INGQUZA HILL
LOCAL MUNICIPALITY

Ingquza Hill Local Municipality
Annual Financial Statements
for the year ended 30 June 2025

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Provision of services to the community as prescribed by the Local Government Municipal Structure Act No. 117 of 1998 and the constitution of the Republic of South Africa Act No. 108 of 1996.
Areas of operation	Areas demarcated to be within Ingquza Hill Local Municipality per the municipal demarcation:
	Flagstaff
	Lusikisiki
Mayor	Cllr . P. N Pepping
Speaker	Cllr S.B. Vatsha
Chief Whip	Cllr M.I Nkungu
Member of Executive Committtee:	Cllr N.A. Gagai-Nkungu (Portfolio Head: Institutional Transformation and Organisational Developmnet)
	Cllr N.P. Jam-Jam (Portfolio Head: Good Governance and Public Participation)
	Cllr Z. Mhlongo (Portfolio Head: Social Services)
	Cllr B.N. Mvulana (Portfolio Head: Planning and Development)
	Cllr B.J. Nkani (Portfolio Head: Budget and Treasury)
	Cllr V. Somani (Portfolio Head: Human Settlement)
	Cllr K Vava (Portfolio Head: Engineering and Technical Services)
	Cllr Z. Sigcu (No Portfolio)
	Cllr L.I. Ndziba (No Portfolio)
Councillors	Cllr M. Tshabiso
	Cllr M. Mgqobho
	Cllr M.T. Ntilini
	Cllr M. Kwaza
	Cllr M.A. Guleni
	Cllr M.C. Didiza
	Cllr S. Nontswabu
	Cllr Z.I. Nomazele
	Cllr L. Thimle
	Cllr B. Nokele
	Cllr V. Nongumza
	Cllr T.A. Mgudu
	Cllr S. Chitha
	Cllr T. Jotile
	Cllr M. Tenyane
	Cllr N. Zathi
	Cllr N.N. Cwecwe
	Cllr L.N. Tshongane
	Cllr M.P Sibulali
	Cllr L. Khumalo
	Cllr S. Njovane
	Cllr Z. Vatsha
	Cllr M. Mlandelwa

General Information

	Cllr M. Ntshwela
	Cllr V. Nowa
	Cllr Z. Mageza
	Cllr D. Mchosini
	Cllr F. Nomgca
	Cllr S. Tshabane
	Cllr. Z.P. Bambusiba
	Cllr N.P. Mhle
	Cllr Z. Mabhuyana
	Cllr Z. Noncokwana
	Cllr T. Ndzumo
	Cllr S. Njisane
	Cllr K. Mnyayiza
	Cllr. N.B. Notyesi
	Cllr V. Mabhedumana
	Cllr P.E. Supu
	Cllr P.T Sobayeni
	Cllr. T. Ntshangase
	Cllr S. Sanelise
	Cllr. T.D Nokwindla
	Cllr N. Daniso
	Cllr N. Mzothwa
	Cllr N.C.B. Mngqinelwa
	Cllr S.H. Mtshazo
	Cllr Z. Mtsotso
	Cllr. M. Marhafu
	Cllr S. Somazana
	Cllr. Z. Ndzekeni
	Cllr T.S. Giyo
	Cllr N. Mapoloba
	Cllr S. Mbendane
Traditional leaders:	Chief L. Dinwayo Chief C.P. Sigcau
Grading of local authority	Grade 4
Chief Financial Officer (CFO)	Mr. Buhle S. Fikeni
Accounting Officer	Mr. Velile Castro Makedama
Registered office	No. 135 main Street Flagstaff 4810
Postal address	P.O. Box 14 Flagstaff 4810
Bankers	First National Bank
Auditors	Auditor General South Africa

General Information

Attorneys	Ndum Ndum Attorneys Ndzo Attorneys Jolwani Mgidlana Inc

Index

Abbreviations used:

INEP	Intregrated National Electrification Program
AARTO	Adminstrative Adjudication of Road Traffic Offences
GRAP	Generally Recognised Accounting Practice
ENATIS	Electronic National Traffic Information System
SDL	Skills Development levy
UIF	Unemployement Insurance Fund
MFMA	Municipal Finance Management Act
SARS	**South Africa Revenue Services**
VAT	**Value Added Taxation**
mSCOA	Municipal Standard Chart of Accounts
SCM	**Supply Chain Management**
Cllr	**Councillor**
MPAC	**Municipal Public Accounts Committee**
LED	**Local Economic Development**
DBO	**Defined benefit Obligation**
LSA	**Long Service Award**
PAYE	**Pay As You Earn**

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2026 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is dependent on the funding from government grants and subsidies and collections from services rendered to finance its operations.. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The annual financial statements set out on pages 6 to 96, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2025:

Mr. Velile Castro Makedama
Accounting officer

Statement of Financial Position as at 30 June 2025

Figures in Rand	Note(s)	2025	2024 Restated*
Assets			
Current Assets			
Assets held for sale	3	768,083	-
Statutory receivables	4	13,423,524	10,066,279
Receivables from exchange transactions	5	6,205,500	2,558,886
Cash and cash equivalents	6	288,536,241	267,821,868
		308,933,348	**280,447,033**
Non-Current Assets			
Investment property	7	787,726,928	768,514,077
Property, plant and equipment	8	836,997,574	762,516,641
		1,624,724,502	**1,531,030,718**
Total Assets		**1,933,657,850**	**1,811,477,751**
Liabilities			
Current Liabilities			
Finance lease obligation	9	1,418,164	-
Payables from exchange transactions	10	39,698,524	20,733,614
Employee benefit obligation	11	19,142,127	17,824,509
Unspent conditional grants and receipts	12	1,034,810	4,806,033
Provisions	13	2,700,010	3,150,620
		63,993,635	**46,514,776**
Non-Current Liabilities			
Finance lease obligation	9	2,237,899	-
Employee benefit obligation	11	6,500,840	5,789,000
Provisions	13	21,046,787	23,236,484
		29,785,526	**29,025,484**
Total Liabilities		**93,779,161**	**75,540,260**
Net Assets		**1,839,878,689**	**1,735,937,491**
Accumulated surplus		1,839,878,689	1,735,937,496
Total Net Assets		**1,839,878,689**	**1,735,937,496**

* See Note 37

Statement of Financial Performance

Figures in Rand	Note(s)	2025	2024 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	14	1,394,389	1,095,820
Rendering of services	15	330,352	277,273
Construction contracts	16	20,477,645	2,276,522
Rental of facilities and equipment	17	1,043,187	965,480
Interest income on receivables from exchange transactions	18	1,020,465	979,702
Agency services	19	4,475,407	4,248,411
Licences and permits	20	115,290	87,647
Other income	21	142,613	136,719
Interest income - investment	22	24,126,280	24,812,201
Total revenue from exchange transactions		**53,125,628**	**34,879,775**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	39,803,405	31,222,470
Interest on debtors - statutory receivables	24	9,177,639	8,309,752
Transfer revenue			
Government grants & subsidies	25	447,156,961	405,544,414
Fines & Penalties	26	1,987,619	1,327,444
Total revenue from non-exchange transactions		**498,125,624**	**446,404,080**
Total revenue		**551,251,252**	**481,283,855**
Expenditure			
Employee related costs	27	(163,510,250)	(148,630,287)
Remuneration of councillors	28	(29,154,244)	(26,345,745)
Depreciation and amortisation	29	(56,046,718)	(51,504,348)
Finance costs	30	(4,136,614)	(3,671,089)
Debt Impairment	31	(10,070,901)	(11,897,290)
Bad debts written-off	31	(8,734,699)	(52,622)
Contracted Services	32	(87,375,034)	(55,825,465)
Transfers and Subsidies	33	(5,095,523)	(7,820,420)
General expenses	34	(107,700,971)	(114,912,170)
Total expenditure		**(471,824,954)**	**(420,659,436)**
Operating surplus		**79,426,298**	**60,624,419**
Gain on disposal of assets	35	136,985	237,412
Fair value adjustments	7	19,212,852	18,974,674
Actuarial gains/losses	11&13	5,883,402	654,673
Impairment loss	36	(718,336)	-
		24,514,903	**19,866,759**
Surplus for the year		**103,941,201**	**80,491,178**

* See Note 37

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	1,654,476,838	1,654,476,838
Adjustments		
Prior year adjustments 37	969,480	969,480
Balance at 01 July 2023 as restated*	**1,655,446,318**	**1,655,446,318**
Changes in net assets		
Surplus for the year	80,491,178	80,491,178
Total changes	80,491,178	80,491,178
Restated* Balance at 01 July 2024	**1,735,937,488**	**1,735,937,488**
Changes in net assets		
Surplus for the year	103,941,201	103,941,201
Total changes	103,941,201	103,941,201
Balance at 30 June 2025	**1,839,878,689**	**1,839,878,689**

Note(s)

* See Note 37

Cash Flow Statement

Figures in Rand	Note(s)	2025	2024 Restated*
Cash flows from operating activities			
Receipts			
Taxation		29,714,941	38,557,262
Sale of goods and services		26,122,765	11,574,547
Grants		443,385,738	405,250,065
Interest income		24,126,280	24,812,201
		523,349,724	480,194,075
Payments			
Employee costs		(191,218,561)	(173,189,696)
Suppliers		(190,095,342)	(175,464,236)
Finance costs		(309,992)	(20,771)
		(381,623,895)	(348,674,703)
Net cash flows from operating activities	38	**141,725,829**	**131,519,372**
Cash flows from investing activities			
Additions of property, plant and equipment	8	(120,651,478)	(89,820,753)
Proceeds from sale of property, plant and equipment	35	437,430	467,041
Net cash flows from investing activities		**(120,214,048)**	**(89,353,712)**
Cash flows from financing activities			
Finance lease payments		(839,188)	-
Net increase/(decrease) in cash and cash equivalents		**20,714,373**	**42,164,767**
Cash and cash equivalents at the beginning of the year		267,821,868	225,657,101
Cash and cash equivalents at the end of the year	6	**288,536,241**	**267,821,868**

* See Note 37

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	1,500,004	(500,000)	**1,000,004**	1,394,389	**394,385**	39% - Note53
Rendering of services	615,588	-	**615,588**	330,352	**(285,236)**	(46%) -Note53
Construction contracts	18,162,000	9,569,000	**27,731,000**	20,477,645	**(7,253,355)**	(27%) -Note53
Rental of facilities and equipment	1,200,000	-	**1,200,000**	1,043,187	**(156,813)**	(13%)
Interest income on receivables from exchange transactions	734,100	-	**734,100**	1,020,465	**286,365**	39% -Note53
Agency services	6,400,008	-	**6,400,008**	4,475,407	**(1,924,601)**	(30%) -Note53
Licences and permits	200,004	-	**200,004**	115,290	**(84,714)**	(42%) -Note53
Other income	188,004	-	**188,004**	142,613	**(45,391)**	(24%) -Note53
Interest received - investment	15,000,000	5,000,000	**20,000,000**	24,126,280	**4,126,280**	21% -Note53
Total revenue from exchange transactions	**43,999,708**	**14,069,000**	**58,068,708**	**53,125,628**	**(4,943,080)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	41,772,024	-	**41,772,024**	39,803,405	**(1,968,619)**	(5%)
Interest on debtors - statutory receivables	8,918,304	-	**8,918,304**	9,177,639	**259,335**	3%
Transfer revenue						
Government grants & subsidies	425,232,996	23,200,000	**448,432,996**	447,156,961	**(1,276,035)**	0%
Fines and Penalties	1,361,280	-	**1,361,280**	1,987,619	**626,339**	46% -Note53
Total revenue from non-exchange transactions	**477,284,604**	**23,200,000**	**500,484,604**	**498,125,624**	**(2,358,980)**	
Total revenue	**521,284,312**	**37,269,000**	**558,553,312**	**551,251,252**	**(7,302,060)**	
Expenditure						
Employee related costs	(172,563,308)	(48,000)	**(172,611,308)**	(163,510,250)	**9,101,058**	5%
Remuneration of councillors	(30,315,288)	-	**(30,315,288)**	(29,154,244)	**1,161,044**	(4%)
Depreciation and amortisation	(55,000,000)	-	**(55,000,000)**	(56,046,718)	**(1,046,718)**	(0%)
Impairment loss	-	-	**-**	(718,336)	**(718,336)**	(100%)-Note53
Finance costs	(3,800,004)	500,000	**(3,300,004)**	(4,136,614)	**(836,610)**	(25%) -Note 53
Debt Impairment	(12,363,000)	-	**(12,363,000)**	(10,070,901)	**2,292,099**	(19%)- Note 54
Bad debts written off	(39,999,996)	-	**(39,999,996)**	(8,734,699)	**31,265,297**	(78%) -Note 53
Contracted Services	(99,987,133)	(30,431,036)	**(130,418,169)**	(87,375,034)	**43,043,135**	(32%) -Note 53
Transfers and Subsidies	(10,549,993)	3,144,460	**(7,405,533)**	(5,095,523)	**2,310,010**	(31%) -Note 53
General Expenses	(139,422,636)	1,120,823	**(138,301,813)**	(107,700,971)	**30,600,842**	(22%) -Note53
Total expenditure	**(564,001,358)**	**(25,713,753)**	**(589,715,111)**	**(472,543,290)**	**117,171,821**	
Operating surplus	**(42,717,046)**	**11,555,247**	**(31,161,799)**	**78,707,962**	**109,869,761**	
Gain on disposal of assets and liabilities	-	-	**-**	136,985	**136,985**	100% -Note53
Fair value adjustments	-	-	**-**	19,212,852	**19,212,852**	(100)-Note53
Actuarial gains/losses	999,996	-	**999,996**	5,883,402	**4,883,406**	(488%)-Note53
	999,996	**-**	**999,996**	**25,233,239**	**24,233,243**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Surplus before taxation	**(41,717,050)**	**11,555,247**	**(30,161,803)**	**103,941,201**	**134,103,004**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(41,717,050)**	**11,555,247**	**(30,161,803)**	**103,941,201**	**134,103,004**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Assets held for sale	253,669	6,549,992	**6,803,661**	768,083	**(6,035,578)**	89% -Note 53
Operating lease asset	1,759,395	-	**1,759,395**	-	**(1,759,395)**	100% -Note 53
Statutory receivables	34,781,190	-	**34,781,190**	13,423,533	**(21,357,657)**	72 % -Note 53
VAT receivables	15,012,689	-	**15,012,689**	-	**(15,012,689)**	83 % -Note 53
Receivables from exchange transactions	4,731,265	(500,000)	**4,231,265**	6,205,500	**1,974,235**	61 % -Note 53
Cash and cash equivalents	134,980,714	26,145,609	**161,126,323**	288,536,241	**127,409,918**	(79%) -Note 53
	191,518,922	**32,195,601**	**223,714,523**	**308,933,357**	**85,218,834**	
Non-Current Assets						
Investment property	940,156,888	-	**940,156,888**	787,726,928	**(152,429,960)**	(18%) -Note 53
Property, plant and equipment	1,052,219,779	8,808,434	**1,061,028,213**	836,997,574	**(224,030,639)**	(22%) -Note 53
	1,992,376,667	**8,808,434**	**2,001,185,101**	**1,624,724,502**	**(376,460,599)**	
Total Assets	**2,183,895,589**	**41,004,035**	**2,224,899,624**	**1,933,657,859**	**(291,241,765)**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	1,418,164	**1,418,164**	(100%)-Note53
Payables from exchange transactions	82,452,000	7,998,000	**90,450,000**	39,698,524	**(50,751,476)**	55% -Note53
Trade and other payables from non-exchange transactions	12,618,000	2,500,000	**15,118,000**	-	**(15,118,000)**	100% -Note53
VAT payable	225,000	-	**225,000**	-	**(225,000)**	(100%)-Note53
Employee benefit obligation	-	-	**-**	19,142,127	**19,142,127**	21% - Note53
Unspent conditional grants and receipts	-	-	**-**	1,034,810	**1,034,810**	89% -Note53
Provisions	2,578,621	-	**2,578,621**	2,700,010	**121,389**	215% -Note53
	97,873,621	**10,498,000**	**108,371,621**	**63,993,635**	**(44,377,986)**	
Non-Current Liabilities						
Finance lease obligation	-	-	**-**	2,237,899	**2,237,899**	100% -Note53
Employee benefit obligation	-	-	**-**	6,500,840	**6,500,840**	8%
Provisions	32,595,855	-	**32,595,855**	21,046,787	**(11,549,068)**	18% -Note53
	32,595,855	**-**	**32,595,855**	**29,785,526**	**(2,810,329)**	
Total Liabilities	**130,469,476**	**10,498,000**	**140,967,476**	**93,779,161**	**(47,188,315)**	
Net Assets	**2,053,426,113**	**30,506,035**	**2,083,932,148**	**1,839,878,698**	**(244,053,450)**	
Net Assets						
Reserves						
Accumulated surplus	2,053,426,113	30,506,035	**2,083,932,148**	1,839,878,689	**(244,053,459)**	12%

