



King Sabata Dalindyebo Local Municipality
Annual financial statements
for the year ended 30 June 2025



King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

General Information

Legal form of entity

King Sabata Dalindyebo Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act No. 117 of 1998).

Nature of business and principal activities

King Sabata Dalindyebo Municipality performs the functions as set out in the Constitution of the Republic of South Africa (No. 108 of 1996).

Mayoral committee

Executive Mayor

Cllr. GN Nelani

Speaker

Cllr. N Siyo-Sokutu

Chief Whip

Cllr. B Mlanjeni

Members of the Mayoral Committee

Cllr. MS Dudumayo

Cllr. Z Nokayi (Deceased)

Cllr. YR Gwadiso

Cllr. N Gwebani

Cllr. N Sibeko

Cllr. S Nyengane

Cllr. M Marasha

Cllr. Z Gana

Cllr. A Ketse

Councillors

Cllr. SE Mngeni

Cllr. NG Sidlova

Cllr. MS Ngudle (Deceased)

Cllr. M Majeke

Cllr. N Matyeba

Cllr. N Jubeni

Cllr. SN Majikija

Cllr. N. Nkathu

Cllr. NG Tshaya

Cllr. B Silinga

Cllr. M Makaba

Cllr. CS Tokwana

Cllr. S Ratshalala

Cllr. SC Mshunqane

Cllr. ZL Siziba

Cllr. B Vuma

Cllr. MJ Msakeni

Cllr. S Dalasile

Cllr. S Mdunyelwa

Cllr. S Mhlaba

Cllr. TT Mtshakazana

Cllr. T Badli

Cllr. L Makhenke

Cllr. LC Molakalaka

Cllr. DM Teti

Cllr. B Nxeve

Cllr. TM Gqiba

Cllr. VN Roji

Cllr. N. Mayi

Cllr. L Luwaca

Cllr. N Matubatuba

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	Cllr. S Madyum Cllr. G Nqola Cllr. B Ndlobongela Cllr. FN Mzimane Cllr. M Bunzana Cllr. R Knock Cllr. S Ngomfela Cllr. NS Tukayi Cllr. MG Mbutye Cllr. KL Jozana Cllr. MF Nokwali Cllr. SA Mthayi Cllr. MH Ngxekana Cllr. AL Sekese Cllr. A Mgquba Cllr. N Matiso Cllr. D Busakwe Cllr. WC Tukwayo Cllr. T Malefane Cllr. SW Mrawu Cllr. M Mpangele Cllr. M Gadudu Cllr. D Ntlabathi Cllr. N Nyoka Cllr. J Roeber Chief IF Siziba Chief N Mtirara Chief K. Jumba Cllr T. Maboza Cllr N.M Nqwazi Cllr S. Mgolombane Cllr. M Bango (Resigned) Cllr. U Daniso Cllr. A Msuthu Cllr. B Mbiyo Cllr M Majeke Cllr. Z Madyibi Cllr. N Jubeni
Chairpersons of Section 79 Committees	
Grading of local authority	Grade 6
Chief Finance Officer (CFO)	Mr X Sikobi
Accounting Officer	Mr N. Pakade
Registered office	Munitata Building Sutherland Street Mthatha 5099
Postal address	Private Bag X5083 Mthatha

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General Information

	5099
Bankers	ABSA FNB
Auditors	Auditor General South Africa Registered Auditors

King Sabata Dalindyebo Local Municipality

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Abbreviations used:

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
MPAC	Municipal Public Accounts Committee
VAT	Value Added Tax
SARS	South African Revenue Services
PAYE	Pay As You Earn
FMG	Financial Management Grant
UIF	Unemployment Insurance Fund
EPWP	Expanded Public Works Programme
WCA	Workmens Compensation
SDL	Skills Development Levies
PPE	Property, plant and equipment
AFS	Annual Financial Statements
mSCOA	Municipal Standard Chart of Accounts

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Accounting officer's Responsibilities and Approval

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

The annual financial statements have been prepared in accordance with 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 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 is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements will be examined by the municipality's external auditors and their audit report will be issued by the 30th of November 2025.

The annual financial statements set out on page 5 to 94 , which have been prepared on the going concern basis, were noted by council on 28 August 2025 and were signed on behalf of the municipality by the accounting officer.

Mr N. Pakade
Accounting Officer

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Financial Position as at 30 June 2025

Figures in Rand	Note(s)	2025	2024 Restated*
Assets			
Current Assets			
Inventories	3	193 111 954	178 501 619
Receivables from exchange transactions	4	265 147 997	168 868 609
Receivables from non-exchange transactions	5	145 912 333	135 104 669
VAT Accrual Inputs	6	55 223 533	16 255 218
Insurance Prepayments	7	1 987 324	2 520 593
Cash and cash equivalents	8	67 537 164	56 461 312
		728 920 305	557 712 020
Non-Current Assets			
Investment property	9	381 739 567	377 948 467
Property, plant and equipment	10	2 051 466 697	1 911 316 728
Intangible assets	11	1 840 802	484 901
Heritage assets	12	3 201 000	3 201 000
		2 438 248 066	2 292 951 096
Total Assets		3 167 168 371	2 850 663 116
Liabilities			
Current Liabilities			
Other financial liabilities	13	2 135 142	2 135 142
Payables from non exchange transactions	14	41 893 994	24 534 416
VAT Accrual Outputs	66	34 249 123	9 536 783
Payables from exchange transactions	15	579 728 265	468 154 133
VAT Payable	16	989 376	5 080 017
Consumer deposits	17	38 094 232	32 813 366
Employee benefit obligation	18	68 185 083	63 885 704
Unspent conditional grants and receipts	19	5 236 936	23 041 874
Construction contract	20	-	303 805
		770 512 151	629 485 240
Non-Current Liabilities			
Other financial liabilities	13	-	2 135 142
Employee benefit obligation	18	21 808 000	20 469 000
Provisions	21	172 992 504	36 285 344
		194 800 504	58 889 486
Total Liabilities		965 312 655	688 374 726
Net Assets		2 201 855 716	2 162 288 390
Reserves			
Revaluation reserve	22	522 811 634	523 461 991
Self-insurance reserve	23	4 419 686	4 202 322
Accumulated surplus		1 674 624 396	1 634 624 077
Total Net Assets		2 201 855 716	2 162 288 390

* See Note 63

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Financial Performance

Figures in Rand	Note(s)	2025	2024 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	24	776 547 637	686 684 731
Construction contracts	20	11 006 228	10 496 845
Rental of facilities and equipment	25	24 437 727	23 087 246
Licences and permits	26	15 181 404	14 226 550
Gain on disposal of asset	37	655 882	-
Other income	27	16 451 201	15 100 469
Interest revenue	28	55 930 513	50 304 072
Total revenue from exchange transactions		900 210 592	799 899 913
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	29	313 905 121	293 656 700
Recoveries	30	522 999	4 895 363
Interest revenue	31	35 622 379	34 902 640
Transfer revenue			
Government grants & subsidies	32	648 873 815	633 904 877
Fines, Penalties and Forfeits	33	10 269 308	4 155 285
Fire levy		7 620 552	7 975 120
Total revenue from non-exchange transactions		1 016 814 174	979 489 985
Total revenue		1 917 024 766	1 779 389 898
Expenditure			
Employee related costs	34	(635 324 772)	(590 464 504)
Remuneration of councillors	35	(32 871 201)	(31 600 935)
Depreciation and amortisation	36	(163 658 461)	(242 641 932)
Impairment of assets		(303 082)	-
Loss on disposal of assets	37	-	(739 845)
Finance costs	38	(39 685 488)	(20 656 309)
Lease rentals on operating lease	39	(9 850 002)	(10 208 684)
Debt Impairment	40	(38 323 042)	(58 578 602)
Debtors written off	41	(32 453 338)	(21 722 134)
Bulk purchases	42	(575 785 991)	(494 974 097)
Contracted services	43	(135 744 443)	(148 639 083)
Grants and Subsidies paid	44	(26 266 369)	(28 437 874)
Transfer of Properties/Donations	45	(10 153 152)	(37 141 286)
Construction contract expenses	20	(11 006 228)	(10 496 845)
General Expenses	46	(169 378 491)	(166 700 650)
Total expenditure		(1 880 804 060)	(1 863 002 780)
Surplus (deficit) for the year from continuing operations		36 220 706	(83 612 882)
Fair value adjustment	47	3 779 600	17 997 546
Surplus / (Deficit) for the period		40 000 306	(65 615 336)

* See Note 63

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Self - Insurance reserve	Total reserves	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported 01 July 2023	523 461 991	4 041 814	527 503 805	1 716 317 245	2 243 821 050
Adjustments					
Correction of errors 63	-	-	-	(16 077 832)	(16 077 832)
Restated Balance at 01 July 2023	523 461 991	4 041 814	527 503 805	1 700 239 413	2 227 743 218
Changes in net assets					
Movement for year	-	160 508	160 508	-	160 508
Net income (losses) recognised directly in net assets	-	160 508	160 508	-	160 508
Surplus for the year	-	-	-	(65 615 336)	(65 615 336)
Total recognised income and expenses for the year	-	160 508	160 508	(65 615 336)	(65 454 828)
Total changes	-	160 508	160 508	(65 615 336)	(65 454 828)
Restated Balance at 01 July 2024	523 461 991	4 202 322	527 664 313	1 634 624 090	2 162 288 403
Changes in net assets					
Transfers to surplus / (deficit) relating to revaluation surplus on disposed properties	(650 357)	217 364	(432 993)	-	(432 993)
Net income (losses) recognised directly in net assets	(650 357)	217 364	(432 993)	-	(432 993)
Surplus for the year	-	-	-	40 000 306	40 000 306
Total recognised income and expenses for the year	(650 357)	217 364	(432 993)	40 000 306	39 567 313
Total changes	(650 357)	217 364	(432 993)	40 000 306	39 567 313
Balance at 30 June 2025	522 811 634	4 419 686	527 231 320	1 674 624 396	2 201 855 716
Notes	22	23			

* See Note 63

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Annual Financial Statements for the year ended 30 June 2025

Cash Flow Statement

Figures in Rand	Note(s)	2025	2024 Restated*
Cash flows from operating activities			
Receipts			
Property rates		312 495 103	273 281 171
Receipts from customers		754 872 290	615 683 356
Grants		630 765 073	635 703 609
Interest income		55 010 822	85 206 712
		<u>1 753 143 288</u>	<u>1 609 874 848</u>
Payments			
Employee costs and remuneration of Councillors		(660 174 230)	(626 709 727)
Suppliers		(890 846 950)	(774 686 307)
Finance costs		(22 225 217)	(18 764 656)
		<u>(1 573 246 397)</u>	<u>(1 420 160 690)</u>
Net cash flows from operating activities	49	<u>179 896 891</u>	<u>189 714 158</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(168 087 375)	(178 376 463)
Proceeds from sale of property, plant and equipment	10	2 783 405	483 594
Purchase of other intangible assets	11	(1 599 290)	(459 190)
Movement in self insurance		217 364	-
Net cash flows utilised in investing activities		<u>(166 685 896)</u>	<u>(178 352 059)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(2 135 143)	(2 135 143)
Finance lease payments		-	(6 523 380)
Outflow of other liability		-	(4 548 792)
Net cash flows utilised in financing activities		<u>(2 135 143)</u>	<u>(13 207 315)</u>
Net increase/(decrease) in cash and cash equivalents		11 075 852	(1 845 216)
Cash and cash equivalents at the beginning of the year		56 461 312	58 306 528
Cash and cash equivalents at the end of the year	8	<u>67 537 164</u>	<u>56 461 312</u>

* See Note 63

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	837 416 903	(11 354 725)	826 062 178	776 547 637	(49 514 541)	
Construction contracts	-	-	-	11 006 228	11 006 228	Note 50
Rental of facilities and equipment	26 179 838	(54 340)	26 125 498	24 437 727	(1 687 771)	
Licences and permits	22 773 821	(3 038 201)	19 735 620	15 181 404	(4 554 216)	Note 50
Gain on disposal of assets	(9 830)	2 217 391	2 207 561	655 882	(1 551 679)	Note 50
Other income	32 659 276	1 992 555	34 651 831	16 451 201	(18 200 630)	Note 50
Interest revenue	41 374 402	4 676 066	46 050 468	55 930 513	9 880 045	Note 50
Total revenue from exchange transactions	960 394 410	(5 561 254)	954 833 156	900 210 592	(54 622 564)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	372 660 878	(42 758 536)	329 902 342	313 905 121	(15 997 221)	
Recoveries	3 016 115	(1 090 744)	1 925 371	522 999	(1 402 372)	Note 50
Interest revenue	29 662 801	(10 884 304)	18 778 497	35 622 379	16 843 882	Note 50
Transfer revenue						
Government grants & subsidies	745 282 181	(54 821 530)	690 460 651	648 873 815	(41 586 836)	
Fines, Penalties and Forfeits	44 796 320	(20 804 377)	23 991 943	10 269 308	(13 722 635)	Note 50
Fire levy	12 277 173	(1 022 896)	11 254 277	7 620 552	(3 633 725)	
Total revenue from non-exchange transactions	1 207 695 468	(131 382 387)	1 076 313 081	1 016 814 174	(59 498 907)	
Total revenue	2 168 089 878	(136 943 641)	2 031 146 237	1 917 024 766	(114 121 471)	
Expenditure						
Employee related costs	(614 420 846)	(18 410 855)	(632 831 701)	(635 324 772)	(2 493 071)	
Remuneration of councillors	(35 059 573)	(119 359)	(35 178 932)	(32 871 201)	2 307 731	
Depreciation and amortisation	(205 925 986)	-	(205 925 986)	(163 658 461)	42 267 525	Note 50
Impairment of assets	(2 000 000)	-	(2 000 000)	(303 082)	1 696 918	Note 50
Finance costs	(17 606 416)	15 000 000	(2 606 416)	(39 685 488)	(37 079 072)	Note 50
Lease rentals on operating lease	(14 469 832)	91 254	(14 378 578)	(9 850 002)	4 528 576	Note 50
Debt Impairment	(25 500 000)	(3 825 000)	(29 325 000)	(38 323 042)	(8 998 042)	Note 50
Bad debts written off	-	-	-	(32 453 338)	(32 453 338)	Note 50
Bulk purchases	(540 108 914)	-	(540 108 914)	(575 785 991)	(35 677 077)	
Contracted services	(129 235 892)	(4 182 077)	(133 417 969)	(135 744 443)	(2 326 474)	
Grants and subsidies paid	(19 676 155)	(4 683 773)	(24 359 928)	(26 266 369)	(1 906 441)	
Transfer of properties	-	-	-	(10 153 152)	(10 153 152)	Note 50
General Expenses	(207 803 055)	14 420 049	(193 383 006)	(169 378 491)	24 004 515	
Total expenditure	(1 811 806 669)	(1 709 761)	(1 813 516 430)	(1 869 797 832)	(56 281 402)	
Operating surplus	356 283 209	(138 653 402)	217 629 807	47 226 934	(170 402 873)	
Construction contract expense	-	-	-	(11 006 228)	(11 006 228)	Note 50
Surplus before taxation	356 283 209	(138 653 402)	217 629 807	36 220 706	(181 409 101)	

King Sabata Dalindyebo Local Municipality

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Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Deficit for the year before fair value adjustment	356 283 209	(138 653 402)	217 629 807	36 220 706	(181 409 101)	
Fair Vaule Adjustment	-	-	-	3 779 600	3 779 600	Note 50
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	356 283 209	(138 653 402)	217 629 807	40 000 306	(177 629 501)	

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Accounting Policies

1. Presentation of annual financial statements

The Annual financial statements have been prepared in accordance with the Standard of Generally Recognised Accounting Practices (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 with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

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

1.1 Presentation currency

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

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for the foreseeable future.

