

Umzimvubu Local Municipality
Annual Financial Statements
for the year ended 30 June, 2024

AUDITOR GENERAL
SOUTH AFRICA

30 NOV 2024

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

General Information

Legal form of entity	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act No. 117 of 1998) read with section 155 (1) of the Constitution of the Republic of South Africa (Act No. 108 of 1996)
Nature of business and principal activities	Provision of services to the community as prescribed by the Local Government: Municipal Structures Act (Act No. 117 of 1998) and the Constitution of the Republic of South Africa (Act No. 108 of 1996) as amended.
Executive Mayor	Cllr Z. Ndevu
Speaker	Cllr N. Nomnganga (Appointed on 1 August 2023) Cllr M. H. Ngqasa (Resigned on 31 July 2023)
Chief Whip	Cllr N.F Ngonyolo
MPAC Chairperson	Cllr M. Mataka
Councillors	W1 - Cllr M. Kiviet W2 - Cllr N.Hlanekela W3 - Cllr A. Mkhonto W4 - Cllr L. Mapala-Bera W5 - Cllr T. Ngxabi W6 - Cllr V. P. Gogela W7 - Cllr N. Xolo W8 - Cllr D. Ndema W9 - Cllr A. Jakuja W10 - Cllr W. Z. Nqakwana W11 - Cllr N. Gogela W12 - Cllr P. P. Magujulwa W13 - Cllr C. L. Noqhakala W14 - Cllr S. Mathebe W15 - Cllr M. G. Ngwaqa W16 - Cllr B. R. Khehle-Salukazana W17 - Cllr N. Jwara W18 - Cllr T. E. Sincindi W19 - Cllr V. B. Sobhayi W20 - Cllr X. Lungu W21 - Cllr N. Nomnganga W22 - Cllr M. Kakaza W23 - Cllr Z. G. Mampemvini W24 - Cllr M. B. Jonase W25 - Cllr N. V Giwu W26 - Cllr M. Tuku W27 Cllr S. Faye W28 Cllr L. Mveku Pr Cllr C.N Mnyayiza Pr Cllr N. Sonyabashi Pr Cllr N. B. Mphekeqana-Mdingi Pr Cllr N. Mantshongo Pr Cllr F. F. Sontsi Pr Cllr M. Hlanekela Pr Cllr P. Thingathinga Pr Cllr M. Sonyabashe Pr Cllr T. Ntsalaze Pr Cllr B. T. Ngqasa

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

General Information

	Pr Cllr D. N Ntshobane Pr Cllr C. M. Madyibi Pr Cllr N. P Nogada Pr Cllr N. V. Nomnganga Pr Cllr M. Magobane Pr Cllr L. Gwentshu Pr Cllr F. Ntwakumba Pr Cllr A.N Garane Pr Cllr N. Nkula Pr Cllr X. Jona Pr Cllr T. Sokhanyile Pr Cllr I. Nodali Pr Cllr G.N Mdzinwa
Capacity and grading of local authority	Grade 3
Accounting Officer	Mr G.P.T Nota
Chief Financial Officer	
	Khaluwe Mehlomakhulu
Registered office	Dabula Street Sophia Kwa-Bhaca 5090
Bankers	First National Bank
Auditors	Auditor-General of South Africa Registered Auditors
Attorneys	Conjwa & Associates Fikile Ntayiya & Associates Madlanga & Partners Inc. Mdledle Incorporation
Legislation governing the municipality's operations	Local Government: Municipal Finance Management Act (Act No. 56 of 2003) Local Government: Municipal Systems Act (Act No. 32 of 2000) Local Government: Municipal Structures Act (Act No. 117 of 1998) Constitution of the Republic of South Africa (Act No. 108 of 1996) Municipal Property Rates Act (Act No. 6 2004) Division of Revenue Act (Act No. 1 of 2007)

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

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Abbreviations used:

GRAP	Generally Recognised Accounting Practice
PAYE	Pay As You Earn
UIF	Unemployment Insurance Fund
SALGA	South African Local Government Association
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
CRR	Capital Replacement Reserve
eNaTiS	The National Traffic Information System
ULM	Umzimvubu Local Municipality

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

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 judgments and estimates.

I as the accounting officer acknowledges that I am 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, there sets of 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.

I am 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.

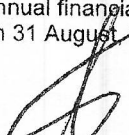
I have reviewed the municipality's cash flow forecast for the year to 30 June, 2025 and, in the light of this review and the current financial position, I am satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

I am primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

I certify that the salaries, allowances and benefits of councillors, as disclosed in note 40 - Councillors remuneration to these annual financial statements, are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act (Act No. 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with the Act.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the on 31 August 2024 and were signed on its behalf by:


Accounting Officer (G.P.T Nota)
KwaBhaca

31 August, 2024

AUDITOR GENERAL
SOUTH AFRICA

30 NOV 2024

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Statement of Financial Position as at 30 June, 2024

	Note(s)	2024	2023 Restated*
Assets			
Current Assets			
Inventories	3	3,899,018	2,869,217
Operating lease receivable	4	21,212,139	18,473,694
Trade and other receivables from exchange transactions	5	2,406,457	579,642
Receivables from Non-exchange transactions	6	13,609,130	18,672,789
VAT input accrual	7	7,043,506	4,269,939
VAT receivable	8	3,070,593	6,842,160
Prepayments	9	1,177,812	-
Other receivables	10	1,141,659	3,707,395
Cash and cash equivalents	11	66,304,389	79,105,291
		119,864,703	134,520,127
Non-Current Assets			
Investment property	12	26,105,040	25,298,064
Property, plant and equipment	13	1,045,761,957	981,911,315
Intangible assets	14	295,922	595,476
Heritage assets	15	17,719	17,719
		1,072,180,638	1,007,822,574
Non-Current Assets		1,072,180,638	1,007,822,574
Current Assets		119,864,703	134,520,127
Total Assets		1,192,045,341	1,142,342,701
Liabilities			
Current Liabilities			
Trade and other payables from exchange transactions	16	63,001,799	45,337,598
Consumer deposits	17	175,872	161,703
Trade and other Payables from Non-Exchange Transactions	18	18,096,100	6,998,808
Employee benefits obligations	19	13,156,778	13,629,988
VAT output accrual	20	10,676,863	10,507,769
		105,107,412	76,635,866
Non-Current Liabilities			
Employee benefits obligations	19	2,477,000	2,193,000
Provisions	21	9,177,152	6,337,829
		11,654,152	8,530,829
Non-Current Liabilities		11,654,152	8,530,829
Current Liabilities		105,107,412	76,635,866
Total Liabilities		116,761,564	85,166,695
Assets		1,192,045,341	1,142,342,701
Liabilities		(116,761,564)	(85,166,695)
Net Assets		1,075,283,777	1,057,176,006
Reserves			
Capital replacement reserve	22	36,752,837	34,013,373
Accumulated surplus	23	1,038,530,940	1,023,162,633
Total Net Assets		1,075,283,777	1,057,176,006

* See Note 66

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Statement of Financial Performance

	Note(s)	2024	2023 Restated*
Revenue			
Revenue from exchange transactions			
Sale of goods and other services	25	249,332	1,037,069
Service charges	26	1,296,952	1,262,598
Construction contracts	27	13,782,609	2,046,041
Rental of facilities and equipment	28	5,139,629	6,356,833
Interest received	29	10,726,289	9,828,365
Agency services	30	3,179,372	2,065,526
Licences and permits		1,921,051	1,759,925
Operational Revenue	31	179,148	211,411
Insurance proceeds	31	-	170,417
Fair value adjustments	32	712,476	3,481,623
Actuarial gains	50	4,190	-
Total revenue from exchange transactions		37,191,048	28,219,808
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	33	46,521,963	46,982,299
Licences and Permits		158,059	198,383
Interest received	34	2,114,413	2,018,706
Transfer revenue			
Government grants and subsidies	35	361,908,236	356,166,988
Award received	36	-	500,000
Fines, Penalties and Forfeits	37	3,642,390	3,314,779
Donations	38	12,647,449	-
Total revenue from non-exchange transactions		426,992,510	409,181,155
		37,191,048	28,219,808
		426,992,510	409,181,155
Total revenue	24	464,183,558	437,400,963
Expenditure			
Employee related costs	39	(93,007,309)	(92,022,601)
Remuneration of councillors	40	(23,558,458)	(22,742,842)
Construction contract	27	(13,782,609)	(1,747,642)
Depreciation and amortisation	41	(77,989,258)	(71,892,706)
Impairment losses	42	(41,985,260)	(10,766,513)
Finance costs	43	(1,113,935)	(1,037,984)
Lease rentals on operating lease	44	(845,018)	(307,582)
Inventory consumed	46	(6,515,786)	(10,016,062)
Contracted services	47	(93,093,832)	(92,395,566)
Transfers and Subsidies	48	(18,700,091)	(25,007,154)
Loss on disposal of assets and liabilities	49	(629,052)	(850,738)
Actuarial losses	50	-	(19,000)
Unclaimable VAT input		(2,347,536)	-
Operating costs	51	(72,508,964)	(77,009,202)
Total expenditure		(446,077,108)	(405,815,592)
		-	-
Total revenue		464,183,558	437,400,963
Total expenditure		(446,077,108)	(405,815,592)

* See Note 66

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Statement of Financial Performance

	Note(s)	2024	2023 Restated*
Operating surplus/deficit		-	-
Surplus before taxation		18,106,450	31,585,371
Taxation		-	-
Surplus for the year		18,106,450	31,585,371

* See Note 66

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Statement of Changes in Net Assets

	Capital Replacement Reserve	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	31,842,322	1,005,928,822	1,037,771,144
Adjustments			
Prior year adjustments 66	-	(12,180,509)	(12,180,509)
Balance at 1 July, 2022 as restated*	31,842,322	993,748,313	1,025,590,635
Changes in net assets			
Surplus (Deficit) for the year	-	31,585,371	31,585,371
Transfers to/(from) reserves	2,171,051	(2,171,051)	-
Total changes	2,171,051	29,414,320	31,585,371
Opening balance as previously reported	34,013,373	1,035,562,063	1,069,575,436
Adjustments			
Prior year adjustments 66	-	(12,398,109)	(12,398,109)
Balance as at 01 July 2023	34,013,373	1,023,163,954	1,057,177,327
Changes in net assets			
Surplus (Deficit) for the year	-	18,106,450	18,106,450
Transfers to/(from) reserves	2,739,464	(2,739,464)	-
Total changes	2,739,464	15,366,986	18,106,450
Balance at 30 June, 2024	36,752,837	1,038,530,940	1,075,283,777
Note	22		

* See Note 66

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Cash Flow Statement

	Note(s)	2024	2023 Restated*
Cash flows from operating activities			
Receipts			
Rates and service charges		45,070,717	45,470,800
Sale of goods and services		27,900,464	9,099,513
Grants		369,782,311	356,569,872
Interest income		10,726,289	9,241,276
		453,479,781	420,381,461
Payments			
Employee costs and remuneration of councillors		(117,033,787)	(112,959,707)
Suppliers		(186,731,587)	(195,160,693)
Finance costs		(450,665)	(1,037,984)
Other cash item	68	-	(60)
		(304,216,039)	(309,158,444)
Total receipts		453,479,781	420,381,461
Total payments		(304,216,039)	(309,158,444)
Net cash flows from operating activities	53	149,263,742	111,223,017
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(162,465,928)	(135,025,838)
Proceeds from sale of property, plant and equipment	13&49	495,784	-
Purchase of investment property	12	(94,500)	-
Net cash flows from investing activities		(162,064,644)	(135,025,838)
Net increase/(decrease) in cash and cash equivalents		(12,800,902)	(23,802,821)
Cash and cash equivalents at the beginning of the year		79,105,291	102,908,112
Cash and cash equivalents at the end of the year	11	66,304,389	79,105,291

The accounting policies on pages 14 to 44 and the notes on pages 44 to 106 form an integral part of the annual financial statements.