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Taxation	43,087,000	-	**43,087,000**	29,714,941	**(13,372,059)**	31% - Note53
Sale of goods and services	44,355,000	27,731,000	**72,086,000**	26,122,765	**(45,963,235)**	63 % - Note53
Grants	443,395,000	(162,000)	**443,233,000**	443,385,738	**152,738**	
Interest income	15,000,000	5,000,000	**20,000,000**	24,126,280	**4,126,280**	(21%)-Note53
	545,837,000	**32,569,000**	**578,406,000**	**523,349,724**	**(55,056,276)**	
Payments						
Employee costs & suppliers	(442,288,000)	(26,040,000)	**(468,328,000)**	(381,313,903)	**87,014,097**	18% - Note53
Finance costs	(800,000)	-	**(800,000)**	(309,992)	**490,008**	61%-Note-53
Transfers and subsidies	(10,550,000)	-	**(10,550,000)**	-	**10,550,000**	(100%)-Note53
	(453,638,000)	**(26,040,000)**	**(479,678,000)**	**(381,623,895)**	**98,054,105**	
Net cash flows from operating activities	**92,199,000**	**6,529,000**	**98,728,000**	**141,725,829**	**42,997,829**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(143,189,000)	(2,302,000)	**(145,491,000)**	(120,651,478)	**24,839,522**	17% -Note 53
Proceeds from sale of property, plant and equipment	-	-	**-**	437,430	**437,430**	(100%)-Note53
Net cash flows from investing activities	**(143,189,000)**	**(2,302,000)**	**(145,491,000)**	**(120,214,048)**	**25,276,952**	
Cash flows from financing activities						
Finance lease receipts	-	-	**-**	(839,188)	**(839,188)**	(100%)-Note53
Net increase/(decrease) in cash and cash equivalents	(50,990,000)	4,227,000	**(46,763,000)**	20,672,593	**67,435,593**	53
Cash and cash equivalents at the beginning of the year	185,972,000	21,918,000	**207,890,000**	267,821,868	**59,931,868**	
Cash and cash equivalents at the end of the year	**134,982,000**	**26,145,000**	**161,127,000**	**288,494,461**	**127,367,461**	

Significant Accounting Policies

Figures in Rand	Note(s)	2025	2024

1. Significant accounting policies

The significant accounting policies applied in the preparation of these annual financial statements are set out below.

1.1 Basis of preparation

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.

These accounting policies are consistent with the previous period.

1.2 Presentation currency

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

1.3 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.

1.4 Bad debts write-off

Bad debts written-off refers to the process where-by outstanding account balances are reduced to reflected net value to be collected from the customer. The municipality write-off customer accounts in full or partially when there is evidence that the full amount or portion of the outstanding amount will not be received. Some of the factors affecting customer accounts write-off includes:

- Settlements discounts extended to the customers.
- Payment arrangements with a condition to write-off portion of the balance when the terms and conditions of the arrangements are satisfied.

Bad debt written-off is a decrease in economic benefits of the municipality, therefore it is recognised as an expense in the year it occurs.

1.5 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.

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

1.5 Significant judgements and sources of estimation uncertainty (continued)

Statutory receivables and receivables from exchange transactions

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

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

Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example, investment property) is determined by using valuation techniques. The municipality uses a market approach method and direct comparable sales method to determine the market values of each investment property.

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

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 11.

Effective interest rate

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

Allowance for doubtful debts

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

Significant Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Accounting by principals and agent

The municipality makes assessments on whether it is the principal or agent in principal-agent relationships.

Additional information is disclosed in Note 54.

Impairment of statutory receivables

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

In estimating the future cash flows, the municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the municipality 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 are 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.

Offsetting

Assets and liabilities, revenue and expenses, shall not be offset unless required or permitted by a Standard of GRAP.

1.6 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

Any difference between the fair value of the property at that date and its previous carrying amount shall be recognised in surplus and deficit.

Significant Accounting Policies

1.7 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:
- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight-line	Infinity years
Buildings	Straight-line	30 years
Plant and machinery	Straight-line	5 - 20 years
Furniture and fixtures	Straight-line	7 - 10 years
Motor vehicles	Straight-line	3 - 20 years
Office equipment	Straight-line	3-5 years
IT equipment	Straight-line	3-5 years
Infrastructure	Straight-line	10-30 years
Community	Straight-line	30 years
Other property, plant and equipment	Straight-line	15 years

1.7 Property, plant and equipment (continued)

Bins and containers	Straight-line	5 - 10 years

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 8).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 8).

1.8 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which a municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

(a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
(b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
(c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.9 Recognition and de-recognition of land

Legislation or similar means governs the ownership, custodianship and/or the use of land in the public sector. The following situations outlined in legislation or similar means, may have an impact on the recognition and derecognition of land:

1.9 Recognition and de-recognition of land (continued)

- an entity may be required to act as the custodian of the land;
- an entity may be the legal owner of the land;
- an entity may be required to use the land or may be granted a right to use the land to meet its service delivery objectives; or
- restrictions may be imposed on an entity in relation to the transfer of the land.

This Interpretation addresses the following issues in relation to the recognition and derecognition of land:

- Should the legal owner of the land always recognise the land as its asset in the financial statements?
- How will a right granted to an entity in a binding arrangement, which enables it to direct access to the land, and to restrict and deny the access of others to the land, affect whether it recognises the land?
- Should the legal owner or the custodian of the land recognise the land as its asset?
- When should the land be derecognised from an entity's financial statements?
- How should the land be accounted for when there is joint control of land?

An entity should assess whether it controls land using the following criteria:

- legal ownership
- the right to direct access to land, and to restrict or deny the access of others to land.

A binding arrangement is an arrangement that confers enforceable rights and obligations on the parties to the arrangement as if it were in the form of a contract. It includes rights from contracts or other legal rights and can be evidenced in several ways:

- a contract concluded between the parties;
- legislation, supporting regulations or similar means including, but not limited to laws, regulation, policies, decisions concluded by authorities such as cabinet, executive committees, boards, municipal councils and ministerial orders (referred to as legislation or similar means for purposes of this Interpretation);
  or
- through the operation of law, including common law.

A binding arrangement is often, but not always, in writing, in the form of a contract or documented discussions between the parties.

Where the entity concludes that it controls land, an asset is recognised in the statement of financial position in accordance with the applicable Standard of GRAP.

If the entity concludes that it does not have control over the land, land is derecognised as an asset from the statement of financial position in accordance with the applicable Standard of GRAP.

Recognition and de-recognition of land are carried at cost less any accumulated amortisation and any impairment losses.

1.10 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.

Significant Accounting Policies

1.10 Financial instruments (continued)

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.

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

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

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

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

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

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 entity had not acquired, issued or disposed of the financial instrument.

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

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

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

1.10 Financial instruments (continued)

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
Receivable from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivelants	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligations	Financial liability measured at amortised cost

1.11 Statutory receivables

Identification

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

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

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

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

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

Recognition

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Accrued interest

Significant Accounting Policies

1.11 Statutory receivables (continued)

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

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

Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

Impairment losses

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

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

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

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

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

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

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

Derecognition

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

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

Significant Accounting Policies

1.11 Statutory receivables (continued)

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

1.12 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.

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.

The discount rate used in calculating the present value of the minimum lease payments is the prime rate.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

1.13 Assets held for sale

Assets held for sale are initially measured at cost except where assets held for sale are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently assets held for sale are measured at the lower of cost and net realisable value.

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

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

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

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

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

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

When assets held for sale are sold, the carrying amounts of those assets held for sale 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 assets held for sale to net realisable value or current replacement cost and all losses of assets held for sale are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of assets held for sale, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of assets held for sale recognised as an expense in the period in which the reversal occurs.

Significant Accounting Policies

1.14 General expenses

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

Recognition and measurement:

Expenses are recognised on an accrual basis.

This means a basis of accounting under which transactions are recognised when they occur (and not only when cash or its equivalent is received or paid). Therefore, the transactions are recorded in the accounting records and recognised in the financial statements of the periods to which they relate.

1.15 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents comprise bank balances, cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which are available on demand.

1.16 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to construct assets to the specifications of another entity either itself or through the use of sub-contractors. The term “contractor” thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The municipality assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, the municipality considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.17 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.

1.17 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

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

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

Designation

At initial recognition, the municipality 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 a municipality's objective of using the asset.

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

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

Value in use

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

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

1.17 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Significant Accounting Policies

1.17 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

Significant Accounting Policies

1.17 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:
- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

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.

1.18 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

Designation

At initial recognition, the municipality 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 a municipality's objective of using the asset.

The municipality 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.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

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 municipality 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 a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

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

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

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

Significant Accounting Policies

1.18 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.

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

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.

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

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

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

Significant Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.19 Remuneration of councillors

Remuneration as determined by the Remuneration of Public Office Bearers Act, 1998 (Act No 20 of 1998). Salary of full/part time councillors including the Executive Mayor or Mayor, Speakers, Deputy Executive Major or Deputy Mayor, Members of the Executive Committee or Mayoral Committee, Whip and Chairperson of a sub-council, etc.

1.20 Transfers and subsidies

Transfers and subsidies are monies paid by the municipality through contract for the development and assistance of small businesses i.e Spaza shops.

The expenditure is recognised on accrual basis upon receipt of the invoice. Transfers and subsidies are managed by the department of Planning and Development.

The nature of the expenditure qualifies as a subsidy (goods in-kind) to small business owners i.e Spaza shops.

Significant Accounting Policies

1.21 Employee benefits

Identification

Employee benefits

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

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

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

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

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

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

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

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

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

Significant Accounting Policies

1.21 Employee benefits (continued)

Short-term employee benefits

Recognition and measurement

All 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 municipality 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 it 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 it 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 municipality has no realistic alternative but to make the payments.

Post-employment benefits: Defined contribution plans

Recognition and measurement

The municipality provides certain post retirement health care benefits by funding the medical aid contribution of of certain retired members of the municipality. According to the rules of the medical aid fund which is associated with the municipality, a member (who is is on the current condition of service) is entitled to remain a continued member of such medical aid fund upon retirement. In such cases, the municipality is liable for a portion medical membership fee.

Recent actuarial valuations were carried out at 30 June 2025 by ARCH Actuarial Consulting. The present value of the defined benefit obligation, current costs and past service costs were measured using Project Unit Credit Method.

1.21 Employee benefits (continued)

Termination benefits

Recognition

The municipality recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The municipality is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.22 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Significant Accounting Policies

1.22 Provisions and contingencies (continued)

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

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

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

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

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

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

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

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.17 and 1.18.

If the related asset is measured using the revaluation model:

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

1.23 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:

1.23 Commitments (continued)

- 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.

1.24 Revenue from exchange transactions

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

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

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

Measurement

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

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

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest

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

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

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

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

Significant Accounting Policies

1.25 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

Significant Accounting Policies

1.25 Revenue from non-exchange transactions (continued)

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

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

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

Transfers

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

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

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

Fines

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

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

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

1.26 Investment income

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

1.27 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.

1.28 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).

Significant Accounting Policies

1.28 Accounting by principals and agents (continued)

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Assessing which entity benefits from the transactions with third parties

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

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

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

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

Recognition

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

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

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

1.29 Comparative figures

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

When the presentation or classification in the financial statement is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require restatement of comparative information. The nature and reason for classification is disclosed.

When material accounting errors have been identified in the current year, the correction is made retrospectively as far as practically possible. Prior year comparative amounts affected are restated accordingly.

Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far practically possible and the affected prior year comparative amounts are restated accordingly.

Significant Accounting Policies

1.30 Fruitless and wasteful expenditure

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

Fruitless and wasteful expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

All transactions relating to fruitless and wasteful expenditure are recognised as an expenditure in the statement of financial performance in the period it occurs. The expenditure is classified in accordance with the nature of the transaction and when recovered, it is subsequently accounted for as revenue in the statement of financial performance in the period which they are recovered.

1.31 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 is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.32 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.

Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

1.33 Budget information

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

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

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

The approved budget covers the fiscal period from 2024/07/01 to 2025/06/30.

Significant Accounting Policies

1.33 Budget information (continued)

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

The annual financial statements and the budget are on the same basis of accounting therefore no reconciliation between the statement of financial performance and the budget required.

In cases where there is variances between budgeted and actual amounts, the municipality provides explanation for all variances 15% or more..