1.3 Materiality

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

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

1.4 Significant judgements and sources of estimation uncertainty

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

In the process of applying its accounting policies, and in preparing the annual financial statements, management is required to make various judgements, including estimates and assumptions, that may affect the determination of the reporting framework, affect amounts represented in the annual financial statements and as well as related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

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

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Trade receivables and other receivables

The municipality assesses its trade 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 trade receivables, held to maturity investments, loans and receivables is calculated on an individual debtor basis, based on historical loss ratios, debtor type and other indicators present at the reporting date that correlate with defaults. The municipality assumes no risk of non-recovery for government debt. However, GRAP 104 requires that all receivables, including government debt, be assessed for impairment. The assessment was made also on Government debtors using the PV formula for consideration of time value for money and the expected credit loss (ECL) model under GRAP 104 has been adopted. A consideration of the time value of money for debts not expected to be settled within the normal credit terms is performed. An impairment assessment using discounted cash flows for government debt overdue beyond normal terms was done. The present value of expected future cash flows for government debt was calculated using the municipality's effective interest rate (prime + 1% = 12.75%).

The municipality has used a sensitivity analysis technique that measures the estimated change to the fair value of the floating liabilities in respect of an instantaneous increase or decrease of 1% (100 basis points) in market interest rates, from the rate applicable as at 30 June, with other variables remaining constant.

This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation. The municipality is mainly exposed to fluctuations in the JIBAR rates which will affect the finance cost of the floating rate liabilities.

The analysis has been performed on the basis of the change occurring at the start of the reporting period and assumes that all other variables, in particular foreign currency rates, remain constant.

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 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. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including municipality specific variables and economic factors.

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 21 - Provisions.

Effective interest rate

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

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 62.

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Annual Financial Statements for the year ended 30 June 2025

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Useful lives of Property, plant and equipment, Intangible assets and Investment property and Changes in Accounting Estimates

The municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The useful lives of assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets are based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.5 Investment property

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. The cost of self-constructed investment property is the cost at the date of completion.

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.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the municipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

1.6 Property, plant and equipment

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.

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1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Land and Building where is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

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

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Accounting Policies

1.6 Property, plant and equipment (continued)

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

Item	Depreciation method	Average useful life
Land	N/a	Infinite
Buildings	Straight-line	5-50 years
Plant and machinery	Straight-line	5-10 years
Furniture and fixtures	Straight-line	3-5 years
Office equipment	Straight-line	5-7 years
IT equipment	Straight-line	5-7 years
Computer software	Straight-line	3-5 years
Roads and paving	Straight-line	30 years
Access roads	Straight-line	3-10 years
Pedestrian malls	Straight-line	30 years
Electricity	Straight-line	10-50 years
Community Buildings	Straight-line	30-50 years
Recreational equipment	Straight-line	20-30 years
Security	Straight-line	5 years
Halls	Straight-line	30 years
Libraries	Straight-line	30-50 years
Parks and gardens	Straight-line	20-30 years
Sports fields	Straight-line	20-30 years
Other property, plant and equipment		
Other vehicles	Straight-line	5 years
Other items of plant and equipment	Straight-line	7-10 years
Landfill sites	Straight-line	4-30 years
Fire engines	Straight-line	10-20 years
Bins and containers	Straight-line	5 years
Other leased assets		
Motor vehicles	Straight-line	5-20 years
Laboratory equipment	Straight-line	5-7 years
Specialised vehicles	Straight-line	10 years
Heritage assets	N/a	infinite
Cemetery	Straight-line	25-30 years
Stadium	Straight-line	25-30 years
Bridges	Straight-line	25-100 years

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.

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

1.7 Intangible assets

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

Item	Amortisation method	Average useful life
Computer software	Straight-line	3-5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.8 Heritage assets

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

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Accounting Policies

1.8 Heritage assets (continued)

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

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

Impairment

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

Transfers

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

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

Derecognition

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

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

1.9 Financial instruments

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

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

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.

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Accounting Policies

1.9 Financial instruments (continued)

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

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

A financial asset is:

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

A financial 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.

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

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

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

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

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

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

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1.9 Financial instruments (continued)

Classification

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

Class	Category
Receivable from exchange transactions	Financial asset measured at amortised cost
Receivable from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	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
Other financial liabilities - Long term	Financial liability measured at amortised cost
Other financial liabilities - Short term	Financial liability measured at amortised cost
Finance Lease obligation - Long term	Financial liability measured at amortised cost
Finance Lease obligation - Short term	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Payables from non exchange transactions	Financial liability measured at amortised cost

1.10 Statutory receivables

Identification

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

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

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

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

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

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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1.10 Statutory receivables (continued)

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

VAT

VAT is a value-added tax that is charged at the applicable rate on the supply of goods or services supplied by the vendor in the course or furtherance of an enterprise.

The Municipality collects VAT on behalf of the South African

Revenue Services (SARS) based on the taxable supplies it provides in meeting its service delivery objectives.

The Municipality is a VAT vendor registered on the payment basis although the accrual basis of accounting is applied by the Municipality in accordance with the principles of GRAP.

The amount receivable from SARS is calculated as the VAT charged by the Municipality on taxable supplies (output VAT), reduced by the VAT input the Municipality is charged by service providers on expenditure incurred in the furtherance of the Municipality's service delivery mandate.

VAT receivable is measured in accordance with the accounting policy on statutory receivables.

1.11 Leases

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

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

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 interest rate implicit in the lease.

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.

Operating leases - lessor

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

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

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

Operating leases - lessee

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

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1.12 Inventories

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

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

Inventories shall be recognised as an asset if and only if;

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

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

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

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

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

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

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

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

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

Inventories encompass goods held for resale including, for example, merchandise purchased by an entity and held for resale, or land and other property held for sale. Inventories also encompass finished goods produced, or work-in progress being produced, by the entity. Inventories also include materials and supplies awaiting use in the production process and goods purchased or produced by an entity, which are for distribution to other parties through a non-exchange transaction.

1.13 Impairment of cash-generating assets

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

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

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

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.

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

Useful life is either:

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

Identification of a potential impairment

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.

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.

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1.13 Impairment of cash-generating assets (continued)

Recognition and measurement of 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.

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1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

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.

1.14 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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1.14 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.

Identification

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

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

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

Value in use

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

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 21 - Impairment of non-generating assets.

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.

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Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.15 Employee benefits

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

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

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

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

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

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

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Accounting Policies

1.15 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

Post-employment benefits

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

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

Post-employment benefits: Defined contribution plans

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

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

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity 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 contribution in the cost of an asset.

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

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.15 Employee benefits (continued)

Termination benefits

The entity 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 entity 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.

1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

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

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

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

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.16 Provisions and contingencies (continued)

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

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

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

1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.18 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.

Sale of goods

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

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

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Accounting Policies

1.18 Revenue from exchange transactions (continued)

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.

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, Royalties and Dividends Received

Revenue arising from the use by others of municipality 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.

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

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

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

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

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

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

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

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1.19 Revenue from non-exchange transactions (continued)

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.

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.

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1.19 Revenue from non-exchange transactions (continued)

Taxes

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

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

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

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

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

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

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

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

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

Transfers

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

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Accounting Policies

1.20 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset when it is probable that they will result in future economic benefits or service potential to the municipality, and the costs can be measured reliably. The municipality applies this consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the municipality. The amount of borrowing costs eligible for capitalisation is determined as follows:

- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any investment income on the temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the municipality on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when all the following conditions have been met:

- expenditures for the asset have been incurred;
- borrowing costs have been incurred; and
- activities that are necessary to prepare the asset for its intended use or sale are undertaken.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.21 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

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Accounting Policies

1.21 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

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

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

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

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

Recognition

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

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

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

1.22 Prepayments

Prepayments relate to the payment of goods or services in advance.

Prepayments are initially measured at the value of the goods or services paid in advance and subsequently measured using the cost method, which changes the initial measurement to reflect any amounts derecognised as a result of having received the goods or services.

To the extent that goods and services are not received and the amount that was paid in advance becomes payable by the supplier to the Municipality.

1.23 Comparative figures

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

1.24 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.25 Fruitless and wasteful expenditure

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

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Accounting Policies

1.25 Fruitless and wasteful expenditure (continued)

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

1.26 Irregular expenditure

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

1.27 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.

1.28 Budget information

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

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

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

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

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

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

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Accounting Policies

1.29 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.

1.30 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.

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Accounting Policies

1.31 Value added tax (VAT)

The Municipality is a VAT vendor registered on the payment basis although the accrual basis of accounting is applied by the Municipality in accordance with the principles of GRAP.

The amount payable to or receivable from SARS is calculated as the VAT charged by the Municipality on taxable supplies (output VAT), reduced by the VAT input the Municipality is charged by service providers on expenditure incurred in the furtherance of the Municipality's service delivery mandate.

VAT receivable / payable

VAT is levied in accordance with the VAT Act.

VAT receivable is recognised using the accrual basis of accounting to the extent that input VAT exceeds output VAT and VAT payables is recognised when Output VAT exceeds input VAT.

VAT receivable / payable is initially measured at the rate applicable to the transaction amount and subsequently measured using the cost method, which changes the initial measurement to reflect any interest or other charges that may have accrued on the receivable / payable or amounts derecognised.

There is currently no GRAP standard for statutory payables. The Municipality has therefore applied GRAP 19 – provisions, contingent liabilities and contingent assets, since there is an uncertainty regarding the timing of future cash outflows.

Other revenues

The entity accounts for revenues from a service concession arrangement, other than those relating to the grant of a right to the operator model, in accordance with the Standard of GRAP on Revenue from exchange transactions.

1.32 Transitional provisions

1.33 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. Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any. 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 build structures, construct facilities, produce goods, or render services 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 entity 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, an entity 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 .

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, The revenue recognised is based on the amount of expenditure incurred by the municipality. Contract costs are recognised as an expense in the period in which they are incurred.

1.34 Distribution losses

King Sabata Dalindyebo Local Municipality

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Accounting Policies

1.34 Distribution losses (continued)

Electricity Distribution losses:

The purpose is to measure the percentage loss of the potential revenue from Electricity services through the electricity units purchased and generated but not sold as a result of losses incurred through theft (Illegal connections & leakages).

An electrical distribution loss refers to as the amount of electrical energy lost during the process of transmitting and distributing electricity from the source (Eskom Bulk Purchases) to the end users within the municipality, being the difference between electricity input and the number of units sold.

Technical losses:

These losses occur due to the heat dissipation when electricity flows through the system conductors, which consist of either copper or aluminium. (Network infrastructure related losses)

Southern Africa Energy Program (SAEP), allows for 7.6% of Technical losses..

Non - Technical losses:

These losses occur due to theft (Illegal connections, metering tampering and ghost vendors).

The norm is between 7% and 10%.

1.35 Consumer deposits

Consumer deposits are a partial security for a future payment of an account. All consumers are therefore required to pay a deposit equal to three months consumption of electricity services. Deposits are considered a liability as the deposit is only refunded once the service is terminated. No interest is paid on deposit.

The consumer deposit paid on application for the provision of municipal services must be reviewed annually and may be increased upon written notice to consumers. The deposit will be the equivalent of six months' (July -December) charge for all municipal services supplied where one month with the highest consumption will be taken then less the deposit that was already deposited by the consumer, however this may be increased if it is determined that the consumer is a credit risk.

1.36 Unspent conditional grants

This is represented funds unspent at the end of the financial year on grants received from national and provincial government or any other external party that can only be spent for the condition for which it was received. The amount is recognised as a current liability until the conditions of the grant are met or the money is transferred back to the funder.

The following provision are set for the creation and utilisation of this creditor;

Unspent conditional grants are recognised as a liability when the grant money is received.

When the grant conditions are met, an amount equal to the conditions met are transferred to revenue in the statement of financial performance.

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2. New standards and interpretations

2.1 Standards and Interpretations early adopted

The municipality has not chosen to early adopt any standards and interpretations:

2.2 Standards and interpretations issued, but not yet effective

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

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Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 1 : Presentation of Financial Statement (going concern)	TBC	Unlikely there will be a material impact
• GRAP 103: Heritage Assets	TBC	Unlikely there will be a material impact
• GRAP 105 Transfers of Functions between entities under common control	TBC	Unlikely there will be a material impact
• GRAP 106 : Transfers of Functions between entities not under common control	TBC	Unlikely there will be a material impact
• GRAP 107 : Mergers	TBC	Unlikely there will be a material impact
• GRAP 104 (as revised): Financial Instruments	01 April 2025	Unable to reliably estimate the impact

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3. Inventories		
Land - Held for transfers	149 781 527	153 627 527
Consumables Stores	4 012 261	4 549 243
Electrical Equipment	39 318 166	20 324 849
	193 111 954	178 501 619
Inventories recognised as an expense during the year	15 338 411	10 090 995
Refer to Note 46 General expenses (Material and stores)		
The municipality does not have any inventory currently pledged as security.		
Properties transferred to beneficiaries		
Carrying value properties transferred to beneficiaries (Donation / Transfer of assets)	3 846 000	13 741 500
4. Receivables from exchange transactions		
Other receivables from exchange transactions	38 602 339	4 138 265
Consumer debtors - Electricity	216 011 361	162 463 127
Consumer debtors - Refuse	313 526 571	299 591 495
Consumer debtors - Rentals	206 248 627	185 193 951
Provision for impairment	(509 240 901)	(482 518 229)
	265 147 997	168 868 609
Trade and other receivables pledged as security		
The municipality does not have any receivables from exchange transactions that have been pledged as security.		
Fair value of trade and other receivables		
Trade and other receivables	265 147 997	168 868 609
The fair value of trade and other receivables from exchange transactions approximates their carrying amount.		
Trade and other receivables past due but not impaired		
The normal credit term for the municipality is 30 days. At 30 June 2025, receivables of R19 776 270 (2024: R 70 335 232) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	1 987 067	13 069 018
2 months past due	2 478 607	12 758 438
3 months past due	10 444 924	33 514 258
Penalties and Interest	4 865 672	10 993 518
	19 776 270	70 335 232

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

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4. Receivables from exchange transactions (continued)

Trade and other receivables impaired

As of 30 June 2025, trade and other receivables of 508 090 451 (2024:482 518 229) were impaired and provided for.