* See Note 66

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

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
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Sale of goods	484,710	16,280,750	16,765,460	14,031,941	(2,733,519)	N1
Service charges	1,297,920	102,080	1,400,000	1,296,952	(103,048)	
Rental of facilities and equipment	3,203,400	1,493,850	4,697,250	5,139,629	442,379	N2
Interest received (trading)	12,400,000	270,000	12,670,000	10,726,289	(1,943,711)	N3
Agency services	2,900,000	-	2,900,000	3,179,372	279,372	
Licences and permits	1,765,000	-	1,765,000	1,921,051	156,051	
Operational revenue	-	6,387,015	6,387,015	179,148	(6,207,867)	N4
Total revenue from exchange transactions	22,051,030	24,533,695	46,584,725	36,474,382	(10,110,343)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	46,802,736	1,000,000	47,802,736	46,521,963	(1,280,773)	
Licences and Permits (Non-exchange)	-	100,000	100,000	158,059	58,059	N5
Surcharges and Taxes	28,000,000	-	28,000,000	-	(28,000,000)	N6
Interest, Dividends and Rent on Land	-	-	-	2,114,413	2,114,413	N7
Transfer revenue						
Government grants & subsidies	493,374,686	58,830,800	552,205,486	361,908,236	(190,297,250)	N8
Fines, Penalties and Forfeits	7,205,600	(3,800,000)	3,405,600	3,642,390	236,790	N9
Donations received	-	-	-	12,647,449	12,647,449	N10
Total revenue from non-exchange transactions	575,383,022	56,130,800	631,513,822	426,992,510	(204,521,312)	
'Total revenue from exchange transactions'	22,051,030	24,533,695	46,584,725	36,474,382	(10,110,343)	
'Total revenue from non-exchange transactions'	575,383,022	56,130,800	631,513,822	426,992,510	(204,521,312)	
Total revenue	597,434,052	80,664,495	678,098,547	463,466,892	(214,631,655)	
Expenditure						
Personnel	(90,059,321)	(1,904,084)	(91,963,405)	(91,909,321)	54,084	
Remuneration of councillors	(23,323,036)	(252,709)	(23,575,745)	(23,558,458)	17,287	
Depreciation and amortisation	(80,695,944)	(10,574,665)	(91,270,609)	(77,989,258)	13,281,351	N11
Impairment loss/ Reversal of impairments	-	(60,000,000)	(60,000,000)	(41,985,260)	18,014,740	N12
Finance costs	-	-	-	(1,113,935)	(1,113,935)	N13
Bad debts written off	(2,280,000)	(6,500,000)	(8,780,000)	-	8,780,000	N14
Inventory consumed	(9,015,510)	237,174	(8,778,336)	(6,515,786)	2,262,550	N16
Contracted Services	(133,490,293)	11,514,315	(121,975,978)	(106,876,441)	15,099,537	N16
Transfers and Subsidies	(25,659,549)	5,662,500	(19,997,049)	(18,700,091)	1,296,958	
General Expenses	(88,093,270)	(9,177,446)	(97,270,716)	(74,451,970)	22,818,746	N17
Total expenditure	(452,616,923)	(70,994,915)	(523,611,838)	(443,100,520)	80,511,318	

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

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
	597,434,052	80,664,495	678,098,547	463,466,892	(214,631,655)	
	(452,616,923)	(70,994,915)	(523,611,838)	(443,100,520)	80,511,318	
Operating surplus	144,817,129	9,669,580	154,486,709	20,366,372	(134,120,337)	
Loss on disposal of assets and liabilities	-	-	-	(629,052)	(629,052)	N18
Fair value adjustments	-	-	-	712,476	712,476	N23
Actuarial gains/losses	-	-	-	4,190	4,190	N19
VAT unclaimable	-	-	-	(2,347,536)	(2,347,536)	
	-	-	-	(2,259,922)	(2,259,922)	
	144,817,129	9,669,580	154,486,709	20,366,372	(134,120,337)	
	-	-	-	(2,259,922)	(2,259,922)	
Surplus before taxation	144,817,129	9,669,580	154,486,709	18,106,450	(136,380,259)	
Deficit before taxation	144,817,129	9,669,580	154,486,709	18,106,450	(136,380,259)	
Taxation	-	-	-	-	-	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	144,817,129	9,669,580	154,486,709	18,106,450	(136,380,259)	

Statement of Financial Position

Assets

Current Assets

Inventories	758,240	203,174	961,414	3,899,018	2,937,604	N20
Operating lease asset	-	-	-	21,212,139	21,212,139	N21
Trade and other receivables from exchange transactions	(9,050,600)	40,718,600	31,668,000	2,406,457	(29,261,543)	N22
Receivables from Non-exchange transactions	32,869,783	(3,381,380)	29,488,403	13,609,130	(15,879,273)	N23
VAT receivable	-	-	-	7,043,506	7,043,506	N24
Other receivables	-	-	-	1,177,812	1,177,812	N25
Other receivables	1,765,000	100,000	1,865,000	1,141,659	(723,341)	N26
VAT receivable	-	-	-	3,070,593	3,070,593	N24
Cash and cash equivalents	130,558,287	(70,350,882)	60,207,405	66,304,389	6,096,984	N27
	156,900,710	(32,710,488)	124,190,222	119,864,703	(4,325,519)	

Non-Current Assets

Investment property	18,071,000	-	18,071,000	26,105,040	8,034,040	N28
Property, plant and equipment	1,086,469,953	1,895,000	1,088,364,953	1,045,761,957	(42,602,996)	
Intangible assets	3,370,004	(500,000)	2,870,004	295,922	(2,574,082)	N29
Heritage assets	-	-	-	17,719	17,719	N30
	1,107,910,957	1,395,000	1,109,305,957	1,072,180,638	(37,125,319)	
Non-Current Assets	1,107,910,957	1,395,000	1,109,305,957	1,072,180,638	(37,125,319)	
Current Assets	156,900,710	(32,710,488)	124,190,222	119,864,703	(4,325,519)	
Total Assets	1,264,811,667	(31,315,488)	1,233,496,179	1,192,045,341	(41,450,838)	

Liabilities

Current Liabilities

Trade and other payables from exchange transactions	139,937,458	(115,473,742)	24,463,716	63,001,794	38,538,078	N31
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Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

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
Taxes and transfers payable (non-exchange)	(58,742,778)	94,088,000	35,345,222	-	(35,345,222)	N32
VAT payable	14,292,785	(14,292,785)	-	-	-	N24
Consumer deposits	132,471	-	132,471	175,872	43,401	N33
Trade and other Payables from Non-Exchange Transactions	-	-	-	18,096,100	18,096,100	N32
Employee benefits obligations	10,558,625	-	10,558,625	13,156,778	2,598,153	N35
VAT output accrual	-	-	-	10,676,863	10,676,863	
	106,178,561	(35,678,527)	70,500,034	105,107,407	34,607,373	
Non-Current Liabilities						
Employee benefits obligations	-	-	-	2,477,000	2,477,000	N36
Provisions	6,884,000	-	6,884,000	9,177,152	2,293,152	N37
	6,884,000	-	6,884,000	11,654,152	4,770,152	
	106,178,561	(35,678,527)	70,500,034	105,107,407	34,607,373	
	6,884,000	-	6,884,000	11,654,152	4,770,152	
	-	-	-	-	-	
Total Liabilities	113,062,561	(35,678,527)	77,384,034	116,761,559	39,377,525	
Assets	1,264,811,667	(31,315,488)	1,233,496,179	1,192,045,341	(41,450,838)	
Liabilities	(113,062,561)	35,678,527	(77,384,034)	(116,761,559)	(39,377,525)	
Net Assets	1,151,749,106	4,363,039	1,156,112,145	1,075,283,782	(80,828,363)	

Net Assets

Net Assets Attributable to Owners of Controlling Entity

Reserves

Capital replacement reserve	35,596,816	-	35,596,816	36,752,835	1,156,019	
Accumulated surplus	1,116,152,290	4,363,039	1,120,515,329	1,038,530,942	(81,984,387)	
Total Net Assets	1,151,749,106	4,363,039	1,156,112,145	1,075,283,777	(80,828,368)	

Cash Flow Statement

Cash flows from operating activities

Receipts

Property rates	46,803,000	(2,834,000)	43,969,000	43,688,251	(280,749)	
Services charges	1,298,000	-	1,298,000	1,382,466	84,466	
Other revenue	43,559,000	4,611,000	48,170,000	27,900,459	(20,269,541)	N38
Interest income	10,200,000	270,000	10,470,000	10,726,289	256,289	
Transfers and subsidies - operational	281,594,000	56,877,000	338,471,000	282,621,310	(55,849,690)	N39
Transfers and subsidies - capital	-	229,584,000	229,584,000	87,161,000	(142,423,000)	N40
	383,454,000	288,508,000	671,962,000	453,479,775	(218,482,225)	

Payments

Suppliers and employees	(228,305,000)	(115,567,000)	(343,872,000)	(285,065,277)	58,806,723	N41
Finance costs	-	-	-	(450,665)	(450,665)	N42
Transfers and Grants	-	(19,690,000)	(19,690,000)	(18,700,091)	989,909	
	(228,305,000)	(135,257,000)	(363,562,000)	(304,216,033)	59,345,967	

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

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
Total receipts	383,454,000	288,508,000	671,962,000	453,479,775	(218,482,225)	
Total payments	(228,305,000)	(135,257,000)	(363,562,000)	(304,216,033)	59,345,967	
Net cash flows from operating activities	155,149,000	153,251,000	308,400,000	149,263,742	(159,136,258)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(314,687,000)	(71,969,000)	(386,656,000)	(162,465,928)	224,190,072	N43
Proceeds from sale of property, plant and equipment	-	-	-	495,784	495,784	N44
Purchase of investment property	-	-	-	(94,500)	(94,500)	N45
Net cash flows from investing activities	(314,687,000)	(71,969,000)	(386,656,000)	(162,064,644)	224,591,356	
Net increase/(decrease) in cash and cash equivalents	(159,538,000)	81,282,000	(78,256,000)	(12,800,902)	65,455,098	
Cash and cash equivalents at the beginning of the year	138,464,000	-	138,464,000	79,105,291	(59,358,709)	
Cash and cash equivalents at the end of the year	(21,074,000)	81,282,000	60,208,000	66,304,389	6,096,389	

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Accounting Policies

	Note(s)	2024	2023
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1. Material accounting policies

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

1.1 Basis of preparations

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

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

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

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

These accounting policies are consistent with the previous period.

The municipality implemented the Municipal Standard Chart of Accounts(mSCOA) during the year ended 30 June 2024 as required in terms of the Municipal Regulations on Standard Chart of Accounts, announced by Government Gazette No 37577 of 22 April 2014, in section 168 of the Local Government: Municipal Finance Management, Act (Act 56 of 2003) and through directives and guidelines from National Treasury.

1.2 Presentation currency

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

1.3 Going concern assumption

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

1.4 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.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Accounting Policies

1.5 Investment property

Investment Property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures Investment Property at cost including transaction costs once it meets the definition of Investment Property. However, where an Investment Property was acquired through a non transaction (i.e. where it acquired the Investment Property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed Investment Property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish Investment Properties from owner occupied property or property held for resale:

- Land held for long term capital appreciation rather than for short-term sale in the ordinary course of operations;Based on management's judgement, the following criteria have been applied to distinguish Investment Properties from owner occupied property or property held for resale:
- Land held for a currently undetermined future use (If the municipality has not determined that it will use the land as owner occupied property or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation);
- A building owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases on a commercial basis (this will include the property portfolio rented out on a commercial basis on behalf of the municipality);
- Property that is being constructed or developed for future use as investment property.

The rent earned does not have to be at a commercial basis or market related for the property to be classified as investment property.

Equipment or Inventory as appropriate:

- Property held for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner occupied property, including (among other things) property held for future use as owner occupied property, property held for future development and subsequent use as owner occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner occupied property;
- Property that is leased to another entity under a finance lease;
- Property held to provide goods and services and also generates cash inflows; and
- Property held for strategic purposes which would be accounted for in accordance with the Standard of GRAP on Property, Plant and Equipment.

Subsequent Measurement

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 entity 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 (which ever 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. Valuations are to be carried out with sufficient frequency owing to the prevailing

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Accounting Policies

1.5 Investment property (continued)

circumstances, that may warrant a revaluation. i.e erection of a new block of flats next to the rental flat.

Once the entity 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.

Derecognition

The gain or loss arising from the derecognition of an item of Investment Property is included in Surplus or Deficit when the item is derecognised. Gains are not classified as Revenue.

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

Item	Depreciation method	Average useful life
Buildings	Straight-line	8 -50
Mobile offices	Straight-line	5 - 10
Electrical infrastructure	Straight-line	3 - 80
Infrastructure assets (Roads, pavements, bridges and stormwater)	Straight-line	3 - 80
Landfill Sites	Straight-line	10 - 55
Community assets	Straight-line	5 - 80
Transport assets	Straight-line	4 - 20
Computer equipment	Straight-line	3 - 10
Furniture, Fittings & Office Equipment	Straight-line	3 - 15
Bins & Containers	Straight-line	10 - 15
Specialised Plant and Equipment	Straight-line	2 - 15
Library Books	Straight-line	5 - 20
Leased equipment	Straight-line	Lease period

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 13).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 13).

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Accounting Policies

1.7 Intangible assets

An intangible asset is an identifiable, non-monetary asset without physical substance. The municipality has classified computer software and municipal website

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	1-4
Website		Indefinite

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Accounting Policies

1.7 Value Added Tax (continued)

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

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.

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

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

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

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

Heritage Assets are not depreciated owing to uncertainty regarding to their estimated useful lives. The municipality assess at each reporting date if there is an indication of impairment.

Heritage assets are non-cash generating assets.

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.

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

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

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

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

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

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

Subsequently all Heritage Assets are measured at cost, less accumulated impairment losses.

Recognition

A heritage asset that qualifies for recognition as an asset shall be measured at its cost. Where a heritage asset is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

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.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Accounting Policies

1.8 Heritage assets (continued)

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.

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.

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

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

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

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

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

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

Accounting Policies

1.9 Financial instruments (continued)

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.9 Financial instruments (continued)

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

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

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

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

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

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

Impairment of Financial Assets

Financial Assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial Assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised through the use of an allowance account.

A provision for impairment of Accounts Receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made whereby the recoverability of accounts receivable is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the Financial Asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Future cash flows in a group of Financial Assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable for the following reasons:

- It is management's judgement that the accounts are not "lost events" in terms of GRAP 104.58.
- State Departments and Entities have to pay their creditors within 30 days in terms of the MFMA.
- Interest is charged on all outstanding balances at a rate of 10% per annum.
- There is an urge from National Treasury that State Departments and Entities should start paying their outstanding debt.

The carrying amount of the Financial Asset is reduced by the impairment loss directly for all Financial Assets carried at Amortised Cost with the exception of Consumer Debtors, where the carrying amount is reduced through the use of an allowance account. When a Consumer Debtor is considered uncollectible, it is written off against the allowance account.

Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in Surplus or Deficit.

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Accounting Policies

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
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost

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
Consumer deposits	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 Inventories

Inventories comprise stationery for distribution during the ordinary course of business and land held for sale. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

An impairment of assets measured per the revaluation method reduces the Revaluation Surplus for that asset. The decrease shall be debited directly to a Revaluation Surplus to the extent of any credit balance existing in the Revaluation Surplus in respect of that asset.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

An impairment loss is recognised for cash generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase and would be credited directly against the Revaluation Surplus to the extent of any previous impairments recognised against said reserve in respect of that asset.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

1.12 Impairment of non-cash-generating assets

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

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

Umzimvubu Local Municipality

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Accounting Policies

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

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

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

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

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

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

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

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

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.

