	SG.Sotshongaye (Appointed 1 February 2023)

Sakhisizwe Local Municipality

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General Information

Chief Finance Officer (CFO)	Busisiwe Lubelwana
Registered office	Erf 5556 Umtata Road Cala 5455
Business address	Erf 5556 Umtata Road Cala 5455
Bankers	First National Bank
Auditors	Auditor-General of South Africa
Attorneys	Ntsiki Pakade Attorneys DM Lukhozi Attorneys
Relevant Legislation	Constitution of the Republic of South Africa (Act No. 108 of 1996) Municipal Finance Management Act (Act 56 of 2003) Division of Revenue Act The Income Tax Act (Act No. 58 of 1962) Value Added Tax Act (Act No. 117 of 1998) Municipal Structures Act (Act No. 32 of 2000) Water Service Act (Act No.108 of 1997) Housing Act (Act No. 107 of 1997) Municipal Property Rates Act (Act No. 6 of 2004) Electricity Act (Act No. 41 of 1987) Skills Development Levies Act (Act No. 9 of 1999) Employment Equity Act (Act No. 55 of 1998) Unemployment Insurance Act (Act No. 30 of 1966) Basic Conditions of Employment Act (Act No. 75 of 1997) Municipal System Amendment Act (Act No. 7 of 2011) Municipal Planning and Performance Management Regulations Municipal Supply Chain Management Regulations Municipal Collective Agreements Municipal Budget and Reporting Regulations MFMA Circulars and Regulations

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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GRAP	Generally Recognised Accounting Practice
FMG	Financial Management Grant
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
EPWP	Expanded Public Works Programme

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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 entity as at the end of the financial year, the results of its operations and cash flows for the period ended.

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 entity 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 entity and all employees are required to maintain the highest ethical standards in ensuring the entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the entity is on identifying, assessing, managing and monitoring all known forms of risk across the entity. While operating risk cannot be fully eliminated, the entity 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 entity's cash flow forecast for the year to June 30, 2024 and, in the light of this review and the current financial position, he is satisfied that the entity has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the Accounting Officer are primarily responsible for the financial affairs of the entity, they are supported by the entity's external auditors.

The external auditors are responsible for independently reviewing and reporting on the entity's annual financial statements. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2023 and were signed on its behalf by:



SG Sotshongaye
Accounting Officer

31 August 2023

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Officer's Report

The Accounting Officer submits his report for the year ended June 30, 2023.

1. Review of activities

2. 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.

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

3. Subsequent events

The Accounting Officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Bankers

The municipality banks with the First National Bank (FNB).

5. Auditors

The Auditor-General will continue in office for the next financial period.



SG Sotshongaye
Accounting Officer

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Statement of Financial Position as at June 30, 2023

Figures in Rand	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Inventories	3	136,251	894,019
Receivables from exchange transactions	4	21,861,731	19,114,790
Statutory receivable	5	16,611,514	13,296,948
Other receivables	6	1,124,363	502,977
VAT receivable	7	444,130	1,487,206
Cash and cash equivalents	8	18,153,142	10,138,802
		58,331,131	45,434,742
Non-Current Assets			
Investment property	9	14,480,856	14,599,099
Property, plant and equipment	10	237,191,708	229,018,901
		251,672,564	243,618,000
Total Assets		310,003,695	289,052,742
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	14,804,144	17,500,997
Consumer deposits	12	73,382	83,665
Employee benefit obligation	13	409,481	461,000
Unspent conditional grants and receipts	14	4,279,384	160,767
Chris Hani District Municipality loan	16	2,000,000	2,000,000
		21,566,391	20,206,429
Non-Current Liabilities			
Employee benefit obligation	13	3,070,153	2,698,000
Provisions	15	20,115,401	16,105,640
		23,185,554	18,803,640
Total Liabilities		44,751,945	39,010,069
Net Assets		265,251,750	250,042,673
Accumulated surplus		265,251,750	250,042,673
Total Net Assets		265,251,750	250,042,673

* See Note 42

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	21,937,451	21,680,071
Other income	19	2,599,583	3,036,835
Interest received	22	11,646,070	8,058,818
Actuarial gains		-	390,000
Total revenue from exchange transactions		36,183,104	33,165,724
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	7,305,778	6,964,476
Transfer revenue			
Government grants & subsidies	24	115,443,231	110,631,635
Fines, Penalties and Forfeits	21	14,850	16,040
Total revenue from non-exchange transactions		122,763,859	117,612,151
Total revenue	17	158,946,963	150,777,875
Expenditure			
Employee related costs	25	(45,571,021)	(42,853,546)
Remuneration of councillors	26	(7,806,165)	(7,046,867)
Depreciation and amortisation	27	(8,932,785)	(8,664,873)
Finance costs	28	(3,257,736)	(2,393,282)
Impairment loss	29	(20,174,386)	(21,704,270)
Bulk purchases	30	(16,977,826)	(15,839,634)
Contracted services	31	(12,755,438)	(16,301,762)
Loss on disposal of assets		(1,579,818)	(253,994)
Actuarial losses		(1,847,168)	-
General Expenses	32	(24,835,547)	(20,329,633)
Total expenditure		(143,737,890)	(135,387,861)
Surplus for the year		15,209,073	15,390,014

* See Note 42

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	236,771,418	236,771,418
Adjustments		
Prior year adjustments	(2,118,759)	(2,118,759)
Balance at July 1, 2021 as restated*	234,652,659	234,652,659
Changes in net assets		
Surplus for the year	15,390,014	15,390,014
Total changes	15,390,014	15,390,014
Opening balance as previously reported	264,422,919	264,422,919
Adjustments		
Prior year adjustments	(14,380,242)	(14,380,242)
Restated* Balance at July 1, 2022 as restated*	250,042,677	250,042,677
Changes in net assets		
Surplus for the year	15,209,073	15,209,073
Total changes	15,209,073	15,209,073
Balance at June 30, 2023	265,251,750	265,251,750
Note(s)		

* See Note 42

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Cash Flow Statement

Figures in Rand	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		6,842,260	7,715,636
Government grants		119,561,848	99,114,772
Interest income		11,646,070	8,058,818
		<u>138,050,178</u>	<u>114,889,226</u>
Payments			
Employee costs		(53,209,879)	(49,204,804)
Suppliers		(57,739,577)	(51,047,089)
Finance costs		(907,010)	(490,363)
		<u>(111,856,466)</u>	<u>(100,742,256)</u>
Net cash flows from operating activities	34	<u>26,193,712</u>	<u>14,146,970</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	<u>(18,179,372)</u>	<u>(23,091,563)</u>
Net increase/(decrease) in cash and cash equivalents		8,014,340	(8,944,593)
Cash and cash equivalents at the beginning of the year		10,138,802	19,083,395
Cash and cash equivalents at the end of the year	8	<u>18,153,142</u>	<u>10,138,802</u>

* See Note 42

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual 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	16,831,865	3,489,514	20,321,379	21,937,451	1,616,072	A
Other income	3,784,466	31,963	3,816,429	2,599,583	(1,216,846)	B
Interest received	6,188,337	1,770,887	7,959,224	11,646,070	3,686,846	C
Total revenue from exchange transactions	26,804,668	5,292,364	32,097,032	36,183,104	4,086,072	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	6,630,137	-	6,630,137	7,305,778	675,641	
Transfer revenue						
Government grants & subsidies	118,348,766	3,339,234	121,688,000	115,443,231	(6,244,769)	D
Fines, Penalties and Forfeits	1,430,630	(1,410,630)	20,000	14,850	(5,150)	E
Total revenue from non-exchange transactions	126,409,533	1,928,604	128,338,137	122,763,859	(5,574,278)	
Total revenue	153,214,201	7,220,968	160,435,169	158,946,963	(1,488,206)	
Expenditure						
Employee costs	(40,155,791)	949,885	(39,205,906)	(45,571,021)	(6,365,115)	F
Remuneration of councillors	(6,947,031)	-	(6,947,031)	(7,806,165)	(859,134)	G
Depreciation and amortisation	(9,970,500)	2,235,604	(7,734,896)	(8,932,785)	(1,197,889)	H
Finance costs	(280,000)	148,291	(131,709)	(3,257,736)	(3,126,027)	I
Impairment loss	(4,135,492)	-	(4,135,492)	(20,174,386)	(16,038,894)	J
Bulk purchases	(15,930,000)	(981,500)	(16,911,500)	(16,977,826)	(66,326)	
Contracted Services	(13,878,092)	(2,977,305)	(16,855,397)	(12,755,438)	4,099,959	K
General Expenses	(17,811,723)	(775,812)	(18,587,535)	(24,835,547)	(6,248,012)	L
Total expenditure	(109,108,629)	(1,400,837)	(110,509,466)	(140,310,904)	(29,801,438)	
Operating surplus	44,105,572	5,820,131	49,925,703	18,636,059	(31,289,644)	
Loss on disposal of assets and liabilities	-	-	-	(1,579,818)	(1,579,818)	M
Actuarial gains/losses	-	-	-	(1,847,168)	(1,847,168)	N
	-	-	-	(3,426,986)	(3,426,986)	
Surplus for the year	44,105,572	5,820,131	49,925,703	15,209,073	(34,716,630)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	44,105,572	5,820,131	49,925,703	15,209,073	(34,716,630)	

Refer to note 49 for reasons between budget and actual comparison.