The ageing of these amounts is as follows:

1 to 3 months	91 177 747	96 783 603
3 to 6 months	30 376 870	12 871 305
Over six months	255 615 482	245 487 402
Penalties and Interest	132 070 803	127 375 919
	509 240 902	482 518 229

Included in the above are receivables from exchange transactions as follows:

In comparison to last financial year, there was a change in system usage that now maps the debtors with credit balances directly to Payables, making it not necessary to disclose it under Receivables.

Electricity - Ageing

Current	62 791 644	48 239 476
31-60 days	36 006 475	50 850 830
61-90 days	22 241 816	12 674 323
91-120 days	38 074 114	12 427 893
>120 days	79 042 122	23 719 891
Penalties and Interest	16 448 825	10 196 237
Add : Debtors with credit balances	-	4 354 477
	254 604 996	162 463 127

Refuse - Ageing

Current	4 119 395	5 033 109
31-60 days	3 474 896	3 099 246
61-90 days	2 814 898	3 101 491
91-120 days	4 604 850	2 843 512
>120 days	187 601 502	197 044 505
Penalties and Interest	96 814 552	86 914 102
Add : Debtors with credit balances	-	1 612 878
	299 430 093	299 648 843

Rentals - Ageing

Current	104 265	778 312
31-60 days	1 676 696	1 524 159
61-90 days	2 233 973	84 038
91-120 days	2 452 378	1 952 901
>120 days	113 792 847	107 828 251
Penalties and Interest	82 956 067	73 343 386
Add : Debtors with credit balances	-	283 465
	203 216 226	185 794 512

Sundry debtors- Ageing

>120 days	-	(90 369)
Add : Debtors with credit balances	-	90 369
	-	-

Sundry

31-60 days	-	4 130 282
>120 days	8 704	7 563

King Sabata Dalindyebo Local Municipality

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4. Receivables from exchange transactions (continued)

Add : Debtors with credit balances

-

420

8 704

4 138 265

Summary of debtors by customer classification as at 30 June 2025

	Consumers	Industrial/ Commercial	Government	Total
Current	14 465 542	31 629 505	20 920 256	67 015 303
31-60 days	13 220 309	8 424 923	19 512 835	41 158 067
61-90 days	11 030 529	3 709 080	12 551 077	27 290 686
91-120 days	7 277 190	7 602 431	14 129 977	29 009 598
>120 days	274 209 079	54 921 431	85 108 715	414 239 225
Penalties and Interest	152 391 948	31 062 710	12 764 787	196 219 445
	472 594 597	137 350 080	164 987 647	774 932 324
Less: provision for impairment	(407 055 360)	(94 428 039)	(7 757 502)	(509 240 901)
	65 539 237	42 922 041	157 230 145	265 691 423

Summary of debtors by customer classification as at 30 June 2024

	Consumers	Industrial/ Commercial	Government	Total
Current	5 089 216	24 353 829	24 607 851	54 050 896
31-60 days	7 374 714	8 351 529	43 878 272	59 604 515
61-90 days	3 267 544	1 634 522	10 957 786	15 859 852
91-120 days	3 671 341	2 308 790	11 244 176	17 224 307
>120 days	263 265 826	46 146 484	19 097 530	328 509 840
Penalties and Interest	137 626 304	25 578 701	6 590 813	169 795 818
	420 294 945	108 373 855	116 376 428	645 045 228
Less: provision for impairment	(403 759 176)	(78 759 053)	-	(482 518 229)
Debtors with credit balances	1 298 748	1 732 726	3 310 136	6 341 610
	17 834 517	31 347 528	119 686 564	168 868 609

Reconciliation of provision for impairment of trade and other receivables

Opening balance	482 518 229	414 952 296
Contribution to impairment	26 722 672	67 565 933
	509 240 901	482 518 229

5. Receivables from non-exchange transactions

Government grants and subsidies	4 950 739	2 574 740
Traffic fines	3 874 100	-
Consumer debtors old balances	9 343	8 674
Consumer debtor - Fire levy	36 447 152	30 661 587
Other receivables from non-exchange revenue	2 602 225	3 022 714
Impairment fines	(3 874 100)	-
Consumer debtors - Rates	406 257 545	395 229 693
Impairment	(304 354 671)	(296 392 739)
	145 912 333	135 104 669

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

Taxes	406 257 545	395 229 693
Consumer debtors old balances	9 343	8 674
Traffic fines	3 874 100	-
Traffic Fines - Impairment	(3 874 100)	-
Rates - Impairment	(274 901 481)	(266 297 649)
	131 365 407	128 940 718

King Sabata Dalindyebo Local Municipality

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Notes to the Annual Financial Statements

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5. Receivables from non-exchange transactions (continued)		
Financial asset receivables included in receivables from non-exchange transactions above		
Grants and other	4 950 739	2 574 740
Fire levy	36 447 152	30 661 587
Fire levy - impairment	(27 485 772)	(27 905 062)
Other receivables from non-exchange revenue	2 602 225	3 022 714
Other receivables from non-exchange revenue - Impairment	(1 967 418)	(2 190 028)
	14 546 926	6 163 951
Total receivables from non-exchange transactions	145 912 333	135 104 669

King Sabata Dalindyebo Local Municipality

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5. Receivables from non-exchange transactions (continued)

Statutory receivables general information

Transaction(s) arising from statute

Included in Receivables from non-exchange transactions are statutory receivables of 2025: R127 557 015 (2024: R128 940 718) 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. Statutory receivables transaction amounts is determined via the municipalities approved rates policy.

Impairment of Statutory receivables are assessed based on indicators that exist at each reporting date. These include but not limited to payment history and the customers overall profile.

Statutory receivables arise from the implementation of the Municipality Property Rates Act through levying of property rates to the properties in KSD and also through implementation of the Administrative Adjudication of Road Traffic Offences Act through issuing of traffic fines to offenders.

Statutory receivables are as summarised in this note above.

The credit quality of receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its credit risk credit control.

No external credit ratings is performed.

Consumers receivables from rates are billed annual and consumers can either choose to pay monthly or settle the annual amount for business, residential households and government. Interest is charged on overdue consumers receivables at prime plus 1%.

No interest is charged on overdue traffic fines debtors.

The municipality enforces its approved credit policy to ensure the recovery of receivables. None of the financial assets that are fully performing have been renegotiated in the last year.

The carrying amount of financial assets recorded in the audited annual financial statements which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained.

An assessment is made for each individual debtor per type (i.e. rates, refuse etc). The assessment is made also on Government debtors using the present value formula for consideration of time value for money. The recovery rate is calculated for each individual debtor. The recovery rate is calculated as follows (Total receipts for the year over/ (opening balance of the debtor plus billing for the year plus any adjustments passed on the debtor's account. The recovery rate percentage is then multiplied to the individual debtor's balance and that balance is what is expected to be recovered from the debtor. The difference between the total individual debtors account and the expected amount to be recovered is the provision for impairment.

The municipality has used a sensitivity analysis technique that measures the estimated change to the fair value of the floating liabilities in respect of an instantaneous increase or decrease of 1% (100 basis points) in market interest rates, from the rate applicable as at 30 June, with other variables remaining constant.

This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation. The municipality is mainly exposed to fluctuations in the JIBAR rates which will affect the finance cost of the floating rate liabilities. The analysis has been performed on the basis of the change occurring at the start of the reporting period and assumes that all other variables, in particular foreign currency rates, remain constant.

Receivables from non-exchange transactions

R136 345 537

R135 104 669

King Sabata Dalindyebo Local Municipality

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5. Receivables from non-exchange transactions (continued)

Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2025, R21 392 890 (2024: R120 786 491) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	2 039 316	2 419 146
2 months past due	1 606 419	1 914 872
3 months past due	13 301 210	87 167 747
Penalties and Interest	4 066 721	29 284 726
	21 013 666	120 786 491

Receivables from non-exchange transactions impaired

As of 30 June 2025, rates and other receivables from non-exchange transactions of R304 354 791 (2024: R296 392 739) were impaired and provided for.

The ageing of these receivables is as follows:

1 to 3 months	17 477 341	20 206 117
3 to 6 months	6 558 635	7 381 297
Over 6 months	186 704 972	178 556 781
Penalties and Interest	93 613 843	90 248 544
	304 354 791	296 392 739

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	296 392 739	301 364 353
Contribution to Impairment loss	7 962 052	(4 971 614)
	304 354 791	296 392 739

6. VAT Accrual Inputs

VAT Inputs	55 223 533	16 255 218
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VAT is accounted for on an accrual basis in the annual financial statements whilst VAT submissions to SARS are accounted for on a cash basis. VAT provision / accrual tracks VAT invoiced but not yet paid to suppliers.

7. Prepayments

Opening balance	2 520 593	1 881 031
(Decrease)/Increase and payment made during the year	(1 257 013)	639 562
	1 263 580	2 520 593

The insurance pre payments is for insurance contract of municipality assets that requires a once off premium in advance for a period of 12 months (01 November 2024 to 31 October 2025) also included are the annual license fees which overlap to the 2025/2026 financial year.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

King Sabata Dalindyebo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2025	2024
8. Cash and cash equivalents (continued)		
Cash on hand	1 050	1 050
Bank balances	20 351 632	8 198 521
Short-term deposits	15 526 999	5 075 703
Dedicated Accounts	31 657 483	43 186 038
	67 537 164	56 461 312

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

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates. Excess cash is invested with reputable financial institutions with good credit ratings

King Sabata Dalindyebo Local Municipality

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8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2025	30 June 2024	30 June 2023	30 June 2025	30 June 2024	30 June 2023
FNB Call Account 62090323636 Electricity	2 134 608	1 319 306	2 979 906	2 134 608	1 319 306	2 979 906
ABSA Call Account 4061496604 Electricity	3 084 207	1 575 552	14 257 917	3 084 207	1 575 552	14 257 917
ABSA Cheques Account 4048218780 General	423 276	594 996	434 804	423 276	594 996	434 804
Self Insurance Reserve (Holland Insurance Company Account Experience)	4 419 661	4 202 297	4 041 789	4 419 661	4 202 297	4 041 789
ABSA Call Account MTAB 9061932550	-	55 957	52 201	-	55 957	52 201
Unclaimed Group Life Insurance ABSA 9057846202	599	1 278	1 797	599	1 278	1 797
ABSA Liquidity Account - 9357408637	283 660	262 634	243 708	283 660	262 634	243 708
Investec Bank Invest 1100456924	367 866	342 117	315 695	367 866	342 117	315 695
ABSA Call Account KSD Election 9260118662	-	150 754	140 494	-	150 754	140 494
ABSA Call Account Rural Planning 9260110101	-	174 679	162 791	-	174 679	162 791
ABSA Call Account Organogram Dev 9260110397	-	10 423	9 938	-	10 423	9 938
ABSA Call Account Mqanduli Middle Income 9095799392	-	67 965	63 402	-	67 965	63 402
FNB Cheque 62471836513 Main	13 727 853	3 746 285	4 449 865	14 007 923	3 746 285	4 737 824
FNB Call 62480366345 DOE Electrification	402 808	298 050	596 435	402 808	298 050	596 435
FNB Call 62480370031 FMG	294 307	266 120	10 000	294 307	266 120	10 000
FNB Call Account 62480368838 MIG Account UCCMIP	708 917	6 632 241	5 738	708 917	6 632 241	5 738
FNB Call Account 62480372863 Library	12 938	12 031	11 132	12 938	12 031	11 132
FNB Call Account 62486520151 Infrastructure Skill Dev	149 465	126 772	1 011 042	149 465	126 772	1 011 042
FNB Call Account 62504444639 DOT Taxi Rank	-	19 596	18 179	-	19 596	18 179
FNB Call Account 62523941070 New Brighton	-	93 073	86 135	-	93 073	86 135
FNB Call Account 62523942408 Kei Rail	2 501 975	1 087 032	19 232 879	2 501 975	1 087 032	19 232 879
FNB Call Account 62559404092 Asset Financing	94 992	267 376	165 972	94 992	267 376	165 873
FNB Call Account 62709676582 (DOT Payover Account)	332 839	766 707	151 138	332 839	766 707	151 138
FNB Cheque Account 62810696487 Micros	364 803	197 459	7 228	364 803	197 459	7 228
FNB Cheque Account 62856124161 Disaster Management Grant	7 981 443	28 985 907	5 369 889	7 981 443	28 985 907	5 369 889
FNB - Money on call Account 62857329364 Demand Side Management	154 536	650 486	4 199 274	154 536	650 486	4 199 274
KwaNtozonke Market 63043868794	98 912	2 364 589	-	98 912	2 364 589	-

King Sabata Dalindyebo Local Municipality

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Notes to the Annual Financial Statements

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8. Cash and cash equivalents (continued)						
FNB Commercial Call Account - 63060514544 - MIG Retention	8 755 390	2 190 410	-	8 755 390	2 190 410	-
STD Bank 48HR Notice - 388655119	10 596 792	-	-	10 596 792	-	-
ABSA Investec Tracker - 9393836981	10 360 220	-	-	10 360 220	-	-
Total	67 252 067	56 462 092	58 019 348	67 532 137	56 462 092	58 307 208

9. Investment property

	2025			2024		
	Cost / Valuation	Accumulated Impairment	Carrying value	Cost / Valuation	Accumulated Impairment	Carrying value
Investment property	381 739 567	-	381 739 567	377 948 467	-	377 948 467

Reconciliation of investment property - 2025

	Opening balance	Transfers	Fair value adjustments	Total
Investment property	377 948 467	11 500	3 779 600	381 739 567

Reconciliation of investment property - 2024

	Opening balance	Transfers	Fair value adjustments	Total
Investment property	359 749 921	201 000	17 997 546	377 948 467

Pledged as security

The municipality does not have any investment property that is pledged as security:

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

The effective date of the revaluations was Monday, 30 June 2025. Revaluations were performed by an independent valuer, Mr Zack van der Merwe, and registered as a professional valuer in terms of the Valuers Act (Registration No 4973/1).

The valuation was based on open market value for existing use.