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired.

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

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

An impairment loss is recognised for non-cash generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

The municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in Surplus or Deficit.

1.13 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.

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Accounting Policies

1.13 Provisions and contingencies (continued)

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 deficits.

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

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 57.

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.

Accounting Policies

1.13 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money.

The impact of the periodic unwinding of the discount is recognised in Surplus or Deficit as a finance cost as it occurs.

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Accounting Policies

1.13 Provisions and contingencies (continued)

Decommissioning, restoration and similar liability

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to Surplus or Deficit.

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 deficit.

1.14 Revenue from exchange transactions

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Accounting Policies

1.14 Revenue from exchange transactions (continued)

Revenue is derived from a variety of sources which include revenue from trading activities and other services provided.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

Service Charges

Service Charges are levied in terms of approved tariffs.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to all properties that have improvements. Tariffs are determined per category of property usage, and are levied based on the extent of each property.

Rentals Received

Revenue from the rental of facilities and equipment is recognised on a Straight-line Basis over the term of the lease agreement.

Finance Income

Interest earned on investments is recognised in Surplus or Deficit on the Time-proportionate Basis that takes into account the effective yield on the investment.

Tariff Charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

Revenue from Agency Services

Revenue for agency services is recognised on a daily basis once the revenue collected on behalf of agents has been quantified. The revenue recognised is in terms of the agency agreement.

Construction Revenue

Construction contract revenue is recognised as revenue by reference to the stage of completion of the contract activity at the reporting date.

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

1.15 Revenue from non-exchange transactions

Rates and taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a Time-proportionate Basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

Rates and taxes are statutory revenue.

Fines

Fines constitute both spot fines and summonses.

Revenue for fines is recognised when the fine is issued at the full amount of the receivable. The municipality uses estimates to determine the amount of revenue that the municipality is entitled to collect that is subject to further legal proceedings.

Traffic fines are statutory revenue.

Public Contributions

Donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use.

Assets acquired from non-exchange transactions are measured at fair value in accordance with GRAP 23.

Government Grants and Receipts

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist. Conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in Surplus or Deficit in the period in which they become receivable.

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

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

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

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Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

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

Unpaid conditional grants are assets in terms of the Framework that are separately reflected on the statement of financial position. The asset is recognised when the Municipality has an enforceable right to receive the grant or if it is virtually certain that it will be received based on that grant conditions have been met. They represent unpaid government grants, subsidies and contributions from the public.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest, it is recognised as interest earned in Surplus or Deficit.

Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

The recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No 56 of 2003) and is recognised as revenue when the recovery thereof from the responsible councillors or officials became virtually certain in a financial period subsequent to the period when the actual unauthorised, irregular, fruitless and wasteful expenditure was incurred.

1.16 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:

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Accounting Policies

1.16 Significant judgements and sources of estimation uncertainty (continued)

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

Impairment of Financial Assets

Accounting Policy 1.11 on Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

Accounting Policy 1.11 on Impairment of Financial Assets describes the process followed to determine the value at which Financial Assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that impairment of Financial Assets recorded during the year is appropriate.

Impairment of Trade Receivables

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

Useful lives of Property, Plant and Equipment, Intangible Assets and Investment Property

As described in Accounting Policies 1.6, 1.7 and 1.5 the municipality depreciates its Property, Plant & Equipment and amortises its 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.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses. In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses. In particular, the calculation of the recoverable service amount for PPE and Intangible Assets and the Net Realisable Value for Inventories involves significant judgment by management. Estimated impairments during the year to Plant and Equipment, and Intangible Assets are disclosed in Notes 13 and 14 to the Annual Financial Statements, if applicable.

Defined Benefit Plan Liabilities

As described in Accounting Policy 1.19 Employee Benefits – Post-employment Benefits, the municipality obtains actuarial valuations of its Defined Benefit Plan Liabilities. The defined benefit obligations of the municipality that were identified are Post retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in the relevant Notes to the Annual Financial Statements.

Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring Provisions and when measuring Contingent Liabilities. Provisions are discounted where the effect of discounting is material using actuarial valuations.

Budget Information

Deviations between budget and actual amounts are regarded as material difference

Segment reporting

In applying GRAP 18 segment reporting, management makes judgements with regard to the identification of reportable segments, as well as regarding what constitutes segment results. This enables users to evaluate the nature and financial effects of the activities in which the segment engages, and the economic environments in which it operates.

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Accounting Policies

1.16 Significant judgements and sources of estimation uncertainty (continued)

Principal-agent arrangements

Management's judgement is required in determining whether it has entered into a principal-agent arrangement, as set out in note 63. 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). The assessment of whether an entity is a principal, or an agent requires the entity to evaluate the rights and obligations of all parties to each binding arrangement so as to establish whether the transactions it undertakes with third parties are for the benefit of another entity or for its own.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price. The fair value of investment property reflects market conditions at the reporting date. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period.

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

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

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 key assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

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

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 19 - Provisions.

Allowance for doubtful debts

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

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Accounting Policies

1.16 Significant judgements and sources of estimation uncertainty (continued)

Impairment of statutory receivables

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

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

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

1.17 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.18 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.

Umzimvubu Local Municipality

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Accounting Policies

1.18 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.19 Employee benefits

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

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

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

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

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

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

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

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

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

Umzimvubu Local Municipality

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Accounting Policies

1.19 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect 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 post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
 - those changes were enacted before the reporting date; or
 - past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.20 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Accounting Policies

1.20 Commitments (continued)

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.

1.21 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all deficits 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, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract on a systematic and rational basis; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

1.22 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.

Umzimvubu Local Municipality

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Accounting Policies

1.22 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 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.

1.23 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.

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

1.25 Fruitless and wasteful expenditure

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

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

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

1.27 Budget information

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

Umzimvubu Local Municipality

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Accounting Policies

1.27 Budget information (continued)

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 cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2023-07-01 to 2026-06-30.

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

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.28 Related parties

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

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

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

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 another entity but is not control or joint control of those policies.

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

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

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

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

1.29 Events after reporting date

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

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

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

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Accounting Policies

1.29 Events after reporting date (continued)

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

1.30 Accumulated Surplus

In order to finance the provision of Infrastructure and other items of Property, Plant and Equipment from internal sources, amounts are transferred from the Accumulated Surplus/(Deficit) to the CRR in terms of delegated powers.

The following provisions are set for the creation and utilisation of the CRR:

- The cash funds that back up the CRR are invested until utilised. The cash may only be invested in accordance with the Investment Policy of the municipality.
- The CRR may be utilised for the purpose of purchasing items of Property, Plant and Equipment and may not be used for the maintenance of these items.
- Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from the CRR and the Accumulated Surplus/(Deficit) is credited by a corresponding amount.

1.31 Borrowing costs

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

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

1.32 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

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Accounting Policies

1.32 Statutory receivables (continued)

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

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

Accrued interest

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

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

Other charges

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

Impairment losses

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

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

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

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

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

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

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

Derecognition

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

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

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Accounting Policies

1.32 Statutory receivables (continued)

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

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

1.33 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

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

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

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

Some equity investments are included in cash equivalents when they are, in substance, cash equivalents.

Bank overdrafts which are repayable on demand forms an integral part of the entity's cash management activities, and as such are included as a component of cash and cash equivalents.

1.34 Bad Debts written off

Consumer debtors

When the municipality identifies consumer debtors whose debts appear to be irrecoverable even after the whole credit control and debt collection process has been followed in terms of trying to obtain payment, then such accounts be regarded as irrecoverable.

Once the debt is regarded as irrecoverable during the year it must be grouped with others so that the report is presented to Council to solicit a resolution to write off irrecoverable debts.

Traffic fines

Traffic fines debtors are assessed for each reporting period to establish their collectability. Once traffic fines debtors are regarded as irrecoverable during the course of the year, a report of all traffic fines doubtful debtors is presented to Council to solicit a resolution to write off irrecoverable debts.

Traffic fines infringements that have not been served within a period of 18 months of the date of the alleged offence be withdrawn and/or warrants to the arrest that have not been executed within 2 years after the date of authorisation thereof be returned with the control documents to the relevant Magistrate for cancellation as per the National Prosecuting Authority of South Africa. (Uniform national instruction in respect of Traffic Infringements matters issued by various law enforcement agencies)

1.35 Waiver of debt

The waiver of debt is the eradication of debt to achieve specific objectives. An entity may waive its right to receive future receipts (in cash or another financial asset) in accordance with legislation or similar means, for example through a specific policy decision such as a tax amnesty programme.

When a debtor applies for the debt incentive scheme, 90/10 ratio is applied where if a payment of 10 percent is paid in lumpsum or over 6 months, the debtor qualifies for a 90 percent waiver on their debt.

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Accounting Policies

1.36 Construction contracts

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.

When the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract shall be recognised as revenue and expenses respectively by reference to the stage of completion of the contract activity at the reporting date.

Contract revenue is measured at the fair value of the consideration received or receivable shall comprise the initial amount of revenue agreed in the contract, variations in contract work, claims and incentive payments to the extent that it is probable that they will result in revenue; and they are capable of being reliably measured.

When a contract covers a number of assets, the construction of each asset shall be treated as a separate construction contract when: (a) separate proposals have been submitted for each asset; (b) each asset has been subject to separate negotiation, and the contractor and customer have been able to accept or reject that part of the contract relating to each asset; and (c) the costs and revenues of each asset can be identified.

Issue costs are apportioned between the liability and equity components of the compound instruments based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

1.37 Accrued income

The municipality is a beneficiary of small-town revitalisation programs initiated by the Eastern Cape Office of the Premier. The municipality can only receive funds from the office of the premier after the work has been completed (conditions met) by the service provider and the invoice approved by the municipality. Where work has been completed satisfactory by the service provider and invoice approved by the municipality, but no funds have been received from the funder, the municipality recognises an accrued income receivable at the end of the reporting period.

1.38 Transfer payments

The municipality transfers goods to organisations from time to time, through the Local Economic Development initiative. In making these transfers, the municipality does not:

- received any goods or services directly in return as would be expected in a purchase or sale transaction.
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period during which the events giving rise to the transfer occurred.

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Annual Financial Statements for the year ended 30 June, 2024

Accounting Policies

1.39 Value Added Tax

Identifying different VAT transactions.

The transaction between the municipality and customer/supplier includes the provision of goods or services in cash or credit; and the levying and/or collection of VAT by the municipality from the customer. Both elements of the transaction arose from the contractual arrangement to provide goods or services in return for consideration. Thus, the entire receivable/payable due in that transaction (consideration for goods or services together with the VAT element) is classified as a contractual receivable / payable and accounted for in accordance with GRAP104.

The transaction between the municipality and SARS is the VAT payable to / receivable from SARS on transaction date when cash is received/paid, arises from legislation (i.e., VAT Act) and is classified as statutory arrangement and will be accounted for in accordance with GRAP 19.

Therefore, VAT payable to or receivable from SARS is a statutory payable or receivable. Therefore, as it is a statutory receivable/payable, it does not meet the definition of a financial instrument as should not be disclosed in the financial instrument note as per GRAP104.

The amount of VAT receivable from or payable to SARS is calculated as the net amount of output VAT collected and input VAT paid. As the amount due from or to SARS is already a net amount, there is no separate recognition of a receivable or payable.

Notes to the Annual Financial Statements

2024

2023

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">GRAP 106 Transfer of Functions Between Entities Not Under Common Control	1 April, 2023	The impact of the is not material
<ul style="list-style-type: none">GRAP 25 (as revised): Employee Benefits	1 April, 2023	The impact of the is not material.
<ul style="list-style-type: none">iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	1 April, 2023	The impact of the is not material.
<ul style="list-style-type: none">GRAP 2020: Improvements to the standards of GRAP 2020	1 April, 2023	The impact of the is not material.
<ul style="list-style-type: none">GRAP 1 (amended): Presentation of Financial Statements	1 April, 2023	The impact of the is not material.

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 1 July, 2024 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">GRAP 103 (as revised): Heritage Assets	Not yet determined	Not expected to impact results but may result in additional disclosure
<ul style="list-style-type: none">Guideline: Guideline on the Application of Materiality to Financial Statements	Not yet determined	Not expected to impact results but may result in additional disclosure

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- GRAP 104 (as revised): Financial Instruments

1 April, 2025

Not expected to impact results but may result in additional disclosure

3. Inventories

Consumables	1,558,418	528,617
Land held for sale	2,340,600	2,340,600
	3,899,018	2,869,217

Inventories recognised as an expense during the year 6,515,786 10,016,062

Inventory consumables are held for own use and measured at the lower of cost and current replacement cost. No write downs of inventory to net realisable value were required and no previously written down was reversed during the current year.

Land held for sale is measured at its fair value as determined on the date the decision to dispose off the land was made. This was based on the valuation roll of the municipality applicable during the 2020.

Inventory pledged as security

No inventories have been pledged as collateral for the liabilities of the municipality.

There was no inventory retained as personal protective equipment, by the municipality.

Land held for sale

Land held for sale consist of land parcels awaiting to be disposed. Council took a resolution to dispose off Land in June 2020, the municipality is in the process of disposing these assets.

4. Operating lease receivable

Current assets	21,212,139	18,473,694
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Operating Leases are recognised on the straight-line basis as per the requirement of GRAP 13. The lease receivable recognised is in respect of Non-cancelable Operating Leases.

Leasing Arrangements

The operating lease relate to Property owned by the municipality with lease terms of 2 to 50 years (2023 - 2 to 50 years) with an option to extend. All lease agreements payments have an annual increase between 7% - 10%.

All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have an option to purchase the property at the expiry of the lease period. No unguaranteed residual values accruing to the municipality.