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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	668,491	-	668,491	136,251	(532,240)	
Other receivables	4,252,726	-	4,252,726	1,124,363	(3,128,363)	
Statutory receivable	-	-	-	16,611,514	16,611,514	
VAT receivable	-	-	-	444,130	444,130	
Consumer debtors	132,492,631	-	132,492,631	21,861,731	(110,630,900)	
Cash and cash equivalents	32,048,636	6,339,251	38,387,887	18,153,142	(20,234,745)	
	169,462,484	6,339,251	175,801,735	58,331,131	(117,470,604)	
Non-Current Assets						
Investment property	14,163,974	-	14,163,974	14,480,856	316,882	
Property, plant and equipment	257,806,169	(393,743)	257,412,426	237,191,708	(20,220,718)	
	271,970,143	(393,743)	271,576,400	251,672,564	(19,903,836)	
Total Assets	441,432,627	5,945,508	447,378,135	310,003,695	(137,374,440)	
Liabilities						
Current Liabilities						
Payables from exchange transactions	18,923,270	-	18,923,270	14,804,148	(4,119,122)	
Consumer deposits	822,817	-	822,817	73,382	(749,435)	
Employee benefit obligation	1,896,036	(1,896,036)	-	409,481	409,481	
Unspent conditional grants and receipts	-	-	-	4,279,384	4,279,384	
Chris Hani District Municipality loan	1,180,647	-	1,180,647	2,000,000	819,353	
	22,822,770	(1,896,036)	20,926,734	21,566,395	639,661	
Non-Current Liabilities						
Employee benefit obligation	-	-	-	3,070,153	3,070,153	
Provisions	26,850,427	-	26,850,427	20,115,401	(6,735,026)	
	26,850,427	-	26,850,427	23,185,554	(3,664,873)	
Total Liabilities	49,673,197	(1,896,036)	47,777,161	44,751,949	(3,025,212)	
Net Assets	391,759,430	7,841,544	399,600,974	265,251,746	(134,349,228)	
Reserves						
Accumulated surplus	377,708,062	5,820,134	383,528,196	265,251,748	(118,276,448)	

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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						
Sale of goods and services	20,615,952	-	20,615,952	6,842,260	(13,773,692)	
Grants	126,384,820	(4,149,734)	122,235,086	119,561,848	(2,673,238)	
Interest income	6,319,972	-	6,319,972	11,646,070	5,326,098	
	153,320,744	(4,149,734)	149,171,010	138,050,178	(11,120,832)	
Payments						
Employee costs and Suppliers	(99,955,264)	1,447,894	(98,507,370)	(110,949,456)	(12,442,086)	
Finance costs	(583,492)	451,785	(131,707)	(907,010)	(775,303)	
	(100,538,756)	1,899,679	(98,639,077)	(111,856,466)	(13,217,389)	
Net cash flows from operating activities	52,781,988	(2,250,055)	50,531,933	26,193,712	(24,338,221)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(36,580,733)	(864,341)	(37,445,074)	(18,179,372)	19,265,702	
Proceeds from sale of property, plant and equipment	1,000,000	-	1,000,000	-	(1,000,000)	
Net cash flows from investing activities	(35,580,733)	(864,341)	(36,445,074)	(18,179,372)	18,265,702	
Net increase/(decrease) in cash and cash equivalents	15,201,280	(3,114,396)	12,086,884	8,014,340	(4,072,544)	
Cash and cash equivalents at the beginning of the year	26,300,911	-	26,300,911	10,138,802	(16,162,109)	
Cash and cash equivalents at the end of the year	41,502,191	(3,114,396)	38,387,795	18,153,142	(20,234,653)	

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

Figures in Rand	Note(s)	2023	2022
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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.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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 entity.

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.

Materiality is determined as 1% of total operating expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

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:

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

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 calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

Provision for Landfill Sites:

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.

Provision for Staff leave:

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

Provision for Performance bonuses:

The provision for performance bonuses represents the best estimate of the obligation at yearend and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

Componentisation of Infrastructure assets:

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

Contingent liabilities and Contingent assets:

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of property, plant and equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets. The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

Post retirement benefits

The present value of the post retirement obligations and long service awards depend 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 expected rates of return on assets, future salary increases, mortality rates and future pension increases. 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 15. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

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1.4 Significant judgements and sources of estimation uncertainty (continued)

Pre-paid electricity estimation:

Pre-paid electricity is recognised as income when the electricity is sold.

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 13.

Investment property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

Revenue Recognition

Accounting Policy 1.23.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.23.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions, specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

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.

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 entity, 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.

Sakhisizwe Local Municipality

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Accounting Policies

1.5 Investment property (continued)

The cost of self-constructed investment property is measured at cost.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Cost model

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

Item	Useful life
Land:	indefinite
Buildings:	30 years

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

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

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 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.

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.

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Accounting Policies

1.6 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Buildings	Straight-line	30
Plant and machinery	Straight-line	5 - 10
Furniture and fixtures	Straight-line	5 - 7
Motor vehicles	Straight-line	5
Office equipment	Straight-line	5 - 7
IT equipment	Straight-line	5 - 7
Infrastructure	Straight-line	25 - 50
Community	Straight-line	30
Community assets - Recreational Facilities	Straight-line	20 - 30
Community assets - Security	Straight-line	5
Electricity infrastructure	Straight-line	15 - 50

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

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

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

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

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

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

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

1.7 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.

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.

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Accounting Policies

1.7 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 municipality.

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 municipality.

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.

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

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Accounting Policies

1.7 Financial instruments (continued)

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

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

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

Classification

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

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Long-term receivables	Financial asset measured at amortised cost
Non-current investments	Financial asset measured at amortised cost

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

Class	Category
Borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Accrued leave pay	Financial liability measured at amortised cost
Payments received in advance	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other deposits	Financial liability measured at amortised cost

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

Initial recognition

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

Initial measurement of financial assets and financial liabilities

The municipality 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.

Sakhisizwe Local Municipality

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Accounting Policies

1.7 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The municipality 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 municipality 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 entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

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

Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

The municipality 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:

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Accounting Policies

1.7 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, 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 municipality :
 - 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.

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.

Financial liabilities

The municipality 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.

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 municipality 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).

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Accounting Policies

1.7 Financial instruments (continued)

Presentation

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

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

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

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

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

1.8 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.

Statutory receivables can arise from both exchange and non-exchange transactions.

Recognition

The entity 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 entity initially measures statutory receivables at their transaction amount.

Statutory receivables are recognised when the related revenue is recognised or when the receivable meets the definition of an asset.

Subsequent measurement

The entity 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.

Impairment losses

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

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Accounting Policies

1.8 Statutory receivables (continued)

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the entity 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 entity 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 entity 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 entity 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 entity transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- the entity, 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.

1.9 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.

Sakhisizwe Local Municipality

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Accounting Policies

1.9 Leases (continued)

Finance leases - lessor

The entity recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the entity's net investment in the finance lease.

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. The interest rate used is the interest rate implicit in the lease or the bank prime interest rate.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

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.

1.10 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.

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Accounting Policies

1.10 Inventories (continued)

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

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

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

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

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.

Redundant and slow-moving inventories are identified and written down.

The carrying amount of inventory is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

[Specify judgements made]

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1.11 Impairment of cash-generating assets (continued)

Designation

At initial recognition, the entity designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of an entity's objective of using the asset.

The entity designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the entity expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the entity designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

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

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

Irrespective of whether there is any indication of impairment, the entity 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 entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the entity applies the appropriate discount rate to those future cash flows.

Basis for estimates of future cash flows

In measuring value in use the entity:

- 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.

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.

Discount rate

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

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1.11 Impairment of cash-generating assets (continued)

Recognition and measurement (Individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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 entity 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 entity uses 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.

Reversal of impairment loss

The entity 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.

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.

1.12 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.

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.

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

Identification

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

The entity 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 entity estimates the recoverable service amount of the asset.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss and is recognised in the Statement of Financial Performance.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

(a) External sources of information

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

(b) Internal sources of information

- Evidence is available of physical damage of an asset
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be significantly worse than expected.

Sakhisizwe Local Municipality

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

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.

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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.

Reversal of an impairment loss

The entity 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 entity 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.

1.13 Employee benefits

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

Provision for Staff Leave:

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1.13 Employee benefits (continued)

- Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.
- Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term;
- Accumulated leave is vesting.

Staff Bonuses Accrued.

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

Provision for Performance Bonuses.

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

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 municipality 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 municipality 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 municipality recognises the expected cost of bonus, incentive and performance related payments when the municipality 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 municipality provides post-employment benefits for one or more employees.

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Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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 municipality recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Post Retirement Defined Benefit Medical Obligations:

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of retired staff according to the rules of the medical aid funds. Council pays 70% as contribution and the remaining 30% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – “Employee Benefits” (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are recognised in the Statement of Financial Performance when employees have rendered the service entitling them to the contribution.

The interest cost of the defined benefit obligation is recognised as finance cost in the Statement of Financial Performance, as it meets the definition of Interest Cost in GRAP 25.