Amounts recognised in surplus or deficit

Rental revenue from Investment property	5 444 507	6 650 369
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10. 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	285 907 924	-	285 907 924	286 558 281	-	286 558 281
Buildings	380 813 450	(164 250 414)	216 563 036	380 813 451	(149 798 893)	231 014 558
Infrastructure	3 503 697 097	(2 488 922 857)	1 014 974 240	3 380 683 053	(2 452 029 850)	928 653 203
Community	589 490 060	(205 443 390)	384 046 670	439 806 545	(162 077 590)	277 728 955
Other property, plant and equipment	68 760 568	(38 867 617)	29 892 951	61 357 906	(34 448 382)	26 909 524
Work in progress	97 124 552	-	97 124 552	129 211 589	-	129 211 589
Specialised vehicles	180 756 233	(157 798 909)	22 957 324	178 605 616	(147 364 998)	31 240 618
Total	5 106 749 884	(3 055 283 187)	2 051 466 697	4 857 036 441	(2 945 719 713)	1 911 316 728

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10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2025

	Opening balance	Additions	Disposals	Transfers	Transfers out	Change in Landfill Site	Depreciation	Impairment loss	Total
Land	286 558 281	-	(650 357)	-	-	-	-	-	285 907 924
Buildings	231 014 558	-	-	-	-	-	(14 451 522)	-	216 563 036
Infrastructure	928 653 203	4 229 831	(1 356 413)	173 793 946	-	-	(90 043 245)	(303 082)	1 014 974 240
Community	277 728 955	-	-	14 972 048	-	134 711 466	(43 365 799)	-	384 046 670
Other property, plant and equipment	26 909 524	4 287 699	(191 797)	3 601 853	-	-	(4 714 328)	-	29 892 951
Work in progress	129 211 589	166 599 482	-	(192 367 847)	(6 318 652)	-	-	-	97 124 552
Specialised vehicles	31 240 618	2 570 184	(11 790)	-	-	-	(10 841 688)	-	22 957 324
	1 911 316 728	177 687 176	(2 210 357)	-	(6 318 652)	134 711 466	(163 416 582)	(303 082)	2 051 466 697

Reconciliation of property, plant and equipment - 2024

	Opening balance	Additions	Disposals	Transfers	Transfers out	Depreciation	Total
Land	286 558 281	-	-	-	-	-	286 558 281
Buildings	245 466 079	-	-	-	-	(14 451 521)	231 014 558
Infrastructure	1 020 889 011	3 422 840	(256 251)	95 774 374	-	(191 176 771)	928 653 203
Community	245 547 603	-	(1 872 732)	49 000 331	-	(14 946 247)	277 728 955
Other property, plant and equipment	27 051 563	4 709 851	(309 245)	251 472	-	(4 794 117)	26 909 524
Work in progress	135 154 279	162 684 271	-	(145 026 177)	(23 600 784)	-	129 211 589
Specialised vehicles	42 230 715	7 559 501	(1 839 285)	-	-	(16 710 313)	31 240 618
	2 002 897 531	178 376 463	(4 277 513)	-	(23 600 784)	(242 078 969)	1 911 316 728

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10. Property, plant and equipment (continued)

Pledged as security

The municipality has ceded to DBSA all rights, title and interest to residential properties owned by it valued at approximately R12 million in relation to the DBSA loan 13335/201.

Property plant and equipment not found during asset verification to be further investigated.

Computer equipment	200 349	-
Furniture and office equipment	20 644	-
Machinery and equipment	128 153	-
Vehicle	4 063	-
	353 209	-

The property, plant and equipment that could not be found during the asset verification will be further investigated and disposed of after all processes have been followed. The carrying Value of the assets amounts to R353 209.

Revaluations

Land and buildings are re-valued independently every 3-5 years. The last revaluation of assets was June 2022 by an external valuer. These assumptions used were based on current market conditions.

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.

Reconciliation of Work-in-Progress 2025

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	126 973 659	2 237 940	-	129 211 599
Additions/capital expenditure	147 238 526	15 759 077	3 601 854	166 599 457
Transferred out	-	(6 318 654)	-	(6 318 654)
Transferred to completed items	(173 793 947)	(14 972 049)	(3 601 854)	(192 367 850)
	100 418 238	(3 293 686)	-	97 124 552

King Sabata Dalindyebo Local Municipality

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10. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2024

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	97 650 731	37 503 586	-	135 154 317
Additions/capital expenditure	125 097 302	37 335 446	251 484	162 684 232
Transferred out	-	(23 600 734)	-	(23 600 734)
Transferred to completed items	(95 774 374)	(49 000 358)	(251 484)	(145 026 216)
	126 973 659	2 237 940	-	129 211 599

Slow moving / halted projects during the year

Project name	Project Start Date	Project End Date	Reasons for delays	Expenditure to date
Nomagugu construction-Appointed for the construction of Pazima, Gawu, Thwaliphahla access road	2024/03/13	2024/04/13	Due to community protests that were happening.	-
Cycle Civils and Projects- Appointed for the construction of Phola Park, Traco and Slovo access road	2024/03/15	2024/05/15	Due to community protests that were happening.	-
				-

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

Contracted Services	95 633 371	115 721 056
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11. Intangible assets

	2025		2024			
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	5 523 268	(3 682 466)	1 840 802	3 925 914	(3 441 013)	484 901

Reconciliation of intangible assets - 2025

Computer software	Opening balance 484 901	Additions	Disposals	Total
		1 599 290	(243 389)	1 840 802

Reconciliation of intangible assets - 2024

Computer software	Opening balance 588 674	Additions	Amortisation	Total
		459 190	(562 963)	484 901

Pledged as security

The municipality does not have any intangible assets that are pledged as security.

King Sabata Dalindyebo Local Municipality

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12. Heritage assets

	2025		2024	
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation
Recreational parks	3 201 000	-	3 201 000	3 201 000
				Accumulated impairment losses
				-
				Carrying value
				3 201 000

Reconciliation of heritage assets 2025

Recreational parks	Opening balance	Total
	3 201 000	3 201 000

Reconciliation of heritage assets 2024

Recreational parks	Opening balance	Total
	3 201 000	3 201 000

13. Other financial liabilities

At amortised cost
Annuity Loan DBSA
DBSA loan 61001048 is redeemable in 2026 and a borrowing rate is 6.75%

2 135 142	4 270 284
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Non-current liabilities
Designated at amortised cost

-	2 135 142
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Current liabilities
Designated at amortised cost

2 135 142	2 135 142
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King Sabata Dalindyebo Local Municipality

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14. Payables from non exchange transactions

Debtors with credit balances	41 893 994	24 534 416
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15. Payables from exchange transactions

Trade payables	468 389 326	353 103 047
Whirlprops Creditors	5 615 996	6 322 554
Income Received In Advance	2 020 143	3 519 037
Salary payovers	29 414 489	27 031 125
Retentions	43 275 487	33 675 686
Unknown Deposits	4 249 131	4 368 214
Other payables	16 672 978	22 191 958
Deposits received	3 653 534	2 940 089
Accrued expense	4 057 941	12 623 183
Unclaimed Group Life	2 014 240	2 014 240
Vendor deposits	365 000	365 000
	<u>579 728 265</u>	<u>468 154 133</u>

Trade Payables

16. VAT Payable

Statutory Payable - SARS	989 376	5 080 017
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VAT submissions to SARS are accounted for on a cash basis. The VAT due to SARS relates to amounts that were paid to suppliers that had VAT and amounts received from customers for services rendered. As at 30 June 2025 the VAT was due to SARS but not yet paid. All VAT returns have been submitted throughout the year.

17. Consumer deposits

Electricity	38 094 232	32 813 366
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Consumer deposits are a partial security for a future payment of an account. The consumer deposit are paid on application for the provision of municipal services. There are other consumers who did not pay a deposit but provided a bank guarantee for the deposits and the total value of these guarantees is R3 371 789.

King Sabata Dalindyebo Local Municipality

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18. Employee benefit obligations

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

Carrying value

Staff allowance	(4 590 707)	(5 349 177)
Bonus and leave pay accrual	(59 104 376)	(52 142 527)
Long service award	(26 298 000)	(26 863 000)
	(89 993 083)	(84 354 704)

Non-current liabilities

(21 808 000) (20 469 000)

Current liabilities

(68 185 083) (63 885 704)

(89 993 083) (84 354 704)

Provision for long service awards

Service cost increased the liability by R3 044 000. Interest cost over the valuation period resulted in an increase in liability by R2 587 000. Some of the employees attained milestones during the valuation period and this resulted in expected benefits of R6 394 000 which reduced the accrued liability by the same margin.

The average liability has decreased by 2% since the last valuation due to large number of employees reached service milestones over the current period.

These impacts were partially offset by :

- An increase in the average earnings and an increase in the average past service,

The total liability has decreased by 2% (or R 565 000) due to the above, and because there was virtually no change to the number of eligible employees since last valuation.

Provision for Long service award

Opening net liability	26 863 000	25 608 000
Service cost	3 044 000	3 271 000
Interest cost	2 587 000	2 672 000
Actual loss/ (gain)	198 000	(855 000)
Expected benefits vesting	(6 394 000)	(3 833 000)
	26 298 000	26 863 000

Reconciliation of employee benefits - 2025

	Opening balance	Movement during the year	Total
Staff allowances	5 349 177	(758 470)	4 590 707
Bonus and leave pay accrual	52 142 527	6 961 849	59 104 376
Long service awards	26 863 000	(565 000)	26 298 000
Subtotal	84 354 704	5 638 379	89 993 083
	84 354 704	5 638 379	89 993 083

Reconciliation of employee benefits - 2024

	Opening balance	Movement during the year	Total
Staff allowances	6 365 332	(1 016 155)	5 349 177
Bonus and leave pay accrual	54 482 403	(2 339 876)	52 142 527
Long service awards	25 608 000	1 255 000	26 863 000
Subtotal	86 455 735	(2 101 031)	84 354 704
	86 455 735	(2 101 031)	84 354 704

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19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Human Settlement Projects	531 984	367 661
Municipal Disaster Response Grant	-	72 285
2023/2024 Roll over Municipal Disaster Recovery Grant	-	22 601 928
2024/2025 Municipal Disaster Recovery Grant Allocation	4 704 952	-
	5 236 936	23 041 874

Movement during the year

Balance at the beginning of the year	23 041 874	22 265 866
Additions during the year	156 879 293	169 079 358
Income recognition during the year	(174 611 946)	(167 125 962)
Rollover not applied for and taken against equitable share	(72 285)	(1 177 388)
	5 236 936	23 041 874

20. Construction contract

Human Settlement Projects	-	303 805
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The municipality received funding from the Eastern Cape Department of Human Settlement to construct houses

Reconciliation Human Settlement: Construction Contract

	303 805	4 852 597
Receipts	6 168 955	5 948 051
Expenditure	(11 006 228)	(10 496 843)
Reclassified to Receivables: Amount not yet received	4 533 468	-
	-	303 805

- **Method used to determine the contract revenue recognised in the period**

The revenue recognised is based on the amount of expenditure incurred by the municipality for rural houses projects, which is determined by the progress payments claimed.

Construction contracts revenue recognised

Rural housing projects	11 006 228	10 496 843
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- **Method used to determine the stage of completion of contracts in progress:**

The revenue recognised is based on the amount of expenditure incurred by the municipality.

Construction contract costs

Rural housing projects	11 006 228	10 496 843
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At 30 June 2025, retention of contracts in progress are R853 299 (2024: R599 867). The surplus recognised is R0 (2024: R0)

The progress billing received to date is R6 472 756.77 with R0 advances received.

The aggregate cost to date is R11 006 338 (2024: R10 496 843)

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21. Provisions

Reconciliation of provisions - 2025

	Opening Balance	Change in landfill site	Interest	Total
Environmental rehabilitation	36 285 344	134 711 466	1 995 694	172 992 504

Reconciliation of provisions - 2024

	Opening Balance	Interest	Total
Environmental rehabilitation	34 393 691	1 891 653	36 285 344

Environmental rehabilitation provision

The provision relates to the rehabilitation of landfill sites. The operation of a landfill results in an obligation to rehabilitate the landfill and prevent any further pollution after closure thereof in terms of section 28 of the National Environmental Management Act, Act 107 of 1998, sections 3(14) – (16) and 4 (10) of Government Notice 718 of 3 July 2009, and the landfill permits issued under section 20 of the Environment Conservation Act, Act 73 of 1989, or the waste management licenses issued under section 50 of the National Environmental Management: Waste Act, Act 59 of 2008.

The municipality has two landfill sites (Mthatha and Mqanduli landfill site).

The Landfill Rehabilitation Provision was calculated by external valuer Enviromental and Sustainability Solutions CC.

The provision is measured at the present value of the expected future cash outflows required to settle the obligation, discounted at a pre-tax rate reflecting current market assessments of the time value of money and the risks specific to the obligations.

The following were considered in the calculation;

- > Discount rate: 8.1378% (based on the government bond yield curve)
- > Inflation rate / (CPI): 2.8878%
- > Net effective discount rate: 5.25%
- > Expected closure dates: At the current valuation date, 30 June 2025, the expected life of the Mthatha and Mqanduli landfill sites is projected to be +/- 5 and +/- 4 years respectively.
- > Post-closure monitoring period: 30 years

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21. Provisions (continued)

> Estimated rehabilitation costs adjusted for current price levels. Mthatha (R151 657 506), Mqanduli (R21 334 997)

Sensitivity Analysis of calculation for landfill closure provision:

Mthatha Landfil

Provision	Amount	% change
Original	R151 657 506	
DR plus 1%	R142 320 687	-6.1565%
DR minus 1%	R161 839 758	6.7140%
CPI plus 0.5%	R156 870 514	3.4374%
CPI minus 0.5%	R146 627 877	-3.3164%
Lifespan plus 1 year	R144 294 661	-4.8549%
Lifespan minus 1 year	R159 396 052	5.1026%

Mqanduli Landfil

Original	R21 334 997	
DR plus 1%	R20 304 677	-4.8293%
DR minus 1%	R22 472 420	5.3313%
CPI plus 0.5%	R21 915 384	2.7203%
CPI minus 0.5%	R20 778 599	-2.6079%
Lifespan plus 1 year	R20 299 201	-4.8549%
Lifespan minus 1 year	R22 423 647	5.1026%

Change in Accounting Estimate – Landfil Rehabilitation Provision (GRAP 3 Disclosure)

During the current financial year, the municipality changed the estimation methodology used to determine the landfill site rehabilitation provision. In the prior year, the rehabilitation estimates were prepared by Enzokuhle Enterprise applying a discounted cash flow approach that excluded post-closure monitoring costs.

In the current year, the estimates were prepared by Environmental and Sustainability Solutions CC (ESS) using the GLCCM model, which incorporates 30-year post-closure monitoring costs as well as updated inflation and discount rate assumptions. Management considered the revised methodology to provide a more comprehensive and reliable basis for estimating the present value of the municipality's statutory rehabilitation obligations.

This change in estimate resulted in an increase in the landfill rehabilitation provision and the corresponding asset as follows:

Mthatha Landfill Site: R130 296 363

Mqanduli Landfill Site: R4 415 103

Total impact on current year provision: R134 711 466

In accordance with GRAP 3, the change has been accounted for prospectively in the current financial year. The comparative information was not restated, as changes in accounting estimates are applied in the period of the change and future periods only.

The significant movement in the provision balance for the year is therefore primarily attributable to the revised estimation methodology, the inclusion of post-closure monitoring costs, and updated inflation and discount rate assumptions.

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22. Revaluation reserve		
Opening balance	523 461 991	523 461 991
Disposal of Land during the year	(650 357)	-
	522 811 634	523 461 991

The revaluation reserve arises out of revaluation of land and buildings.