1.34 Related parties

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

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

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

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

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

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

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

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

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

1.35 Events after reporting date

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

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

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

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

Significant Accounting Policies

1.36 Value Added Taxation

The municipality is registered with the South Africa Revenue Services (SARS) for VAT on the payment basis, in accordance with section 15 (2) of the VAT Act No. 89 of 1991.

1.37 Prior period errors

A prior period error is corrected by retrospective restatement except to the extent that it is impracticable to determine either the period-specific effects or the cumulative effect of the error.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the opening balances of assets, liabilities and net assets are restated for the earliest period for whichretrospective restatement is practicable (which may be the current period).

When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the comparative information is restated to correct the error prospectively from the earliest date practicable.

1.38 Contrcated services

This group of accounts distinguish between Outsourced Services, Contractors and Consultant and professional Services.

Contractors are required to provide services that are not the core business of the municipality. It is normally not cost effective to maintain these skills within the department. Contractors include costs associated with the use of contracted individuals or businesses on projects or tasks.

Consultant and professional Services refer to specialist services and skills provided that are required for the achievement of a specific objective, with the aim of providing expert and professional advice on a time and material basis. It is unnecessary to maintain these skills in-house, since they are required on a once-off or temporary basis. Therefore, a consultant is a professional person appointed by the municipality to provide technical and specialist advice or to assist with the design and implementation of specific project or programs.

Outsourced Services refers to services which the municipality should have the capacity and expertise to carry out certain services, but for some reasons not utilising their own staff to save costs or due to temporal incapacity.

Recognition and measurement:
Contracted service expenses are recognised on an accrual basis.

Contracted services transactions are recognised on to the financial systems upon receipt or accrual of goods or services acquired by the municipality.

The value of goods or services to be recognised is determined by the supporting documentation received from the supplier.

Contracted services expenses are accounted for excluding value added tax where applicable.

1.39 Unspent conditional grant

This represent funds unspent at the end of the financial reporting period on grants received from national and provincial government or any other external parties that can only be spent according to conditions stipulated in the memorandum of understanding. The amount is recognised as current liability until the conditions are met whereby it will be capitalised to the related projects or recorded as an expenditure and revenue realised as well. Failure to meet stipulated conditions at the end of each period will require the municipality to apply for a roll over or pay back the outstanding amount to the fund providers.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2025 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 2023 Improvements to the Standards of GRAP 2023	Not yet announced	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements (Going Concern)	Not yet announced	Unlikely there will be a material impact
• GRAP 103 (amended): Heritage Assets	Not yet announced	Unlikely there will be a material impact
• iGRAP 22 Foreign Currency Transactions and Advance Consideration	01 April 2025	Unlikely there will be a material impact
• GRAP 104 (as revised): Financial Instruments	01 April 2025	Unlikely there will be a material impact

3. Assets held for sale

Fixed assets held for disposal	768,083	-

Assets held for sale relates to list of property plant and equipment which are held for disposal by the municipality. A council resolution was taken during the year authorising disposal of these assets, however no disposal took place as at year end.

4. Statutory receivables

Gross balances		
Consumer debtors - Rates	108,011,187	99,003,944
VAT control Account - SARs Refund	3,816,301	2,220,495
Consumer debtors - fines	8,405,030	6,458,980
	120,232,518	**107,683,419**
Less: Allowance for impairment		
Consumer debtors - Rates	(98,789,836)	(91,536,561)
Consumer debtors - fines	(8,019,149)	(6,080,579)
	(106,808,985)	**(97,617,140)**
Net balance		
Consumer debtors - Rates	9,221,351	7,467,383
VAT control Account - SARs Refund	3,816,301	2,220,495
Consumer debtors - fines	385,881	378,401
	13,423,533	**10,066,279**
Rates		
Current (0 -30 days)	4,096,719	4,571,995
31 - 60 days	1,737,412	1,970,269
61 - 90 days	1,720,829	1,900,624
91 - 120 days	1,699,010	1,856,707
121 - 365 days	15,498,989	15,644,878
> 365 days	83,258,228	73,059,471
Provision for impairment	(98,789,836)	(91,536,561)
	9,221,351	**7,467,383**

Figures in Rand	2025	2024
4. Statutory receivables (continued)		
VAT control Account - SARs Refund		
Current (0 -30 days)	3,816,301	2,220,495
Traffic Fines		
Current (0 -30 days)	72,300	72,300
31 - 60 days	98,400	98,400
61 - 90 days	120,350	120,350
91 - 120 days	69,200	69,200
121 - 365 days	7,558,730	6,098,730
Provision for impairment	(7,533,099)	(6,080,579)
	385,881	**378,401**
Summary of statutory debtors by customer classification		
Consumers		
Current (0 -30 days)	1,003,884	1,098,387
31 - 60 days	487,927	528,304
61 - 90 days	484,424	519,365
91 - 120 days	482,774	515,442
121 - 365 days	3,765,743	3,941,276
> 365 days	28,749,257	25,839,211
	34,974,009	**32,441,985**
Industrial/ commercial		
Current (0 -30 days)	2,949,207	3,357,259
31 - 60 days	1,175,494	1,383,013
61 - 90 days	1,162,470	1,321,463
91 - 120 days	1,137,485	1,279,960
121 - 365 days	8,556,284	9,476,187
> 365 days	48,858,039	42,879,032
	63,838,979	**59,696,914**
National and provincial government		
Current (0 -30 days)	112,319	86,406
31 - 60 days	58,423	44,066
61 - 90 days	58,423	44,966
91 - 120 days	64,684	46,534
121 - 365 days	3,055,370	2,047,556
> 365 days	4,571,655	3,501,240
	7,920,874	**5,770,768**
Other		
Current (0 -30 days)	31,309	29,542
31 - 60 days	15,569	14,886
61 - 90 days	15,512	14,829
91 - 120 days	15,455	14,772
121 - 365 days	121,592	179,860
> 365 days	1,079,277	839,988
	1,278,714	**1,093,877**

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

4. Statutory receivables (continued)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(97,617,140)	(86,525,179)
Contributions to allowance	(9,191,845)	(11,091,961)
	(106,808,985)	**(97,617,140)**

Notes to the Annual Financial Statements

4. Statutory receivables (continued)

Statutory receivables general information

Transaction(s) arising from statute

Property rates are statutory receivables as defined by GRAP 108. Property rates arises from implementation of the requirements of Municipal Property Rates Act No. 6 of 2004.

Traffic fines are governed by Administrative Adjudication of Road Traffic Offences Act, No. 46 of 1998 (AARTO) and National Road Traffic Act, No. 93 of 1996 of South Africa, hence this is therefore recognised as a statutory receivable.

The municipality is required to levy or pay tax at a rate of 15% as per requirements of section 7 of the Value Added Tax Act No. 89 of 1991. VAT amount is based on the supply of good or service by the municipality in the course of furtherance of any enterprises conducted by the municipality.

Determination of transaction amount

Traffic fines charges for each offence are prescribed in the AARTO Act, this is the amount recorded on the financial system as per the issues offence ticket.

Property rates values are determined by taking approved tariff rates and multiply it by the market values of properties within municipal jurisdiction as detailed in the general valuation roll. Council approved rebates and exemptions are further applied to reduce the receivable.

The transaction amount is determined by application of 15% on all taxable supplies incurred by the municipality. The net amount between the amount actually received from sale of taxable goods or services and acquisition of taxable goods or services will be submitted to SARS as the amount receivable/payable. A receivable arises when VAT input amount paid to suppliers is more than VAT output amount received from customers.

Interest or other charges levied/charged

No interest is charged on traffic fines.

Applicable interest rate is 10% in current financial year which is consistence to prior year.

Basis used to assess and test whether a statutory receivable is impaired

Statutory receivables are assessed for impairment annually using the collection rate method. This methods involves calculating average collection rate per customer which is determined by taking collection rate for current and prior periods and devide by number of periods being considered. The estimated default rate (impairment rate) is equal to 100% less average collection rate.

Additional factors considered for testing impairment of statutory receivables:

- Customers' accounts where a formal arrangement has been made and no payment has been made in current and comparative year.
- Customers who fail to comply with agreed arrangement during current and prior year.
- Customers' accounts handed over to debt collectors and /or power of attorney.
- Customers' accounts with an unsettled balances as at the end of each financial reporting period.
- Customers' accounts indicated as inactive on the ledger.
- Customers accounts presented to chief finance officer for consideration to write-off.
- Indigent customers where accounts are outstanding for more than 30 days.

Figures in Rand	2025	2024

4. Statutory receivables (continued)

Historical collections trends from SARs are used a basis for assessing whether VAT refund amount must be impaired or not. SARs normally settle all refunds on time and there is no period with a disputed refund, therefore no impairment has been calculated.

The impairment indicators were determined management using professional judgemental and experience obtained from the past practice and statistics in relation to municipal debt collection.

Discount rate applied to the estimated future cash flows

The municipality applies a rate of 10% to all statutory receivables accounts balances older than 30 days. This rate is deemed to be the market value as it takes the effect of inflation and other economic factors into account.

For impairment calculations, there was no discounting of expected future costs performed because the receivables balance as per debtors age analysis represents the present value of expected future cash inflows. The receivables age analysis has already factored in the effect of time value of money.

No discounting applied as this amount declared to SARs represents the present value of the future cash flows to be received from SARS.

5. Receivables from exchange transactions

Gross balances		
VAT input accruals	4,560,168	1,234,186
Refuse	14,073,711	13,149,030
Rental of facilities and equipment	476,919	182,434
Sundry debtors (Agency fees)	31,555	20,957
	19,142,353	**14,586,607**
Less: Allowance for impairment		
Refuse	(12,936,853)	(12,027,721)
Net balance		
VAT input accruals	4,560,168	1,234,186
Refuse	1,136,858	1,121,309
Rental of facilities and equipment	476,919	182,434
Sundry debtors (Agency fees)	31,555	20,957
	6,205,500	**2,558,886**
VAT input accruals		
Current (0 -30 days)	4,560,168	1,234,186
Refuse		
Current (0 -30 days)	397,883	403,901
31 - 60 days	188,059	192,654
61 - 90 days	185,670	189,533
91 - 120 days	183,448	187,128
121 - 365 days	1,410,905	1,442,395
>365 days	11,707,748	10,733,419
Provision for impairment	(12,936,855)	(12,027,721)
	1,136,858	**1,121,309**

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

5. Receivables from exchange transactions (continued)

Rental of facilities and equipment		
Current (0 -30 days)	294,485	58,869
> 365 days	182,434	123,565
	476,919	**182,434**
Sundry debtors (Agency fees)		
Current (0 -30 days)	31,555	20,957

Summary of receivables from exchange transactions by customer classification

Consumers		
Current (0 -30 days)	199,696	206,634
31 - 60 days	98,115	102,070
61 - 90 days	97,574	101,201
91 - 120 days	97,170	100,163
121 - 365 days	760,662	785,943
> 365 days	7,068,782	6,551,355
	8,321,999	**7,847,366**
Industrial/ commercial		
Current (0 -30 days)	153,069	151,573
31 - 60 days	68,147	68,709
61 - 90 days	66,803	66,533
91 - 120 days	66,501	65,715
121 - 365 days	502,081	498,160
> 365 days	3,836,333	3,413,178
	4,692,934	**4,263,868**
National and provincial government		
Current (0 -30 days)	37,673	37,588
31 - 60 days	18,010	18,044
61 - 90 days	17,498	17,983
91 - 120 days	15,997	17,450
121 - 365 days	118,595	128,483
> 365 days	571,797	561,171
	779,570	**780,719**
Other		
Current (0 -30 days)	7,445	8,106
31 - 60 days	3,787	3,831
61 - 90 days	3,795	3,816
91 - 120 days	3,780	3,800
121 - 365 days	29,567	29,810
> 365 days	230,835	207,716
	279,209	257,079
	279,209	**257,079**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(12,027,721)	(11,223,363)
Contributions to allowance	(909,132)	(804,358)
	(12,936,853)	**(12,027,721)**

Figures in Rand	2025	2024

5. Receivables from exchange transactions (continued)

Receivables from exchange transactions pledged as security

None of the receivables from exchange transactions has been pledged as security in current and prior year.

None of the customer accounts has passed due and terms have been renegotiated.

The carrying amount of consumer debtors are denominated in the following currencies:

Rand	6,205,500	2,558,886

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	158,357,569	150,186,933
Short-term deposits	130,178,672	117,634,935
	288,536,241	**267,821,868**

Cash and cash equivalents pledged as collateral

Included cash and cash equivalents amount, there is an amount of R 157,500 relating to FNB account number 622 1987 7836 which was pledged as security since 2009. This pledge relates to DBSA Loan which has since been settled. Management is in communication with the bank for the transfer of the pledge to the operational account of the municipality.

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2025	30 June 2024	30 June 2025	30 June 2024
First National Bank - Primary account - 6222-417-5712	158,357,564	150,188,204	158,357,564	150,186,933
First National Bank - Call Account - 622-198-77836	272,586	256,548	272,586	256,548
First National Bank - Call Account - 622-314-74537	5,259,482	4,917,920	5,259,482	4,917,920
First National Bank - Call Account - 622-314-73761	73,916,202	69,115,932	73,916,202	69,115,932
First National Bank - Call Account - 627-927-58503	39,985,716	37,409,345	39,985,716	37,409,345
First National Bank - Call Account - 630-289-49254	1,429,457	1,337,354	1,429,457	1,337,354
First National Bank - Call Account - 630-289-48214	872,696	816,466	872,696	816,466
First National Bank - Call Account - 630-289-455-25	2,432,714	2,275,968	2,432,714	2,275,968
First National Bank - Call Account - 630-289-465-99	1,350,174	1,263,179	1,350,174	1,263,179
First National Bank - Call Account - 630-289-444-86	4,659,646	242,223	4,659,646	242,223
Total	**288,536,237**	**267,823,139**	**288,536,237**	**267,821,868**

Reconcilling items:

Bank statement amount as at 30 June 2024	-	150,188,204
Less receipts on the bank statement, not on the cash book	-	(1,317)
Reconciled amount	-	150,186,887
Cashbook amount as at 30 June 2024	-	150,186,931

7. Investment property

	2025			2024		
	Valuation		Total Fair Value	Valuation		Total Fair Value
Investment property	787,726,928	-	787,726,928	768,514,077	-	768,514,077

Reconciliation of investment property - 2025

	Opening balance	Fair value adjustments	Total
Investment property	768,514,077	19,212,852	787,726,928

Reconciliation of investment property - 2024

	Opening balance	Correction of error	Fair value adjustments	Total
Investment property	750,955,543	(1,416,140)	18,974,674	768,514,077

Pledged as security

None of the investment property has been pledged as colleteral security in current and prior year.

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.

Valuation of investment property was performed by LNN Property Pundits instructed by IMQS Software (Pty) Ltd.