The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at 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 requirements.

Post Retirement Defined Benefit Long Service Awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

1.14 Provisions and contingencies

Provisions are recognised when:

- the entity 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.

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1.14 Provisions and contingencies (continued)

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.

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.

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

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

A constructive obligation to restructure arises only when an entity:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

1.15 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 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 entity 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.

Sakhisizwe Local Municipality

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1.16 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 entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the entity 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 entity; 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 entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an entity, 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.

Control of an asset arise when the entity 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.

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, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

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 entity.

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

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1.17 Revenue from non-exchange transactions (continued)

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.

1.18 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.

1.19 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 entity 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 an entity is a principal or an agent requires the entity 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 entity 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.

Assessing which entity benefits from the transactions with third parties

When the entity 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 entity concludes that it is not the agent, then it is the principal in the transactions.

The entity 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 entity 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 is an agent. The entity applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the entity is an agent.

Sakhisizwe Local Municipality

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1.19 Accounting by principals and agents (continued)

Recognition

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

1.20 Comparative figures

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

When the presentation or classification of items in the financial statements are amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatement of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly.

1.21 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.

1.22 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.

1.23 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.

1.24 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.

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1.24 Segment information (continued)

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.

Aggregated segments

The municipality operates in the Eastern Cape Province in two towns. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout Sakhisizwe Local Municipality were sufficiently similar to warrant aggregation.

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:

- Segment 1 - Electricity services
- Segment 2 - Refuse services

1.25 Budget information

Entity 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 entity shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

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

The approved budget covers the fiscal period from 7/1/2022 to 6/30/2022.

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.

Explanations for differences between the approved and final budget are included in the Statements of Comparison of Budget and Actual Amounts for all differences exceeding 10% or R1'000'000

Explanations for material differences between the final budget amounts and actual amounts are included in the Statements of Comparison of Budget and Actual Amounts for all differences exceeding 10% or R1'000'000.

The presentation of budget information is prepared in accordance with GRAP 24 and based on the Municipal Budget and Reporting Regulations format. The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

1.26 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.

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 entity, including those charged with the governance of the entity in accordance with legislation, in instances where they are required to perform such functions.

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.26 Related parties (continued)

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 entity.

The entity 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 entity 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 entity is exempt from the disclosures in accordance with the above, the entity 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.

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

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

The entity 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.

1.28 Unspent conditional government grants and receipts

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from government organs.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Accounting Policies

1.28 Unspent conditional government grants and receipts (continued)

- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Municipality's interest, it is recognised as interest earned in the Statement of Financial Performance.

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
2. New standards and interpretations		
2.1 Standards and interpretations issued, but not yet effective		
The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after July 1, 2023 or later periods:		
<u>Standard/ Interpretation:</u>	<u>Effective date:</u> <u>Years beginning on or after</u>	<u>Expected impact:</u>
<ul style="list-style-type: none"> • GRAP 25 (as revised 2021): Employee Benefits • iGRAP 7 (as revised 2021): Limit on defined benefit asset, minimum funding requirements and their interaction • Guideline: Guideline on the Application of Materiality to Financial Statements • GRAP 104 (amended): Financial Instruments 	<ul style="list-style-type: none"> April 1, 2099 April 1, 2099 April 1, 2099 April 1, 2025 	<ul style="list-style-type: none"> Impact is currently being assessed Impact is currently being assessed Impact is currently being assessed Unlikely there will be a material impact
3. Inventories		
Crushed Stone - at net realisable value	-	132,536
Paving Bricks - at net realisable value	136,251	761,483
	136,251	894,019
Inventories recognised as an expense during the year	1,066,041	230,458
<u>Inventory pledged as security</u>		
No Inventory was pledged as security		
4. Receivables from exchange transactions		
<u>Gross balances</u>		
Electricity	18,734,091	13,988,852
Refuse	79,271,299	66,470,187
	98,005,390	80,459,039
<u>Less: Allowance for impairment</u>		
Electricity	(8,660,401)	(6,857,335)
Refuse	(67,483,258)	(54,486,914)
	(76,143,659)	(61,344,249)
<u>Net balance</u>		
Electricity	10,073,690	7,131,517
Refuse	11,788,041	11,983,273
	21,861,731	19,114,790
<u>Electricity</u>		
Current (0 -30 days)	744,651	2,020,082
31 - 60 days	456,609	382,587
61 - 90 days	260,035	403,158
+ 90 days	9,147,545	5,991,233
	10,608,840	8,797,060

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
4. Receivables from exchange transactions (continued)		
Refuse		
Current (0 -30 days)	246,493	262,764
31 - 60 days	142,182	126,174
61 - 90 days	142,840	125,113
+ 90 days	12,060,202	11,467,027
	<u>12,591,717</u>	<u>11,981,078</u>
Reconciliation of allowance for impairment		
Balance at beginning of the year	(61,344,249)	(57,655,589)
Contributions to allowance	(14,129,997)	(3,688,660)
	<u>(75,474,246)</u>	<u>(61,344,249)</u>

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
5. Statutory receivable		
Consumer debtors - Rates	16,611,514	13,296,948
Trade and Other Receivables from non-exchange transactions:		
Rates	69,763,652	62,096,748
Less: Allowance for doubtful debts	(53,152,138)	(48,799,800)
	16,611,514	13,296,948
Rates: Ageing		
Current (0 - 30 days)	432,969	162,273
30 - 60 days	202,360	149,060
60 - 90 days	202,124	374,388
+ 90 days	16,900,009	12,611,227
	17,737,462	13,296,948
	-	-
Total receivables from non-exchange transactions	16,611,514	13,296,948
6. Other receivables		
Property Rental	107,615	260,903
Department of Transport	774,674	-
Other receivables	4,742,074	4,742,074
Allowance for impairment - other receivables	(4,500,000)	(4,500,000)
	1,124,363	502,977
Other receivables : Ageing		
Current (0 - 30 days)	242,074	242,074
Other trade debtors: Ageing		
Current (0 - 30 days)	882,289	260,903
	-	-
Total receivables from exchange transactions	1,124,363	502,977
There were no Trade and other receivables pledged as security.		
Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.		
Reconciliation of provision for impairment of trade and other receivables		
Opening balance	4,500,000	-
Provision for impairment	-	4,500,000
	4,500,000	4,500,000
7. VAT receivable		
VAT	444,130	1,487,206

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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8. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	3,399,764	3,343,875
Short-term deposits	14,753,378	6,794,927
	<u>18,153,142</u>	<u>10,138,802</u>

Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counter party default rates:

The entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2023	June 30, 2022	June 30, 2021	June 30, 2023	June 30, 2022	June 30, 2021
First National Bank - Primary Bank Account 6207-652-3135	3,400,212	3,305,924	407,995	3,399,764	3,341,111	418,027
First National Bank MIG 6207-657-7091	3,533,978	2,265,406	8,639,376	3,533,978	2,265,406	8,639,376
First National Bank Elliot Housing 6207-745-0056	-	5,203	861,034	-	5,203	861,034
First National bank Extension 15 6207-740-8203	2,649,128	2,162,306	1,013,615	2,649,128	2,162,306	1,013,615
First National Bank Extension 13&14 6207-745-1278	3,940,000	59,662	2,384,317	3,940,000	59,662	2,384,317
First National Bank FMG 6216 - 538 - 9464	-	15,621	24,630	-	15,621	-
First National Bank DME 6220-960-0776	185,479	531,401	75,842	185,479	531,401	75,842
First National Bank Operating Call Account 6216-534-1943	3,004,932	636,884	5,179,299	3,004,932	636,884	5,179,299
First National Bank Business NSTD Call 6280-822-2822	3,433	660,240	511,885	668	660,240	511,885
First National Bank - 62910526914	410	99,385	-	410	99,385	-
First National Bank - 62935973968	1,438,783	361,584	-	1,438,783	361,584	-
Total	<u>18,156,355</u>	<u>10,103,616</u>	<u>19,097,993</u>	<u>18,153,142</u>	<u>10,138,803</u>	<u>19,083,395</u>

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand

9. Investment property

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	15,754,603	(1,273,747)	14,480,856	15,754,603	(1,155,504)	14,599,099

Reconciliation of investment property - 2023

Investment property	Opening balance 14,599,099	Depreciation (118,243)	Total 14,480,856
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Reconciliation of investment property - 2022

Investment property	Opening balance 14,519,480	Additions 197,861	Depreciation (118,242)	Total 14,599,099
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Pledged as security

No Investment Properties were pledged as security:

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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9. Investment property (continued)

Investment property in the process of being constructed or developed

There is no Investment Property which is in the process of being constructed or developed.

There is no Investment Property that is taking a significantly longer period of time to complete than expected.

There is no Investment Property where construction or development has been halted

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.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The market value of Investment Properties are significantly different from their cost disclosed. It is the policy of the municipality to disclose Investment Property on the cost basis, therefore these properties were not revalued to their relevant market values.