King Sabata Dalindyebo Local Municipality

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23. Self-insurance reserve		
The self-insurance reserve is established to cater for declined or disputed insurance claims		
Opening Balance	4 202 322	4 041 814
Movement in self insurance reserve	217 364	160 508
	4 419 686	4 202 322
24. Service charges		
Sale of metered electricity	463 736 111	414 218 553
Sale of prepaid electricity	244 642 303	206 622 182
Refuse removal	68 169 223	65 843 996
	776 547 637	686 684 731
25. Rental of facilities and equipment		
Premises		
Premises	21 352 570	20 174 999
Rental of facilities	761 237	696 145
Rental of Equipment	2 323 920	2 216 102
	24 437 727	23 087 246
26. Licences and permits		
Permits - Vending and Hawking	84 941	67 406
Motor vehicle registration fees	8 971 374	9 029 933
Licence fees - Drivers Licence	4 027 738	3 696 498
Licence fees - Business	1 651 430	1 142 737
Vehicle Examination R/Worthy Fees	445 921	289 976
	15 181 404	14 226 550
The Municipality derives revenue from applications for driver's and learner's licences, issuing of public driver's permits, driver's and learner's licences, issue of roadworthy certificates, business and hawkers licenses.		
27. Other income		
Library fees	34 724	35 043
Insurance Claims	979 826	443 185
Call out revenue	381 066	266 069
Meter testing	2 461 239	2 091 609
Disconnection fees	4 725 478	1 786 219
Building plan approvals	2 590 655	4 356 003
Department of Transport SLA - Roads	1 201	11 157
Fire levy and other fees earned	3 516 211	2 426 309
Sundry income	1 760 801	2 540 323
Payables exchange transactions written off	-	1 144 552
	16 451 201	15 100 469
28. Interest revenue		
Interest in short term investments	7 184 087	4 787 926
Interest charged on receivables from exchange transactions	48 746 426	45 516 146
	55 930 513	50 304 072

King Sabata Dalindyebo Local Municipality

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29. Property rates		
Rates received		
Residential	69 435 503	67 308 880
Commercial	139 364 810	120 634 582
State	104 880 255	105 467 741
Municipal	224 553	245 497
	313 905 121	293 656 700
Valuations		
Residential	8 811 002 802	8 608 902 241
Commercial	6 988 813 861	6 878 313 861
State	4 119 286 831	3 738 681 831
Municipal	1 994 672 250	2 227 553 697
Small holdings and farms	9 160 000	9 160 000
Places of public worship	217 400 000	168 980 000
Vacant Land	347 789 206	391 523 306
Public Benefit Organisation	228 920 000	268 920 000
	22 717 044 950	22 292 034 936

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2021. 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 2026.

30. Recoveries

Recoveries	522 999	4 895 363
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Recoveries relate to refunds from SARS interest & penalties that the municipality received a waiver from.

31. Interest revenue

Interest charged on receivables from non- exchange transactions	35 622 379	34 902 640
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King Sabata Dalindyebo Local Municipality

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32. Government grants & subsidies

Operating grants

Equitable share	460 442 000	434 856 388
Infrastructure Skills Development	6 000 000	5 420 000
Expanded Public Works Program Grant	3 268 000	4 001 000
SETA Grant	1 392 802	1 122 022
MIG	4 671 590	4 630 375
FMG	2 800 001	2 850 000
Electricity Demand Side Management	-	1 000 000
Human Settlement Graduates	74 099	237 654
	478 648 492	454 117 439

Capital grants

Human Settlement	4 857 871	23 294 838
MIG	96 934 410	91 731 625
INEP	7 931 000	-
Small Town Revitalisation	12 427 066	31 922 525
Municipal Disaster Response	-	5 287 715
KwaNtozonke Market	-	9 937 663
2024/2025 Municipal Disaster Recovery Grant Allocation	25 473 048	-
2023/2024 Roll over Municipal Disaster Recovery Grant	22 601 928	17 613 072
	170 225 323	179 787 438
	648 873 815	633 904 877

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received

Various conditional grants received	176 004 749	167 125 964
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Unconditional grants received

Equitable share	460 442 000	434 856 388
Small Town revitalisation	12 427 066	31 922 525
	648 873 815	633 904 877

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services and functions allocated to it.

Municipal Infrastructure Grant (MIG)

Current-year receipts	101 606 000	96 362 000
Conditions met - transferred to revenue	(101 606 000)	(96 362 000)
	-	-

The purpose of the grant is to provide specific capital finance for basic municipal infrastructure for poor households, micro enterprise and social institutions servicing poor communities.

Finance Management Grant (FMG)

Current-year receipts	2 800 000	2 850 000
Conditions met - transferred to revenue	(2 800 000)	(2 850 000)
	-	-

King Sabata Dalindyebo Local Municipality

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32. Government grants & subsidies (continued)

This grant is utilised for Interns' salaries to advance the implementation of the MFMA, training of officials to meet the minimum competency requirements, and for asset management and financial system enhancements and training.

Infrastructure Skills Development Grant (ISDG)

Balance unspent at beginning of year	-	61 047
Current-year receipts	6 000 000	5 420 000
Conditions met - transferred to revenue	(6 000 000)	(5 420 000)
Rollover not applied for and taken against equitable share	-	(61 047)
	-	-

This grant is utilised for Technical Department graduates, training, working tools and salaries to advance the implementation of the MFMA, training of officials to meet the minimum competency requirements.

Human Settlement Projects

Balance unspent at beginning of year	367 661	15 657 559
Current-year receipts	5 022 194	8 004 940
Conditions met - transferred to revenue	(4 857 871)	(23 294 838)
	531 984	367 661

Conditions still to be met - remain liabilities (see note 19).

King Sabata Dalindyebo Local Municipality entered into an agreement with the Eastern Cape Department of Human Settlements for the construction of Mthatha Housing Programme.

All funds received from the Eastern Cape Department Human Settlement Grant are subjected to conditions as stipulated in the contract. No commission is earned by the Municipality on implementation of this programme.

Expanded Public Works Programme

Current-year receipts	3 268 000	4 001 000
Conditions met - transferred to revenue	(3 268 000)	(4 001 000)
	-	-

The Expanded Public Works Programme is a government programme aimed at the alleviation of poverty and unemployment. This programme ensures the full engagement on Labour Intensive Methods of Construction to workers for skills development.

Energy Efficiency and Demand-Side Management

Balance unspent at beginning of year	-	1 116 341
Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	-	(1 000 000)
Rollover not applied for and taken against equitable share	-	(1 116 341)
	-	-

The Energy Efficiency and Demand Side Management grants is for maintenance and emergency work on the overhead and underground electrical network at various location with King Sabata Dalindyebo Local municipality.

Municipal Disaster Response Grant

King Sabata Dalindyebo Local Municipality

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32. Government grants & subsidies (continued)		
Balance unspent at beginning of year	72 285	-
Current-year receipts	-	5 360 000
Conditions met - transferred to revenue equitable share	-	(5 287 715)
Rollover not applied for and taken against equitable share	(72 285)	-
	<u>-</u>	<u>72 285</u>

The Municipal Disaster Response grant is for reconstruction and rehabilitation of damaged municipal infrastructure assets due to 2023 floods.

Integrated National Electrification Programme (INEP)

Current-year receipts	7 931 000	-
Conditions met - transferred to revenue	(7 931 000)	-
	<u>-</u>	<u>-</u>

The purpose of the grant is to implement the Integrated National Electrification Programme by providing capital subsidies to municipalities to address the electrification backlog of all existing and planned residential dwellings and the installation of relevant bulk infrastructure.

Human Settlement Graduates grant

Balance unspent at beginning of year	-	70 920
Current-year receipts	74 099	166 724
Conditions met - transferred to revenue	(74 099)	(237 644)
	<u>-</u>	<u>-</u>

This grant is utilised for Human Settlement department interns salaries to advance the implementation of the Human Settlement projects.

KwaNtozonke Market

Balance unspent at beginning of year	-	(1 713 350)
Current-year receipts	-	11 651 013
Conditions met - transferred to revenue	-	(9 937 663)
	<u>-</u>	<u>-</u>

The purpose of the grant is to support the municipality with the upliftment of KwaNtozonke Market

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

Figures in Rand	2025	2024
32. Government grants & subsidies (continued)		
2023/2024/Rollover Municipal Disaster Recovery Grant		
Balance unspent at beginning of year	22 601 928	-
Current-year receipts	-	40 215 000
Conditions met - transferred to revenue	(22 601 928)	(17 613 072)
	-	22 601 928

The Municipal Disaster Recovery Grant (MDRG) is for reconstruction and rehabilitation of damaged municipal infrastructure due to 2023 floods..

2024/2025 Municipal Disaster Recovery Grant Allocation

Current-year receipts	30 178 000	-
Conditions met - transferred to revenue	(25 473 048)	-
	4 704 952	-

Conditions still to be met - remain liabilities (see note 19).

The Municipal Disaster Recovery grant is for reconstruction and rehabilitation of damaged municipal infrastructure assets.

33. Fines, Penalties and Forfeits

Service Provider Traffic Fines	5 400	18 300
Municipal Traffic Fines	5 203 700	3 581 600
Penalties - Contractors	-	63 765
Penalties Mikros - Traffic Fines	5 060 208	491 620
	10 269 308	4 155 285

All outstanding traffic fines have been impaired due to uncertainty of recovery, these debts by their nature can be contested in the courts or through application of fine relief.

King Sabata Dalindyebo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2025	2024
34. Employee related costs		
Basic	373 383 947	357 723 463
Medical aid - company contributions	34 687 677	31 975 805
UIF	3 001 553	2 985 100
WCA	3 573 957	3 303 203
SDL and other levies	5 663 347	6 118 117
Termination benefits	3 603 795	2 781 086
Leave pay provision charge	8 966 100	(1 007 039)
Pension and provident fund contributions	57 209 245	54 597 987
Travel, motor car, accommodation, subsistence and other allowances	50 585 769	39 886 126
Overtime payments	26 429 117	26 928 381
Long-service awards	7 284 151	7 445 172
Bonuses - Annual Leave	28 086 575	26 738 664
Acting allowances	1 708 113	2 003 173
Danger Allowance	3 574 000	2 101 789
Housing benefits and allowances	27 567 426	26 883 477
	635 324 772	590 464 504
Remuneration of Municipal Manager - Mr N Pakade		
Annual Remuneration	1 003 146	948 670
Contributions to UIF, Medical and Pension Funds	81 374	81 181
Accrual Backpay	-	72 508
Other Allowances	570 776	572 736
	1 655 296	1 675 095
Remuneration of Chief Finance Officer - Mr EF Jiholo		
Annual Remuneration	-	893 230
Bonus	25 693	74 617
Contributions to UIF, Medical and Pension Funds	354	2 125
Accrual Backpay	-	69 587
Other Allowances	-	571 139
Termination benefit	180 320	-
	206 367	1 610 698
The contract of the CFO expired 30th June 2024		
Remuneration of Chief Finance Officer: - Mr X Sikobi		
Annual Remuneration	841 649	-
Contributions to UIF, Medical and Pension Funds	76 174	-
Other Allowances	377 457	-
	1 295 280	-
Mr X Sikobi was appointed on the 1st September 2024.		
Remuneration of Director: Corporate Services - Mr S Nodo		
Annual Remuneration	-	791 220
Bonus	34 138	66 095
Contributions to UIF, Medical and Pension Funds	354	244 959
Accrual Backpay	-	63 752
Other Allowances	-	230 477
Termination benefit	145 917	-
	180 409	1 396 503

King Sabata Dalindyebo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2025	2024
34. Employee related costs (continued)		
Contract of Director Corporate Services expired 30th June 2024		
Remuneration of Director : Corporate Services - Mr CK Magadla		
Annual Remuneration	633 949	-
Bonus	22 641	-
Contributions to UIF, Medical and Pension Funds	1 771	-
Other Allowances	493 037	-
	1 151 398	-
Mr Magadla was appointed on the 1st September 2024.		
Remuneration of Chief Operating Officer - Miss GR Tobia		
Annual Remuneration	1 238 462	1 311 873
Contributions to UIF, Medical and Pension Funds	2 125	2 125
Accrual Backpay	-	63 737
Other Allowances	143 096	17 297
	1 383 683	1 395 032
Remuneration of Director: Infrastructure - Mr U Mnqokoyi		
Annual Remuneration	832 436	1 139 723
Bonus	69 370	-
Contributions to UIF, Medical and Pension Funds	2 125	2 125
Backpay Accrual	-	63 737
Other Allowances	489 797	188 733
	1 393 728	1 394 318
Remuneration of Director : Public Safety - Mr D Kettledas		
Annual Remuneration	-	223 946
Contributions to UIF, Medical and Pension Funds	-	531
Accrual Backpay	-	11 410
Other Allowances	-	103 480
	-	339 367
Mr D Kettledas contract expired on the 03 September 2023.		
Acting Remuneration of Chief Finance Officer - Mr N Zibi		
Acting Allowances	4 061	-
Acted for a Period of 2 Months July and August 2024.		
Remuneration of Director: Rural and Economic Development - Mr M Mandla		
Annual Remuneration	831 701	786 416
Accrual Backpay	-	63 712
Bonus	69 308	-
Contributions to UIF, Medical and Pension Funds	150 127	149 767
Other Allowances	365 210	434 054
	1 416 346	1 433 949

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

Figures in Rand	2025	2024
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34. Employee related costs (continued)

Remuneration of Director: Human Settlements - Ms Z Ndzelu

Annual Remuneration	1 050 411	893 848
Contributions to UIF, Medical and Pension Funds	2 125	1 948
Other Allowances	55 765	48 100
Accrual Backpay	-	47 280
	1 108 301	991 176

Ms Z Ndzelu was appointed as Director Human Settlement from the 15 August 2023.

Remuneration of Director : Community Services - F Guleni

Annual Remuneration	831 877	896 426
Accrual Backpay	63 178	63 178
Other Allowances	474 623	435 303
Contributions to UIF, Medical and Pension Funds	1 594	2 125
Bonus	69 323	-
	1 440 595	1 397 032

Acting Remuneration of Director: Corporate Services - Mr Ndlobeni

Acting Allowance	4 537	-
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Acted for a Period of 2 Months July and August 2024.

Remuneration of Director: Public Safety - Mr F Ndinisa

Annual Remuneration	700 274	169 476
Accrual Backpay	-	8 983
Other Allowances	353 427	6 941
Contributions to UIF, Medical and Pension Funds	2 125	-
Bonus	17 507	-
	1 073 333	185 400

Mr F Ndinisa was appointed as a Director Public Safety as from 1st May 2024.

Remuneration of Head Protection Services - Mr KK Timakwe

Acting	-	10 859
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Mr KK Timakhwe was appointed as Acting Director Public Safety for the following period during the previous financial year.
03 September 2023 - 29 February 2024

Other Information

Included in the Shift allowance is R541 044 relating to 2024 financial year,

Included in overtime is R714 766 relating to the 2024 financial year

Included is the Acting, S&T and camping allowance of R136 820 relating to 2024 financial year.