This determination of the market value has been undertaken in accordance with International Valuations Standards. Market Approach using the Direct Comparable Sales Method was used to determine the market value of the subject property.

The purpose of this valuation report is to determine the market land value of the subject properties as of the date of valuation.

Valuation was performed for the year ended 30 June 2025.

7. Investment property (continued)

Basis for valuation:

The valuation was based on market value as defined in the RICS Red Book and IVS. The estimated amount for each asset or liability is the amount to be exchanged on the valuation date between willing buyer and willing seller in arm's length transaction, after proper marketing and where the parties had each acted knowledgeably , prudently and without compulsion.

Special assumptions:

It was assumed that all third-party information is correct and reserve all rights to review this valuation should the need arise.

We have not undertaken any structural survey of the buildings nor arranged for inspections to be carried out on the service installations. The valuation has been prepared on the basis that the property is in a satisfactory state of repair.

We have checked the deeds search (Aktex/Windeed) but have not inspected the title deeds of the property and assume that no onerous conditions or servitudes are affecting the property other than those mentioned within this report.

Amounts recognised in surplus or deficit

	2025	2024
Rental revenue from Investment property	1,043,187	979,702

Illegal invasion - Land

The municipality performed physical verification of investment property with the aid of professional experts. During the process, municipal officials noted that some municipal land have illegal structures without municipal approval. Value was allocated to the land and not these illegal structures. Illegal occupation by the community members makes it difficult for the municipality to realise economic benefits from sale of the affected investment property in future. The municipality has taken the matter to court for adjudication. According to the court order, the municipality was granted permission to demolish all illegal structures identified on municipal investment property. The fair value of investment properties which are invaded are as follows:

	2024	Fair Value Adjustment	2025
Fair value of invaded land included in the Investment property	650,082,372	16,252,059	666,334,431

The invaded land is held for capital appreciation and future economc benefits are expected to be realised through sale. These properties are fair valued together with other investment property, therefore no rental income expected.

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment

	2025			2024		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	56,258,000	-	56,258,000	56,258,000	-	56,258,000
Buildings	111,068,813	(32,267,410)	78,801,403	111,068,813	(27,837,779)	83,231,034
Plant and machinery	73,313,471	(37,694,982)	35,618,489	69,936,103	(32,022,363)	37,913,740
Furniture and fixtures	12,269,958	(6,197,031)	6,072,927	12,219,212	(5,597,604)	6,621,608
Motor vehicles	17,041,116	(3,215,041)	13,826,075	6,449,342	(4,096,543)	2,352,799
IT equipment	13,546,773	(5,366,191)	8,180,582	9,358,081	(4,380,065)	4,978,016
Infrastructure	931,234,745	(527,006,875)	404,227,870	889,755,581	(492,364,425)	397,391,156
Community	111,995,876	(30,831,710)	81,164,166	87,908,068	(26,560,001)	61,348,067
Construction work in progress	152,848,062	-	152,848,062	112,422,221	-	112,422,221
Total	**1,479,576,814**	**(642,579,240)**	**836,997,574**	**1,355,375,421**	**(592,858,780)**	**762,516,641**

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2025

	Opening balance	Additions	Disposals	Transfer to Assets held for sale	Transfers	Depreciation	Impairment loss	Total
Land	56,258,000	-	-	-	-	-	-	56,258,000
Buildings	83,231,034	-	-	-	-	(4,429,630)	-	78,801,403
Plant and machinery	37,913,740	5,527,912	-	(484,028)	-	(7,330,507)	(8,627)	35,618,489
Furniture and fixtures	6,621,608	954,150	-	(159,483)	-	(1,319,074)	(23,609)	6,072,927
Motor vehicles	2,352,799	13,704,219	(300,445)	-	-	(1,874,021)	-	13,826,075
IT equipment	4,978,016	5,843,132	-	(52,903)	-	(2,576,676)	(10,988)	8,180,582
Infrastructure	397,391,156	-	-	(862)	41,485,673	(34,646,011)	(2,049)	404,227,870
Community	61,348,067	-	-	(70,807)	24,430,771	(3,870,799)	(673,063)	81,164,166
Construction work in progress	112,422,221	106,342,285	-	-	(65,916,444)	-	-	152,848,062
	762,516,641	**132,371,698**	**(300,445)**	**(768,083)**	**-**	**(56,046,718)**	**(718,336)**	**836,997,574**

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2024

	Opening balance	Additions	Disposals	Transfers	Prior period Adjustment	Depreciation	Total
Land	56,258,000	-	-	-	-	-	56,258,000
Buildings	84,920,596	-	-	2,675,945	-	(4,365,507)	83,231,034
Plant and machinery	26,392,444	17,702,530	-	-	-	(6,181,234)	37,913,740
Furniture and fixtures	5,536,642	2,252,679	-	-	-	(1,167,713)	6,621,608
Motor vehicles	3,810,943	-	(229,629)	-	-	(1,228,515)	2,352,799
IT equipment	3,925,117	2,483,150	-	-	-	(1,430,251)	4,978,016
Infrastructure	371,657,607	-	-	59,225,087	-	(33,491,538)	397,391,156
Community	63,285,325	-	-	1,702,330	-	(3,639,588)	61,348,067
Construction work in progress	110,224,580	66,461,210	-	(63,603,362)	(660,207)	-	112,422,221
	726,011,254	**88,899,569**	**(229,629)**	**-**	**(660,207)**	**(51,504,346)**	**762,516,641**

Pledged as security

No property plant and equipment items were pledged as security.

Assets subject to finance lease (Net carrying amount)

Plant and machinery	3,571,955	-

Reconciliation of Work-in-Progress 2025

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	32,132,129	71,750,632	8,539,459	112,422,220
Additions/capital expenditure	67,952,914	23,930,781	14,458,590	106,342,285
Transferred to completed items	(41,485,673)	(14,812,464)	(9,618,307)	(65,916,444)
	58,599,370	**80,868,949**	**13,379,742**	**152,848,061**

8. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2024

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	39,687,468	62,417,519	8,119,592	110,224,579
Additions/capital expenditure	52,329,954	11,035,443	3,095,812	66,461,209
Prior period adjustment	(660,206)	-	-	(660,206)
Transferred to completed items	(59,225,087)	(1,702,330)	(2,675,945)	(63,603,362)
	32,132,129	**71,750,632**	**8,539,459**	**112,422,220**

Expenditure incurred to repair and maintain property, plant and equipment

	2025	2024
Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Contracted services	25,285,681	19,007,274

Carrying values of property plant and equipment that is taking longer period to complete:

	2025	2024
Taxi rank		
The project is depending on the funding to be sourced from OTP.	2,739,544	2,739,544
Consultants for Lusikisiki Offices		
The project is linked with construction of municipal offices in Lusikisiki	7,628,950	7,628,950
Lusikisiki Town Hall (Phase 2)		
Lusikisiki Town Hall (Phase 2)	11,164,572	6,394,436
This project is taking longer to complete, however the working is progressing and additional costs incurred every year therefore no impairment.		
Ward 2 sport field	23,652,420	20,963,378
This project is taking longer to complete, however the working is progressing and additional costs incurred every year therefore no impairment.		
Ward 26 Sports field	20,251,352	16,552,536
The construction of sport field project delayed due community protest. This project is taking longer to complete, however the working is progressing and additional costs incurred every year therefore no impairment.		
Flagstaff Town Hall (Phase 2)	14,693,708	10,576,215
This project is taking longer to complete, however the working is progressing and additional costs incurred every year therefore no impairment.		
Ward 3 Sport field	-	14,524,522
	80,330,546	**79,379,581**

8. Property, plant and equipment (continued)

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.

9. Finance lease obligation

	2025	2024
Minimum lease payments due		
- within one year	1,758,477	-
- in second to fifth year inclusive	2,421,403	-
	4,179,880	-
less: future finance charges	(523,817)	-
Present value of minimum lease payments	**3,656,063**	**-**
Present value of minimum lease payments due		
- within one year	1,418,164	-
- in second to fifth year inclusive	2,237,899	-
	3,656,063	**-**
Non-current liabilities	2,237,899	-
Current liabilities	1,418,164	-
	3,656,063	**-**

The municipality acquired printing machines under finance lease.

The average lease term was 3 years and the average effective borrowing rate was 11.25% (2024: -%). The interest rate is equivelant to prime lending rate.

Interest rates are linked to prime at the contract date. All leases escalate at CPI% p.a and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

10. Payables from exchange transactions

	2025	2024
Trade payables	8,615,961	2,512,352
Payments received in advanced	917,607	850,125
Trade creditor accruals	3,985,636	2,274,082
Retention	16,982,565	10,734,505
Income received in advance - INEP	4,181,708	2,500,000
VAT output accruals	4,969,653	1,836,505
Unallocated deposits	45,394	26,045
	39,698,524	**20,733,614**

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

11. Employee benefit obligations

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(7,514,847)	(6,425,000)
Accrued leave pay	(13,795,271)	(12,956,960)
Bonus accrual	(3,193,687)	(2,885,502)
Accrued overtime	(1,139,162)	(1,120,030)
Salary control payable	-	(226,017)
	(25,642,967)	**(23,613,509)**

Non-current liabilities	(6,500,840)	(5,789,000)
Current liabilities	(19,142,127)	(17,824,509)
	(25,642,967)	**(23,613,509)**

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

Opening balance	(6,425,000)	(5,790,000)
Service cost	(788,000)	(747,000)
Interest cost	(676,000)	(626,000)
Benefits payments	281,678	685,000
Re-measurements over the financial year	92,475	53,000
	(7,514,847)	**(6,425,000)**

Net expense recognised in the statement of financial performance are as follows:

Current service cost	788,000	747,000
Expected benefits vesting	(281,678)	(685,000)
Finance cost	676,000	626,000
Actuarial gains	(92,475)	(53,000)
	1,089,847	**635,000**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	(92,475)	(53,000)

These unexpected movements (also termed actuarial gains and losses) are separated into three main components: the effect of the change in the basis (assumptions), changes to earnings, and to the employee profile being different from what was expected as at the previous valuation.

11. Employee benefit obligations (continued)

Financial assumptions

Discount rate	9.07%	11.05%
Future CPI Expectation	3.49%	5.20%
Salary increase rate	4.49%	6.20%
Net Discount rate = (1+DR)/(1+SI)-1	4.39%	4.56%

Demographic Assumptions:		
Normal retirement age (years)	65	65
Average retirement age (years)	62	62
Mortality	SA85-90*	SA85-90

The average retirement age for all active employees was assumed to be 62 years. This assumption implicitly allows for early retirement.

The following withdrawal assumptions were applicable over the prior and current valuation periods:	Withdrawal rates (Female)	Withdrawal rates (male)
20-24	9.00 %	9.00 %
25-29	8.00 %	8.00 %
30-34	6.00 %	6.00 %
35-39	5.00 %	5.00 %
40-44	5.00 %	5.00 %
45-49	4.00 %	4.00 %
50-54	3.00 %	3.00 %
+55	- %	- %

These rates are based on the professional judgment of the actuary and the past experience of the Municipality. They are updated regularly to ensure that they match the actual experience and expected future trends as closely as possible.

Sensitivity analysis:

The accrued liability is a function of the valuation assumptions listed above, which may or may not be borne out in practice. Variations from these assumptions will emerge in future years as experience gains or losses are recognised immediately in the income statement by the Municipality. The valuation results are sensitive to changes in the underlying assumptions. The effects of varying these assumptions are illustrated below.

Discount rate	% Change	1% Decrease (R's)	Valuation Basis (R's)	1% Increase (R's)	% Change
Opening Accrued Liability	5.77 %	6,796,000	6,425,000	6,090,000	(5.21)%
Service Cost	5.46 %	831,000	788,000	749,000	(4.95)%
Net Interest Expense	(3.55)%	652,000	676,000	696,000	2.96 %

Inversely, a 1% increase in the discount rate results in a 4.89% decrease in the accrued liability, whilst a 1% decrease in the discount rate results in a 5.40% increase in the accrued liability. The discount rate is inversely related to the accrued liability. An increase in the discount rate decreases the accrued liability and vice versa.

Salary Increase Rate:	% Change	1% decrease (R's)	Valuation basis (R's)	1% increase (R's)	% Change
Opening Accrued Liability	(5.03)%	6,102,000	6,425,000	6,777,000	5.48 %
Service Cost	(5.58)%	744,000	788,000	837,000	6.22 %
Net Interest Expense	(5.33)%	640,000	676,000	714,000	5.62 %

As per the table above, a 1% increase in the salary increase rate results in a 5.60% increase in the accrued liability, whilst a 1% decrease in the salary increase rate will result in a 5.14% decrease in the accrued liability.

Average Retirement Age	% change	60 years (R's)	Valuation basis (R's)	64 years (R's)	% change
Opening Accrued Liability	(10.27)%	5,765,000	6,425,000	6,900,000	7.39 %
Service Cost	(7.74)%	727,000	788,000	831,000	5.46 %

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

11. Employee benefit obligations (continued)

Net Interest Expense	(10.65)%	604,000	676,000	728,000	7.69 %

The above table highlights the effects of a 2-year decrease and increases in the average retirement age assumptions as at 30 June 2026. The adjustment would result in a 10.35% decrease and a 7.84% increase in the accrued liability, respectively. By decreasing the average retirement age, we are reducing the chances of eligible members receiving bonuses before they retire, e.g. consider a member aged 59 years who is eligible to receive a bonus at age 61. Reducing the average retirement age disqualifies this member and therefore reduces the accrued liability in respect of this member. The converse applies to increasing the average retirement age. This will qualify members who were disqualified under the valuation basis.

Withdrawal Decrement:	% change	200% increase (R's)	Valuation basis (R's)	50% decrease (R's)	% change
Opening Accrued Liability	(18.77)%	5,219,000	6,425,000	7,219,000	12.36 %
Service Cost	(22.46)%	611,000	788,000	908,000	15.23 %
Net Interest Expense	(19.67)%	543,000	676,000	763,000	12.87 %

The above table highlights the effects of a 200% and 50% multiple of the withdrawal rates as at 30 June 2026. The adjustment would result in a 16.53% decrease and a 10.69% increase in accrued liability, respectively. Higher withdrawal rates lead to fewer members remaining in employment and hence smaller benefits vesting. This, in turn, decreases the accrued liability. The converse is true for lower withdrawal rates.