Amounts recognised in surplus or deficit

Rental revenue from Investment property	183,474	677,327
<i>Refer to note 21</i>		
	<u>183,474</u>	<u>677,327</u>

Sakhisizwe Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	23,466,597	-	23,466,597	23,466,597	-	23,466,597
Buildings	5,660,496	(2,066,852)	3,593,644	5,660,496	(1,872,771)	3,787,725
Plant and machinery	9,385,691	(7,622,151)	1,763,540	11,975,219	(9,853,130)	2,122,089
Furniture and fixtures	1,692,124	(1,393,506)	298,618	2,158,386	(1,730,789)	427,597
Motor Vehicles	11,126,245	(8,779,116)	2,347,129	15,917,710	(12,551,173)	3,366,537
IT equipment	2,328,246	(1,420,818)	907,428	2,701,787	(1,710,614)	991,173
Infrastructure	290,044,103	(131,961,936)	158,082,167	273,582,127	(125,699,827)	147,882,300
Community	54,607,641	(7,875,056)	46,732,585	53,162,114	(6,187,231)	46,974,883
Total	398,311,143	(161,119,435)	237,191,708	388,624,436	(159,605,535)	229,018,901

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	WIP	Depreciation	Impairment loss	Total
Land	23,466,597	-	-	-	-	-	23,466,597
Buildings	3,787,725	-	-	-	(194,081)	-	3,593,644
Plant and machinery	2,122,089	-	(45,835)	-	(312,714)	-	1,763,540
Furniture and fixtures	427,597	-	(67,886)	-	(64,193)	-	298,618
Motor vehicles	3,366,537	3,100	(343,931)	-	(675,477)	-	2,347,129
IT equipment	991,173	-	(189,486)	-	(181,364)	-	907,428
Infrastructure	147,882,300	287,105	(932,680)	(4,487,674)	(5,698,888)	(1,021,969)	158,082,167
Community	46,974,883	-	-	1,445,527	(1,687,825)	-	46,732,585
	229,018,901	22,631,283	(1,579,818)	(3,042,147)	(8,814,542)	(1,021,969)	237,191,708

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	WIP	Depreciation	Impairment loss	Total
Land	23,466,597	-	-	-	-	-	23,466,597
Buildings	3,806,740	383,182	-	(217,809)	(184,388)	-	3,787,725
Plant and machinery	931,146	1,472,417	(90)	-	(258,074)	(23,310)	2,122,089
Furniture and fixtures	515,674	19,208	(19,600)	-	(66,859)	(20,826)	427,597
Motor vehicles	4,041,994	-	-	-	(675,457)	-	3,366,537
IT equipment	1,047,392	170,583	(39,654)	-	(150,382)	(36,766)	991,173
Infrastructure	136,505,081	3,221,486	(194,650)	15,572,410	(5,795,165)	(1,426,862)	147,882,300
Community	44,248,346	11,847,820	-	(7,704,977)	(1,416,306)	-	46,974,883
	214,562,970	17,114,696	(253,994)	7,649,624	(8,546,631)	(1,507,764)	229,018,901

Other information

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

Roads (Delays are mainly due to heavy rains and cashflow challenges experienced by contractors)

Community Assets (Delays are mainly due to heavy rains and cashflow challenges experienced by contractors)

	10,279,553	7,439,099
	1,929,241	-
	12,208,794	7,439,099

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand

	2023	2022
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10. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2023

	Included within Infrastructure	Included within Buildings	Total
Opening balance	30,288,505	1,929,240	32,217,745
Additions/capital expenditure	26,765,901	1,445,527	28,211,428
Transfer to expenditure	(3,308,201)	-	(3,308,201)
Transferred to completed items	(27,931,669)	-	(27,931,669)
	25,814,536	3,374,767	29,189,303

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Buildings	Total
Opening balance	14,734,277	9,852,026	24,586,303
Additions/capital expenditure	17,498,680	4,308,217	21,806,897
Transferred to completed items	(1,746,591)	(12,428,864)	(14,175,455)
	30,486,366	1,731,379	32,217,745

Expenditure incurred to repair and maintain property, plant and equipment

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

Contracted services	1,445,421	1,133,684
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Change in estimate

Decrease in depreciation expense	49,207	172,239
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Assets with RUL of 2 years and less and will be in use for foreseeable future have their RUL re-assessed.

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 entity.

11. Payables from exchange transactions

Trade payables	3,471,900	8,400,720
Debtors with credit balances	2,239,271	1,408,011
Accrued leave pay	3,725,654	3,802,554
Accrued bonus	910,804	799,098
Retentions	4,491,613	3,081,849
Hall & dam deposits	19,270	21,008
Other payables	(54,368)	(12,243)
	14,804,144	17,500,997

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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12. Consumer deposits

Electricity	73,382	83,665
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No guarantees are held in lieu of Electricity Deposits

The fair value of consumer deposits approximate their carrying value. Interest is not paid on these amounts.

13. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

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

Non-current liabilities	(3,070,153)	(2,698,000)
Current liabilities	(409,481)	(461,000)
	<u>(3,479,634)</u>	<u>(3,159,000)</u>

The Municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality and long service awards. According to the rules of the medical aid fund, with which the municipality is associated, a member is entitled to continued as a member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees.

The most recent actuarial valuation of plan assets and the present value of the defined obligation were carried out at 30 June 2023 by 1 Pangaea Expertise and Solutions (Pty) Ltd ('OPES'). Its members are Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

Long service award -

Employees eligible for long service bonus awards as at the current valuation date

Eligible employees at the end of the financial year:	115	115
Average annual salary (R)	215,461	198,432
Average age (years)	47.08	46.80
Average past service (years)	12.06	11.50

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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13. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10.33 %	10.87 %
Expected increase in salaries	6.21 %	7.33 %
CPI	5.21 %	6.33 %
Net Discount Rate	3.88 %	3.30 %

The basis used to determine the overall expected rate of return on assets is as follow:

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligationed.

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2022 the duration of liabilities was 5.37 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2023 is 10.33% per annum, and the yield on inflation-linked bonds of a similar term was about 4.39% per annum. This implies an underlying expectation of inflation of 5.21% per annum $((1 + 10.33\% - 0.5\%) / [1 + 4.39\%] - 1)$.

It have assumed that salary inflation would exceed general inflation by 1.00% per annum, i.e. 6.21% per annum.

However, it is the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 3.88% per annum $([1 + 10.33\%] / [1 + 6.21\%] - 1)$.

Other assumptions

The demographic and decrement assumptions were consistent in the previous and current valuation period, and are as follows:

Normal retirement age (years)	65	65
Average retirement age (years) ¹	62	62
Mortality	SA85-90	SA85-90

The following withdrawal assumptions were applicable over the prior and current valuation periods:

Age	Withdrawal rates(Male)	Withdrawal rates(Female)
20	9.00 %	9.00 %
25	8.00 %	8.00 %
30	6.00 %	6.00 %
35	5.00 %	5.00 %
40	5.00 %	5.00 %
45	4.00 %	4.00 %
50	3.00 %	3.00 %
55	- %	- %
60+	- %	- %

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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13. Employee benefit obligations (continued)

Post Employment Medical Subsidy

ELIGIBLE EMPLOYEES

We summarise the participants eligible for post-employment medical aid subsidy as at the current valuation date, 30 June 2023,

	Average age 30 June 2023	Average employer monthly contribution 30 June 2023
Active employees	-	-
Continuation pensioners	70.50 years	R4 502

The active employees are only eligible if they were 50 years of age before 1 July 2003. In this current valuation, there were none.

Key assumptions

Assumption

Discount rate (D)	11.47 %	10.78 %
Consumer price inflation (C)	5.85 %	6.33 %
Healthcare cost inflation (H)	7.35 %	7.83 %
Net discount rate $((1+D)/(1+H)-1)$	3.84 %	2.82 %

It is the relative levels of the discount rate and health care cost inflation to one another that is important, rather than the nominal values. The assumption regarding the relative levels of these two rates is our expectation of the long-term average.

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2022 the duration of liabilities was 7.50 years. At this duration, the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2023 is 11.47% per annum, and the yield on the inflation-linked bonds of a similar term was about 4.84% per annum, implying an underlying expectation of inflation of 5.85% per annum $([1 + 11.47\% - 0.5\%] / [1 + 4.84\%] - 1)$.

A healthcare cost inflation rate of 7.85% was assumed. This is 1.00% in excess of the expected inflation over the expected term of the liability, consistent with the previous actuary.

However, it is the relative levels of the discount rate and healthcare inflation to one another that is important, rather than the nominal values. We have thus assumed a net discount factor of 3.84% per annum $([1 + 11.47\%] / [1 + 7.35\%] - 1)$.

Demographic and Decrement assumptions

The demographic and decrement assumptions were consistent in the previous and current valuation period, and are as follows;

	Pensioners
Employment age used for past service period	Actual service entry ages
Proportion married	Actual marital status
Mortality	PA (90)-1 plus 1% future mortality improvement from 2010

Sakhisizwe Local Municipality

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14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Disaster Recovery Grant	3,948,443	8,443
Intergrated National Eletrification Programme	330,952	134,786
EPWP	(1)	17,548
Environmental Affairs: Wattle Removal	(10)	(10)
	<u>4,279,384</u>	<u>160,767</u>

15. Provisions

Reconciliation of provisions - 2023

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	16,105,640	4,009,761	20,115,401

Reconciliation of provisions - 2022

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	12,991,825	3,113,815	16,105,640

The municipality has an obligation to rehabilitate the landfill sites of Carla and Elliot Landfill Sites.