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

Figures in Rand	2025	2024
35. Remuneration of councillors		
Executive Mayor - GN Nelani	1 084 591	1 040 254
Speaker - Siyo-Sokutu	877 080	842 114
Chief Whip - Mr B Mlanjeni	825 872	792 277
Executive Committees	9 116 169	8 225 351
Other Councillors	20 967 489	20 700 940
	32 871 201	31 600 936
Executive Mayor - Mr Nelani		
Basic Salary	985 013	946 902
Basic Backpay	52 574	43 744
Cellphone Allowance	43 200	45 600
Data Cards	3 804	4 008
	1 084 591	1 040 254
Speaker - Mrs N Siyo-Sokutu		
Basic Salary	788 011	757 521
Basic Backpay	42 065	34 985
Cellphone Allowance	43 200	45 600
Data Cards	3 804	4 008
	877 080	842 114
Chief Whip - Mr B Mlanjeni		
Basic Salary	738 987	710 256
Basic Backpay	39 881	32 413
Cellphone Allowance	43 200	45 600
Data Cards	3 804	4 008
	825 872	792 277
Executive Councillors		
Basic Salary	7 670 458	7 051 078
Basic Backpay	393 854	325 569
Cellphone	615 600	592 600
Datacards	54 207	52 104
Travelling Allowance	382 050	204 000
	9 116 169	8 225 351
Other Councillors		
Basic Salary	15 431 617	15 542 926
Basic Backpay	899 444	781 002
Cellphone	2 389 863	2 592 387
Datacards	210 485	229 078
Travelling Allowance	2 036 079	1 555 548
	20 967 488	20 700 941

In-kind benefits

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

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

Back pay for councillors is inclusive of the gazette that was for 2023/2024 but approved in 2024 /2025 Financial year.

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

Notes to the Annual Financial Statements

Figures in Rand	2025	2024
36. Depreciation and amortisation		
Property, plant and equipment	163 416 582	242 078 969
Intangible assets	241 879	562 963
	163 658 461	242 641 932
37. (Gain)/Loss on disposal of assets		
(Gain)/Loss on disposal of assets	(5 525)	739 845
During the financial year, certain items of property plant equipment were disposed of. The proceeds received from these disposal were lower than the carrying amounts of the respective assets ,resulting in a loss recognised in the Statement of Financial Performance and those higher than the carrying amount have been recognised as gains..		
38. Finance costs		
Borrowings	1 110 983	1 548 327
Interest on overdue accounts trade and other payables	36 578 811	17 216 329
Interest on provision for landfill site	1 995 694	1 891 653
	39 685 488	20 656 309
39. Lease rentals on operating lease		
Premises		
Contractual amounts	864 253	892 845
Motor vehicles		
Contractual amounts	6 056 355	5 379 872
Equipment and other		
Contractual amounts	2 929 394	3 935 967
	9 850 002	10 208 684
40. Debt impairment		
Debt impairment	38 323 042	58 578 602
41. Debtors written off		
Consumer debt written off	32 453 338	21 722 134
The debtor written off relates to an amount that was approved by the Council.		
42. Bulk purchases		
Electricity - Eskom	575 785 991	494 974 097
43. Contracted services		
Outsourced Services		
Information Technology Services	7 294 739	3 367 536
Specialist Services	6 298 543	6 017 161
Other Contractors	122 151 161	139 254 386
	135 744 443	148 639 083

King Sabata Dalindyebo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2025	2024
44. Grants and Subsidies paid		
Other subsidies		
Finance Management Grant	2 790 515	2 218 084
Infrastructure Skills Development Grant	4 566 398	4 854 116
Expanded Public works program	5 740 805	7 167 412
Indigent Subsidy	13 092 855	13 065 860
Electricity Demand Side	-	880 917
Grant Expenditure - Human Settlements	75 796	251 485
	26 266 369	28 437 874
45. Transfer of properties/Donation		
Transfer of properties	10 153 152	37 141 286

The transfer of properties relates to properties that have been transferred to beneficiaries for properties that were under the municipal name and for RDP houses.

King Sabata Dalindyebo Local Municipality

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Figures in Rand	2025	2024
46. General expenses		
Advertising	2 018 156	1 482 205
Audit committee expenses	367 300	318 628
Auditors remuneration	10 995 285	9 604 227
Bank charges	1 737 274	1 010 453
Cleaning	5 590 000	5 867 420
Commission paid	1 426 605	2 462 306
Consulting and professional fees	2 127 788	6 385 071
Community cleaning project	9 371 850	8 694 457
Debtors adjustments	-	3 974 198
Entertainment	635 504	1 008 134
Erven Cleaning Fees	1 900	423 969
Incentive - Prompt Payment	5 218 145	3 806 793
Insurance	5 893 738	7 851 787
Community development and training	5 452 833	6 627 656
Conferences and seminars	1 861 630	2 144 054
Legal fees	25 445 608	14 319 431
Levies	6 454 716	6 363 592
Magazines, books and periodicals	18 910	17 789
Material & Stores	15 338 411	10 090 995
Motor vehicle expenses	1 103 555	1 239 182
Municipal Service Charges	14 895 987	13 322 795
Fuel and oil	10 147 893	11 831 991
Printing and stationery	2 007 899	1 441 390
Promotions and Sponsorships	245 193	-
Royalties and license fees	6 172 280	6 609 454
Recruitment Expenses	191 725	218 755
Strategic Planning	768 676	811 472
Staff welfare	54 536	79 156
Subscriptions and membership fees	39 415	8 567
Telephone and fax	2 371 317	2 710 208
Training and Accommodation	804 865	2 223 805
Tourism Development	364 433	132 794
Subsistence & Travelling	5 600 077	7 434 341
Seed, Bulbs & Plants	2 000	-
Uniforms	7 646 342	3 971 994
Valuation Roll Expenses	940 768	379 820
Other Expense	3 139 570	5 566 854
Council ward committees	10 732 500	10 647 500
Ward based budgeting	1 389 467	4 283 360
Public expense	804 340	1 334 047
	169 378 491	166 700 650
47. Fair value adjustment		
Investment property (Fair value model)	3 779 600	17 997 546
48. Auditors' remuneration		
Fees	10 995 285	9 604 227

King Sabata Dalindyebo Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2025	2024
49. Cash generated from operations		
Surplus (deficit)	40 000 306	(65 615 336)
Adjustments for:		
Depreciation and amortisation	163 658 461	242 641 932
Fair Value adjustments	(3 779 600)	(17 997 544)
Donations/Transfers of properties	10 153 152	37 141 282
Finance costs - interest on landfill site (non-cash item)	1 995 694	1 891 653
Interest income	(36 542 070)	-
Impairment loss	303 082	-
Debt impairment	38 323 042	58 578 602
Bad debts written off	32 453 338	21 722 134
(Gain) / loss on disposal of assets	(655 882)	739 845
Other Non cash item	1 006	-
Recoveries	-	(4 895 353)
Prepaid Electricity not yet received	(38 593 635)	-
Public Contributions and other non cash items	-	(86 605)
Changes in working capital:		
Inventories	(18 456 335)	768 587
Receivables from exchange transactions	(102 952 547)	(66 971 863)
Movement in provision for debt impairment- receivables from exchange transactions	(26 722 672)	(67 565 933)
Receivables from non-exchange transactions	(10 807 664)	(27 079 763)
Movement in provision for debt impairment - Receivables from non-exchange transactions	(7 961 932)	4 971 615
Insurance Prepayments	(533 269)	(639 562)
Payables from non exchange transactions	17 359 578	3 435 598
VAT Accrual Impairment	235 662	-
Reclassification of unspent grants	(2 375 999)	2 574 740
Payables from exchange transactions	121 173 933	55 793 018
VAT Payable	14 597 576	18 264 167
Income received from principal agent	(4 090 641)	(5 080 017)
Unspent conditional grants and receipts	(17 804 938)	(776 008)
Movements in consumer deposits	5 280 866	-
Employee Benefits obligations	5 638 379	(2 101 031)
	179 896 891	189 714 158

50. Budget differences

Material differences between budget and actual amounts

Only variances exceeding 10% are considered material and have been explained below:

Interest from Non exchange and exchange:

This is due to non payment of debtors resulting in late payment interest being charged.

Licence and permits:

This is due to people using the new alternative disc renewal instead of the old traditional way and regular loadshedding resulting to DLTC taking less candidate per session, also budgeted for Mqanduli DLTC however not yet operating.

Gain on disposal of assets

This is due to overbudgeting based on prior year (however there were net effect from disposals that resulted to decrease)

Other income:

This is due to undercollection on sale of meter boxes and parking meter fees.

Fire levy:

This is due to over budgeting on fire levy, as we had anticipated new developments of properties.

Recoveries:

This is due to undercollection on insurance recoveries which was over budgeted.

King Sabata Dalindyebo Local Municipality

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50. Budget differences (continued)

Fines, Penalties and Forfeits:

This is due to overbudgeting on traffic fine.

Construction contract:

The construction contract expense was not budgeted for

Depreciation and amortisation:

This is due to a lot of our assets were approaching their end of useful lives in the prior year and they were identified as very poor during the conditional assessment which resulted in the revision in the prior year being minimal as per the methodology and almost being fully depreciated the assets and some of the assets being impaired.

Finance costs:

This is due to underbudgeting for finance cost and interest charged on overdue accounts that was not budgeted for

Debt impairment:

This is due to increase in debtors as a result of non payment by customers.

Impairment loss:

This is due to overbudgeting on impairment loss based on actual from previous financial year, however most of the roads were already impaired.

Lease rentals on operating lease:

This is due to overbudgeting on hire charges.

Bad debts written off:

This is due to bad debts written off that were not budgeted for indigent households that were written off.

Fair Value Adjustment:

The fair value adjustment was not budgeted for.

Transfer of Properties:

This is due to transfer of properties that was not budgeted for.

Construction contract expense:

The construction contract expense was not budgeted for

51. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	83 204 553	141 868 105
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Total capital commitments

Already contracted for but not provided for	83 204 553	141 868 105
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Total commitments

Total commitments

Authorised capital expenditure	83 204 553	141 868 105
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This committed expenditure relates to property, plant and equipment and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

King Sabata Dalindyebo Local Municipality

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52. Contingencies

There is no reimbursement from any third parties for potential obligations of the municipality.

At year end the municipality had the following contingent liabilities.

For all the legal matters above, there are uncertainties regarding the timing and the estimated future monetary outflows. The matters with estimated amounts are still ongoing.

There is no reimbursement from any third parties for potential obligations of the municipality.

Pending litigations and claims

Disclosure :

- any any contingent liabilities that the venturer has incurred in relation to its interest in joint ventures and its share in each of the contingent liabilities that have been incurred jointly with other ventures.
- its share of the contingent liabilities of the joint ventures themselves for which it is contingently liable, and
- those contingent liabilities that arise because the venturers is contingently liable for the liabilities of the other venturers of a joint venture.

Cases

Claims for damages related to motor vehicles.	1 060 000	1 350 000
Claims for damages arising out of the electrocution, Claims for damages for emotional shock and trauma, funeral expenses, claims for assault, and other claims for damages.	59 832 267	66 976 359
Claims related to unlawful arrests and detentions.	9 662 446	17 527 446
Consolidated container/ caravans matters that were impounded when the Municipality embarked on a clean up campaign.	4 480 000	7 330 000
Labour matters: claims for acting allowance, claims for overtime, labour matters emanating from termination of contracts, alleged unfair dismissal	1 397 201	9 192 004
Land Matters: Land Claims, Eviction proceedings, Demolishing of structures	9 680 000	14 992 000
Tender claims: Contractual: Damages for alleged breach of a contract. Claim for Commission due, owing and payable allegedly flowing from an agreement to reconcile VAT and claim what is due to K.S.D.	1 224 000	3 810 000
Claims made against the municipality: Refusal to access information, Settlement of outstanding Bill , Incorrect Sale of Property, Spoliation applications, searching and seizing, no compliance with the court order.	3 166 667	3 766 667
Other: Appeals, Awaiting outcomes of the court	4 278 495	7 270 000
	94 781 076	132 214 476

Contingent assets

The municipality instructed our attorneys to institute a letter of demand to the Department of Sports Recreation Arts and Culture demanding payment for expenditure incurred from 2017 to date for unfunded mandate - Libraries with the estimated amount 67 million.

The municipality instructed our attorneys to institute a letter of demand to OR Tambo District Municipality demanding payment for expenditure incurred from 2017 to date for unfunded mandate - Disaster and Environmental Health Services with the estimated amount 135 million.

King Sabata Dalindyebo Local Municipality

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53. Related parties

Members of key management

(Please refer to note 34 for details on members of key management)

N Pakade (Municipal Manager)
EF Jiholo (Chief Financial Officer) (Contract expired 30 June 2024)
F Guleni (Director Community Services)
M Mandla (Director RED)
U Mnqokoyi (Director: Technical)Services)
SM Nodo (Director Corporate Services)(Contract expired 30 June 2024)
Z Ndzelu(Director Human Settlement)
F Ndinisa (Director Pubic Safety)
GR Tobia (Chief Operating Officer)
D Kettledas (Director Public Safety) (Contract expired September 2023)
X Sikobi (Chief Financial Officer)
CK Magadla (Director Corporate Services)

Mayoral Committee and Troika

Cllr. GN Nelani (Executive Mayor)
Cllr. N Siyo-Sokutu (Speaker)
Cllr. B. Mlanjeni (Chief Whip)
Cllr. M.S Dudumayo (MMC Rural Economic Development)
Cllr. Z.Nokayi (MMC - Infrastructure) (Deceased)
Cllr. Y.R Gwadiso (MMC - Planning Research and IGR)
Cllr. N Gwebani (MMC - Corporate Services)
Cllr. A Ketse (MMC - Social Services and Special Programmes)
Cllr. N. Sibeko (MMC - Human Settlement and Disaster Management)
Cllr. S. Nyengane (MMC - Comunity Services)
Cllr. M. Marasha (MMC - Public Transport Community Safety and Liaison)
Cllr. Z. Gana (MMC - Finance)
Cllr. U. Daniso (Chairperson - Public Participation and petitions)
Cllr. A. Msuthu (Chairperson - Women's Caucus Committee)
Cllr. B. Mbiyo (Chairperson - Ethics and Memebbers Interest Committee)
Cllr. M. Bango (Chairperson - MPAC) (Resigned)
Cllr.M .Majeke (Chairperson - MPAC)
Cllr. S.E Mngeni
Cllr. N.G Sidlova
Cllr. M.S Ngudle (Deceased)
Cllr. S. Madyum
Cllr. N. Matyebe
Cllr. N. Jubeni
Cllr. S.N Majikija
Cllr. N.Nkathu
Cllr. N.G Tshaya
Cllr. B.Silinga
Cllr. M.Makaba
Cllr. C.S Tokwana
Cllr. S.C Mshunqane
Cllr. S. Ratshalala
Cllr. J. Roeber
Cllr. N. Matubatuba
Cllr. Z.L Siziba