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	590,929	-
Disaster Recovery Grant	443,885	4,806,036
	1,034,814	**4,806,036**

Movement during the year

Balance at the beginning of the year	4,806,033	5,100,382
Additions during the year	96,665,738	76,015,065
Income recognition during the year	(100,436,961)	(76,309,414)
	1,034,810	**4,806,033**

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

See note 25 for reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

13. Provisions

Reconciliation of provisions - 2025

	Opening Balance	Additions	Finance cost	Total
Environmental rehabilitation	26,387,104	(5,790,927)	3,150,620	23,746,797

Reconciliation of provisions - 2024

	Opening Balance	Additions	Finance Cost	Total
Environmental rehabilitation	23,964,462	(601,673)	3,024,315	26,387,104

	2025	2024
Non-current liabilities	21,046,787	23,236,484
Current liabilities	2,700,010	3,150,620
	23,746,797	**26,387,104**

The municipality have two landfil site within its jurisdiction, Flagstaff landfill site and Lusikisiki landfil site which are used for waste disposal. There is a legal obligation to close the landfil sites and restore the land to its original status after the agreed licnsed period. The provision is made on the expceted rehabilitation and closure costs to be incurred by the municipality.

Summary of rehabilitation and closure costs

	2025	2024
Flagstaff	9,599,256	9,394,060
Lusikisiki	14,147,541	16,993,044
	23,746,797	**26,387,104**

Flagstaff landfill site is located approximately 2km south of the municipality offices in Flagstaff, a town in the Eastern Cape Province located some 80km south-east of Kokstad and 45km north of Lusikisiki. The landfill site is situated on a gentle sloping ground and takes access off an unnamed gravel road that branches off the R61 road. The site coordinates are 31°05'39.87" S and 29°29'21.48" E. Figure 2 shows the location of Flagstaff Landfill site

The footprint size of the entire landfill site measures approximately 18,862m2 and the utilised area is estimated at 19,089m2. The cell proposed cell developed for rehabilitation is estimated at 10,021m2.

The Lusikisiki landfill site is located approximately 5km North of the municipality offices in Lusikisiki town, 45km inland from and North of Port St Johns. The site is accessed from an unpaved road which branches of R61 highway, and the coordinates are 31°20'42.85" S and 29°33'57.02" E.

The footprint size of the entire landfill site measures approximately 48,094m2 and the utilised area estimated at 36,055m2. The cell proposed cell developed for the rehabilitation is estimated at 27,629m2.

Methodology of financial assessment and assumptions used

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

13. Provisions (continued)

Estimating the life expectancy and rehabilitation costs of a waste site is not a precise science as there are numerous factors that affect it including those within the control of landfill owners as well as those outside of the control of the landfill owner.

For example, within the limits of the applicable regulations and permits, a landfill owner is able to control the amount of permitted airspace, compacted waste density, waste diversion techniques within the landfill, and the use of innovative techniques like leachate recirculation or liquids addition (to degrade waste material). At the same time, there are factors outside of the landfill owner’s control, such as, changes in waste generation quantities (mostly linked to economic changes) and characteristics (e.g. more builders’ rubble coming into the sites), waste diversion at the source or point of collection, and regulatory restrictions (e.g. Air Quality Act).

The cost of rehabilitating a square meter is determined by the market since various cost elements linked to rehabilitation are determined by the varying cost prices issued by the market. However, an entity must come up with an estimate based on work of similar nature or through various methods of estimating such as jobbing, factoring, inflation, economies of scale, unit rates and day work.

This report uses estimates of work of similar nature through methods such as economies of scale, factoring and inflation based on the estimates that were independently done for previous OPES clients.

Discount Rate Assumptions

The discount rate was deduced from the average of the Zero-Coupon Yield Curve (Nominal Bond) over the entire duration applicable in the future. The annualised long-term discount rate at 30 June 2025 was 11.37% p.a.. The consumer price inflation of 5.94% p.a. was obtained from the differential between the averages of the Nominal Bond of 11.37% p.a. and the Real Bond 5.13% p.a. (Zero Yield Curves).

The Zero-Coupon Yield Curves were obtained from the Bond Exchange of South Africa after the market closed on 30 June 2025.

Key financial assumptions used:		
Discount rate (D)	11.37 %	11.94 %
Consumer price inflation (C)	5.94 %	6.51 %
Net discount rate	5.13 %	5.10 %

14. Service charges

Solid waste management	1,394,389	1,095,820

15. Rendering of services

Advertising rental income	161,721	144,649
Land use and building plans	153,642	108,910
Cemetries and burial fees	14,989	23,714
	330,352	**277,273**

16. Construction contracts

Openning balance	2,500,000	-
Current - year receipts	25,231,000	5,118,000
Conditions met - transferred to revenue	(20,477,645)	(2,276,522)
VAT output accrual	(3,071,661)	(341,478)
	4,181,694	**2,500,000**

This grant is allocated to fund electrification projects for all existing and planned residential dwellings (including informal settlements,new and existing dwellings) and installation of relevant bulk infrastructure.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

16. Construction contracts (continued)

The amount transferred to revenue is determined by adding all invoice amounts for projects in progress. The total revenue amount is presented excluding VAT output.

The aggregate amount of costs incurred and recognized to date:

	2025	2024
Electrical - INEP	21,258,676	2,354,087

Stage of completion of each project is determined by the value of work done which is reflected on the last payment certificate of each project underway.

The stage of completion as at 30 June 2025 is 83.03%, (2024:7.76%)

Construction contracts reconciliation	Expenditure recognised - 2024	Closing Balance- 2024	Expenditure recognised - 2025	Closing Balance- 2025
Mkhumeni Ext Phase 2	-	-	2,740,422	2,740,422
Zadungeni Ext Phase 2	-	-	387,233	387,233
Mhlanga Ext	-	-	1,012,764	1,012,764
Cumngce Ext Phase 2	-	-	506,382	506,382
Madamini	-	-	2,838,335	2,838,335
Mbodleleni	-	-	730,683	730,683
Kwa-Dick ext	-	-	6,205,171	6,205,171
Installation of three Auto - Reclosers	-	-	738,760	738,760
Mkhumeni Medium Voltage Line Upgrade	-	-	1,296,863	1,296,863
2025/2026 designs, Network Reconfiguration Designs and pre-engeneering of Feeder Bays	-	-	2,352,323	2,352,323
2024/2025 designs, Network Reconfiguration Designs and pre-engeneering of Feeder Bays	2,354,087	2,354,087	-	2,354,087
Mhlophekazi	-	-	545,083	545,083
Nozayi	-	-	288,573	288,573
Bhisana	-	-	673,338	673,338
Infills at Ward 3,8,21&30	-	-	942,746	942,746
	2,354,087	**2,354,087**	**21,258,676**	**23,612,763**

17. Rental of facilities and equipment

	2025	2024
Premises		
Investment Property rentals	1,043,187	965,480

18. Interest income on receivables from exchange transactions

	2025	2024
Interest - solid waste management	1,020,465	979,702

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

19. Agency services

Driver's Licenses	1,755,513	1,698,315
Vehicle Registration	2,719,894	2,550,096
	4,475,407	**4,248,411**

The municipality has a binding arrangement with Department of Transport which requires the municipality to assist the department with motor licensing as well as vehicle registration services.

The municipality has duties collect motor licensing fees and vehicle registration fees on behalf of the department.

All collections are submitted to the department and a commission is paid to the municipality.

There is no risk and rewards transferred from the principal to the agent.

20. Licences and permits

Motor licence & permits	115,290	87,647

21. Other income

Handling Fees	39,573	62,282
Staff and Councillors Recoveries	103,040	74,437
	142,613	**136,719**

22. Interest income - investment

Interest income - investment	24,126,280	24,812,201

23. Property rates

Rates received

Residential	13,778,840	12,732,210
Commercial	25,921,723	18,387,418
Small holdings and farms	102,842	102,842
	39,803,405	**31,222,470**

Valuations

Residential	307,410,700	307,410,700
Commercial	1,348,577,600	1,348,577,600
State	939,371,200	939,371,200
Municipal	647,744,303	647,744,303
Small holdings and farms	24,756,000	24,756,000
Public Service Properties	203,300	203,300
	3,268,063,103	**3,268,063,103**

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

The new general valuation will be implemented on 01 July 2025.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

24. Interest on debtors - statutory receivables

Receivables from non-exchange transactions (Property rates)	9,177,639	8,309,752

Figures in Rand	2025	2024

25. Government grants & subsidies

Operating grants		
Equitable share	346,720,000	329,235,000
Expanded Public Works Program Grant	1,593,000	1,384,000
Local Government Financial Management Grant	3,000,000	1,700,000
Library grant	1,495,000	800,004
LG Seta Grant	652,740	803,064
Municipal Disaster Recovery Grant	12,475,150	11,106,346
	365,935,890	**345,028,414**
Capital grants		
Municipal Infrastructure Grant	81,221,071	60,516,000
	447,156,961	**405,544,414**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	100,436,961	76,309,414
Unconditional grants received	346,720,000	329,235,000
	447,156,961	**405,544,414**

Equitable Share

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

Municipal infrastructure grant

Current-year receipts	81,812,000	60,516,000
Conditions met - transferred to revenue	(81,221,071)	(60,516,000)
	590,929	**-**

Conditions still to be met - remain liabilities (see note 12).

This grant is allocated to fund municipal capital projects which enhances services delivery to the community. Capital projects includes construction of infrastructure assets and community assets.

Extended Public Works Program Grant

Current-year receipts	1,593,000	1,384,000
Conditions met - transferred to revenue	(1,593,000)	(1,384,000)
	-	-

The grant is allocated to promote job creation.

Local Government Financial Management Grant

Current-year receipts	3,000,000	1,700,000
Conditions met - transferred to revenue	(3,000,000)	(1,700,000)
	-	-

This is grant is allocated to fund the implementation of Financial management reforms as per the MFMA requirements.

Municipal Disaster Respond Grant

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

25. Government grants & subsidies (continued)

Balance unspent at beginning of year	4,806,036	4,806,036
Current-year receipts	8,112,999	11,106,346
Conditions met - transferred to revenue	(12,475,150)	(11,106,346)
	443,885	**4,806,036**

Conditions still to be met - remain liabilities (see note 12).

The grant is used to help in flood intervention measures.

Municipal Library Grant

Current-year receipts	1,495,000	800,000
Conditions met - transferred to revenue	(1,495,000)	(800,000)
	-	-

This grant is allocated by DSRAC to the municipality for Library services and its a provincial grant.

LG SETA Grant

Current-year receipts	652,740	803,064
Conditions met - transferred to revenue	(652,740)	(803,064)
	-	-

The LGSETA grant is allocated to address the national priorities as set out in the National Skills Development Plan (NSDP 2030).

26. Fines and Penalties

Pound Fees Fines	39,069	8,594
Court Traffic Fines	1,948,550	1,318,850
	1,987,619	**1,327,444**

Figures in Rand	2025	2024

27. Employee related costs

Basic	96,950,733	87,075,534
Bonus	7,194,513	6,669,129
Medical aid - company contributions	9,141,429	8,483,212
UIF	706,084	703,914
Leave pay expenses	2,205,359	1,754,853
Defined contribution plans	13,262,850	12,446,482
Overtime payments	14,836,925	14,172,052
Long-service awards	788,001	357,534
Acting allowances	1,104,712	1,387,026
Car allowance	10,601,839	9,673,811
Housing benefits and allowances	5,199,161	5,034,059
Cell phone & telephone allowance	1,401,915	772,822
Uniform & protective clothing	72,000	56,000
Bargaining Council	44,729	43,859
	163,510,250	**148,630,287**

Remuneration of municipal manager - (V.C. Makedama)

Annual Remuneration	769,526	700,658
Car Allowance	375,496	375,496
Bonus	-	59,354
Contributions to UIF, Medical and Pension Funds	68,192	67,481
Cellphone Allowance	131,874	112,774
Housing Allowance	130,564	130,564
Back Pay	69,591	63,717
Subsistance and Travelling	66,497	-
	1,611,740	**1,510,044**

Remuneration of chief financial officer: B.S. Fikeni

Annual Remuneration	825,137	758,863
Car Allowance	274,542	137,271
Bonus	68,761	-
Contributions to UIF, Medical and Pension Funds	13,493	11,104
Other	36,000	-
Back pay	55,972	62,230
Subsistence and Travelling	49,348	47,980
	1,323,253	**1,017,448**

Remuneration of director Community Services: Z. Masumpa

Annual Remuneration	734,338	626,353
Car Allowance	216,000	198,000
Bonuses	61,195	9,298
Contributions to UIF, Medical and Pension Funds	68,931	62,056
Cellphone allowance	66,000	29,900
Subsistence and travel allowance	122,659	74,795
Back pay	55,972	18,740
Housing allowance	72,000	66,000
Acting allowance	-	4,534
	1,397,095	**1,089,676**

Remuneration of director Corporate Services: M. Matubatuba

Annual Remuneration	681,091	-

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

27. Employee related costs (continued)

Car Allowance	97,370	-
Subsistence and Travelling	30,714	-
Contributions to UIF, Medical and Pension Funds	9,311	-
Cell phone allowance	26,400	-
Back pay	500	-
	845,386	**-**

Remuneration of director Technical Services: A. Hlehliso - (Acting)

Acting Allowance	66,354	83,596

Manager Technical services acting in the position of Director Technical Services from 1 Sept 2023 to 30 November 2023; and 01 April 2024 to 30 June 2024.

Manager Technical services acting in the position of Director Technical Services from 1 November 2024 to 31 January 2025; and May 2025.

Remuneration of director Corporate services: F. Msumza - (Acting)

Acting allowance	43,817	83,598

Manager Hunman Resources acting in the position of Director corporate services from 01 August 2023 to 31 October 2023; and 01 February 2024 to 30 April 2024.

Manager Hunman Resources acting in the position of Director corporate services from 01 August 2024 to 31 October 2024.

Remuneration of director Planning and Development: A. Mashaba

Annual Remuneration	584,221	-
Car Allowance	194,740	-
Contributions to UIF, Medical and Pension Funds	1,417	-
Cell phone allowance	26,400	-
Subsistence and travel allowance	16,034	-
	822,812	**-**

Remuneration of Director Planning and Development : D. Mjokovana (Acting)

Acting Allowance	-	83,186

Manager Local Economic Development acting in the position of Director Planning and Development from 01 Sept 2023 to 30 Nov 2023; and 01 April 2024 to 30 June 2024.

Remuneration of Director technical Services: S. Nomandela

Annual Remuneration	-	277,288
Contributions to UIF, Medical and Pension Funds	-	3,558
Back pay	-	5,491
Cell phone allowance	-	7,200
Subsistence and travelling allowance	-	14,680
	-	**308,217**

The director assume position as a director on 01 December 2023 and resign on the 29th of February 2024.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

28. Remuneration of councillors

Mayor	1,123,667	1,004,873
Speaker	909,098	857,156
Mayoral Committee Members	5,308,888	3,163,004
Section 79 committee chairperson	825,472	680,196
Councillors	20,130,991	19,876,944
Chief Whip	856,128	763,572
	29,154,244	**26,345,745**

In-kind benefits

The Mayor, Chief Whip and Speaker are full-time.