Amounts receivable under Operating Leases

At the Reporting Date the following minimum payments were receivable under Non-cancelable Operating Leases for Property, plant and equipment, which are receivable as follows:

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
4. Operating lease receivable (continued)		
Reconciliation		
Opening balances	18,473,694	13,884,680
Effects of straightlining for the year	2,738,445	4,589,014
	21,212,139	18,473,694
Operating Lease Arrangements		
Up to 1 Year	2,245,682	2,062,671
2 to 5 years	6,778,085	8,354,933
More than 5 years	136,726,298	137,102,909
	145,750,065	147,520,513
5. Trade and other receivables from exchange transactions		
Department of Human Settlement	949,708	-
Consumer debtors - Refuse	1,110,308	561,367
Consumer debtors - Rentals	346,441	18,275
	2,406,457	579,642
Other debtors - Department of Human Settlements		
Commission earned	941,768	-
Agency services expenditure recoverable	7,940	-
	949,708	-
Refuse		
Current (0 - 30 Days)	462,661	168,669
31 - 60 Days	137,950	158,789
61- 90 Days	134,542	154,157
More than 90 days	8,815,626	12,268,417
Impairment	(8,440,470)	(12,188,665)
	1,110,309	561,367
Rentals		
Current (0- 30 Days)	212,927	9,422
31 - 60 Days	121,437	8,918
61- 90 Days	11,611	6,284
More than 90 days	986,183	935,452
Impairment	(985,717)	(941,801)
	346,441	18,275
Financial asset receivables included in trade and other receivables from exchange transactions above	2,406,457	579,642

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
5. Trade and other receivables from exchange transactions (continued)		
Total trade and other receivables from exchange transactions	2,406,457	579,642
Summary of refuse debtors by customer classification:		
Business / commercial		
Current (0- 30 Days)	131,861	33,178
31 - 60 Days	26,770	31,050
61- 90 Days	26,271	29,157
More than 90 days	2,062,059	3,397,751
Impairment	(2,156,562)	(3,465,943)
	90,399	25,193
Government		
Current (0- 30 Days)	80,078	15,060
31 - 60 Days	18,387	14,790
61- 90 Days	17,987	13,490
More than 90 days	689,306	402,432
	805,758	445,772
Residential		
Current (0- 30 Days)	250,722	120,431
31 - 60 Days	92,793	112,949
61- 90 Days	90,284	111,509
More than 90 days	6,064,261	8,468,235
Impairment	(6,283,908)	(8,722,722)
	214,152	90,402

Trade and other receivables pledged as security

There are no trade and other receivables pledged as security.

Credit quality of trade and other receivables

The credit quality of trade and other receivables 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 refuse removal are billed monthly. Interest is charged on overdue receivables from exchange transactions at a rate of 10% per annum.

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.

Fair value of trade and other receivables

The management of the municipality is of the opinion that the carrying value of receivables approximate their fair values.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
5. Trade and other receivables from exchange transactions (continued)		
Trade and other receivables past due but not impaired		
Receivables from exchange transactions which are government debt and past due are not considered to be impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	18,387	14,790
2 months past due	17,987	13,490
3 months past due	689,306	380,432
Trade and other receivables impaired		
As of 30 June, 2024, trade and other receivables of 10,077,179 (2023: 13,264,336) were impaired and provided for.		
The amount of the provision was 9,426,187 as of 30 June, 2024 (2023: 13,130,466).		
The creation and release of provision for impaired receivables have been included in operating expenses in surplus or deficit (note 42). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.		
Reconciliation of provision for impairment of trade and other receivables - Refuse		
Opening balance	12,188,665	10,929,857
Provision for impairment - Charge	-	1,258,808
Debts waived off	(1,725,816)	-
Provision for impairment - Reversal	(2,022,379)	-
	8,440,470	12,188,665
Reconciliation of provision for impairment of trade and other receivables - Rentals		
Opening balance	941,801	966,914
Provision for impairment - Charge	43,916	-
Provision for impairment - Reversal	-	(25,113)
	985,717	941,801
6. Receivables from Non-exchange transactions		
Traffic Fines	780,084	6,595,923
Rates	12,829,046	12,076,866
	13,609,130	18,672,789

** During the year, the Council took a resolution to waive its rights to 90% of a customers debt on condition that the debtor pays off 10% of their debtor account in cash. An amount of 1 725 816 was waived, this amount was previously provided for.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
6. Receivables from Non-exchange transactions (continued)		
Statutory receivables included in receivables from non-exchange transactions above are as follows:		
Traffic fines	780,084	6,595,923
Rates	12,829,046	12,076,866
	13,609,130	18,672,789
Traffic fines		
Current (0 - 30 Days)	118,899	220,440
31 - 60 Days	38,300	247,291
61 - 90 Days	99,750	183,259
91 - 120 Days	9,488,534	7,509,703
Provision for Impairment	(8,965,399)	(1,564,770)
	780,084	6,595,923
Rates		
Current (0- 30 Days)	953,752	749,022
31 - 60 Days	1,056,945	697,276
61 - 90 Days	591,917	598,535
+91 Days	38,182,245	39,892,588
Provision for Impairment	(27,955,813)	(29,860,555)
	12,829,046	12,076,866
Ageing of rates per debtor type		
Residential		
Current (0 - 30 Days)	362,629	211,112
31 - 60 Days	174,902	200,052
61 - 90 Days	158,987	193,732
+91 Days	10,052,243	7,587,293
Provision for Impairment	(10,207,262)	(7,525,001)
	541,499	667,188
Business		
Current (0 - 30 Days)	508,522	537,910
31 - 60 Days	417,048	497,224
61 - 90 Days	372,640	404,803
91 - 120 Days	18,234,608	21,760,502
Provision for Impairment	(17,748,551)	(22,335,543)
	1,784,267	864,896
Government		
Current (0 - 30 Days)	82,601	-
31 - 60 Days	464,994	-
61 - 90 Days	60,290	-
91 - 120 Days	9,895,393	10,544,782
	10,503,278	10,544,782
Total receivables from non-exchange transactions	13,609,130	18,672,789

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
6. Receivables from Non-exchange transactions (continued)		
Statutory receivables general information		
Transaction(s) arising from statute		
Statutory receivables arise from the implementation of the Municipality Property Rates Act through levying of property rates to the properties in Umzimvubu 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 monthly for business and residential households. Government accounts are billed annually. Interest is charged on overdue consumers receivables at a rate of 10% per annum.		
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.		
Statutory receivables impaired		
As of 30 June, 2024, Statutory receivables of R 50,572,474 (2023: 41,937,422) were impaired and provided for.		
The amount of the provision was R 36,921,212 as of 30 June, 2024 (2023: 31,425,325).		
Statutory receivables past due but not impaired		
Receivables from non-exchange transactions which are government debt and past due are not considered to be impaired.		
The ageing of amounts past due but not impaired is as follows:		
1 month past due	464,994	-
2 months past due	60,290	-
3 months past due	9,895,393	12,752,165
Reconciliation of provision for impairment of receivables from non-exchange transactions - Assessment rates		
Opening balance	29,860,555	25,588,222
Provision for impairment	4,195,945	4,272,333
Debts waived off **	(6,082,586)	-
Other	(18,101)	-
	27,955,813	29,860,555
Reconciliation of provision for impairment of receivables from non-exchange transactions - Traffic fines		
Opening balance	1,564,770	2,154,960
Provision for impairment	7,400,629	(590,190)
	8,965,399	1,564,770

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
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6. Receivables from Non-exchange transactions (continued)

** During the year, the Council took a resolution to waive its rights to 90% of a customers debt on condition that the debtor pays off 10% of their debtor account in cash. An amount of 11 701 209 was waived, of this, 9 985 845 had been previously provided for and the balance of R1 715 364 was not provided for and has been recognised as an expense in the current year.

7. VAT input accrual

VAT	7,043,506	4,269,939
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VAT input accrual relates to VAT on Trade and other payables that have not yet been paid at year end. Only once payment is made to creditors, the VAT becomes receivable from SARS.

8. VAT Receivable

Input VAT receivable	3,070,593	6,842,160
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VAT is payable/refundable on the receipts/payment basis. Only once payment is received from debtors, payment made to creditors, VAT is paid over/received from to SARS. At year end, the municipality is a net receiver and has off set the receivable and payable.

VAT Receivable is a statutory receivable.

9. Prepayments

SALGA subscription fees	1,177,812	-
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10. Other receivables

Receivables from Small Town Revitalisation Grant (N1)	493,571	3,707,395
Retention receivable (N2)	648,088	-
	1,141,659	3,707,395

N1: During the 30 June 2023 period, the municipality has incurred and met all the conditions on this project, asset and creditor was recognised but the OTP has not paid the amount to the municipality as at 30 June 2024.

N2: This relates to incorrect release of amount withheld as retention to a service provider. The amount will be recovered through withholding of future payments on the project.

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	1,670,558	3,305,357
Current Investments	64,633,831	75,799,934
Net Bank, Cash and Cash Equivalents	66,304,389	79,105,291

Cash and cash equivalents pledged as collateral

Total cash and cash equivalents pledged as collateral for security deposit to ESKOM This guarantee is neither negotiable nor transferable and is to be returned to the bank upon payment or cancellation	161,400	161,400
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Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024			2023		
11. Cash and cash equivalents (continued)						
The municipality had the following bank accounts						
Account number / description	Bank statement balances			Cash book balances		
	30 June, 2024	30 June, 2023	30 June, 2022	30 June, 2024	30 June, 2023	30 June, 2022
FNB-Primary Account - 620-2218-3727	1,709,942	1,765,059	3,516,063	1,670,558	1,592,180	3,516,063
FNB-Service Delivery Reserve - 620-3325-4723	53,340	31,531,147	63,217,351	53,340	31,531,147	54,552,329
FNB-Operational Investment - 620-2945-0715	9,308	2,878,627	2,967,181	9,308	2,878,627	2,967,181
FNB-Municipal Infrastructure Grant(MIG) - 620-8603-6714	3,057,968	6,594,484	17,396	3,057,968	6,594,484	17,396
FNB-Guarantee Investment- 620-6874-2157	162,463	334,465	317,973	162,463	334,465	3,217,973
FNB-Financial Management Grant (FMG) - 622-7618-7294	186,165	7,539	3,160	186,165	7,539	3,160
FNB-Electrification Programme - 622-8856-0925	1,136,753	351,550	2,352,948	1,136,753	351,550	2,352,948
FNB-Traffic Fine - 627-5889-3905	952	244,135	572,481	952	244,135	572,481
FNB-Housing Project Fund - 628-9151-9971	186	88,749	775,112	186	88,749	775,112
FNB Solidarity Fund 628-5499-2099	217,067	203,361	194,150	217,067	203,361	194,150
FNB Retention 628-6002-9000	4,108,217	825,571	165,848	3,926,615	825,571	165,848
FNB ENATIS Transactions 629-1034-4837	114,996	440,110	2,619,920	114,996	440,110	2,619,920
Nedbank - Capital Replacement 03 / 7881112786	36,520,208	34,013,373	31,842,322	36,752,837	34,013,373	31,953,552
FNB Disaster Relief 630-9365-2965	19,015,181	-	-	19,015,181	-	-
Total	66,292,746	79,278,170	108,561,905	66,304,389	79,105,291	102,908,113

12. Investment property

	2024			2023		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	26,105,040	-	26,105,040	25,298,064	-	25,298,064

Reconciliation of investment property - 2024

	Opening balance	Additions	Fair value adjustments	Total
Investment property	25,298,064	94,500	712,476	26,105,040

Reconciliation of investment property - 2023

	Opening balance	Fair value adjustments	Total
Investment property	21,816,441	3,481,623	25,298,064

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
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12. Investment property (continued)

Fair value of investment properties	26,105,040	25,298,064
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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. No impairment losses have been recognised on Investment Property of the municipality at the reporting date.

Details of valuation

Investment properties fair value determination was performed by a Independent Registered Property Valuer.

Afroteam Consultants instructed by Nyalambisa Financial Services. The last valuation was performed on 30th of June 2024.

The valuation methodologies used to determine the fair value was the income based approach as well as the comparable market values approach.

Amounts recognised in surplus or deficit

Rental revenue from Investment property	4,955,552	6,165,024
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Investment property includes property (land or a building, or part of a building, or both land and buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, for administration purposes, or the sale of an asset in the ordinary course of operations. Property with a currently undetermined use, is also classified as investment property.

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

All of the municipality's Investment Property is held under freehold interests and no Investment Property had been pledged as security for any liabilities of the municipality.

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

There are no contractual obligations on Investment Property.

Impairment of Investment property

No impairment losses have been recognised on Investment property of the municipality at the reporting date.

Work-in-progress

The municipality had no capital projects for Investment property which were not completed at year-end.