Councillors:

King Sabata Dalindyebo Local Municipality

Annual Financial Statements for the year ended 30 June 2025

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53. Related parties (continued)

Cllr. B.Vuma
Cllr. M.J Msakeni
Cllr. S.Dalasile
Cllr. S. Mdunyelwa
Cllr. S. Mhlaba
Cllr. T.T Mtshakazana
Cllr. T.Badli
Cllr. L.C Molakalaka
Cllr. D.M Teti
Cllr. B.Nxeve
Cllr. T.M Gqiba
Cllr. L. Makhenke
Cllr. N.V Roji
Cllr. B. Ndlobongela
Cllr. F.N Mzimane
Cllr. M.Bunzana
Cllr. R. Knock
Cllr. S. Ngomfela
Cllr. N.S Tukayi
Cllr. L.M. Luwaca
Cllr. M.G Mbutye
Cllr. K.L. Jozana
Cllr. M.F Nokwali
Cllr. S.A Mthayi
Cllr. M.H Ngxekana
Cllr. D. Busakwe
Cllr. A.L Sekese
Cllr. A. Mgquba
Cllr. N. Nyoka
Cllr. N. Matiso
Cllr. G. Ngqola
Cllr. D. Ntlabathi
Cllr. W.C Tukwayo
Cllr. T. Malefane
Cllr. S.W Mrawu
Cllr. M. Mpangele
Cllr. M. Gadudu
Cllr. Z. Madyibi
Cllr. N.Mayi
Chief I.F Siziba
Chief N. Mtirara
Chief K.Jumba
Cllr T. Maboza
Cllr N.M Nqwazi
Cllr S. Mgolombane

54. Unauthorised expenditure

Opening balance as previously reported	75 259 624	233 675 396
Add: Unauthorised expenditure - current	86 492 929	-
Add: Unauthorised expenditure - prior period	-	39 307 623
Less: Amount Written off - current	(132 708 039)	-
Less: Amount witten off - prior period	-	(197 723 395)
Closing balance	29 044 514	75 259 624

Unauthorised expenditure: Budget overspending – per municipal department:

King Sabata Dalindyebo Local Municipality

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54. Unauthorised expenditure (continued)

Operating expenditure	Reasons	Total
Corporate Services	Leave pay	4 136 334
Budget and Treasury Office	Debt write off	55 911 858
Human Settlement	Donations	887 085
Community Services	Depreciation of other assets	18 685 040
Public Safety	Security services and employee costs	6 872 612
		86 492 929

55. Fruitless and wasteful expenditure

Opening balance as previously reported	6 946 566	8 236 033
Correction of prior period error	511 449	-
Opening balance as restated	7 458 015	8 236 033
Add: Fruitless and wasteful expenditure identified - current	36 578 811	17 216 329
Less: Amount written off - current SCM 1217/08/25	(24 993 774)	-
Less: Amount written off - current 2/12/1/8	(6 936 285)	-
Less: Amount written off - current : OCM819/06/24	-	(8 111 677)
Less: Amount written off - OCM780/04/24	-	(58 115)
Less: Amount written off - SCM 880/08/24	-	(55 959)
Less: Amount written off - SCM 880/08/24	-	(10 280 045)
Closing balance	12 106 767	6 946 566

Fruitless and wasteful expenditure was incurred as a result of interest and penalties charged on late payments, the delays in payments due to cashflow challenges currently being experienced by the municipality.

The Fruitless and wasteful expenditure has been referred to the Municipal Council to be written off in accordance with Section 32(2)(b) of the MFMA.

56. Irregular expenditure

Opening balance as previously reported	34 057 439	16 130 131
Correction of prior period error refer to note 63	(6 276 845)	-
Opening balance as restated	27 780 594	16 130 131
Add: Irregular expenditure - prior period	50 531 054	25 404 036
Less: Amount written off - prior period	(27 613 553)	(7 476 728)
Closing balance	50 698 095	34 057 439

Details of irregular expenditure

No Specification Committee	2 209 517	25 404 036
Task Grade - incorrectly implemented for employees salaries	48 321 537	-
	50 531 054	25 404 036

There was no irregular expenditure incurred from awards made in the current year and the irregular expenditure incurred in the current year is as a result of historic contracts which are as follows:

No Specification committee in place (This is recurring and is as a result of the Stedone contract which was awarded in 2010) - R2 209 517.00 together with an amount of R48 321 537.10 that relates to incorrect implementation of Task Grade in the prior years.

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57. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	6 421 035	6 308 255
Amount paid - current year	(6 421 035)	(6 308 255)
	-	-
Distribution losses		
During the 2025 Financial year the Municipality incurred distribution losses relating to electricity of 13.57% (2024: 15.02%).		
Electricity distribution losses in units		
Purchases	256 990 474	241 466 731
Own use	(3 531 496)	(3 441 782)
Pre-paid consumer electricity sold	(82 565 953)	(81 642 426)
Conventional consumer billed	(136 014 735)	(120 116 645)
	34 878 290	36 265 878
Units purchased during the year		
Units purchased during the year	256 990 474	241 466 731
Units sold during year	(222 112 184)	(205 200 853)
	34 878 290	36 265 878
Rand per unit		
	3,25	3,33
Cost in rands		
	113 523 288	120 923 876

Losses are due to the following:

Own consumption

This is the unbilled energy consumed by the municipality in day-to-day operations (areas like offices, depots, workshops) without which the municipality cannot function.

Public lights

KSDM provides its citizens public lighting through streetlights and High mast lights as part of the constitutional mandate of a safe environment.

Traffic signals

The traffic signals are vital for traffic management and pedestrian safety and these dedicated servants need to operate 24/7 and to operate the consume energy.

Defective meters and administrative errors

Some of the meters were installed a long time ago and are thus providing erratic readings. Meter readings and capturing are done manually wherein the possibility of human error is inevitable. Efforts are being made to audit the work and to monitor consumer complaints.

Electricity Theft and illegal connections

There is growing pattern of electricity theft through illegal connections and unauthorised re-connections. This often poses an unsafe environment and increases the load on the network causing power failures.

Meter tempering

Some residents have tempered with their electricity maters resulting to free consumption and or reduced electricity consumption. Others opted to remove the KSDM prescribed meter and install a foreign meter (in KSDM network supply area) which allows the consumer to buy electricity at the reduced rate.

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

Audit fees

Opening balance	43 848	34 101
Current year subscription / fee	12 644 578	11 044 861
Amount paid - current year	(12 620 890)	(11 035 114)
	<u>67 536</u>	<u>43 848</u>

PAYE, SDL and UIF

Opening balance	8 232 929	(7 490 929)
Prior Correction of error refer note 63	-	14 606 867
Opening Balance Restated	<u>8 232 929</u>	<u>7 115 938</u>
Current year subscription / fee	105 062 032	95 388 424
Amount paid - current year	(104 191 645)	(94 271 433)
	<u>9 103 316</u>	<u>8 232 929</u>

Pension and Medical Aid Deductions

Opening balance	10 420 747	9 569 895
Current year subscription / fee	129 405 336	120 993 636
Amount paid - current year	(128 956 156)	(120 142 784)
	<u>10 869 927</u>	<u>10 420 747</u>

Councillors' arrear consumer accounts

Councillors had arrear accounts outstanding for more than 90 days as at 30 June 2025 and MFMA S124(1)(b) requires them to be disclosed:

	Outstanding more than 90 days	Total
30 June 2025		
Cllr C Jozana	<u>14 857</u>	<u>14 857</u>
30 June 2024		
Cllr C Jozana	<u>16 960</u>	<u>16 960</u>

58. Deviation from supply chain management regulations

The expenses incurred below are instances of Supply Chain Management deviations reported to the council.

Incidents

Impractical to follow SCM Processes/Three quotations not obtained	4 087 661	2 530 293
sole supplier	442 941	2 464 805
	<u>4 530 602</u>	<u>4 995 098</u>

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59. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out under policies approved by the accounting officer and council. The municipality identifies, evaluates and hedges financial risks in close co-operation with the municipality's various departments. The accounting officer and council provides written principles for overall risk management, as well as written policies covering specific areas.

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.

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

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances equal their carrying balances as the effect of discounting is not significant.

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

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

At 30 June 2025	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	579 728 264	-	-	-
Other financial Liabilities	2 135 142	-	-	-
At 30 June 2024	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	468 154 118	-	-	-
Other financial Liabilities	2 135 142	2 135 142	-	-

Liquidity risk is mainly concentrated on the Trade and other payables balance.

The municipality does not have any collateral and /or credit enhancements that aid in the mitigation of the liquidity risks.

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59. Risk management (continued)

Credit risk

Credit risk is the risk of financial loss to the municipality if customers or counterparties to financial instruments fail to meet their contractual obligations, and arises principally from the municipality's investments, loans, receivables, and cash and cash equivalents.

The municipality limits its exposure to credit risk by investing with only reputable financial institutions that have a sound credit rating, and limits exposure to any one counter-party in accordance with Council's approved investment policy.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis and assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of receivables. Sales to retail customers are settled in cash or using major credit cards. The municipality further allows customers to negotiate settlement of long outstanding debts.

The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position.

The carrying amount of financial assets recorded in the audited annual financial statements which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained.

An assessment is made for each individual debtor per type (i.e. rates, refuse etc). The assessment is made also on Government debtors using the PV formula for consideration of time value for money.

The recovery rate is calculated for each individual debtor. The recovery rate is calculated as follows (Total receipts for the year over/ (opening balance of the debtor plus billing for the year plus any adjustments passed on the debtor's account.

The recovery rate percentage is then multiplied to the individual debtor's balance and that balance is what is expected to be recovered from the debtor. The difference between the total individual debtors account and the expected amount to be recovered is the provision for impairment.

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

Financial instrument		2025	2024
Cash and cash equivalents	Note 9	67 537 164	56 461 312
Receivable from exchange transactions	Note 4	265 147 997	168 868 609
Receivable from non exchange transactions	Note 5	2 602 225	3 022 714
VAT Accrual Inputs	Note 6	55 223 533	16 255 218

The municipality does not hold any collateral in relation to the financial assets above.

Market risk

Market risk is the risk of change in market prices, such as foreign exchange rates and interest rates, affecting the municipality's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on the risk.

Interest rate sensitivity analysis

The municipality has used a sensitivity analysis technique that measures the estimated change to the fair value of the floating liabilities in respect of an instantaneous increase or decrease of 1% (100 basis points) in market interest rates, from the rate applicable as at 30 June, with other variables remaining constant.

This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation. The municipality is mainly exposed to fluctuations in the JIBAR rates which will affect the finance cost of the floating rate liabilities.

The analysis has been performed on the basis of the change occurring at the start of the reporting period and assumes that all other variables, in particular foreign currency rates, remain constant.

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59. Risk management (continued)

Interest rate risk

The municipality's interest rate risk arises from the long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

60. Financial instruments disclosure

Categories of financial instruments

2025

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	265 147 997	265 147 997
Cash and cash equivalents	67 537 164	67 537 164
VAT Accrual Inputs	55 223 533	55 223 533
	387 908 694	387 908 694

Financial liabilities

	At amortised cost	Total
Other financial liabilities	2 135 142	2 135 142
Trade and other payables from exchange transactions	544 697 779	544 697 779
VAT Accrual Outputs	34 249 123	34 249 123
	581 082 044	581 082 044

2024

Financial assets

	At amortised cost	Total
Receivables from exchange trasactions	168 868 609	168 868 609
Cash and cash equivalents	56 461 312	56 461 312
VAT Accrual Inputs	16 255 219	16 255 219
	241 585 140	241 585 140

Financial liabilities

	At amortised cost	Total
Other financial liabilities	4 270 284	4 270 284
Trade and other payables from exchange transactions	434 800 454	434 800 454
VAT Accrual Outputs	9 536 783	9 536 783
	448 607 521	448 607 521

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61. Events after the reporting date

The municipality is not aware of any events after 30 June 2025 that may have an impact on the financial statements or require disclosure except for the following matters:

The Eskom repayment arrangement that was signed on the 24th of July 2025 and has been disclosed in the AFS as a non-adjusting event. The Municipality entered into a repayment plan agreement with Eskom for an amount of R313 692 023 payable with 12 equal instalments of R26 141 002 ending on 15th July 2029 and two instalment payments are due within the 2025/26 financial year and the other ten instalments are due in 2026/27, 2027/28 and 2028/29 financial years.

The municipality had a Forensic Investigation that was conducted relating to Task Grade that was incorrectly implemented, and resulted to Irregular Expenditure of R48Million and R30Million, in relation to allowances and deductions that were paid, that could not be fully investigated due to unavailability of information. The report was tabled to Council on the 30th September 2025.

62. Accounting by principals and agents

The municipality is a party to a principal-agent arrangement.

Details of the arrangement are as follows:

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

The municipality is the principal or agent. Refer to note 1.21 for significant judgements applied in making this assessment.

Entity as agent

Revenue recognised

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the principal is R 8 971 374 (2024:R 9 029 933).

Additional information

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

Reconciliation of the carrying amount of payables

Category 1 - Motor Vehicle Licences and Registrations

Opening balance	4 431 383	4 894 809
Amounts received on behalf of the principal	54 566 166	54 115 073
Commission received	(8 971 374)	(9 029 933)
Amounts transferred to the principal	(47 045 903)	(45 548 566)
	2 980 272	4 431 383

Entity as principal (Electricity Vendor system)

Municipality acting as the Principal

The municipality utilises the services of an agent for provision of supply,delivery ,installation and commissioning of an online hosted prepayment electricity vending and revenue management system for the King Sabata Dalindyebo (being the principal).These are specialists which are used due to the capacitation of the municipality and it is more cost effective which provide customers easy access to prepaid electricity.

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62. Accounting by principals and agents (continued)

There is a binding arrangement with Contour Technology (Pty) Ltd getting a 3.5% whereby they act on behalf of the municipality and all terms and conditions are as per the contract and no changes occurred during the period, The total revenue amount collected by the Agents on behalf of the municipality is R156 485 530 (2024:R171 980 013).