The environmental rehabilitation provision represents the estimated costs to rehabilitate and close existing waste landfill sites. The provision is recognised at the present value of the expenditure expected to settle the obligation. The valuation of the landfill site provision was done by One Pangaea Expertise & Solution who are independent statutory actuarial valuer and the professional valuator with extensive experience and expertise relevant for this type of work. The future value of the rehabilitation of landfill sites obligation was calculated by inflating the non-current cost to an estimated future cost which is then discounted to present value.

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

Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting date are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material to settle the obligation.

The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.

Key Assumptions

Elliot and Cala Landfill Site

<u>Assumptions</u>	30 June 2023	30 June 2022	30 June 2021
Discount rate (D)	11.28 %	12.62 %	12.62 %
Consumer price inflation (C)	6.61 %	6.51 %	7.39 %
Net discount rate $((1+D)/(1+H)-1)$	4.38 %	5.73 %	4.87 %

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16. Chris Hani District Municipality Loan		
The loan bears reference to a loan given by the Chris Hani District Municipality for financial assistance. The loan is to be paid over three installements, interest-free, with the final installment made on 30 June 2018. The Municipality has since defaulted on the loan due to cashflow problems, and there has the loan has not been renegotiated.		
Loan	2,000,000	2,000,000
17. Revenue		
Service charges	21,937,451	21,680,071
Other income	2,599,583	3,036,835
Interest received - investment	11,646,070	8,058,818
Property rates	7,305,778	6,964,476
Government grants & subsidies	115,443,231	110,631,635
Fines, Penalties and Forfeits	14,850	16,040
	158,946,963	150,387,875
<u>The amount included in revenue arising from exchange transactions are as follows:</u>		
Service charges	21,937,451	21,680,071
Other income	2,599,583	3,036,835
Interest received - investment	11,646,070	8,058,818
	36,183,104	32,775,724
<u>The amount included in revenue arising from non-exchange transactions is as follows:</u>		
<u>Taxation revenue</u>		
Property rates	7,305,778	6,964,476
<u>Transfer revenue</u>		
Government grants & subsidies	115,443,231	110,631,635
Fines, Penalties and Forfeits	14,850	16,040
	122,763,859	117,612,151
18. Service charges		
Sale of electricity	14,521,605	15,145,568
Solid waste	8,491,276	7,960,996
Free basic services / rebates	(1,075,430)	(1,426,493)
	21,937,451	21,680,071
19. Other income		
Traffic department income	2,075,820	2,052,006
Rates Clearance Certificates	17,894	12,444
Sale of goods and rendering of services	197,920	241,131
Rental income	183,474	677,327
Electricity: Connection & re-connection fees	6,848	653
Commission on collection	4,119	5,935
Trading licences	37,961	14,091
LG Seta Reimbursive allowance	75,547	33,248
	2,599,583	3,036,835

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Figures in Rand	2023	2022
20. Other revenue		
Other income	2,599,583	3,036,835
21. Fines, Penalties and Forfeits		
Court Traffic Fines	14,850	16,040
22. Interest Received - Investment		
<u>Interest revenue</u>		
Bank	1,920,550	810,640
Interest charged on trade and other receivables	9,725,520	7,248,178
	11,646,070	8,058,818
23. Property rates		
<u>Rates received</u>		
Property rates: Residential, Commercial Property, State	7,305,778	6,964,476
<p>Rates are levied annually and monthly. Monthly rates are payable by the 7th of the following month and annual rates are payable before 30 September. Interest is levied at the prime rate plus 1% on outstanding monthly rates.</p> <p>Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.</p> <p>The rates rebate for the current financial year is included in rates revenue received.</p>		
Valuations		
Residential	763,839,732	763,839,732
Commercial	198,129,025	198,129,025
State	72,418,160	72,418,160
Municipal	174,339,859	174,339,859
Small holdings and farms	338,197,017	338,197,017
Churches	24,080,000	24,080,000
Public Service Infrastructure	203,000	203,000
Institutional	54,509,000	54,509,000
State Trust Land	8,154,220	8,154,220
Vacant	16,326,844	16,326,844
	1,650,196,857	1,650,196,857

The breakdown of the valuation roll for the prior year for state was consolidated into Public Service Infrastructure due to a re classification of codes on the new system votes when setting up the mSCOA votes in the current financial year.

Sakhisizwe Local Municipality

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24. Government grants and subsidies		
<u>Operating grants</u>		
Equitable share	79,757,000	74,331,000
Library subsidy	500,000	500,000
Financial Management Grant	1,700,000	1,700,000
Expended Public Works Program	1,539,548	1,524,452
Environmental Affairs: Wattle Removal	-	861,034
	83,496,548	78,916,486
<u>Capital grants</u>		
Municipal Infrastructure Grant	20,231,000	19,009,000
Intergrated National Electrification Programme	10,135,834	4,669,214
Department of Transport Taxi Rank Transfer	1,579,849	5,661,061
Municipal Disaster Recovery Grant	-	2,375,874
	31,946,683	31,715,149
	115,443,231	110,631,635
<u>Conditional and Unconditional</u>		
Included in above are the following grants and subsidies received:		
Conditional grants recognised as revenue	35,686,231	36,300,635
Unconditional grants recognised as revenue	79,757,000	74,331,000
	115,443,231	110,631,635
<u>Equitable Share</u>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
<u>Municipal Disaster Recovery Grant</u>		
Balance unspent at beginning of year	8,443	2,384,317
Current-year receipts	3,940,027	-
Conditions met - transferred to revenue	-	(2,375,874)
	3,948,470	8,443
Conditions still to be met - remain liabilities (see note 14).		
The grant will provide houses for the area of Manzimdaka in Cala, where residence lost their houses as a result of a storm.		
<u>Intergrated National Electrification Programme</u>		
Balance unspent at beginning of year	134,786	53,600
Current-year receipts	10,332,000	4,804,000
Conditions met - transferred to revenue	(10,135,834)	(4,669,214)
Other - rollover application denied transferred to equitable share	-	(53,600)
	330,952	134,786
Conditions still to be met - remain liabilities (see note 14).		

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24. Government grants and subsidies (continued)

The municipality has entered into an arrangement with Eskom for construction of MV powerlines for the areas within area of the municipality. All the powerlines are handed over back to Eskom upon completion and the project would be inspected by Eskom upon completion before it can be handed over. The Municipality has responsibility to appoint the contractor and/or service provider and the arrangement would improve the lives of the local communities.

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24. Government grants and subsidies (continued)

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	8,378,689
Current-year receipts	20,231,000	19,009,000
Conditions met - transferred to revenue	(20,231,000)	(19,009,000)
Other - rollover application denied transferred to equitable share	-	(8,378,689)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 14).

The MIG grant is a conditional grant used to upgrade and construct infrastructure in the municipal area with the main focus on previously disadvantaged areas.

Expanded Public Works Programme

Balance unspent at beginning of year	17,548	-
Current-year receipts	1,522,000	1,542,000
Conditions met - transferred to revenue	(1,539,548)	(1,524,452)
	<u>-</u>	<u>17,548</u>

Conditions still to be met - remain liabilities (see note 14).

This grant is for the salaries and operational costs of the contract employees for Extended Public Works Programme.

Financial Management Grant (FMG)

Current-year receipts	1,700,000	1,700,000
Conditions met - transferred to revenue	(1,700,000)	(1,700,000)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 14).

The primary objective of the grant is to build capacity in finance management of the municipality.

Environmental Affairs: Wattle Removal

Balance unspent at beginning of year	-	861,034
Conditions met - transferred to revenue	-	(861,034)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 14).

The primary objective of the grant is to capacitate the municipality in wattle removal.

Department of Transport Taxi Rank Transfer

Current-year receipts	805,175	5,661,061
Conditions met - transferred to revenue	(1,579,849)	(5,661,061)
Utilisation of own funds - to be reimbursed recognised as receivable	774,674	-
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 14).

This grant was received from the Department of Transport (Eastern Cape), it is being used to construct taxi ranks in the towns of Khowa & Cala.

Sakhisizwe Local Municipality

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24. Government grants and subsidies (continued)

Library subsidy

Current-year receipts	500,000	500,000
Conditions met - transferred to revenue	(500,000)	(500,000)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 14).

Provide explanations of conditions still to be met and other relevant information.