Delayed projects

No projects that are currently in progress are experiencing significant delays. No projects for the period was halted.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

13. Property, plant and equipment

	2024			2023		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	34,005,270	-	34,005,270	34,005,270	-	34,005,270
Buildings	528,474,496	(162,686,473)	365,788,023	471,199,690	(143,800,308)	327,399,382
Infrastructure	1,967,787,166	(1,363,657,996)	604,129,170	1,860,898,624	(1,280,408,324)	580,490,300
Computer equipment	16,888,501	(8,107,450)	8,781,051	16,005,216	(6,589,224)	9,415,992
Office equipment	13,656,137	(8,151,248)	5,504,889	13,517,972	(6,946,415)	6,571,557
Machinery and Equipment	14,688,408	(9,359,924)	5,328,484	14,315,954	(8,326,345)	5,989,609
Transport Assets	33,557,541	(11,332,471)	22,225,070	26,279,009	(8,239,804)	18,039,205
Total	2,609,057,519	(1,563,295,562)	1,045,761,957	2,436,221,735	(1,454,310,420)	981,911,315

Reconciliation of property, plant and equipment - 2024

	Opening balance	Additions	Disposals	Donations received	Depreciation	Impairment loss	Total
Land	34,005,270	-	-	-	-	-	34,005,270
Buildings	327,399,382	44,714,315	-	12,560,492	(14,487,733)	(4,398,433)	365,788,023
Infrastructure	580,490,300	107,775,165	(825,897)	-	(55,383,815)	(27,926,583)	604,129,170
Computer equipment	9,415,992	1,490,454	(111,002)	-	(2,014,393)	-	8,781,051
Office equipment	6,571,557	211,769	(28,528)	-	(1,249,909)	-	5,504,889
Machinery and Equipment	5,989,609	995,693	(117,038)	-	(1,539,780)	-	5,328,484
Transport Assets	18,039,205	7,278,532	-	-	(3,092,667)	-	22,225,070
	981,911,315	162,465,928	(1,082,465)	12,560,492	(77,768,297)	(32,325,016)	1,045,761,957

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

13. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Impairment loss	Total
Land	34,005,270	-	-	-	-	-	34,005,270
Buildings	308,247,076	34,459,211	-	-	(13,458,611)	(1,848,294)	327,399,382
Roads Infrastructure	552,358,846	86,518,771	(578,036)	(1,520,937)	(52,656,804)	(3,631,540)	580,490,300
Computer equipment	7,038,023	3,764,907	(14,875)	-	(1,322,707)	(49,356)	9,415,992
Office equipment	5,841,956	2,237,523	(179,199)	-	(1,259,705)	(69,018)	6,571,557
Machinery and Equipment	5,867,436	1,454,426	-	-	(1,323,391)	(8,862)	5,989,609
Transport Assets	13,177,360	6,591,000	(78,628)	-	(1,650,527)	-	18,039,205
	926,535,967	135,025,838	(850,738)	(1,520,937)	(71,671,745)	(5,607,070)	981,911,315

Assets pledged as security

The municipality did not pledge any of its assets as security.

Change in estimate

A change in the estimated remaining useful lives of various assets of the Municipality based on their assessment of remaining useful lives conducted as at 30 June 2024 will result in the following decreases in depreciation for property plant and equipment in the 2024 financial year and future periods:

	Computer equipment	Furniture and office equipment	Machinery and equipment
The impact on the statement of financial performance (Depreciation) in the 2024 financial year:	11,738	21,647	8,122
The impact on the statement of financial performance (Depreciation) in the future periods	28,457	62,351	22,239
	40,195	83,998	30,361

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
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13. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2024

	Included within Infrastructure	Included within Buildings	Total
Opening balance	35,800,068	32,284,356	68,084,424
Additions/capital expenditure	107,775,200	45,362,402	153,137,602
Transferred to completed items	(85,547,474)	(34,931,297)	(120,478,771)
	58,027,794	42,715,461	100,743,255

Reconciliation of Work-in-Progress 2023

	Included within Infrastructure	Included within Buildings	Total
Opening balance	28,392,646	5,104,375	33,497,021
Additions/capital expenditure	86,518,772	34,459,210	120,977,982
Transferred to completed items	(79,111,350)	(7,279,229)	(86,390,579)
	35,800,068	32,284,356	68,084,424

Expenditure incurred to repair and maintain property, plant and equipment

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

Contracted services	17,878,083	18,895,810
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Total Expenditure related to Repairs and Maintenance Projects

Maintenance of Buildings and Facilities	1,701,570	2,451,310
Maintenance of Infrastructure assets	12,787,568	12,528,905
Maintenance of Machinery and Transport assets	3,388,945	5,132,073

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
13. Property, plant and equipment (continued)		
Delayed projects		
Fencing of EmaXesibeni botanical garden phase 2	920,740	920,740
The project had been affected by unresolved Dutyini Land Claim and the municipality which have since been resolved during the 2024 financial year. An advert for completion of works was made but bidders were non responsive. A new advert has since been made.		

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

14. Intangible assets

	2024			2023		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Municipal Website	150,000	-	150,000	150,000	-	150,000
Computer software	1,372,953	(1,227,031)	145,922	3,207,707	(2,762,231)	445,476
Total	1,522,953	(1,227,031)	295,922	3,357,707	(2,762,231)	595,476

Reconciliation of intangible assets - 2024

	Opening balance	Disposals	Amortisation	Total
Municipal Website	150,000	-	-	150,000
Computer software	445,476	(78,592)	(220,962)	145,922
	595,476	(78,592)	(220,962)	295,922

Reconciliation of intangible assets - 2023

	Opening balance	Amortisation	Total
Municipal Website	150,000	-	150,000
Computer software	666,437	(220,961)	445,476
	816,437	(220,961)	595,476

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

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2023

14. Intangible assets (continued)

Other information

The amortisation expense has been included in the line item "Depreciation and Amortisation" in the Statement of Financial Performance see Note 41.

All of the municipality's Intangible Assets are held under freehold interests and no Intangible Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Intangible Assets of the municipality.

Intangible Assets with Indefinite Useful Lives

The municipality amortises all its Intangible Assets, but not the Website as it is considered to be constantly maintained and therefore have an indefinite economic useful life and such assets are regarded as having indefinite useful lives.

The useful lives of the Intangible Assets remain unchanged from the previous year.

Impairment of Intangible Assets

No impairment losses have been recognised on Intangible Assets of the municipality at the reporting date.

Work-in-Progress

The municipality had no capital projects for Intangible Assets during the year.

Delayed Projects

The municipality had no capital projects for Intangible Assets during the year.

Umzimvubu Local Municipality

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Notes to the Annual Financial Statements

15. Heritage assets

	2024			2023		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayoral chain	17,719	-	17,719	17,719	-	17,719

Reconciliation of heritage assets 2024

	Opening balance	Total
Mayoral chain	17,719	17,719

Reconciliation of heritage assets 2023

	Opening balance	Total
Mayoral chain	17,719	17,719

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

15. Heritage assets (continued)

All of the municipality's Heritage Assets are held under freehold interests and no Heritage Assets had been pledged as security for any liabilities of the municipality.

No restrictions apply to any of the Heritage Assets of the municipality.

Depreciation and Impairment

In accordance with GRAP 103, a Heritage Asset have an indefinite life and their value appreciates over time due to their cultural, environmental, educational, natural scientific, technological, artistic or historical significance; and shall not be depreciated but an entity shall assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the entity shall estimate the recoverable amount or the recoverable service amount of the heritage asset.

Impairment of Heritage Assets

No impairment losses have been recognised on Heritage Assets of the municipality at the reporting date.

Heritage Assets measured after recognition using the Cost Model

The municipality's Heritage Assets are accounted for according to the cost model and therefore no fair value has been determined.

Work-in-Progress

The municipality had no capital projects for Heritage Assets during the year.

Delayed Projects

The municipality had no capital projects for Heritage Assets during the year.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
16. Trade and other payables from exchange transactions		
Trade payables	35,542,896	25,182,996
Accruals	14,866,049	15,349,430
Retention	12,099,984	4,169,302
Department of Transport	492,870	635,870
	63,001,799	45,337,598
17. Consumer deposits		
Rental Deposits	175,872	161,703
18. Trade and other Payables from Non-Exchange Transactions		
Trade and other Payables from Non-Exchange Transactions comprises of:		
Trade and other ayables from Non-Exchange Transactions		
Unspent conditional grants and receipts	11,484,817	3,610,742
Department of Housing amounts held in trust	-	88,260
Debtors with credit balances	6,611,283	3,254,526
Other Payables from Non-Exchange Transactions	-	45,280
	18,096,100	6,998,808
Unspent conditional grants and receipts		
Municipal Infrastructure Grant	-	110,742
Disaster Relief Management Grant	-	3,500,000
Department of Sports and Recreation - Library Grant	1,757,472	-
Municipal Disaster Recovery Grant	9,727,345	-
	11,484,817	3,610,742
Movement during the year		
Balance at the beginning of the year	3,610,742	462
Additions during the year	94,298,000	77,708,000
Income recognition during the year	(86,423,925)	(74,097,720)
	11,484,817	3,610,742

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

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

See note 35 for reconciliation of grants from National/Provincial Government.

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

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

19. Employee benefits obligations

Reconciliation of employee benefits obligations - 2024

	Opening Balance	Additions	Utilised during the period	Interest costs	Acturial gain	Total
Bonus accrual	2,618,973	2,590,529	(2,618,973)	-	-	2,590,529
Provision for leave pay	9,543,488	1,884,120	(2,078,745)	-	-	9,348,863
Provision for performance bonus	754,527	771,386	(754,527)	-	-	771,386
Long Service Awards Liability	2,906,000	414,000	(675,810)	283,000	(4,190)	2,923,000
	15,822,988	5,660,035	(6,128,055)	283,000	(4,190)	15,633,778

Reconciliation of employee benefits obligations - 2023

	Opening Balance	Additions	Utilised during the period	Interest costs	Acturial loss	Total
Bonus accrual	2,366,878	2,618,973	(2,366,878)	-	-	2,618,973
Provision for leave pay	8,257,101	2,159,618	(873,231)	-	-	9,543,488
Provision for performance bonus	689,273	754,528	(689,274)	-	-	754,527
Long Service Awards Liability	2,429,000	410,000	(208,000)	256,000	19,000	2,906,000
	13,742,252	5,943,119	(4,137,383)	256,000	19,000	15,822,988

Non-current liabilities	2,477,000	2,193,000
Current liabilities	13,156,778	13,629,988
	15,633,778	15,822,988

Provision for leave pay

Staff Leave accrues to the staff of the municipality on an annual basis, subject to certain conditions. The liability is an estimate of the amount due at the reporting date.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
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19. Employee benefits obligations (continued)

Provision for performance bonus

A performance bonus, is for senior managers and managers. It is not guaranteed and as it is based on the achievements of the individual against the targets set out in his/her performance agreement. The payment of bonuses is purely based on performance then there is no legal obligation on a municipality to make such payments.

However a constructive obligation is created through the assessment of employees' performance throughout the year and the fact that the municipality has a practice of paying performance bonuses.

Long service awards liability

Long Service Awards are provided to employees who achieve certain predetermined milestones of service within the municipality

The following members are eligible for long service bonuses:

In-service members		160	158
Eligible Employees	Female	Male	Total
Number of eligible employees	94	66	160
Average annual earnings	249,450	250,832	250,020
Average age	42.4	44.0	43.1
Average past service	9.4	9.9	9.6
	-	-	-

The earnings disclosed above and used in the valuation include an increase of 5.40% as at 1 July 2025, as per the SALGBC Circular No.: 01/2023.

Unfunded Accrued Liability

Total value of liabilities	2,923,000	2,906,000
Value of assets	-	-
	2,923,000	2,906,000
Expected current portion of liability (due within 12 months)	446,000	713,000
Expected non-current portion of liability (due thereafter)	2,477,000	2,193,000
	2,923,000	2,906,000

Key Actuarial Assumptions used are as follows:

Discount rate	10.89%	11.08%
General Salary Inflation (long-term)	6.00%	6.47%
CPI inflation rate	5.00%	5.47%
Net Effective Discount Rate applied to salary-related Long Service	4.62%	4.33%
Average retirement age	62	62

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
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19. Employee benefits obligations (continued)

The next general earnings increase was assumed to take place on 1 July 2025.

Last Valuation

The last valuation was performed in July 2023.

Actuarial Valuation Method

The Projected Unit Credit Method has been used to value the liabilities. The valuation meets the requirements of GRAP 25 as well as those of Advisory Practice Note 301 issued by the Actuarial Society of South Africa. The valuation was prepared by ARCH Actuarial Consulting.

The amounts recognised in the Statement of Financial Performance are:

Employee related costs - Current Service Cost	414,000	410,000
Finance Charges - Interest Cost	283,000	256,000
Actuarial Losses / (Gain)	(4,190)	19,000
Expected benefits vesting / paid during the year (N1)	(675,810)	(208,000)
	17,000	477,000

N1 - This is the total value of the long-service awards that were expected to be awarded to eligible employees over the year, based on the data at the previous valuation date. Employees are usually entitled to take this award in whole or in part as cash, with the remainder taken as leave. Therefore, this figure should not be confused as being only the amount of cash paid out in respect of the award. It represents the amount actually paid out in cash and the portion that was either taken or "stored" as leave.

If the actual amount of benefits vested is to be included instead in the above table, then the Actuarial Loss / (Gain) must change to exactly offset the impact, such that the Closing Accrued Liability remains unchanged. For example, if the actual amount of benefits vested was R100,000 lower than the estimate (based on last year's data), then the Actuarial Loss / (Gain) would have to reduce by R100,000 to leave the Closing Accrued Liability as is.

Sensitivity Analysis on the Unfunded Accrued Liability

Assumption	% Change	Liability	% Change
Central assumptions		2,923,000	
General earnings inflation rate	+1%	3,067,000	5%
	-1%	2,790,000	-5%
Discount rate	+1%	2,784,000	-5%
	-1%	3,074,000	5%
Average retirement age	+2 years	2,989,000	2%
	-2 years	2,769,000	-5%
Withdrawal rates	x2	2,375,000	-19%
	x0,5	3,278,000	12%

Sensitivity Analysis on Current-Service and Interest Costs for period ending 30 June 2024

Assumption	Change	CurrentSvc. Cost	Interest Cost	Total	% Change
Central assumptions		414,000	283,000	697,000	
General earnings inflation rate	+1%	439,000	298,000	737,000	6%

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

				2024	2023
19. Employee benefits obligations (continued)					
	-1%	391,000	270,000	661,000	-5%
Discount rate	1%	394,000	293,000	687,000	-1%
	-1%	436,000	272,000	708,000	2%
Average retirement age	+2 years	424,000	292,000	716,000	3%
	-2 years	397,000	268,000	665,000	-5%
Withdrawal rates	x2	312,000	225,000	537,000	-23%
	x0,5	484,000	321,000	805,000	15%

Sensitivity Analysis on Current-Service and Interest Costs for year ending 30 June 2025

	Change	CurrentSvc. Cost	Interest Cost	Total	% Change
Central assumptions		435,000	295,000	730,000	
General earnings inflation rate	+1%	461,000	310,000	771,000	6%
	-1%	410,000	280,000	690,000	-5%
Discount rate	+1%	413,000	305,000	718,000	-2%
	-1%	458,000	283,000	741,000	2%
Average retirement age	+2 years	445,000	302,000	747,000	2%
	-2 years	415,000	278,000	693,000	-5%
Withdrawal rates	x2	331,000	236,000	567,000	-22%
	x0.5	506,000	333,000	839,000	15%

20. VAT output accrual

VAT output accrual	1,115,003	485,542
VAT output accrual - provision for debt impairment	(935,814)	(475,447)
VAT output accrual not declared to SARS (INEP GRANT) - N1	10,497,674	10,497,674
	10,676,863	10,507,769

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.