Each is provided with:

i. an office and secretarial support as the cost of the council

ii. use of a council owned vehicle for official duties

iii. have full-time driver and body guard each paid by the municipality

Additional information

The salaries, allowance and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.

29. Depreciation and amortisation

Property, plant and equipment	56,046,718	51,504,348

30. Finance costs

Interest on overdue accounts	-	20,774
Interest on employee benefits obligations - long service award	676,000	626,000
Finance leases	309,994	-
Interest on land filll site provision	3,150,620	3,024,315
	4,136,614	**3,671,089**

31. Debt impairment

Debt impairment	10,070,901	11,897,290
Bad debts written off	8,734,699	52,622
	18,805,600	**11,949,912**

During the implementation of the Debt Incentive Program approved by the Council, some businesses negotiated an additional discount of 20%, and some negotiated a payment period beyond the six months approved by Council up to a maximum of 12 months. These negotiations were approved by the Accounting Officer. These additional discounts and payment periods have been submitted to council for approval and this approval is still pending.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

32. Contracted services

Outsourced Services		
Burial Services	-	29,009
Business and Advisory	1,135,215	2,294,007
Catering Services	5,774,861	5,432,732
Cleaning Services	477,615	24,025
Clearing and Grass Cutting Services	976,200	696,452
Hygiene Services	278,553	246,604
Personnel and Labour - EPWP	1,593,000	1,384,000
Personnel and labour - Casuals	9,700,204	6,453,898
Refuse Removal	2,263,337	1,222,143
Security Services	3,928,336	-
Drivers Licence Cards	306,412	306,757
Electrical	130,600	1,148,156
Consultants and Professional Services		
Business and Advisory	3,122,313	5,898,982
Legal Cost	4,956,392	4,231,096
Contractors		
Artists and Performers	415,000	380,000
Catering Services	817,541	374,752
Electrical - INEP	20,490,911	2,354,087
Employee Wellness	60,400	89,838
Event Promoters	614,090	421,800
Graphic Designers	-	6,400
Interior Decorator	294,791	106,389
Maintenance of Buildings and Facilities	1,888,997	596,612
Maintenance of Equipment	5,812,577	3,961,900
Maintenance of Unspecified Assets	17,584,107	14,448,762
Plants, Flowers and Other Decorations	6,740	17,800
Sewerage Services	4,340,000	3,438,000
Stage and Sound Crew	406,842	261,264
	87,375,034	**55,825,465**

33. Transfer and subsidies

Other subsidies		
Social Assistance:Social Relief	5,095,523	7,820,420

The municipality utilised internal funds to finance electrification projects for the benefit of the community. These projects costs are accounted for as transfer and subsidies. Upon completion, these projects are transfered to Eskom, hence they are accounted for as transfers and subsidies. A total of R1,512,043.00 has been incurred on these projects in current year.

Figures in Rand	2025	2024

34. General expenses

Advertising	1,404,449	1,671,986
Auditors remuneration	7,168,701	7,676,157
Bank charges	275,123	263,481
Cleaning	3,500	562,298
Hire	3,957,391	3,596,727
Insurance	3,553,357	1,462,768
Conferences and seminars	786,578	1,311,306
IT expenses	12,084,479	12,587,049
Skills Development Fund Levy	1,285,977	1,188,733
Motor vehicle expenses	649,083	615,627
Fuel and oil	10,367,382	9,006,453
Printing and stationery	859,962	478,262
Protective clothing	4,457,580	668,437
Subscriptions and membership fees	2,063,823	2,097,864
Telephone and fax	10,670,178	6,012,264
Transport and freight	2,804,396	2,136,882
Travel - local	21,516,804	19,419,579
Electricity	7,106,857	7,192,577
Indigent Relief	1,277,366	21,974,022
Travel and subsidies - Non-employees	77,787	52,576
Learnerships and Internships	4,003,210	4,261,583
Bursaries (Employees)	1,202,611	1,371,802
Workmen's Compensation Fund	1,105,932	942,265
Remuneration of Ward Committees	8,140,062	7,948,610
Signage costs	-	47,192
Seating Allowance for Traditional leaders	94,244	79,200
Communication-Radio and TV Transmissions	196,770	286,470
Achievements and Awards	92,800	-
Servitudes and Land Surveys	480,639	-
Relocation costs	13,930	-
	107,700,971	**114,912,170**

35. Gain on disposal of assets and liabilities

Loss on disposal of assets	(300,445)	(229,629)
Proceeds on disposal of assets	437,430	467,041
	136,985	**237,412**

36. Impairment loss

Impairments

Property, plant and equipment	718,336	-

Conditional assessment of municipal assets was performed during the preparation of annual financial statements. The conditions identified includes:
1. Accelerate decrease in asset condition.
2. Damaged/broken assets.
3 Decrease of expected economic benefits expected to be derived from use of the assets.

37. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

Notes to the Annual Financial Statements

37. Prior-year adjustments (continued)

2024

	Note	As previously reported	Correction of error	Re-classification	Restated
Non-current assets:					
Investment property (Refer to N1)		769,933,526	(1,419,449)	-	768,514,077
Property plant and equipment (Refer to N2)		761,996,562	520,079	-	762,516,641
Current Assets:		-	-	-	-
VAT recievables (Refer to N5)		1,872,705	(341,480)	(1,531,225)	-
Statutory receivables (Refer to N5)		7,845,784	-	2,220,495	10,066,279
Receivables from exchange transactions (Refer to N5)		1,324,700	86,950	1,147,235	2,558,885
Payables from exchange transactions (Refer to N5)		(18,230,487)	(666,622)	(1,836,505)	(20,733,614)
Net assets:		-	-	-	-
Retained surplus		(1,737,758,017)	1,820,521	-	(1,735,937,496)
		(213,015,227)	**(1)**	**-**	**(213,015,228)**

Statement of financial performance

2024

	Note	As previously reported	Correction of error	Restated
Revenue from exchange transactions:		-	-	-
Contracted revenue (refer to N5)		2,618,000	(341,480)	2,276,520
Fair value adjustment		19,010,983	(36,307)	18,974,676
Expenditure		-	-	-
Depreciation and amortisation (Refer to N2)		(49,377,852)	(2,126,494)	(51,504,346)
Contracted services (Refer to N5)		(55,245,794)	(579,671)	(55,825,465)
General expenditure (Refer to N3)		(115,206,123)	293,953	(114,912,170)
Surplus for the year		**(198,200,786)**	**(2,789,999)**	**(200,990,785)**

Cash flow statement

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

37. Prior-year adjustments (continued)

2024

Cash flow from operating activities

Receipts:

Grants (Refer to N4)	405,838,756	(588,691)	-	405,250,065
Property rates (Refer to N4)	38,656,421	(99,159)	-	38,557,262
Sale of goods and services (Refer to N4)	11,939,030	(364,483)	-	11,574,547
	456,434,207	**(1,052,333)**	**-**	**455,381,874**

Cash flow from operating activities:	As previously reported	Correction of error	Total
Payments to suppliers (Refer to N4)	(179,744,076)	4,279,840	(175,464,236)
Payments to employees	(173,242,696)	53,000	(173,189,696)
Cash flow from investing activities:			
Movement in retention liability (capital expenditure) - Refer to N4	2,358,588	(2,358,588)	-
Purchase of property, plant and equipment (Refer to N40	(88,899,572)	(921,181)	(89,820,753)
	(439,527,756)	**1,053,071**	**(438,474,685)**

N1 - Investment property

Error 1: An error occurred in prior year whereby three privately owned properties were included in the investment property balance presented on the financial statements. The adjustment of R 1,419,449 was made to correct this error which led to a decrease on investment property reported in prior year audited financial statement.

The financial impact of the error was determined to be as follows:

Components Affected:	**Debit**	**Credit**
Retained surplus	1,383,140	-
Investment property	-	1,419,449
Fair value adjustment	36,309	-
	1,419,449	**1,419,449**

37. Prior-year adjustments (continued)

N2 - Property Plant and equipment

Error 1: An error occurred in prior year whereby some assets were not depreciated on the fixed asset register, some assets have negative depreciation and some assets have incorrect depreciation calculated.

Error 2: Management re-assessed useful life of certain assets which were over depreciated in the previous financial reporting periods. This resulted to decrease in accumulated depreciation which was processed against retained surplus.

The total restatement amount breakdown is as follows:

- Additional depreciation on assets on assets which did not depreciate during the year = R 706,491 (Increase).
- Reversal of negative depreciation totaling = R 816,457 (Increase).
- Re - calculation of depreciation on prior year assets transferred = R 590,475 (Increase).

Total depreciation adjustment is R 2,126,494 (increase)

- Restatement of prior period accumulated depreciation = R 1,587,272 (Decrease)

Net adjustment on property plant and equipment is R 526,151

Error 3: An error occurred in prior year whereby completed project were incorrectly capitalised using the accumulated depreciation data string instead of community assets cost data strings. This led to understatement of community assets value presented on the financial statements by R 295 790. The adjustment was made to correct this error.

Error 4: An error occurred in prior year whereby technical design costs for projects were incorrectly capitalised as construction work in projects which resulted to overstatement of asset base of the municipality. This costs relates to prior financial periods and were written to retained surplus to correct the error.

Error 5: Management acknowledged the audit finding raised on impairment of assets in prior year. In terms of paragraph 20 of GRAP 21 standard, the municipality must assess at each reporting period whether there is any indication that assets may be impaired. If any such indication exists, the municipality must estimate the recoverable service amount of the assets.

It was impossible to roll backwards and establish the indicators retrospectively due to timing differences. It was conculded in October 2024 that its impractical to have a conditional assessment for 30 June 2024. The full conditional assessment was performed in current year which includes all assets identified by auditor general in previous audit engagement and impairment loss was processed on those assets found to have indicators of impairment.

The financial impact of the error was determined to be as follows:

Components affected:	**Debit**	**Credit**
Depreciation expenses	2,126,494	-
Accumulated depreciation	-	2,126,494
Community assets - Costs	295,790	-
Accumulated surplus	-	295,790
Construction work in progress	-	660,207
Retained surplus	660,207	-
	3,082,491	**3,082,491**

37. Prior-year adjustments (continued)

N3 - Expenditure:

Error 1: A cut-off error occurred in prior year whereby some invoices relating to 2022/2023 financial year were incorrectly processed in 2023/2024 financial period. General expenditure amount disclosed in prior year financial statements was overstated by R 293 953. An adjustment was made to correct this error which led to a decrease in general expenditure and an increase in retained surplus.

The financial impact of the error was determined to be as follows:

Components affected:	Debit	Credit
30 June 2024:	-	-
Trade creditors - accruals	327,089	-
VAT input accrual	-	33,136
General expenditure - Travel (local)	-	293,953
30 June 2023:	-	-
Retained surplus	293,953	-
VAT input accrual	33,136	-
Trade creditors - accruals	-	327,089
	654,178	**654,178**

N5 - VAT receivables

An error occurred in prior year whereby construction contract revenue relating to INEP projects was captured inclusive of VAT. An adjustment has been processed to correct this error. The new INEP national treasury guidline for unlicensed municipality changed the INEP from being a grant that was zero-rated to a construction contract revenue which is vatable at 15% rate.

The financial impact of the error was determined to be as follows:

Construction contracts	341,480	-
VAT output accruals	-	341,480
	341,480	**341,480**

Management noted that VAT was incorrectly reported in prior year audited financial statement. This error has been adjusted and prior year audited amounts has been restated to account for this error. This error was corrected by just mapping to the correct element, no adjusting journals processed. Due to this error, statutory receivables amount increased by **R 2,220,495**;receivables from exchange transactions increased by **R 1,147,235** and payables from exchange transactions increased by **R 1,836,505**.

Management identified invoices recorded in the incorrect financial period. Prior year amounts has been restated to correct this error.

The financial impact of the error was determined to be as follows:

Contracted services	579,671	-
VAT input accruals	86,950	-
Trade payables -accruals	-	666,621
	666,621	**666,621**

37. Prior-year adjustments (continued)

N4 - Cash flow statement:

An error occurred in prior year on the calculation of cash flow statement which included the non-cash items. This error was corrected and prior year amounts has been restated. Furthermore, the there were errors identified in VAT which also affected the cash flow statements. Affected balances are taxation, payments of suppliers, payments to employees and sale of goods & sales.

An error occurred whereby payables from exchange transaction (retention liability) was excluded from the calculation of cash flow from operating activities and included in the calculation of cash flow from investing activities when calculating amount relating to acquisition of property, plant and equipment. Payables from exchange transactions forms part of operating working capital and must be included in the calculation of cash flow from operating activities not investing activities. An adjustment was made to correct this error and prior period cash flow statement amounts have been restated. No journals were processed.

Management noted an error on unspent conditional grant liability amount used to calculate receipts from grants and subsidies. The error was due to incorrect sign used, the opening balance used was positive instead of negative and closing balance was negative instead of positive sign. The impact on the calculation is as follows:

Cash Receipts - Grants and subsidies:	**Audited Amount**	**Re-calculated amount**
Opening Balance	5,100,382	(5,100,382)
Grant and subsidies revenue	405,544,414	405,544,414
Closing balance	(4,806,033)	4,806,033
	405,838,763	**405,250,065**

Net adjustment	R (405,250,065 - 405,838,763)	=	R 588,610

An error occurred in prior year cash flow workings were by VAT which is a statutory receivable was incorrectly factored in the calculation of cash flow amount relating to sale of goods and services. VAT is statutory receivables and correction was made on the workings which led to increase on property rates by R 341,480.

Fruitless and wasteful expenditure

As previously reported	-	64,067
Add: Fuitless and Wasteful expenditure - prior period	-	1,460,146
Restated opening balance	**-**	**1,524,213**

Error 1: An overpayment of R 1,460,146 was made to a supplier providing VAT recovery services to the municipality. This was incorrectly disclosed as irregular expenditure instead of fruitless and wastefull expenditure. The error was corrected and prior period disclosure note restated. The error is still under investigations.