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25. Employee related costs

Basic	28,601,256	27,640,615
Bonus	2,106,256	1,977,696
Medical aid - company contributions	2,220,495	2,152,641
UIF	222,364	258,909
WCA	87,137	213,675
SDL	391,605	360,025
Leave pay provision charge	252,860	409,612
Pension Fund contributions	4,345,562	4,132,125
Travel, motor car, accommodation, subsistence and other allowances	113,591	72,389
Overtime payments	421,121	445,667
Long-service awards	20,284	-
Cellphone allowance	2,400	2,400
Other allowances	36,542	30,188
Bargaining Council contributions	149,661	15,821
Adjustments to post retirement benefits obligation	237,000	-
	39,208,134	37,711,763

Remuneration of Municipal Manager: N.Mazwayi

Annual Remuneration	399,798	878,736
Car Allowance	115,700	277,680
Contributions to UIF, Medical and Pension Funds	17,299	40,535
Cellphone and other Allowance	44,870	29,702
Leave payout	165,076	-
Rural allowance	19,931	47,834
	762,674	1,274,487

Remuneration of Municipal Manager: SG.Sotshongaye

Annual Remuneration	412,552	-
Car Allowance	25,000	-
Contributions to UIF, Medical and Pension Funds	73,223	-
Cellphone and other Allowance	22,586	-
Other Allowances	54	-
Rural allowance	20,229	-
	553,644	-

Remuneration of Chief Financial Officer (Busisiwe Lubelwana)

Annual Remuneration	871,581	843,841
Car Allowance	60,000	60,000
Contributions to UIF, Medical and Pension Funds	12,130	2,012
Cellphone and other Allowance	58,206	30,386
Rural allowance	36,542	36,225
	1,038,459	972,464

Director: Corporate Services L Fathuse

Annual Remuneration	-	58,154
Car Allowance	-	5,000
Contributions to UIF, Medical and Pension Funds	-	7,484
Cellphone and other Allowance	-	1,000
	-	71,638

Director: Corporate Services: Thandiwe Malangabi

Sakhisizwe Local Municipality

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Figures in Rand	2023	2022
25. Employee related costs (continued)		
Annual Remuneration	542,908	-
Car Allowance	50,000	-
Contributions to UIF, Medical and Pension Funds	103,001	-
Cellphone and other Allowance	24,169	-
Leave payout	49,637	-
Rural allowance	27,372	-
	<u>797,087</u>	<u>-</u>

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Figures in Rand	2023	2022
25. Employee related costs (continued)		
<u>Director: Community Services: Mngcitha</u>		
Annual Remuneration	689,427	665,251
Car Allowance	60,000	60,000
Contributions to UIF, Medical and Pension Funds	98,625	90,039
Cellphone and other Allowance	44,335	51,865
Rural allowance	32,888	-
	925,275	867,155
<u>Director: Technical Services: Tunzi</u>		
Annual Remuneration	797,834	770,950
Car Allowance	60,000	60,000
Performance Bonuses	65,255	64,246
Contributions to UIF, Medical and Pension Funds	11,389	2,012
Cellphone and other Allowance	48,397	56,672
Rural allowance	36,193	-
	1,019,068	953,880
<u>Director: IPED: Pamla</u>		
Annual Remuneration	780,170	746,185
Car Allowance	120,000	120,000
Contributions to UIF, Medical and Pension Funds	52,217	40,535
Cellphone and other Allowance	48,013	57,630
Rural allowance	36,542	-
	1,036,942	964,350
26. Remuneration of councillors		
Executive Mayor	957,761	471,124
Speaker	775,059	1,177,410
Councillors	6,073,345	5,398,333
	7,806,165	7,046,867
27. Depreciation and amortisation		
Property, plant and equipment	8,814,543	8,546,630
Investment property	118,242	118,243
	8,932,785	8,664,873
28. Finance costs		
Interest cost - Landfill site Provision	2,031,726	1,638,919
Post Employment Health	118,000	102,000
Trade and other payables	907,010	478,342
Finance leases	-	12,021
Long-service	201,000	162,000
	3,257,736	2,393,282

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29. Impairment loss		
Debt impairment	19,152,417	20,196,509
Impairment - Fixed assets	1,021,969	1,507,761
	20,174,386	21,704,270
30. Bulk purchases		
Electricity - Eskom	16,977,826	15,839,634
31. Contracted services		
<u>Outsourced Services</u>		
Administrative and Support	8,450	2,317,139
Catering Services	327,108	199,154
Security Services	4,886,589	3,467,410
Transport Services	141,151	208,675
<u>Consultants and Professional Services</u>		
Business and Financial Management	4,890,531	5,427,299
Infrastructure and Planning	217,297	737,980
Business and Advisory	406,082	471,418
Legal Cost	432,809	2,343,602
<u>Contractors</u>		
Repairs & Maintenance of Buildings and Facilities	153,130	173,936
Repairs & Maintenance of Other assets	1,292,291	955,149
	12,755,438	16,301,762
32. General expenses		
Advertising	501,981	395,560
Auditors remuneration	4,515,990	4,065,594
Bank charges	106,125	91,807
Commission paid	190,179	-
Electrification expensed	8,899,243	5,784,252
Consumables	973,845	1,588,830
Entertainment	-	28,010
Rent - office equipment (Operating Leases)	347,243	230,664
Long-service bonus vested costs	-	148,000
Insurance	949,679	333,136
Conferences and seminars	77,319	29,566
IT expenses and software license fees	1,741,355	1,536,845
Fuel and oil	1,058,024	905,610
Telephone, postage & fax	1,514,070	1,372,376
Protective clothing	-	866,006
Royalties and license fees	157,427	109,686
SALGA Subscriptions and membership fees	517,717	534,765
Electricity purchases	1,551,431	1,328,893
Training	-	113,994
Travel and accomodation	685,570	465,539
Remuneration Ward Committees	1,048,349	400,500
	24,835,547	20,329,633
33. Auditors' remuneration		
Fees	4,515,990	4,065,594

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Figures in Rand	2023	2022
34. Cash generated from operations		
Surplus	15,209,073	15,390,014
Adjustments for:		
Depreciation	8,932,785	8,664,873
Gain on sale of assets and liabilities	1,579,818	253,994
Actuarial gains/(losses)	1,847,168	(390,000)
Finance costs	2,350,726	1,902,919
Debt and fixed asset impairment	20,174,386	21,704,270
Movements in retirement benefit assets and liabilities	132,501	292,000
Changes in working capital:		
Inventories	757,768	(319,189)
Other receivables	(621,386)	7,608,869
Receivables from exchange transactions	(17,546,351)	(15,213,372)
Receivables from non-exchange transactions	(7,666,904)	(11,261,393)
Payables from exchange transactions	(4,107,282)	(2,803,584)
VAT	1,043,076	(165,568)
Unspent conditional grants and receipts	4,118,617	(11,516,863)
Consumer deposits	(10,283)	-
	26,193,712	14,146,970
35. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	10,682,795	13,191,573
Total capital commitments		
Already contracted for but not provided for	10,682,795	13,191,573
Authorised operational expenditure		
Already contracted for but not provided for		
• Contracted services	6,471,766	2,244,945
Total operational commitments		
Already contracted for but not provided for	6,471,766	2,244,945
Total commitments		
Total commitments		
Authorised capital expenditure	10,682,795	13,191,573
Authorised operational expenditure	6,471,766	2,244,945
	17,154,561	15,436,518

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

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36. Contingencies

The municipality has litigation cases that result in the following contingent liabilities as at year end:

Contingent liabilities

Eric Mvabo - Urgent Application: Interdict	-	-
Eusobio Xolelo Skade - Urgent Application: Interdict	-	-
Joel Daniel Sumpson - Action: to recover damages	31,810	-
Hlumukhanye Securities CC - Action: breach of contract	2,000,000	-
Sarha Rose Marry King - Action: recovery of damages	250,000	-
Golden Rewards - Action: recovery of damages	-	-
Balintulo Trading CC - Action: recovery of damages	-	-
Xabana Civils CC - Xabana Civils CC has instituted action in the Grahamstown High Court for payment allegedly due to it	-	150,000
Nomasiyephi Gladies Sonamazi - Nomasiyephi Gladies Sonamzi, widow of Mr Jack, former employee alleges that the Municipality is liable to her the amount of R5 000 000 as it failed to comply with the Occupational Health and Safety Act, 85 of 1993.	-	200,000
Siyabulela Mponzo - Luvuyo Fatuse - Case no. 117/2019 Invalidation of employment contract due to illegality.	-	80,000
Fikile Balibese - Case no. 823A/2020	-	-
Mr Dumile Mvulane's case - Sakhisizwe Local Municipality vs Mr DM Mvulane for misconduct	-	80,000
Sakhisizwe Land Invasion Committee	-	300,000
Calusa vs Sakhisizwe Municipality - The dispute is that Calusa requested information of the municipality in 2019/20	-	-
Bavuka Trading - Breach of contract	-	150,000
Mrs Zoliswa Cynthia Msali-Morose - the dispute is the letter of demand for damages suffered by the applicant	4,500,000	4,500,000
Sakhisizwe LM//Lwazi Mponzo 979/2020- Interdict against illegal land invasion, Part I of the interdict granted- Mr Mponzo interdicted from building a structure further. Par II of the interdict still to be heard on the 6th of August 2020. Matter may be settled.	-	100,000
Khowa Land Invaders - Illegal land invasion (Building and fencing) without approved application on portion of ERF 1, Khowa	-	300,000
	6,781,810	5,860,000

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37. Risk management

Financial risk management

The entity'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 entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the entity'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, entity treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The entity's risk to liquidity is a result of the funds available to cover future commitments. The entity 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.