N1 - Management have in the past recognised the revenue received from National Treasury relating to the INEP grant as a conditional grant. During the 2023 audit, this was clarified to be incorrect treatment and should have recognised the revenue as revenue from Exchange transactions. Furthermore, the municipality ought to have declared output VAT on these amounts on receipt, which was not done. The municipality has raised the liability relating to the output VAT on the INEP grant from 2020 financial year, which is inline with the requirement of a Vendor to retain information as per Section 55 of the VAT Act of 1991 as ammended

21. Provisions

The municipality operates two landfill sites situated at emaXesibeni (Mount Ayliff) and kwaBhaca (Mount Frere). In accordance with legislation and to comply with the Department of Water Affairs (DWA) and Department of Economic Development and Environmental Affairs (DEDEAT) on the landfill waste sites, the municipality raises a provision every year for the estimated cost of rehabilitating the land over which the sites are situated.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023		
21. Provisions (continued)				
Due to uncertainties about the amount or timing of these costs, the provision has been made for this cost based on the construction budget to rehabilitate the landfill site at 30th of June 2024 at a rate of 11.5% (2023: 12.62%) taking into account price escalation of 4.9% (2023: 7.39%) relating to inflation. The estimated years for the rehabilitating these sites are 9.1 years for at emaXesibeni (Mount Ayliff) and 36.4 years for kwaBhaca (Mount Frere).				
A valuation of the rehabilitation was conducted by an independent valuer Ekolaw Consulting (2023: One Pangaea Expertise & Solutions) and a liability has been raised. Movements in the provision are recognised in the Statement of Financial Performance. The Provision has been determined on the basis of a recent independent financial requirement and viability.				
Reconciliation of provision for environmental rehabilitation				
Current liabilities	-	-		
Non-current liabilities	9,177,152	6,337,829		
	9,177,152	6,337,829		
Reconciliation of provision for environmental rehabilitation				
Opening balance	6,337,829	7,076,782		
Change in discount factor	2,459,053	(1,520,937)		
Interest cost	380,270	781,984		
	9,177,152	6,337,829		
Key Actuarial Assumptions used are as follows:	2024	2023	2022	2021
Discount rate (D)	11.5%	12.62%	11.05%	10.81%
Consumer price inflation	4.9%	7.39%	7.23%	7.07%
Net Discount rate $((1+D)/(1+H)-1)$		4.87%	3.56%	3.5%
Remaining life of site: Mt Frere	36	37	35	36
Remaining life of site : Mt Ayliff	9	10	11	12
	-	-	-	-
22. Capital replacement reserve				
Capital replacement reserve opening balance	34,013,373	31,842,322		
Transfer into capital replacement reserve (interest earned)	2,739,464	2,171,051		
	36,752,837	34,013,373		
23. Accumulated surplus				
Accumulated Surplus/(Deficit) due to the results of operations				
Accumulated Surplus	1,088,013,437	1,036,979,649		

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
24. Revenue		
Sale of goods	249,332	1,037,069
Service charges	1,296,952	1,262,598
Construction contracts	13,782,609	2,046,041
Rental of facilities and equipment	5,139,629	6,356,833
Interest received - Exchange	10,726,289	9,828,365
Agency services	3,179,372	2,065,526
Licences and permits - Exchange transactions	1,921,051	1,759,925
Insurance proceeds	-	170,417
Gain on disposal of assets	196,845	-
Acturial gains	4,190	-
Fair value adjustments	712,476	3,481,623
Operational Revenue	179,148	211,411
Licences and Permits - non-exchange transactions	158,059	198,383
Property rates	46,521,963	46,982,299
Interest received - Non-exchange	2,114,413	2,018,706
Government grants & subsidies	361,908,236	356,166,988
Public contributions and donations	-	500,000
Fines, Penalties and Forfeits	3,642,390	3,314,779
Donations	12,647,449	-
	464,380,403	437,400,963

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

Sale of goods	249,332	1,037,069
Service charges	1,296,952	1,262,598
Construction contracts	13,782,609	2,046,041
Rental of facilities and equipment	5,139,629	6,356,833
Interest received - Exchange	10,726,289	9,828,365
Agency services	3,179,372	2,065,526
Licences and permits	1,921,051	1,759,925
Insurance proceeds	-	170,417
Gain on disposal of assets	196,845	-
Actuarial gains	4,190	-
Operational Revenue	179,148	211,411
Fair value adjustments	712,476	3,481,623
	37,387,893	28,219,808

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

Taxation revenue

Property rates	46,521,963	46,982,299
Licences or permits	158,059	198,383
Interest received - Non-exchange	2,114,413	2,018,706

Transfer revenue

Government grants and subsidies	361,908,236	356,166,988
Public contributions and donations	-	500,000
Fines, Penalties and Forfeits	3,642,390	3,314,779
Donations	12,647,449	-
	426,992,510	409,181,155

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
25. Sale of goods and other services		
Advertisement	47,152	118,892
Building plans	164,507	615,217
Cemetery and burials	14,950	23,488
Clearance certificate	6,474	15,300
Sale of goods	16,249	264,172
	249,332	1,037,069

26. Service charges

Refuse removal	1,296,952	1,262,598
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The amounts disclosed above for revenue from Service charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.

27. Construction contracts

Contract between UML and Department of Energy

An amount of R13 782 609 (2023: R2 046 042) was recognised by the municipality as revenue during the current financial year. As the outcome of a construction contract can be estimated reliably, contract revenue and contract cost associated with the construction contract are recognised by reference to the stage of completion of the contract at reporting date.

The municipality determines the stage of completion of contract in progress by the accumulative actual work performed i.e contract cost divide by contract price.

During the period a total contract cost to the amount of R13 782 609 (2023: R1 747 642) was recognised. During the period, the municipality received an advance amount of R0 (2023: R0) from the Department of Energy. Refer to note 16

No retentions were held for this construction contract during the year, (2023: R0).

28. Rental of facilities and equipment

Facilities and equipment

Adhoc rental income from other assets	184,077	191,809
Investment property	4,955,552	6,165,024
	5,139,629	6,356,833
	-	-
Facilities and equipment	5,139,629	6,356,833

Rental income generated are at market related premiums. All rental income recognised is therefore market related.

29. Interest received - Exchange Transactions

Interest received - Exchange Transactions

Interest received - debtors	600,377	587,089
Interest received - bank	643,263	329,879
Interest received - investments	9,482,649	8,911,397
	10,726,289	9,828,365
	-	-
	10,726,289	9,828,365

Umzimvubu Local Municipality

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Notes to the Annual Financial Statements

	2024	2023
30. Agency services		
Housing project management fees	818,929	-
Vehicle Registration	2,360,443	2,065,526
	3,179,372	2,065,526

The municipality is an agent for the Provincial Department of Transport as well as the Eastern Cape Department of Human Settlements. Refer to Note 64 for further details.

31. Operational revenue and Insurance proceeds

Operational revenue	179,148	211,411
Insurance proceeds	-	170,417
	179,148	381,828

32. Fair value adjustments

Fair value adjustment for investment properties	712,476	3,481,623
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Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
33. Property rates		
Rates received		
Property rates	46,521,963	46,982,299
Property rates billing per customer classification		
Residential	1,383,601	1,751,911
Commercial	4,395,515	4,912,578
Vacant land	440,610	425,685
Public Service Purpose	40,296,523	39,881,550
Public Service Infrastructure	5,881	10,575
Places of Worship	-	-
Municipal Properties	-	-
	46,522,130	46,982,299

Annual valuation are processed on a continuous basis to take into account changes in individual property values due to alterations and subdivisions. Rates tariffs applicable are as shown in the table below.

Rates are levied monthly on property owners and are payable on the 7th of each month. Property owners can request that the full amount for the year be raised in July in which case the amount has to be paid by 30 September. Interest is levied at a rate of 10% per annum as determined by council on outstanding rates amounts.

Welfare organisations are exempted from the payment of rates, while the first R15 000 of the valuation on improved residential and vacant properties exempted from payment of rates.

An additional rebate of 25% of the current year rates are allowed for senior citizens, disabled persons and medically boarded property owners. There is a 15% rebate of rates allowed for the three years of a newly developed property from the date of issuance of certificate of occupancy

Tariff structure

Agricultural	0.0015	0.0015
Residential	0.0058	0.0058
Business	0.0140	0.0140
Vacant stands	0.0140	0.0140
Government properties	0.0186	0.0186
Public service Infrastructure	0.0015	0.0015
	-	-

Valuations

Residential	314,909,200	316,310,500
Commercial	349,193,000	350,898,500
Public Service Purpose	2,163,018,973	2,146,400,673
Vacant land	36,387,100	46,388,000
Places of Worship	42,267,800	40,590,800
Municipal Properties	87,460,500	107,794,100
Public Service Infrastructure	4,192,100	7,049,300
RDP	10,588,300	10,588,300
	3,008,016,973	3,026,020,173

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. The last interim valuation was compiled and implemented

The new general valuation will be implemented on 01 July 2024.

Notes to the Annual Financial Statements

	2024	2023
34. Interest received - Non-Exchange Transactions		
Interest - Receivables	2,114,413	2,018,706

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
35. Government grants and subsidies		
Operating grants		
Equitable share	275,356,743	260,936,000
Departmental agencies and accounts (SETA)	238,310	699,450
Expanded Public Works Programme (EPWP)	2,917,000	3,352,000
Provincial Arts and Culture grants - Library	742,528	2,150,000
Finance Management Grant (FMG)	1,720,000	1,720,462
Disaster Relief Management Grant	3,500,000	10,500,000
Extended Public Works Programme - Cleansing Project Peri-Urban	-	3,700,000
	284,474,581	283,057,912
Capital grants		
Municipal Infrastructure Grant	51,384,000	52,675,257
Municipal Disaster Recovery Grant	26,049,655	-
Small Town Revitalisation	-	20,433,819
	77,433,655	73,109,076
	284,474,581	283,057,912
	77,433,655	73,109,076
	361,908,236	356,166,988
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	94,298,000	77,708,000
Unconditional grants received	275,484,310	278,361,874
	369,782,310	356,069,874
National Governments		
Balance unspent at beginning of year	3,610,743	462
Current-year receipts	367,282,310	333,493,911
Conditions met - transferred to revenue	(361,165,708)	(329,883,630)
	9,727,345	3,610,743
Conditions still to be met - remain liabilities (see note 18).		
Provincial governments		
Current-year receipts	2,500,000	22,576,424
Conditions met - transferred to revenue	(742,528)	(26,283,819)
Other	-	3,707,395
	1,757,472	-
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members and funding of municipal operations.		
Current-year receipts	275,246,000	260,936,000
Transferred from unspent Municipal Infrastructure Grant	110,743	-
Recognised as revenue	(275,356,743)	(260,936,000)
	-	-

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

	2024	2023
35. Government grants and subsidies (continued)		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	110,742	-
Current-year receipts	51,384,000	52,786,000
Conditions met - transferred to revenue	(51,384,000)	(52,675,258)
Unspent conditional grant transferred to Equitable share	(110,743)	-
	(1)	110,742

Conditions still to be met - remain liabilities (see note 18).

These grants are allocated for the construction of roads. Provide for new, rehabilitation and upgrading of municipal infrastructure as part of upgrading of poor households, micro enterprises and social institutions.

Financial Management Grant

Balance unspent at beginning of year	-	462
Current-year receipts	1,720,000	1,720,000
Conditions met - transferred to revenue	(1,720,000)	(1,720,462)
	-	-

This grant is allocated for the implementation of financial management reforms required by the MFMA. All conditions are met.

Expanded Public Works Programme Grant

Current-year receipts	2,917,000	3,352,000
Conditions met - transferred to revenue	(2,917,000)	(3,352,000)
	-	-

This grants is implementation of labour intensive programmes and help in creating employment in the community. All conditions met.

Small Town Revitalization

Current-year receipts	-	16,726,424
Conditions met - transferred to revenue	-	(20,433,819)
Recognised as a receivable	-	3,707,395
	-	-

This is a town revitalization project initiated by the Office of the Premier to revitalize EmaXesibeni town and KwaBhaca. Invoices are paid by the office of the premier on presentation by the service provider. No allocation for the current year.

Disaster Relief Management Grant

Balance unspent at beginning of year	3,500,000	-
Current-year receipts	-	14,000,000
Conditions met - transferred to revenue	(3,500,000)	(10,500,000)
	-	3,500,000

This grant was provided for the disaster affected infrastructure. All conditions met..

Provincial Arts and Culture grants - Library

Current-year receipts	2,500,000	2,150,000
Conditions met - transferred to revenue	(742,528)	(2,150,000)

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	2024	2023
35. Government grants and subsidies (continued)		
	1,757,472	-

Conditions still to be met - remain liabilities (see note 18).