Irregular expenditure

Opening balance	-	20,616,352
New material irregularities identified	-	(1,460,146)
Restated opening balance	**-**	**19,156,206**

Figures in Rand	2025	2024

37. Prior-year adjustments (continued)

Commitments

Management identified an error in prior year commitment disclosure whereby only the movement for 2023/24 financial year was presented instead of the total commitment for all the years. Prior period disclosure note has been restaed to correct this error. The impact o the restatement is as below:

Already contracted for but not provided for:		
Property, plant and equipment - Audited	-	117,856,457
Restatement amount	-	61,322,630
Restated amount	**-**	**179,179,087**

Financial instruments:

Management noted a mismatch between the payables from exchange transaction amount on the statement of financial position and the one presented under financial instruments disclosure note. This error has been corrected and the impact is as follows:

Financial liabilities	**Audited Amount**	**Restatement**	**Restate amount**
Trade and other payables from exchange transactions	18,170,754	59,733	18,230,487

38. Net cash flows from operating activities

	2025	2024
Surplus	103,941,201	80,491,178
Adjustments for:		
Depreciation and amortisation	56,046,718	51,504,348
Loss on sale of assets	(136,985)	(237,412)
Fair value adjustments	(19,212,852)	(18,974,674)
Finance costs	3,826,620	3,650,315
Impairment loss	718,336	-
Debt impairment	10,070,901	11,897,290
Bad debts write-off	8,734,699	52,622
Movement in employee obligations	506,322	62,000
Actuarial gains/losses	(5,883,402)	(654,673)
Non-cash transfers from property plant and equipment	768,083	-
Changes in working capital:		
Assets held for sale	(768,083)	142,084
Receivables from exchange transactions	(4,556,746)	(993,027)
Statutory receivables	(21,253,723)	(2,302,404)
Payables from exchange transactions	11,756,350	5,451,738
Unspent conditional grants and receipts	(3,771,223)	(294,349)
Employee related obligations	939,613	1,724,336
	141,725,829	**131,519,372**

39. Financial instruments disclosure

Categories of financial instruments

2025

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	6,205,500	6,205,500
Cash and cash equivalents	288,536,241	288,536,241

39. Financial instruments disclosure (continued)

	294,741,741	**294,741,741**

Financial liabilities

	At amortised cost	Total
Finance lease obligation	3,656,063	3,656,063
Trade and other payables from exchange transactions	39,698,524	39,698,524
	43,354,587	**43,354,587**

2024

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	2,558,886	2,558,886
Cash and cash equivalents	267,821,868	267,821,868
	270,380,754	**270,380,754**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	20,733,614	20,733,614

40. Commitments

Authorised capital expenditure

	2025	2024
Already contracted for but not provided for		
• Property, plant and equipment	155,512,601	179,179,087
Total capital commitments		
Already contracted for but not provided for	155,512,601	179,179,087

Total commitments

	2025	2024
Total commitments		
Authorised capital expenditure	155,512,601	179,179,087

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

Figures in Rand	2025	2024

41. Contingencies

Table below shows litigation claims for the municipality as at the end of the financial reporting period:

Litigation Claim Details

Case Number - 68/2012	91,400	91,400
This is a claim emanating from the removal of container.		
Case Number - 80/2013	61,900	61,900
This is a claim emanating from the removal of container.		
Case Number - 78/2013	115,000	115,000
This is a claim emanating from the removal of container.		
Case Number - 526/2013	150,000	150,000
This is a claim emanating from the removal of container.		
Case Number - 166/2012	350,000	350,000
This is a claim emanating from the removal of container.		
Case Number - 101/2015	140,000	140,000
Damages claim for a loss of horses impounded by the municipality agents		
Case Number - 100/2016	80,000	80,000
This is an interdict for interference with site.		
Case Number - 24/2019	127,565	127,565
Damages claim emanating from alleged repairs due to the plaintiff for his motor vehicle damages.		
Case Number - 1604/20	650,000	650,000
The is a damages claim against the municipality for alleged assault case		
Case Number - 65/2021	111,255	111,255
This relates to damages claimed against the municipality vehicle cost for repairs due to potholes.		
CAse Number 1218/2019	9,400,000	9,400,000
Civilians allegation that they were shot by a municipal employee.		
Case Number - 3484/2018	-	1,700,000
Interdict on the invasion by the respondent and some other land grabbers.		
CAse Number - 1250/2023	850,000	850,000
Claim for legal costs relating to work rendered to the municipality.		

Figures in Rand	2025	2024

41. Contingencies (continued)

Case Number - 983/2021	500,000	500,000
Challenging dress code of counsellors.		
Case Number - 5332/2021	94,055	94,055
Damages arising out of shooting community member. legal costs added to the financial exposure is R 94,055		
Case Number - 111/2024	800,000	400,000
Matter pending both in high court for the canccellation of the commercial lease agreement which the municipality have with the servicve provider, and the damages claim pending at the labour. .		
Case Number - 5449/2021	-	300,000
Application to challenge the decision to rescind tender award as a result of court order.		
Case Number - 2067/2023	-	9,300,000
Claim for past loss of income		
Case Number - D626/2020	-	4,500,000
Employee appealing decision by CCMA.		
Case Number - 5093/16	12,500,000	12,500,000
Claim for damages as a result of demolition of houses / structures at new rest.		
Case Number - EC082115	1,500,000	1,500,000
Constructive dismisal		
Case Number - 731/2024	500,000	500,000
This relates to an eviction application against respondent occupying premises belonging to the municipality.		
Case Number - CA26/2025	1,500,000	1,500,000
This matter relates to an applicant who was attempting to review and set aside the municipality's decision of granting a tender against the second respondent. When the matter appeared in court for the first time, the municipality was found indeed unlawful.		
Case Number - 72/2023	-	500,000
Interdict against municipality wherein the plaintiff is interdicting the building of Lusikisiki Community Hall as they feel that they have a session with the municipality		
Case Number - 2351/2025	250,000	-
This is the application where the applicants are compelling the municipality to fix or change the drainage system on the basis that it damages their homes.		
Case Number - 3484/2028	700,000	700,000
Matter has been finalised and judgement granted in favour of the municipality		

Figures in Rand	2025	2024

41. Contingencies (continued)

Case Number - 20/2023:	250,000	-
Damages as a Result of Removal of Containers		
Case Number - 2057/2025	400,000	-
Application to declare demolishing of unlawful structures		
Case Number - 2187/2025	400,000	-
Application to declare demolishing of unlawful structures		
Case Number - 92/2025	500,000	-
Matter struck off Roll, Awaiting Appeal Court Date		
Case Number 3949/2024	750,000	-
Interdicting the enforcement of a court order. The community is now appealing the judgement granted in favour of the municipality.		
The matter is to be heard on 11 August 2025		
Case Number - 1788/2025	600,000	-
Interciding Enforcement of a Court Order		
Case Number 3700/2024	700,000	-
Interdict challenging enforcement of court order, awaiting court date.		
Case Number 1660/2025	500,000	-
Application ton interdict municipality from enforcing court order, matter struck off the roll.		
	34,571,175	**46,121,175**

Figures in Rand	2025	2024

42. Related parties

Relationships		
Members of key management	Refer to note 28	

Related party balances

	2025	2024
Leave accrual owed to executive management:		
V.C. Makedama - Municipal Manager	146,576	94,646
BS Fikeni	88,113	46,908
Z Masumpa	125,187	61,101
Mashaba Avela	37,557	-
M.B. Matubatuba	37,284	-

Municipal employees accrues 24 leave days in each financial reporting period. Leave accrued liability relates to an estimated balance due to the employee at the end of each reporting period. Leave pay accrued liability is not secured by anything.

Related party transactions

	2025	2024
Close family members' interest:		
Suppliers with interested	105,250	282,540

Management discovered that some suppliers who offered services to the municipality during the financial year had family memmbers who are working at some govenment departments.

Remuneration of management

Audit committee members' fees:

2025

Name	Fees	Total
M Litile	185,000	185,000
S Nyenyiso - Chairpeson	225,000	225,000
Y Mabona	104,000	104,000
Y Rini	177,000	177,000
	691,000	**691,000**

2024

Name	Fees	Total
M Litile	128,000	128,000
S Nyenyiso - Chairpeson	198,000	198,000
Y Mabona	112,000	112,000
Y Rini	128,000	128,000
	566,000	**566,000**

Management class: Councillors

2025

Name	Basic salary	back pay	Cell phone allowance	Travel allowance	Car allowance	Housing	Total
Mayor - Cllr N. Pepping	973,256	106,261	44,151	-	-	-	1,123,668

42. Related parties (continued)

Speaker - Cllr S.B. Vatsha	778,607	86,341	44,151	-	-	-	909,099
Chief Whip - Cllr M. Nkungu	730,169	81,808	44,151	-	-	-	856,128
MPAC Chairperson Cllr Z. Noncokwana	475,745	70,662	44,151	162,914	-	72,000	825,472
Mayoral Committee Members	4,505,277	-	-	449,140	354,468	-	5,308,885
Ordinary Councillors	16,496,248	-	2,199,920	-	1,422,824	12,000	20,130,992
	23,959,302	**345,072**	**2,376,524**	**612,054**	**1,777,292**	**84,000**	**29,154,244**

2024

Name	Basic salary	Back pay	Cell phone allowance	Car Allowance	Housing Allowance	Total
Mayor - Cllr N. Pepping	914,763	42,110	-	-	-	956,873
Speaker - Cllr S.B. Vatsha	731,811	34,505	85,600	5,240	48,000	905,156
Chief Whip - Cllr M. Nkungu	686,074	32,282	42,800	2,416	-	763,572
Mayoral committee members	2,145,380	315,668	299,600	402,357	-	3,163,005
MPAC chairperson Cllr Z. Noncokwana	534,278	-	42,800	103,117	-	680,195
Ordinary Councillors	15,280,430	1,206,546	2,254,400	1,135,568	-	19,876,944
	20,292,736	**1,631,111**	**2,725,200**	**1,648,698**	**48,000**	**26,345,745**

Municipal Desciplinary Board:

2025

Name	Fees	Total
S Bavu	16,000	16,000
S Gwexa	16,000	16,000
T Nkele - Chairperson	27,000	27,000
Y Madolo	24,000	24,000
Y Mabona	36,000	36,000
	119,000	**119,000**

2024

Name	Fees	Total
S Gwexa	48,000	48,000
S Bavu	56,000	56,000
T Nekele - Chairperson	45,000	45,000
Y Madolo	48,000	48,000
	197,000	**197,000**

43. Change in Estimate

In terms of the requirements of GRAP 17 the useful lives of all asset items were reviewed by management at year end. The remaining useful live expectations of some asset items differed from previous estimates. This resulted in a revision of some of the previous estimates which was accounted for as a change in accounting estimate.

The management used the condition of the assets as follows:

- Assets assessed to be Poor & Active were allocated additional 3 years.
- Assets assessed to be Very Poor & Active were allocated additional 2 years.

The effect of this revision is an increase in the depreciation charges for the current period of 2025:R 606 765.02

The effect of the change in estimate has been applied prospective.

44. Comparative figures

Certain comparative amounts have been restated to correct prior period errors identified.

45. Risk management

Financial risk management

Liquidity risk

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

At 30 June 2025	Less than 1 year	Between 2 and 5 years
• Present value of minimum lease payments due	1,438,545	2,249,508

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis.

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

Financial instrument	2025	2024
Cash and cash equivalent	288,536,241	267,821,868
Receivables from exchange transactions	6,205,500	2,558,886

Market risk

Interest rate risk

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

46. Going concern

We draw attention to the fact that at 30 June 2025, the municipality had an accumulated surplus of R 1,839,878,689 and that the municipality's total liabilities exceed its assets by R 1,839,878,689.

46. Going concern (continued)

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.

However, the following negative factors were identified which affect the going concern assumption:

- Current liabilities (excluding unspent conditional grants) exceeds 10% of next year's budgeted resources
- Debtors days - consumer debtors exceed 30 days
- Debtors impairment provision exceeds 10% of accounts receivable
- Poor enforcement of credit control measures
- Employee-related costs and remuneration of councillors exceed 40% of operating expenditure
- Repairs and maintenance expenditure level is less than 8%
- Capital expenditure is less than 10% of operating and capital expenditure
- Underspending on repairs and maintenance of capital projects

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these are:

- The municipality prepared a funded budget covering financial period ending 30 June 2026, 2027 and 2028. This budget was adopted by council and based on the source of funding stated in the adopted budget, there it is highly likely that the municipality will have sufficient funds to support its operations.
- The adopted budget was approved by several stakeholders such as treasury who is the main source of funds for the municipality. This warrants going concern aspect of the municipality.
- The municipality is putting together strategies to increase collection rate, these strategies includes debt incentive program which provides a discount to all consumer debtors who honour their debt within a specified period.
- The municipality is reviewing the organisational structure to ensure employee related costs are within the norm.

Conclusion: The municipality is still a going concern because of the following reasons:

- No intention to liquidate the municipality or cease its operations.
- No material uncertainties related to events or conditions that may cast significant doubt upon the municipality’s ability to continue as a going concern
- The municipality is currently having a positive cash and cash equivelant amount and the short term investments are increasing annually.

47. Events after the reporting date

The municipality not aware of any events or conditions which took place after end of the financial reporting period which warrants additional adjustment or disclosure.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

48. Fruitless and wasteful expenditure

Opening balance as previously reported	1,524,224	43,293
Add: Fruitless and wasteful expenditure identified - current	-	20,785
Add: Fruitless and wasteful expenditure identified - prior period	-	1,460,146
Less: Amount written off	(64,078)	-
Closing balance	**1,460,146**	**1,524,224**

Fruitless and wasteful expenditure is presented inclusive of VAT.

Fruitless and wasteful expenditure arises from interest paid to eskom on long outstanding suppliers account balance.

The fruitless and wasteful expenditure identified from the prior period relates to payments on the VAT Contract identified as material irregularity, which were over and above the terms and conditions of the contract. These payments were identified during the investigation into the material irregularity as raised by the Auditor General

Prior year audited amount was restated accordingly to account for this omission error. Refer to Note 37.

Amount recovered

None of the fruitless and wasteful expenditure presented above has been recovered in current or prior year.

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

48. Fruitless and wasteful expenditure (continued)

Amount written-off

An amount of R 64,078 relating to prior years was written off in current year.

49. Irregular expenditure

Opening balance as previously reported	19,156,206	11,922,185
Add: Irregular expenditure - current	-	8,694,167
Less: Irregular expenditure - prior period	-	(1,460,146)
Closing balance	**19,156,206**	**19,156,206**

Prior year audited amounts have been restated to account for this omission. Refer to note 37.

Cases under investigation

The irregular expenditure disclosed in prior year has been submitted to Municipal Public Accounts Committee for investigations. All irregular expenditure transactions are disclosed inclusive of VAT.

Amount written-off

None of the current year irregular expenditures were written-off in current year.

50. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	2,012,154	2,032,124
Amount paid - current year	(2,012,154)	(2,032,124)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

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

Audit fees

Current year subscription / fee	7,168,701	7,676,157
Amount paid - current year	(7,168,701)	(7,676,157)
	-	-

PAYE and UIF

Current year subscription / fee	33,510,638	28,400,724
Amount paid - current year	(33,510,638)	(28,400,724)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	22,404,279	20,929,694
Amount paid - current year	(22,404,279)	(20,703,677)
	-	**226,017**

VAT

VAT refandable	29,662,371	23,808,651
VAT refund received	(25,846,069)	(21,588,155)
	3,816,302	**2,220,496**

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

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

Councillors' arrear consumer accounts

None of the councillors had arrear accounts outstanding for more than 90 days as at 30 June 2025.