The table below analyses the entity's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At June 30, 2023	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Chris Hani District Municipality loan	2,000,000	-	-	-
Trade and other payables	10,167,686	-	-	-
Consumer deposits	73,382	-	-	-
At June 30, 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Chris Hani District Municipality loan	2,000,000	-	-	-
Trade and other payables	12,899,345	-	-	-
Consumer deposits	83,665	-	-	-

Credit risk

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

Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's exposure to credit risk without taking account of the value of any collateral obtained.

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

Financial instrument	2023	2022
Cash and cash equivalents	18,153,142	10,138,802
Trade and other receivables	21,861,731	19,114,790
Other receivables	1,124,363	502,977

Market risk

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37. Risk management (continued)

Interest rate risk

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

38. Financial instruments disclosure

Categories of financial instruments

2023

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	21,861,731	21,861,731
Other receivables	1,124,363	1,124,363
Cash and cash equivalents	18,153,142	18,153,142
	<u>41,139,236</u>	<u>41,139,236</u>

Financial liabilities

	At amortised cost	Total
Loan from Chris Hani District Municipality	2,000,000	2,000,000
Trade and other payables from exchange transactions	10,167,686	10,167,686
Deposits	73,382	73,382
	<u>12,241,068</u>	<u>12,241,068</u>

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
38. Financial instruments disclosure (continued)		
<u>2022</u>		
<u>Financial assets</u>		
	At amortised cost	Total
Trade and other receivables from exchange transactions	19,114,790	19,114,790
Other receivables	502,977	502,977
Cash and cash equivalents	10,138,802	10,138,802
	<u>29,756,569</u>	<u>29,756,569</u>
<u>Financial liabilities</u>		
	At amortised cost	Total
Loans from Chris Hani District Municipality	2,000,000	2,000,000
Trade and other payables from exchange transactions	12,899,345	12,899,345
Deposits	83,665	83,665
	<u>14,983,010</u>	<u>14,983,010</u>
<u>Financial instruments in Statement of financial performance</u>		
<u>2023</u>		
	At amortised cost	Total
Interest income	11,646,070	11,646,070
Interest expense	907,010	907,010
	<u>12,553,080</u>	<u>12,553,080</u>
<u>2022</u>		
	At amortised cost	Total
Interest income	8,058,818	8,058,818
Interest expense	490,363	490,363
	<u>8,549,181</u>	<u>8,549,181</u>
39. Unauthorised expenditure		
Opening balance as previously reported	76,911,983	67,784,766
Opening balance as restated	<u>76,911,983</u>	<u>67,784,766</u>
Add: Expenditure identified - current	24,556,413	9,127,217
Closing balance	<u>101,468,396</u>	<u>76,911,983</u>
40. Fruitless and wasteful expenditure		
Opening balance as previously reported	3,413,937	3,160,668
Opening balance as restated	<u>3,413,937</u>	<u>3,160,668</u>
Add: Expenditure identified - current	907,010	253,269
Add: Fruitless and wasteful expenditure incurred in prior year but identified in current year	81,929	-
Closing balance	<u>4,402,876</u>	<u>3,413,937</u>

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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40. Fruitless and wasteful expenditure (continued)

The fruitless and wasteful expenditure relates to interest charged on overdue accounts and penalties.

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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40. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

	2023	2022
Late payment	486,286	253,269
Electrification of households	181,662	-
Court fees	7,562	-
SARS penalties and interests	313,429	-
	988,939	253,269

Disciplinary steps taken/criminal proceedings

Management is still investigating the root cause and will institute disciplinary action once all processes are finalised
 Management is still investigating the root cause and will institute disciplinary action once all processes are finalised
 Management is still investigating the root cause and will institute disciplinary action once all processes are finalised
 Management is still investigating the root cause and will institute disciplinary action once all processes are finalised

41. Irregular expenditure

Opening balance as previously reported	109,010,657	98,215,017
Opening balance as restated	109,010,657	98,215,017
Add: Irregular Expenditure - current	16,364,913	10,141,878
Add: Irregular Expenditure incurred in prior year but identified in current year	506,697	-
Add: Irregular Expenditure - prior year adjustment	-	653,762
Closing balance	125,882,267	109,010,657

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

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41. Irregular expenditure (continued)

Incidents/cases identified in the current year include those listed below:

	<u>Disciplinary steps taken/criminal proceedings</u>	
Non-compliance with SCM Regulations	No disciplinary action and/or investigation has taken place	
		19,203,191
		<u>10,795,640</u>

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

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42. Prior period errors

Statement of Financial Position

Figures in Rand	Note(s)	Previously reported	Adjustment	Re-classification	Restated
Assets					
Current Assets					
Inventories	3	894,019	-	-	894,019
Other receivables	6	502,977	-	-	502,977
Statutory receivable	5	13,296,948	-	-	13,296,948
VAT receivable	7	1,896,206	(409,000)	-	1,487,206 [2]
Receivables from exchange transactions	4	17,910,621	1,204,169	-	19,114,790 [1]
Deposit: Bond Security		4,500,000	(4,500,000)	-	- [3]
Cash and cash equivalents	8	10,138,802	-	-	10,138,802
		49,139,573	(3,704,831)	-	45,434,742
Non-Current Assets					
Investment property	9	12,267,841	2,331,258	-	14,599,099 [9]
Property, plant and equipment	10	241,934,091	(12,915,190)	-	229,018,901 [8]
		254,201,932	(10,583,932)	-	243,618,000
Total Assets		303,341,505	(14,288,763)	-	289,052,742
Liabilities					
Current Liabilities					
Payables from exchange transactions	11	17,409,516	91,481	-	17,500,997 [9]
Consumer deposits	12	83,665	-	-	83,665
Employee benefit obligation	13	461,000	-	-	461,000
Unspent conditional grants and receipts	14	160,767	-	-	160,767
Chris Hani District Municipality loan	16	2,000,000	-	-	2,000,000
		20,114,948	91,481	-	20,206,429
Non-Current Liabilities					
Employee benefit obligation	13	2,698,000	-	-	2,698,000
Provisions	15	16,105,640	-	-	16,105,640
		18,803,640	-	-	18,803,640
Total Liabilities		38,918,588	91,481	-	39,010,069
Net Assets		264,422,917	(14,380,244)	-	250,042,673
Accumulated surplus		264,422,919	(14,380,246)	-	250,042,673 [4]

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

42. Prior period errors (continued)

Statement of Financial Performance

Figures in Rand	Note(s)	Previously reported	Adjustment	Re-classification	Restated
Revenue					
Revenue from exchange transactions					
Service charges	18	18,953,434	2,726,637	-	21,680,071 [1]
Other income	19	3,036,835	-	-	3,036,835
Interest received - investment	22	8,058,818	-	-	8,058,818
Actuarial gains		390,000	-	-	390,000
Total revenue from exchange transactions		30,439,087	2,726,637	-	33,165,724
Revenue from non-exchange transactions					
Taxation revenue					
Property rates	23	6,964,476	-	-	6,964,476
Transfer revenue					
Government grants & subsidies	24	110,631,635	-	-	110,631,635
Fines, Penalties and Forfeits		16,040	-	-	16,040
Total revenue from non-exchange transactions		117,612,151	-	-	117,612,151
Total revenue	17	148,051,238	2,726,637	-	150,777,875
Expenditure					
Employee related costs	25	(42,853,546)	-	-	(42,853,546)
Remuneration of councillors	26	(7,046,867)	-	-	(7,046,867)
Depreciation and amortisation	27	(8,824,066)	159,193	-	(8,664,873) [8]
Finance costs	28	(2,393,282)	-	-	(2,393,282)
Debt Impairment	29	(15,272,804)	(6,431,466)	-	(21,704,270) [3]
Bulk purchases	30	(15,839,634)	-	-	(15,839,634)
Contracted services	31	(16,184,689)	(117,073)	-	(16,301,762) [7]
Transfers and Subsidies		-	-	-	-
Loss on disposal of assets and liabilities		-	(253,994)	-	(253,994) [5]
General Expenses	32	(14,916,447)	(5,413,186)	-	(20,329,633) [6]
Total expenditure		(123,331,335)	(12,056,526)	-	(135,387,861)
Surplus for the year		24,719,903	(9,329,889)	-	15,390,014

[1] Refuse and electricity revenue was not billed correctly in prior year resulting in increase in receivables from exchange transactions.

[2] VAT receivable was adjusted by R(409,000) due to reversal of an incorrect billing. The accounts affected include receivables from exchange transactions.

[3] Bond security of R4 500 000 was reclassified to other receivables as the nature of the transaction qualified as other receivables and it was fully impaired. This resulted in increase in debt impairment.

[4] Accumulated surplus was adjusted by R(14,380,246) due to adjustments on income statements.

[5] Loss on disposal was disclosed under general expenditure now disclosed separately on statement of financial performance.

[6] General expenditure was adjusted due to reclassification of contracted service transactions incorrectly disclosed under general expenditure in prior year and reclassification of loss on disposal. Furthermore management effected an adjustment on INEP expenditure incorrectly capitalised.