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63. Prior period errors

Statement of financial position - 2024

	As previously reported	Correction of error	Restated
Receivables from exchange transactions	169 526 518	(657 909)	168 868 609
VAT Accrual - Inputs	6 454 988	9 800 261	16 255 249
Payables from exchange transactions	(449 134 115)	(19 020 018)	(468 154 133)
VAT Accrual - Outputs	-	(9 536 827)	(9 536 827)
Accumulated surplus	(1 654 038 539)	19 414 493	(1 634 624 077)
	(1 927 191 148)		-(1 927 191 179)

Statement of financial performance - 2024

	As previously reported	Correction of error	Restated
Other Income	23 075 589	(7 975 120)	15 100 469
Fire Levy	-	7 975 120	7 975 120
Property rates	302 522 840	(8 866 140)	293 656 700
Construction contract	-	10 496 845	10 496 845
Interest Revenue	50 361 419	(57 347)	50 304 072
Contracted services	(31 313 214)	(117 325 869)	(148 639 083)
General expenses	(264 482 329)	97 781 679	(166 700 650)
Construction contract expenditure	-	(10 496 845)	(10 496 845)
Grants and Subsidies paid	(53 568 921)	25 131 047	(28 437 874)
	26 595 384	(3 336 630)	23 258 754

Reconciliation of Accumulated Surplus Restated

	2023
Receivables from exchange transactions (refuse and Rental on Debtors)	(600 561)
VAT Accrual	88 862
Payables from Exchange Transactions (Legal Fees & PAYE)	(15 566 133)
Total Restated for 01 July 2023	(16 077 832)

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STATEMENT OF FINANCIAL POSITION

Receivables from exchange transactions

The changes is due to the adjustment made to the billing of Caltex and Rio Ridge on Rental incorrectly billed.

VAT Accrual - Inputs

The VAT accruals is related to supplier VAT legal fees which was not recognised from the previous, together with the reclassification of the VAT accrual split between VAT Accrual - Input and VAT Accrual - Outputs.

Payables from exchange transactions

The changes or adjustments made are due to legal fees that were received and paid for in the current year relating to previous years and PAYE correction.

VAT Accrual - Outputs

The changes is due to the reclassification of the VAT accrual split between VAT Accrual - Input and VAT Accrual - Outputs, together with the adjustment made to the billing of Caltex and Rio Ridge on Rental incorrectly billed.

Accumulated Surplus

The change in the accumulated surplus is due to all of the changes or movement in prior year as listed above in the Statement of Financial Position and the below changes in the Statement of Financial Performance.

STATEMENT OF FINANCIAL PERFORMANCE

Other Income

The changes is due to the reclassification of Fire levy that were incorrectly classified under Revenue from Exchnage instead of being classified under Revenue from Non exchnage transactions.

Interest Revenue

The changes is due to the adjustment made to the billing of Caltex and Rio Ridge on Rental incorrectly billed.

Fire Levy

The changes is due to the reclassification of Fire levy that were incorrectly classified under Revenue from Exchnage instead of being classified under Revenue from Non exchnage transactions.

Property Rates:

The change is due to the reclassification of Revenue forgone from Grants and subsidies paid.

Grants and subsidies paid:

The change is due to the reclassification of Revenue forgone from Grants and subsidies paid to Property rates and Ward based budgeting and Ward committee and Public expenses to General expenses..

Contracted Services:

The changes is due the reallocation of Repairs and Maintenance to contracted services.

General expenses

The changes or adjustments made are due to legal fees that were received and paid for in the current year relating to previous years and also the reallocation of Repairs and maintenance to contracted services.

Irregualr expenditure

Opening balance disclosed as per 2024 AFS

- 34 057 439

Adjustment made

- (6 276 845)

- 27 780 594

Fruitless and wasteful expenditure

Opening balance disclosed as per 2024 AFS

- 6 946 566

Adjustment made

- 511 449

- 7 458 015

- -

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Irregular expenditure opening balance has been restated due to irregular expenditure that was written off in October 2022 for the 2021/2022 financial year however it was never included in the final adjusted financial statements.

Fruitless and wasteful expenditure opening balance has been restated due to interest that was never recorded but incurred.

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64. Going concern

Total assets amounting to R3.1 billion exceed total liabilities balance amounting to R965 million by R2 billion the municipality is in a net asset situation. Accumulated surplus for the period is R1.6 billion.

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.

A material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern due to the following principal conditions:

1. Critical Liquidity Shortfall: Cash coverage is less than one month, with an adverse liquidity ratio, indicating an inability to meet short-term obligations.
2. Default on Essential Services: Persistent late and non-payments to critical bulk service providers (Eskom and O.R Tambo) threaten the continuity of core services.
3. Severe Revenue Collection Failure: Net debtor days of 293 days and poor credit control enforcement reflect a fundamental breakdown in revenue collection, severely constraining cash inflows.
4. Loss of Budgetary Control: A history of material budget overspending, evidenced by a significant increase in unauthorized expenditure, demonstrates a deterioration in financial management.
5. Systemic Non-Payment to Creditors: A creditor payment period of 104 days shows a systemic failure to meet supplier obligations as they fall due.

A material uncertainty exists:

There may cast significant doubt on the municipality's ability to continue as a going concern due to the following principal conditions: Critical Liquidity Shortfall: Cash coverage is less than one month, with an adverse liquidity ratio, indicating an inability to meet short-term obligations.

Default on Essential Services: Persistent late and non-payments to critical bulk service providers (Eskom and Water Boards) threaten the continuity of core services.

A creditor payment period of 104 days shows a systemic failure to meet supplier obligations as they fall

The municipality's statement of financial performance indicates a surplus of R40 000 306 and a deficit of R(65 615 336) in the previous year.

Based on the above thus, there is a material uncertainty related to events or conditions that may cast significant doubt on the municipality's ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business.

Failing to make payments as and when due (suppliers, employees and councillors, statutory obligation) due to financial reasons (MFMA section 138(a) and section 140(2)(c)) defaulting on financial obligations or risk of default due to financial reasons (MFMA section 138(b) and section 140(2)(a) and (b)) current ratio is 0.95 which is less than the norm, revenue generation and collection and funding constraints (MFMA section 140(2) & (3)) cash flow constraints and uncontrolled budget spend deterioration in assets used to generate revenue and or cash flow inability to substantively fulfil its mandate and continue operations.

Measures taken to warrant going concern

The gross debtors for receivables from non-exchange transactions are sitting at R443 million while gross debtors for receivables from exchange transactions are sitting at R775 million and in total combined are sitting at R1.22 billion which is almost two times the total current liabilities. The municipality has appointed a debt collector to assist in collecting these debtors and as such this will assist the municipality in future to reduce the current liabilities.

The total assets exceed the total liabilities by R2.2 billion, the municipality is in a net asset situation. In addition, the current liabilities that require settlement amounts to R770 million. The municipality will receive equitable share amounting to R 464 million and R107 million for MIG in terms of the DORA allocation as gazetted in the 2025/26 financial year Division of Revenue Act. Municipality has collected 102% on billed income and 105% on billed electricity.

The municipality will increase efforts to recover the substantial arrears via the tools provided within the municipality's credit policy. The municipality has other potential revenue collection strategies such as allocation of current receipting against historical debt, limited amnesty.

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64. Going concern (continued)

Collections of other service debts via the prepaid system, door to door campaign and debt collection agents. A debt collector was appointed to collect revenue on difficult to collect debtors. The municipality has further procured appointment of three additional disconnection companies, this will assist in reducing R1 billion debtors' balance. Furthermore, the municipality have appointed two meter inspection service providers to curb the high illegal connections, and also appointed service providers for provision of revenue base strategies, processes and funding prioritisation on a risk basis on entity core functions.

The municipality has a number of contingencies listed within the Annual Financial Statements. A contingent liability is a potential liability that may occur, depending on the outcome of an uncertain future event. Should a contingent liability translate into an actual liability, the municipality will, if required revisit its current budgets to ensure that the liability is settled as required.

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65. Segment information

General information

Identification of segments

A material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern due to the following principal conditions:

Critical Liquidity Shortfall: Cash coverage is less than one month, with an adverse liquidity ratio, indicating an inability to meet short-term obligations.

Default on Essential Services: Persistent late and non-payments to critical bulk service providers (Eskom and Water Boards) threaten the continuity of core services.

Severe Revenue Collection Failure: Net debtor days of 293 days and poor credit control enforcement reflect a fundamental breakdown in revenue collection, severely constraining cash inflows.

Loss of Budgetary Control: A history of material budget overspending, evidenced by a significant increase in unauthorized expenditure, demonstrates a deterioration in financial management.

Systemic Non-Payment to Creditors: A creditor payment period of 104 days shows a systemic failure to meet supplier obligations as they fall. The municipality is organised and reports to management on the basis of five major service areas: electricity, refuse services, fines and penalties, licence services and rental of facilities and equipment. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were separated for reporting purposes and not aggregated. Other functions are non-segment as they are support services.

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

Segments identified above have not been 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

Segment 1
Segment 2
Segment 3
Segment 4
Segment 5

Goods and/or services

Electrical Services
Refuse (Solid Waste)
Fines and penalties
Licenses services
Rentals of facilities and equipment

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65. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2025

	Electrical Services	Refuse (Solid Waste)	Non-Segment	Rental of facilities and equipment	Fines and penalties	Community services - Licence and permits services	Total
Revenue							
Revenue from exchange transactions	708 378 414	68 169 223	97 332 624	10 973 912	175 015	15 181 404	900 210 592
Revenue from non-exchanges transactions	-	-	1 006 544 866	-	10 269 308	-	1 016 814 174
Total segment revenue	708 378 414	68 169 223	1 103 877 490	10 973 912	10 444 323	15 181 404	1 917 024 766
Entity's revenue							1 917 024 766
Expenditure							
Employee related costs	37 259 472	26 808 535	521 898 297	9 606 336	21 700 342	18 051 790	635 324 772
Councillors remuneration	-	-	32 871 201	-	-	-	32 871 201
Bulk purchases	575 785 991	-	-	-	-	-	575 785 991
Contracted Services	-	-	135 744 443	-	-	-	135 744 443
Depreciation and Amortisation	-	43 365 798	120 292 663	-	-	-	163 658 461
Finance costs	-	1 995 694	37 689 794	-	-	-	39 685 488
Lease rentals on operating lease	864 253	-	8 985 749	-	-	-	9 850 002
Grants and Subsidies paid	-	-	26 266 369	-	-	-	26 266 369
Debt impairment	-	-	38 323 042	-	-	-	38 323 042
General expenses	54 222 576	12 258 843	100 841 774	92 647	904 978	1 057 673	169 378 491
Impairment loss	-	-	303 082	-	-	-	303 082
Transfer of properties	6 318 652	-	3 834 500	-	-	-	10 153 152
Debtors written off	-	-	32 453 338	-	-	-	32 453 338
Construction contract expenses	-	-	11 006 228	-	-	-	11 006 228
Total segment expenditure	674 450 944	84 428 870	1 070 510 480	9 698 983	22 605 320	19 109 463	1 880 804 060
Fair Value Adjustment	-	-	3 779 600	-	-	-	3 779 600
Total segmental surplus/(deficit)	33 927 470	(16 259 647)	37 146 610	1 274 929	(12 160 997)	(3 928 059)	40 000 306

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	Electrical Services	Refuse (Solid Waste)	Non-Segment	Rental of facilities and equipment	Fines and penalties	Community services - Licence and permits services	Total
65. Segment information (continued)							-
Assets							
Current asset	-	-	728 920 305	-	-	-	728 920 305
Non-current assets	463 945 966	- 1 974 302 100	-	-	-	-	2 438 248 066
Total segment assets	463 945 966	- 2 703 222 405	-	-	-	-	3 167 168 371
Total assets as per Statement of financial Position							3 167 168 371
Liabilities							
Current liabilities	-	-	(770 512 150)	-	-	-	(770 512 150)
Non-current liabilities	-	-	(194 800 504)	-	-	-	(194 800 504)
Total segment liabilities	-	-	(965 312 654)	-	-	-	(965 312 654)
Total liabilities as per Statement of financial Position							(965 312 654)
2024							
Revenue							
Revenue from exchange transactions	620 840 735	65 843 997	88 712 204	10 276 426	-	14 226 551	799 899 913
Revenue from non-exchange transactions	-	-	976 099 338	-	3 390 647	-	979 489 985
Total segment revenue	620 840 735	65 843 997	1 064 811 542	10 276 426	3 390 647	14 226 551	1 779 389 898
Entity's revenue							1 779 389 898

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65. Segment information (continued)

Expenditure

Employee related Cost	34 769 502	27 277 755	485 309 527	10 212 830	18 467 791	14 427 099	590 464 504
Councillors remuneration	-	-	31 600 935	-	-	-	31 600 935
Bulk purchases	494 974 097	-	-	-	-	-	494 974 097
Contracted Services	-	-	148 639 083	-	-	-	148 639 083
Depreciation and Amortisation	-	14 946 247	227 695 685	-	-	-	242 641 932
Finance costs	-	1 891 653	18 764 656	-	-	-	20 656 309
Debt Impairment	-	-	58 578 602	-	-	-	58 578 602
Lease rentals on operating lease	745 002	4 410	9 459 272	-	-	-	10 208 684
General expenses	69 598 747	10 750 747	85 140 491	55 974	530 598	624 093	166 700 650
Grants and Subsidies paid	-	-	28 437 874	-	-	-	28 437 874
Loss on disposal	-	-	739 845	-	-	-	739 845
Transfer of properties	-	-	37 141 286	-	-	-	37 141 286
Debtors write off	-	-	21 722 134	-	-	-	21 722 134
Construction contract expenses	-	-	10 496 845	-	-	-	10 496 845
Total segment expenditure	600 087 348	54 870 812	1 163 726 235	10 268 804	18 998 389	15 051 192	1 863 002 780
Fair value adjustment	-	-	(17 997 546)	-	-	-	(17 997 546)
Total segmental surplus/(deficit)	20 753 387	10 973 185	(80 917 147)	7 622	(15 607 742)	(824 641)	(65 615 336)

Assets

Current assets	-	-	557 712 020	-	-	-	557 712 020
Non-current assets	463 952 600	-	1 828 998 496	-	-	-	2 292 951 096
Total segment assets	463 952 600	-	2 386 710 516	-	-	-	2 850 663 116
Total assets as per Statement of financial Position							2 850 663 116

Liabilities

Current Liabilities	-	-	(629 485 240)	-	-	-	(629 485 240)
Non-current Liabilities	-	-	(58 889 486)	-	-	-	(58 889 486)
Total segment liabilities	-	-	(688 374 726)	-	-	-	(688 374 726)
Total liabilities as per Statement of financial Position							(688 374 726)

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65. Segment information (continued)

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

Measurement of Specific segment information

The accounting policies of the respective segments are same as those in the summary of significant accounting policies and therefore the basis of measurement between the segments reporting and the annual financial statements are consistent.

The municipality has no changes to the structure of its internal organisation in a manner that causes the composition of its reportable segments to change from the prior year.

Basis of accounting for transactions between reportable segments

The non-segment included above is the reconciling between the totals of segment revenues, reported segment surplus or deficit, segment assets segment liabilities to the corresponding municipality amounts as per the statement of financial performance and statement of financial position.

Geographic Segment Reporting

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

66. VAT Accrual - Outputs

VAT Accrual - Outputs
VAT Impairment

67 442 574	42 494 572
(33 193 451)	(32 957 789)
34 249 123	9 536 783

VAT Accrual - Outputs

34 249 123	9 536 783
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VAT output accrual relates to VAT on Service charges receivable that have not yet been received at year end and the VAT on provision for impairment on those receivables.

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