Figures in Rand	2025	2024

51. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Plant Hiring	106,500	83,710
The hiring of plant was done through emergency procurement system and the number of icnidents was 1.		
Transport services	461,452	36,000
The procurement of transport services was done through emergency system, the number of incidents was 1.		
Repairs and service to motor vehicles/plant	3,536,177	3,946,098
The procurement of repairs and maintainance of motor vehicles and plant was done through single source.		
Advertising	292,582	509,840
Procurement of advertising services was done from a widely read paper in the Eastern Cape		
Radio Slot presentation	32,000	116,950
Stage Deco	-	4,600
Erratum for vacant post	-	37,729
Locksmith services	-	8,154
Qualification verification	-	28,800
Supply and delivery of water tanks, stands and 05 Portable mobile toiltes	-	117,210
Service and Calibration of Speed Camers	-	6,155
Catering	308,500	-
COF & Road worthy test	193,436	-
Government Printing Works	1,009	-

Notes to the Annual Financial Statements

Figures in Rand	2025	2024

51. Deviation from supply chain management regulations (continued)

Private security	4,113,936	-
	9,045,592	**4,895,246**

Deviation arises from emergency procurement system which makes impractical or impossible to follow the official procurement process as per SCM reg 36(1)(a)(v).

52. Segment information

General information

Identification of segments

The municipality is organised and reports to management on the basis of six major functional areas: community services, budget and treasury office, economic development services, administration services, infrastructure and technical services and municipal manager's office. The segments were organised around the type of activities and service delivered by the municipality to the community. Each reportable segment is led by a senior management official who reports on a monthly and quarterly basis to relevant municipal stakeholders. The performance of each reportable segment ids assessed in line with the Integrated Development Plan (IDP) and Service delivery and Budget Implementation Plan (SDBIP) of the municipality. Management uses these same segments for determining strategic objectives. None of the segments were aggregated.

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 part of the Eastern Cape Province. Each reportable segment is reported separately, none were aggregated

Types of goods and/or services by segment

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

Reportable Segment:

Adminstration

Budget and Treasury Office

Community Services

Economic Development Services

Infrastructure and technical Services

Municipal Manager's Office

52. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2025

	Adminstration	Budget & Treasury Office	Community Services	Economic Development Services	Infrastructure & Technical Services	Municipal Manager's office	Total
Revenue							
Revenue from exchange transactions	39,573	24,229,320	6,905,251	1,473,840	20,477,645	-	53,125,629
Revenue from non-exchange transactions	652,740	398,701,044	3,482,619	-	93,696,221	1,593,000	498,125,624
Total segment revenue	**692,313**	**422,930,364**	**10,387,870**	**1,473,840**	**114,173,866**	**1,593,000**	**551,251,253**
Expenditure							
Employee related costs	18,030,934	22,194,462	67,176,707	8,722,990	16,615,893	30,769,261	163,510,247
Contracted Services	2,059,567	5,280,859	14,690,424	6,141,464	47,172,681	12,030,037	87,375,032
Depreciation and armotisation	8,688,317	3,081,881	2,724,062	5,496,876	35,573,951	481,632	56,046,719
Finance costs	985,994	-	3,150,620	-	-	-	4,136,614
Debt impairment	-	9,161,769	909,132	-	-	-	10,070,901
General expenditure	33,450,744	29,257,343	7,361,511	2,065,888	9,446,757	26,118,719	107,700,962
Remuneration of counsillors	-	-	-	-	-	29,154,245	29,154,245
Fair value adjustment	-	30,230	-	-	(19,243,082)	-	(19,212,852)
Irrecoverable Debts Written Off	-	8,633,135	101,564	-	-	-	8,734,699
Transfers and subsidies	-	-	-	3,583,480	1,512,043	-	5,095,523
Impairment loss	34,597	-	85,100	587,963	10,676	-	718,336
Loss on disposal of assets	583,398	(13,960)	(1,032,914)	301,307	25,184	-	(136,985)
Actuarial gains or losses	-	(5,883,402)	-	-	-	-	(5,883,402)
Total segment expenditure	**63,833,551**	**71,742,317**	**95,166,206**	**26,899,968**	**91,114,103**	**98,553,894**	**447,310,039**
Total segmental surplus/(deficit)	**(63,141,238)**	**351,188,047**	**(84,778,336)**	**(25,426,128)**	**23,059,763**	**(96,960,894)**	**103,941,214**

Notes to the Annual Financial Statements

Figures in Rand

52. Segment information (continued)

	Adminstration	Budget & Treasury Office	Community Services	Economic Development Services	Infrastructure & Technical Services	Municipal Manager's office	Total
Assets							
Current assets	11,019,432	212,921,245	6,674,600	7,992,340	65,182,311	5,143,429	308,933,357
Non-current assets	2,191,635	525,431,142	41,257,312	36,946,319	1,017,610,519	1,287,575	1,624,724,502
Total segment assets	**13,211,067**	**738,352,387**	**47,931,912**	**44,938,659**	**1,082,792,830**	**6,431,004**	**1,933,657,859**
Total assets as per Statement of financial Position							**1,933,657,859**
Liabilities							
Current liabilities	(4,038,812)	(27,558,776)	(15,984,364)	(6,064,235)	(10,190,924)	(156,522)	(63,993,633)
Non-current liabilities	(2,237,899)	(27,547,627)	-	-	-	-	(29,785,526)
Total segment liabilities	**(6,276,711)**	**(55,106,403)**	**(15,984,364)**	**(6,064,235)**	**(10,190,924)**	**(156,522)**	**(93,779,159)**
Total liabilities as per Statement of financial Position							**(93,779,159)**

2024

	Adminstration	Budget & Treasury Office	Community Services	Economic Development	Infrastructure & Technical Services	Municipal Manager's Offices	Total
Revenue							
Revenue from exchange transactions	62,283	24,886,638	6,350,907	1,303,426	2,276,522	-	34,879,776
Revenue from non - exchange transactions	803,064	370,467,222	2,127,448	-	71,622,346	1,384,000	446,404,080
Total segment revenue	**865,347**	**395,353,860**	**8,478,355**	**1,303,426**	**73,898,868**	**1,384,000**	**481,283,856**

52. Segment information (continued)

Expenditure							
Employee related costs	15,044,891	19,413,518	77,214,765	9,632,631	805,369	26,519,114	148,630,288
Contracted services	1,093,286	8,017,795	9,500,558	3,483,649	23,165,007	10,565,171	55,825,466
Depreciation and armotisation	5,718,505	448,646	277,885	6,641,586	38,298,274	119,451	51,504,347
Finance costs	626,000	20,774	3,024,315	-	-	-	3,671,089
Debt impairment	-	11,949,912	-	-	-	-	11,949,912
General expenses	31,650,192	46,648,348	12,716,136	1,614,131	69,521	22,213,847	114,912,175
Remuneration of councillors	-	-	-	-	-	26,345,745	26,345,745
Transfers and subsidies	-	-	60,000	7,760,420	-	-	7,820,420
Fair Value adjustment	-	(6,988,672)	(11,986,001)	-	-	-	(18,974,673)
Gains on disposal of assets	-	-	(237,412)	-	-	-	(237,412)
Actuarial gains/losses	-	-	(654,673)	-	-	-	(654,673)
Total segment expenditure	**54,132,874**	**79,510,321**	**89,915,573**	**29,132,417**	**62,338,171**	**85,763,328**	**400,792,684**
Total segmental surplus/(deficit)	**(53,267,527)**	**315,843,539**	**(81,437,218)**	**(27,828,991)**	**11,560,697**	**(84,379,328)**	**80,491,172**
Assets							
Current assets	9,159,703	189,012,271	5,734,909	7,593,976	64,278,228	4,667,942	280,447,029
Non-current assets	2,811,735	871,439,622	25,452,222	133,954,368	496,238,027	1,134,747	1,531,030,721
Total segment assets	**11,971,438**	**1,060,451,893**	**31,187,131**	**141,548,344**	**560,516,255**	**5,802,689**	**1,811,477,750**
Total assets as per Statement of financial Position							**1,811,477,750**
Liabilities							
Current liabilities	(1,782,338)	(28,995,414)	(8,797,005)	(3,451,439)	(2,709,508)	(779,075)	(46,514,779)
Non-current liabilities	-	(29,025,484)	-	-	-	-	(29,025,484)
Total segment liabilities	**(1,782,338)**	**(58,020,898)**	**(8,797,005)**	**(3,451,439)**	**(2,709,508)**	**(779,075)**	**(75,540,263)**
Total liabilities as per Statement of financial Position							**(75,540,263)**

52. Segment information (continued)

Basis of accounting for transactions between reportable segments

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. All transactions disclosed in each Reportable Segment are on an accrual basis, amounts are derived from the financial reporting system.

Measurements and disclosure of amounts presented in each Reportable Segment:

The primary source of information presented in each Reportable Segment is the final trial balance as at each reporting period.

All transactions on the general ledger are aligned to the correct reportable segment in which they relate to therefore no need for a reconciliation between amounts presented on the reportable segment to those presented on the statement of financial performance and statement of financial position of the municipality.

Measurement and accounting policies applicable to municipal segments are aligned to those utilized by the municipality.

53. Budget differences

Material differences between budget and actual amounts

Below are explanations of variance that are more than 15% between the budgeted amounts and actual amounts for the year.

Service Charges - The municipality noticed a decline at mid-term and therefore adjusted downwards.

Rendering of Services - There is no space in Flagstaff cemetery resulting in the variance and the economic fluctuations are influencing construction activities, leading to a decline in building plan fees.

Construction Contracts - The budget was inclusive of VAT, however the actual were captured vat exclusive due to national treasury INEP guideline.

Interest income on receivables - The recivables in the AFS are net amount inclusive of impairment , the groos amount in which interest is calculated has increased.

Agency services -There were delays in fully operations of DLTC as anticpated.

Licences and Permits - The was a decline in the application for business licensing due to economic pressures and regulatory barriers and bureaucracy in relation to spaza shops.

53. Budget differences (continued)

Interest received - investment - The municipality received more interest on all our bank accounts than anticipated.

Fines, Penalties and Forfeits - The municipality billed more because of intensified controls during festive season and easter period.

Finance costs - The municipality under budgeted for interest on Landfill site , the budget was R2 million and the actual was R3.1 Million.

Debt impairment - The municipality anticipated that there will be a decrease in outstanding debts due to amnesty provision, but the rate payers did not apply as anticipated.

Contracted Services - The municipality budget for maintenance of access roads but the projects were delayed by the heavy rains

Transfers and subsidies - The municipality advertised the projects and there was non-responsiveness to bidding processes, causing the delays in appointments.

General Expenses - There were project delays that affected the spending on general expenses

Gains on disposal of assets and liabilities - There is budget for Gains and loss to the value of R1 million apearing as actuarial gains and losses.

Fair value adjustments - Refers to the fair value on investment properties

Actuarial gains/losses - The municipality anticipated to auction and write-off obsolete assets

Asset held for sale - The municipality did not budget for asset held for sale but budgeted for inventory in assumption that the servicing of motor vehicles and plant was going to be done inhouse and opening of store for fuel which are still outsorced

Operating lease assets - The municipality budgeted for operating lease assets

Statutory Receivable - The municipality over budgeted for statutory receivables. There are also economic hardships in the community.

VAT Receivables - The municipality over-estimated the budget

Receivables from exchange transactions - The municipality billed more than was expected on service charges

Receivables from non-exchange transactions - The municipality anticipated that there will be a decrease in outstanding debts due to amnesty provision, but the rate payers did not apply as anticipated.

This has a direct impact on the gross recivables , this was going to decrease debt imparment resulting to higher value of recievables .

Cash and cash equivalents - The municipality tightened its cost-cutting measures and there were also project delays

Investment property - The municipality have anticipated a significant fair value increase post-renovations, but the project was delayed.

Property, plant and equipment - There were project that were appointed , which are not completed as anticipated and are still in commitments

Payables from exchange transactions - Payables from exchange transactions - The municipality anticipated an increase in payable due to late submission of invoices as well as increase in leave and bonus accrual.

VAT Payable - The municipality budgeted for Vat in consolidation and anticipated a vat receivable

53. Budget differences (continued)

Employee Benefit Obligation - The municipality budgeted in assupmtion that vacant post will be filled as per organogram and some of the post were still vacant at the end of the year

Unspent Conditional grants and receipts - The municipality anticipated delays in project due to bad weather in the surrounding area

Finance lease obligation - The municipality budgeted for an operating lease instead of finance lease.

Cash flow statement differences:
Property Rates-During budged period, the municipality anticipated that the amnesty will assist to increase the collections from consumers. Less customers utilised this amnesty, therefore actual collections is less than budgeted amount.

Sale of goods-During budged period, the municipality anticipated that the amnesty will assist to increase the collections from consumers. Less customers utilised this amnesty, therefore actual collections is less than budgeted amount.

Interest income-Municipal investments increased and the municipality spent majority of the year with higher bank balance which generated interest income.

Employee & suppliers-Budget was done expecting that the municipality will fill all the vacant post within the organogram, however this was not executed.

Finance costs-The municipality did not expect to incur costs through finance lease of assets.

Transfers and subsidies-The actual cash flow amounts relating to transfers and subsidies is presented as payments to suppliers.

Property plant and equipment-The delays in court case on lusikisiki office resulted to a delay in implementation of the project

Proceeds-The municipality did not expect to receive refunds from the insurance on assets loss.

Finance lease receipts-The municipality did not expect to incur costs through finance lease of assets.

Reason for adjustments between original and adjusted budget

In terms of section 72 of MFMA, the municipal manager is required to assess the performance of the municipality during the first half of the financial year. The assessment looked at the monthly as per section 71, municipal service delivery in the first 6 months, the past year's annual report and progress on resolving problems identified in the annual report. Areas with higher needs were identified and funds reallocated to need or new demands.

54. Accounting by principals and agents

The municipality is an agent for the department of transport whein it is delegated to register and license motor vehicles on its behalf.

There is a receivable amount of R 31 555 in 2025 and 20,957:20 in 2024.

All collections made are paid over to the Department of Transport twice in each month. The amount reciavable relate to cash in transit at the end of the financial period. Agent fees rate is 19% of all collections subject to curtain conditions as per Service level Agreement and National Road Traffic Act No. 93 of 1996.

Total collections for the year is R 17,502,773.

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the principal is R 4,475,407 (2024: R4 248 411).