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022 Restated*
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44. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts - [MFMA 124 (1)(b)]

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2023:

June 30, 2023	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor B. Ponoshe	246	-	246
Councillor A Mpakane	622	25,817	26,439
Councillor V Filana	622	25,803	26,425
Councillor Z J Phonoshe	116	2,648	2,764
Councillor N S Nopote	316	4,069	4,385
Councillor N Miso	652	29,606	30,258
Councillor L Thulelo	369	23,979	24,348
Councillor M Ngqayimbana	456	7,833	8,289
Councillor M Mxhonywa	566	10,262	10,828
Councillor M Malungisa	497	13,764	14,261
	4,462	143,781	148,243
June 30, 2022	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor B. Ponoshe	(2,166)	-	(2,166)
Councillor A Mpakane	13,006	-	13,006
Councillor V Filana	24,015	-	24,015
Councillor Z J Phonoshe	2,364	-	2,364
Councillor N Miso	27,575	-	27,575
Councillor L Thulelo	19,778	-	19,778
Councillor M Ngqayimbana	6,635	-	6,635
Councillor M Mxhonywa	8,781	-	8,781
	99,988	-	99,988

Key management and Councillors receive and pay for services on the same terms and conditions as other rate payers and residents.

* See Note 42

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022 Restated*
44. Additional disclosure in terms of Municipal Finance Management Act (continued)			
<u>Supply chain management regulations</u>			
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.			
<u>Deviations</u>			
July		273,024	226,030
August		70,918	134,092
September		36,598	16,045
October		78,150	1,751,873
November		124,874	-
December		131,538	156,978
January		60,306	115,826
February		178,231	82,958
March		214,497	44,169
April		261,282	75,704
May		722,332	11,155
June		492,696	362,390
		2,644,446	2,977,220
<u>Electricity distribution losses</u>			
Units purchased (Kwh)		7,910,705	8,588,485
Units lost during distribution (Kwh)		1,580,026	395,831
Electricity lost during distribution (R)		3,386,560	730,001
Percentage lost during distribution (%)		20%	5%

45. Segment Information

Segment surplus or deficit, assets and liabilities

* See Note 42

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

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45. Segment information (continued)

2023

	Community and public safety	Planning and development	Road transport	Waste management	Energy sources	Total
Revenue						
Service charges	-	-	-	(8,480,275)	(6,336,332)	(14,816,607)
Other income	(1,030,244)	-	-	-	(27,157)	(1,057,401)
Grants & subsidies	(500,000)	(6,140,799)	(21,810,849)	-	(5,534,583)	(33,986,231)
Interest revenue	-	-	-	(1,508,694)	-	(1,508,694)
Total segment revenue	(1,530,244)	(6,140,799)	(21,810,849)	(9,988,969)	(11,898,072)	(51,368,933)
Entity's revenue						(51,368,933)
Expenditure						
Employee related costs	6,531,107	3,305,932	2,668,320	5,639,550	2,140,941	20,285,850
Depreciation and amortisation	917,715	-	5,041,131	-	-	5,958,846
Bulk purchases	-	-	-	-	16,977,826	16,977,826
Contracted services	90,622	-	587,051	334,062	19,489	1,031,224
General expenses	305,919	13,612	51,813	44,491	1,669,831	2,085,666
Total segment expenditure	7,845,363	3,319,544	8,348,315	6,018,103	20,808,087	46,339,412
Total segmental (surplus)/deficit						(5,029,521)

* See Note 42

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

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Figures in Rand

	Community and public safety	Planning and development	Road transport	Waste management	Energy sources	Total
45. Segment information (continued)						
Reconciliation of Segment Revenue to the Statement of Financial Performance						
TOTAL SEGMENT REVENUE						(51,368,933)
Revenue from exchange transactions allocated that do not meet the definition of a segment						-
Service Charges						(7,120,844)
Other Income						(1,542,182)
Interest received						(10,137,376)
Revenue from non-exchange transactions allocated to departments that do not meet the definition of a segment						-
Property rates						(7,305,778)
Government grants & subsidies						(81,457,000)
Fines, Penalties and Forfeits						14,850
Total Revenue per the Statement of Financial Performance						(158,917,263)
Expenditure not allocated to reportable segment						
Employee costs						24,979,628
Remuneration of councillors						7,806,165
Depreciation and amortisation						3,039,816
Finance costs						3,361,665
Impairment loss						17,709,496
Contracted services						11,724,213
Loss on disposal of assets						1,579,818
Actuarial losses						1,847,168
General Expenses						22,730,807
Total segment expenditure						46,494,223
						141,272,999
						141,272,999
Reporting on segment assets and liabilities						

* See Note 42

Sakhisizwe Local Municipality

Annual Financial Statements for the year ended June 30, 2023

Notes to the Annual Financial Statements

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45. Segment information (continued)

The Municipality has assessed that assets and liabilities associated with each segment is not used by management for decision making purposes, and neither is it being reported on. Assets and liabilities are utilised by management to assess key financial indicators for the Municipality as a whole. Accordingly, the assets and liabilities per segment is not required to be disclosed.

2022

	Community and public safety	Planning and development	Road transport	Waste management	Energy sources	Total
Revenue						
Service charges	-	-	-	(4,396,446)	(14,556,988)	(18,953,434)
Other income	(1,465,590)	-	-	-	(1,121)	(1,466,711)
Grants & Subsidies	-	(19,440,107)	(12,384,735)	-	(1,917,125)	(33,741,967)
Total segment revenue	(1,465,590)	(19,440,107)	(12,384,735)	(4,396,446)	(16,475,234)	(54,162,112)
Entity's revenue						(54,162,112)
Expenditure						
Employee related costs	860,017	955,193	-	38,222,749	946,980	40,984,939
Depreciation and amortisation	298,105	-	-	-	-	298,105
Finance costs	-	-	-	478,341	492,182	970,523
Debt impairment	-	-	5,085,459	-	-	5,085,459
Bulk Purchases	-	-	-	-	15,839,634	15,839,634
Contracted Services	49,910	1,022,729	28,500	7,121,890	621,017	8,844,046
General Expenditure	3,798,395	-	-	7,893,398	-	11,691,793
Total segment expenditure	5,006,427	1,977,922	5,113,959	53,716,378	17,899,813	83,714,499
Total segmental (surplus)/deficit						(24,719,905)

* See Note 42

Sakhisizwe Local Municipality

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Figures in Rand

45. Segment information (continued)

<u>Expenditure not allocated to reportable segment</u>	
Employee costs	1,868,609
Remuneration of councillors	7,046,867
Depreciation and amortisation	8,366,768
Finance costs	1,422,759
Debt impairment	16,618,811
Loss on disposal of assets	253,994
Contracted Services	7,457,680
General Expenditure	8,637,874
	<u>51,673,362</u>

Reconciliation of Segment Revenue to the Statement of Financial Performance

TOTAL SEGMENT REVENUE

(54,162,112)

Revenue from exchange transactions allocated that do not meet the definition of a segment

-

Service charges

(2,726,637)

Other income

(1,570,124)

Interest received

(8,058,818)

Actuarial gains

(390,000)

Revenue from non-exchange transactions allocated to departments that do not meet the definition of a segment

-

Property rates

(6,964,476)

Government grants & subsidies

(76,889,668)

Fines, Penalties and Forfeits

(16,040)

Total Revenue per the Statement of Financial Performance

(150,777,875)

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.

* See Note 42

Sakhisizwe Local Municipality

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45. Segment information (continued)

Information about geographical areas

Although the Municipality operates in a number of geographical areas (i.e.wards), the geographical information is not considered relevant to management for decision-making. The goods and services provided to the community throughout the entire municipal area are based on similar tariffs and service standards. Therefore, the Municipality has assessed that it operates in a single geographical area.

46. Related parties

Accounting Officer

Compensation to key management

Compensation to Councillors

Refer to Accounting Officers' report note

Refer to employee related cost note

Refer to General information page 1,

There were no related parties transactions for 2023 financial year.

Remuneration of management - refer to note 25

Remuneration of Councillors refer to note 26

Refer to note "Remuneration of councillors"

47. Going concern

We draw attention to the fact that at June 30, 2023, the entity had an accumulated surplus (deficit) of 265,251,750 and that the entity's total assets exceed its liabilities by 265,251,750.

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

The ability of the entity to continue as a going concern is dependent on a number of factors. The most significant of these is that the Accounting Officer continue to procure funding for the ongoing operations for the entity and that the subordination agreement of these annual financial statements will remain in force for so long as it takes to restore the solvency of the entity.

48. Events after the reporting date

At the time of preparing and submitting the Annual Financial Statements there were no subsequent events to disclose.

49. Budget differences

Material differences between budget and actual amounts

- A. More properties that were surveyed and billed during the financial but not included in the budget
- B. The rental of facilities budget include the budget for hall hire which is over budgeted.
- C. More investment portfolios opened and kept longer, improved casflow.
- D. Conditions not met due to funds transferred very late in the financial year by the transferring officer
- E. Reduction in human capital at the Traffic services department.
- F. In increase in year and post benefit provision employee calculatios
- G. Under budgeted

* See Note 42

Sakhisizwe Local Municipality

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Notes to the Annual Financial Statements

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49. Budget differences (continued)

H. Increased in capitalised assets

I. Increase in interest Liability as result decrease in Landfill asset, and interest on late payments

J. Impairmet increased asset reduction conditions due to to floods

K. Casflow constraints resulted in some programmes deffered in the other following years

L - Did not budget for loss on disposal.

M. Did not budget for loss on disposal.