This grants is used for to pay for Kwa-Bhaca and EmaXesibeni Library expenses.

Municipal Disaster Recovery Grant

Current-year receipts	35,777,000	-
Conditions met - transferred to revenue	(26,049,655)	-
	9,727,345	-

Conditions still to be met - remain liabilities (see note 18).

This grant is used to rehabilitate and reconstruct disaster damaged municipal infrastructure.

SETA Grant

Current-year receipts	238,310	699,450
Conditions met - transferred to revenue	(238,310)	(699,450)
	-	-

Grant received from SETA and used for employee trainings and development. All conditions met.

Solid Waste Management Grant (EPWP - Cleansing Project Peri-Urban)

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

This grant is used to create job opportunities through the cleaning of rivers and water reticulation sites. No allocation for the current year.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 9 of 2021), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

36. Award received

Greenest municipality award	-	500,000
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37. Fines, Penalties and Forfeits

Law Enforcement Fines	2,109,150	2,803,147
Pound Fees Fines	1,533,240	511,632
	3,642,390	3,314,779

Umzimvubu Local Municipality

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	2024	2023
38. Donations		
Donated assets - ECDC	12,560,492	-
Cash donations - Alfred Nzo DM	86,957	-
	12,647,449	-

Eastern Cape Development Corporation donated Hawker Stalls to the municipality for the use by the Local Economic Development Directorate. Alfred Nzo DM donated cash for the assistance in IDP outreach.

39. Employee related costs

Basic	59,890,401	58,161,574
Bonus	5,491,126	5,303,836
Medical aid - company contributions	4,954,550	4,722,289
Unemployment Insurance Fund	424,512	425,627
Workers Compensation Fund	139,221	1,115,104
Skills Development Levy	958,767	930,479
Leave pay provision charge	2,097,527	2,247,617
Defined contribution plans	10,132,657	9,656,624
Travel, motor car, accommodation, subsistence and other allowances	4,160,348	4,614,997
Overtime payments	707,614	655,979
Long-service awards	28,903	383,660
Housing benefits and allowances	2,591,269	2,505,214
Bargaining Council Levy	27,096	26,224
Standby Allowance	1,403,318	1,273,377
	93,007,309	92,022,601

40. Remuneration of councillors

Executive Mayor	1,003,179	964,345
Speaker	792,620	776,785
Chief Whip	762,569	733,908
Executive Committee	5,586,723	5,329,305
Councillors	15,413,367	14,938,499
	23,558,458	22,742,842

In-kind benefits

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

The Executive Mayor and Speaker have use of a Council owned vehicle for official duties.

Additional information

The salaries, allowance and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa and within the limits set by the Remuneration of Public Office Bearers Act No 20 of 1998.

41. Depreciation and amortisation

Property, plant and equipment	77,768,297	71,671,745
Intangible assets	220,961	220,961
Total Depreciation and Amortisation	77,989,258	71,892,706

Umzimvubu Local Municipality

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	2024	2023
42. Impairment losses		
Impairments		
Property, plant and equipment	32,325,016	5,607,071
Receivables from Exchange Transactions - Rentals	43,916	-
Receivables from Exchange Transactions - Refuse	-	1,195,656
Statutory Receivables - Rates	4,195,945	4,579,069
Statutory Receivables - Traffic fines	7,442,762	-
Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]		
	44,007,639	11,381,796
Reversal of impairments		
Statutory Receivables - Traffic fines	-	(590,170)
Receivables from Exchange Transactions - Rentals	-	(25,113)
Receivables from Exchange Transactions - Refuse	(2,022,379)	-
Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]		
	(2,022,379)	(615,283)
	44,007,639	11,381,796
	(2,022,379)	(615,283)
Total impairment losses recognised /(reversed)	41,985,260	10,766,513
43. Finance costs		
Interest on employee benefits	283,000	256,000
Interest on provision for landfill sites	380,270	781,984
Interest on overdue account	450,665	-
	1,113,935	1,037,984
44. Lease rentals on operating lease		
Equipment		
Contractual amounts	265,189	307,582
Landline phones		
Contractual amounts	579,829	-
	845,018	307,582
45. Debts waived off		
Debts waived off - Non-exchange receivables	1,715,364	-
46. Inventory consumed		
Inventory consumed	6,515,786	10,128,713

No write downs or reversals of inventory previously written down.

Umzimvubu Local Municipality

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	2024	2023
47. Contracted services		
Outsourced Services		
Business and Advisory	1,877,937	1,177,546
Catering Services	676,382	855,048
Cleaning Services	286,180	375,000
Internal Auditors	1,150,196	708,375
Personnel and Labour	12,237,535	13,617,412
Professional Staff	120,000	-
Security Services	23,018,528	19,028,947
Consultants and Professional Services		
Business and Advisory	18,594,006	17,475,129
Infrastructure and Planning	568,082	940,000
Legal Cost	4,908,149	4,209,939
Contractors		
Artists and Performers	-	196,000
Building	720,000	891,958
Catering Services	2,559,742	3,766,222
Employee Wellness	910,750	174,500
Event Promoters	705,375	771,717
Maintenance of Buildings and Facilities	1,701,570	2,451,310
Maintenance of Equipment	3,388,945	5,132,073
Maintenance of other Assets	12,787,568	12,528,905
Tracing Agents and Debt Collectors	6,882,887	8,095,485
Presented previously	-	-
Outsourced Services	39,366,758	35,762,328
Consultants and Professional Services	24,070,237	22,625,068
Contractors	29,656,837	34,008,170
	93,093,832	92,395,566
48. Transfers and subsidies		
Other subsidies		
Bursaries for scarce skills	820,386	661,047
Monetary allocations	3,137,963	2,747,073
Expenditure incurred to electrify houses and handed over to eskom	849,180	9,041,796
SMME Development	13,352,570	12,557,238
Section 21 Schools services rendered	539,992	-
	18,700,091	25,007,154
Grants paid to ME's	-	-
Other subsidies	18,700,091	25,007,154
49. Gain / (Loss) on disposal of assets		
Management has taken a decision to dispose of some assets that are deemed excess of requirements or assets broken and no longer useful in provision of services to the community.		
Carrying value of assets disposed off - Property, plant and equipment	(256,568)	(850,738)
Carrying value of assets disposed off - Intangible assets	(78,592)	-
Cash receipts	495,784	-
Replacement asset value	36,221	-
	196,845	(850,738)

Umzimvubu Local Municipality

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Notes to the Annual Financial Statements

	2024	2023
49. Gain / (Loss) on disposal of assets (continued)		
Facts and circumstances of the disposal		
Municipal assets were either damaged, lost or they were found to offer limited service potential and were thus disposed. An auction of municipal assets took place on the 13th of July 2023 and a total of R495 784 was realised. A computer laptop lost from a former employee and was replaced by a new laptop purchased by that employee.		
50. Actuarial gains / (loss)		
Actuarial gains / (loss)	4,190	(19,000)
51. Operating costs		
Achievements and awards	1,721,090	1,060,950
Advertising	2,682,982	3,051,267
Auditors remuneration	4,482,103	4,120,787
Bank charges	446,227	420,216
Bursaries (Employees)	706,999	624,144
Communication	4,691,927	5,440,242
Drivers licences and permits	206,773	189,679
External computer services	1,268,233	1,735,984
Financial loss	703,521	-
Hire charges	10,360,308	7,574,116
Indigent relief	4,036,613	6,011,867
Insurance	4,304,827	5,771,879
Learnerships and internships	374,154	519,891
Municipal services	6,472,851	6,213,166
Printing publications and books	555,015	838,337
Professional bodies membership and subscriptions	1,209,897	1,878,948
Registration fees	4,111,290	5,705,634
Remuneration to ward committees	4,658,160	4,694,818
Resettlement cost	3,916	6,500
Seating allowance for traditional leaders	76,218	46,147
Signage	207,600	429,170
Transport provided as part of departmental activities	1,914,220	1,499,023
Travel agency and visa's	785,411	787,573
Travel and subsistence	8,071,753	8,111,358
Uniform and protective clothing	1,837,073	3,212,261
Vehicle Tracking	1,075,013	550,394
Vehicle licensing	129,538	84,501
Wet fuel	5,415,252	6,430,350
	72,508,964	77,009,202
52. Auditors' remuneration		
Fees	4,482,103	4,120,787

Umzimvubu Local Municipality

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Notes to the Annual Financial Statements

	2024	2023
53. Cash generated from operations		
Surplus for the year	18,106,450	31,585,371
Adjustments for:		
Depreciation and amortisation	77,989,258	71,892,706
(Gains) / Losses on Disposal of Property, Plant and Equipment	629,052	850,738
Fair value adjustments	(712,476)	(3,481,623)
Impairment loss	41,985,260	10,766,513
Movements in operating lease assets and accruals	(2,738,445)	(4,589,013)
Contribution to Provisions - Current	37,549	(20)
Contributions to employee benefit for the year	9,605	857,282
Actuarial gain - Employee benefit	(4,190)	19,000
Donations	(12,560,492)	-
Provision for leave	(194,625)	1,140,275
Finance costs - Landfill site provision	2,839,323	1,037,984
Changes in working capital:		
Inventories	(1,029,801)	174,193
Trade and other receivables from exchange transactions	151,648	(1,249,298)
Consumer debtors	(6,575,048)	(9,072,126)
Other receivables	1,387,924	1,082,117
Trade and other payables from exchange transactions	17,664,194	16,074,308
VAT	1,167,095	(9,410,331)
Trade and other Payables from Non-Exchange Transactions	11,097,292	7,235,004
Increase in Operating lease liability	14,169	17,332
Other receivables	-	(3,707,395)
	149,263,742	111,223,017

Umzimvubu Local Municipality

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54. 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. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the . Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and nonderivative financial instruments, and investment of excess liquidity.

Additional text

Liquidity risk

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

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

Credit risk

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

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

Market risk

Interest rate risk

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with First National Bank and Nedbank. No investments with a tenure exceeding twelve months are made.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

The municipality had no floating rate long-term financial instruments at year-end requiring an Interest Rate Sensitivity Analysis.

Umzimvubu Local Municipality

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55. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Buildings	4,017,383	29,661,848
• Infrastructure	50,260,736	9,221,280
	54,278,119	38,883,128

Total capital commitments

Already contracted and provided for	54,278,119	38,883,128
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This Expenditure will be financed as follows:

Total commitments

Grant funding	49,843,117	2,304,780
Internal funding	4,435,002	36,578,348
	54,278,119	38,883,128

This committed expenditure relates to property and will be financed through government grants and internally generated funds.

56. Financial instruments disclosure

Categories of financial instruments

2024

Financial assets 2024

	At amortised cost	Total
Trade and other receivables from exchange transactions - Refuse	1,110,308	1,110,308
Trade and other receivables from exchange transactions - Rentals	346,441	346,441
Cash and cash equivalents - Bank balances	1,670,558	1,670,558
Cash and cash equivalents - Investments	64,633,831	64,633,831
Human Settlement Receivables	949,708	949,708
	68,710,846	68,710,846

Financial liabilities 2024

	At amortised cost	Total
Trade payables	35,542,896	35,542,896
Retentions	12,099,984	12,099,984
Accruals	14,866,049	14,866,049
Debtors with credit balances	6,611,283	6,611,283
Department of transport	492,870	492,870
	69,613,082	69,613,082

2023

Financial assets 2023

	At amortised cost	Total
Trade and other receivables from exchange transactions - Refuse	561,367	561,367
Trade and other receivables from exchange transactions - Rentals	18,275	18,275

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56. Financial instruments disclosure (continued)

Cash and cash equivalents - Investments	75,799,634	75,799,634
Cash and cash equivalents - Bank balances	3,305,358	3,305,358
	79,684,634	79,684,634

Financial liabilities 2023

	At amortised cost	Total
Trade payables	25,182,996	25,182,996
Retentions	4,169,302	4,169,302
Accruals	15,349,430	15,349,430
Debtors with credit balances	3,254,526	3,254,526
Department of transport	635,870	635,870
	48,592,124	48,592,124

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57. Contingencies

Contingent Assets

Umzimvubu Local Municipality vs Vuyo Chitha	102,000	102,000
An Application to release Mr Vuyo Chitha's pension fund to ULM where Mr Chitha is liable to pay the Municipality an amount of R 102 000 to ULM. As it stands counsel has been briefed to make an application in court ordering the Pension fund to release the funds to ULM for settlement. The pension fund number and pension fund that Mr Chitha was registered to has been requested from ULM so as to complete application.		

Contingent Liabilities

Lindelwa Nyokana vs Umzimvubu Local Municipality (Case No. 40/18):	200,000	200,000
The plaintiff is claiming a sum of R37 484,55 resulting from the damage to her motor vehicle as a result of a pothole in one of the municipal roads. Still waiting for notice of set down of the matter from the plaintiff's attorneys.		
Umzimvubu Local Municipality vs Thandeka Mgeyi and 4 others Case No.2914/2019	400,000	400,000
The municipality seeks eviction order from the court. The respondents invaded RDP houses at Chithwa Viliage, EXT5, MaXesibeni. The matter was referred for oral evidence and it is trial ready. The matter was before court on 7 March 2022 and was removed from the roll to allow the Municipality to bring its witness to court. The matter is still pending before court.		
Umzimvubu Local Municipality vs Rawutini Yicokise Gawulana & Others	150,000	200,000
Land Invasion on ERF 188 in EmaXesibeni. The matter appeared in court on the 9th of February 2021. Application dismissed with costs. ULM shall file documents to appeal. Application for leave to appeal has since been filed and awaiting judgement on samel. Application for leave to appeal is to be heard by the Supreme Court of Appeal on a date set for 2023.		
Andiswa Gxobole -Nomthwa's Projects v Umzimvubu Local Municipality	200,000	200,000
Demand for full payment of monies paid by the Director of Nomthwa Projects to effect repairs and installation of electricity at the Fresh Produce Market building belonging to ULM. The municipality is to prepare and file a plea as per the amended particulars of claim. The matter has since been consolidated with Case no: 957/2020 which is listed below.		
Umzimvubu Local Municipality vs M Zibuke Clothing & Multipurpose & Another: Case No. 2570/2017	400,000	400,000
The municipality seek an eviction order against the respondents at TRANSIDO KwaBhaca. The matter is in the process of re-enrolment. We have drafted explanatory affidavit to open temporal file, waiting for a date from the Registrar.		
Jane Ntombesithathu Nkondlwana vs Umzimvubu Local Municipality	200,000	200,000
ULM is 3rd respondent to the matter and the court has instructed as follows: "that the third respondent if need be, be and is hereby ordered to conduct an investigation into the welfare of respondent no 1 and 2 and provide them with accommodation where necessary as being part of its Constitutional mandate. The matter was finalised on 20 January 2022 and judgement in favour of the applicant. The matter has been appealed and is awaiting SCA.		
Prince Mbusi Mdlalose vs Umzimvubu Local Municipality Case No. 3359/2019	1,500,000	1,500,000
The plaintiff alleges that he was unlawfully arrested by the Municipal Traffic Officer on 10 September 2017, then handed him over to Mt Frere Police Station allegedly for exceeding the speed limit, detained for 7 hours and released on bail of R500.00. Pleadings closed and the matter ready for trial. Matter set down for a date in 2023.		

Umzimvubu Local Municipality

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57. Contingencies (continued)

Concerned Group of Sigidini Administrative Area - Mt Ayliff vs Umzimvubu Local Municipality Case No. 1986/2021 The applicant is concerned group of sigidini administrative area a group whose house were demolished by the municipality. the matter was before Court and was postponed to 06 July 2021 and the Court directed that the Municipality file its replying affidavit. Matter back in Court on 07 July 2021 wherein application was granted in favour of the Municipality. Matter is on appeal and pending. Municipality has since filed its heads of arguments.	200,000	200,000
PriceWaterHouseCoopers vs Umzimvubu Local Municipality Case No. 1351/2020 Claim in respect of services allegedly rendered in 2015, 2016 and 2019. The matter has been defended and consultation with the client is due. Application for rescission of default judgement granted in favour of the Municipality and a plea shall follow. The Municipality is preparing to file its plea.	910,209	910,209
Economic Freedom Fighters vs Umzimvubu Local Municipality Case No. 983/2021 High Court Application wherein the EFF seeks to declare ULM's dress code policies unlawful and unconstitutional and in the alternative to review and set aside ULM's dress code policies. A notice of intention to oppose was served and filed. Also, Answering Affidavit has also been prepared, served and filed. Awaiting Applicant's reply, if any. Applicants have since filed a supplementary founding affidavit. Filing of the supplementary answering affidavit was dismissed with costs. Matter ongoing	1,500,000	1,500,000
Simphiwe Mhlongo vs Umzimvubu Local Municipality Case No. 91/2014 This matter dates back to 2014 where the Municipality was sued by the Plaintiff for his unlawful arrest by the second defendant who at the time was employed by the Municipality. The trial commenced, evidence was led and argued to completion. However, the presiding magistrate passed away before delivering judgement. This necessitated a trial <i>de novo</i> . Trial shall begin on the 17th February 2023.	400,000	400,000
Dumisile Yozi vs Umzimvubu Local Municipality The plaintiff intends to sue the Municipality for damages amounting to R300 000 as a result of unlawful conduct he was subjected to by the Municipality's law enforcement officers. Notice of intention to institute legal proceedings received. Awaiting receipt of summons.	300,000	300,000
Umzimvubu Local Municipality vs Nolubabalo Khuzani & 62 Others The municipality is seeking a court order to evict the respondents illegally occupying RDP houses at Chithwa Viliage, EXT5 in MaXesibeni. The matter is still pending before court.	500,000	500,000
Fikile Bhekizulu vs Umzimvubu Local Municipality and others Application to declare immovable property belonging to the respondent that of the applicant as well as compelling the deed register to effect a rectification transfer.	500,000	500,000
Umzimvubu Local Municipality vs Jabulani Hardware Application by the Municipality for declaratory relief as well as interdictor relief arising from land zoning.	350,000	-
This claim is not financially related and there is no monetary value estimated. It is uncertain whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. Matter is still ongoing.		

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Notes to the Annual Financial Statements

57. Contingencies (continued)

Ayalneh Mandefra Fantaye vs Umzimvubu Local Municipality Notice of intention to institute legal proceedings received pertaining allegations of motor collision by Municipal vehicle. Letter by the municipal legal representatives denying liability on the part of the municipality and further requesting proof that the persons mentioned in the Letter of Demand are indeed the employees of the Municipality was dispatched to the Plaintiff. Awaiting the service of Summons by the Plaintiff and will soon remove the matter from the register as it will have prescribed. Matter is pending.	650,000	650,000
Siti Cargo vs Umzimvubu Local Municipality Damages of R5 861 678 allegedly suffered by the plaintiff in respect of the termination of contract, contract number: UMZ/2018/19/INFRA/MIG/005 for construction of Silindini bridge. The Municipality is in the process of drafting its plea and is considering taking the matter on alternative dispute resolution in terms of Rule 41A(2)(a) of the Uniform Rules of Court. Municipal attorneys are to conduct an inspection of the Silindini bridge on 13 February 2023.	2,500,000	2,500,000
Geolocate vs Umzimvubu Local Municipality The plaintiff is claiming an amount of R152 720 allegedly due by ULM in respect of services rendered. Letter of demand. The municipality is still to determine work done by the service provider then advise lawyers. Summons have since been received and the Municipality has filed its Plea in response and the matter is trial ready.	500,000	500,000
Norman Ndongeni vs ULM : Case no. 4779/2021 This matter is primarily between the applicant and the first respondent Miss Thembisa Ndongeni. The applicant seeks to evict the first respondent together with various other persons allegedly in unlawful occupation of the property in question. The ULM is cited in the application as the 4th respondent for compliance purposes only and no order is sought against it. However, legal representation is necessary as the Court may mero motu require the Municipality to intervene. The Municipality has since filed its affidavit/report as directed by the Court. The matter was set down for hearing in the opposed roll of 28 April 2022. Application dismissed with costs. On 19 October 2022, applicant has filed an application for leave to appeal. Application to be heard of 02 February 2023. Application for leave to appeal was heard and judgement reserved.	200,000	200,000
AM Engineering (Pty) Ltd v ULM : Case no. 6030/2022 The matter relates to a contractual dispute between the Plaintiff and the Municipality. The Plaintiff alleges that the Municipality unlawfully repudiated the contract between the parties without any just cause. The plaintiff now sues the Municipality for outstanding invoices and loss of profits. An notice of intention to defend the matter has since been filed by the Municipal attorneys together with a notice calling upon plaintiff's attorneys to produce proof of authority to act on behalf of the plaintiff. Further to these, a notice in terms of Rule 41A(2)(a) has since been filed requesting the plaintiff to indicate whether it agrees or opposes the referral of the matter to an ADR mechanism. Consultation with the Municipality shall be held in due course.	1,800,000	1,800,000
Nokuzola Christella Canca v ULM : Case no. 5981/2022 The Applicant Mrs. NC Canca seeks an order declaring the decision of the Municipality to approve the building plans of ERF 242 (KwaBhaca Mall) as unlawful, illegal and irregular and stands to be reviewed and set aside as such decision is in contravention of the Municipality's SPLUMA By-laws. The Municipality has filed its intention to oppose and is due to file a Rule 53 record whilst consulting to prepare answering affidavit.	500,000	500,000

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Notes to the Annual Financial Statements

57. Contingencies (continued)

Makalala Mbulawa vs Umzimvubu Local Municipality High Court - Case no. 1420/2023 The applicant claims damages which amount to R900 000 as a result of alleged unlawful conduct which include assault and arrest by the employees of the defendant (ULM) while conducting evictions on ERF 188 EmaXesibeni. The matter is still pending before the High Court	200,000	200,000
Bhekinkosi Makhasana vs Umzimvubu Local Municipality - High Court - Case no: 1441/2023 The applicant claims damages which amount to R 1000 000 as a result of alleged unlawful conduct which include assault and arrest by the employees of the defendant (ULM) while conducting evictions on ERF 188 EmaXesibeni. The matter is still pending before the high court.	200,000	200,000
Ngubela Malibaba vs Umzimvubu Local Municipality - High Court - Case no: 1419/2023 The applicant claims damages which amount to R1 200 000 as a result of alleged unlawful conduct which include assault and arrest by the employees of the defendant (ULM) while conducting evictions on ERF 188 EmaXesibeni. The matter is still pending before the high court.	200,000	200,000
Nelisiwe Nkalitshana vs Umzimvubu Local Municipality - High Court - Case no: 1442/2023 The applicant claims damages which amount to R1 100 000 as a result of alleged unlawful conduct which include assault and arrest by the employees of the defendant (ULM) while conducting evictions on ERF 188 EmaXesibeni. The matter is still pending before the high court.	200,000	200,000
Sibusiso Bonakele & Others vs Umzimvubu Local Municipality - High Court - Case no: 1443/2023 The applicant claims damages which amount to R450 000 per individual and a total of R22 950 000 as a result of alleged unlawful conduct which include assault and arrest by the employees of the defendant (ULM) while conducting evictions on ERF 188 EmaXesibeni. The matter is still pending before the High Court.	200,000	200,000
Nonyamezela Khwebulana & Others vs Umzimvubu Local Municipality The applicants seek temporary accommodation as a result of houses that were demolished on the 04th of April 2023 on the municipal land, ERF 188 EmaXesibeni. The matter was before Judge Zilwa on an urgent basis on 02 May 2023, and the matter postponed to 30 May 2023. The matter has become opposed by the Municipality and we have filed an Answering affidavit. The matter was finalised during the year in the favour of the plaintiff.	-	500,000
Silindile Mhlwana and others vs Umzimvubu Local Municipality The plaintiffs launched a claim for damages to the amount of R350 000 resulting from the Municipality having allegedly demolished their homes which were unlawfully built on a portion of land belonging to the Municipality. The matter shall go on trial still waiting for pre-trial minutes from plaintiffs attorney.	600,000	600,000
Nomagalati Dyantyi vs Umzimvubu Local Municipality The Applicant is seeking an order for the eviction of the second respondent from the residential homestead no 41 at Badibanise administrative area Mount Frere. The municipality is cited herein only for comply purposes in terms of the PIE Act. The matter was before court on 29 July 2022, it was removed from the roll. There is no progress from the applicants attorney since then.	200,000	200,000

Umzimvubu Local Municipality

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Notes to the Annual Financial Statements

57. Contingencies (continued)

Umzimvubu Local Municipality vs Phumeza Mbasane Nompumza	250,000	250,000
The municipality in this matter has instituted civil proceedings against the deceased estate in terms of which it seeks to recoup municipal funds. The municipality has since filed an application for default judgment and is awaiting the courts ruling in this regard. The municipal attorneys have filed a request for default judgment.		
Nontuthuzelo Shazi vs Umzimvubu Local Municipality	-	500,000
The above matter concerns an employee who alleges that she has been unlawfully dismissed by the municipality and the matter has now been referred to the South Africa Local Government Bargaining council for a ruling. The matter has been referred for Arbitration and will be heard shortly.		
Judgment was issued in October 2023 in favour of the municipality.		
Nduku Mbonisi vs Umzimvubu Local Municipality - Case no:106/2023	500,000	-
Yandu Consulting Engineers are claiming fees owed by the municipality under contract number: UMZ/2014/-15/INFRA/MIG/035, designing of Mandileni Cluster Sports Facility. Amount claimed is R266 868.09. The Plaintiff has issued summons and the matter is bieng defendent. The Municipality has filed a special plea in respect to this matter.		
Umzimvubu Local Municipality vs Andiswa Ketwa and Others - Case no : 3525/2024	200,000	-
The municipality is an applicant in this matter seeking a demolition order over the unlawful invasion and bulding of structures on ERF 351, KwaBhaca. The matter is still pending before the High Court.		
SGM Tyres and Car wash vs Umzimvubu Local Municipality - Case no:4244/2023	250,000	-
The applicant SGM TYRES and car wash cooperative have approached the high court in effort to interdict and set aside the awarding of the tender of supplying uniforms by FG Uniforms CC to ULM. The Municipalities external attorneys have opposed the matter. Part A of the application has been granted in favour of the applicant which was to interdict the process of supplying the Uniform by FG Uniforms. Part B of the application in which the applicant sought to set aside the awarding of the tender in its entirety. Case remains to be argued.		
Cecil Nomvume Makaula and others vs Umzimvubu Local Municipality - Case no: 4759/2023	500,000	-
IN Makaula and Others vs Umzimyubu Local Municipality. The applicants in the this matter sought relief against the municipality . The court ordered that the matter be mediated and that a report be furnished to court reporting on the outcome of the mediation. The mediation has commenced and is ongoing		
Bulelani Mvundlela and Ndlovukazi Mdlalo vs Umzimvubu Local Municipality	500,000	-
The applicant in this matter Bulelani Mvundlela has instituted contempt proceedings against the municipality on allegations that the municipality has not complied with a court order which directs it to build a drainage system in a staduim at Badibanise Location. The Matter was intially set down for the 30th January 2023 however was not placed on the roll.		
Nikitha Matiba Ntanja vs Umzimvubu Local Municipality	200,000	-
The applicant Nikkita Matiba Ntanja seeks an order to the effect that the title deed issued to the first respondent by the deeds office be declared null and void. The Municipality bieng the 5th respondent in the matter is bieng cited for compliance in terms of the PIE Act. The matter is before the high court in Mthatha and the 1st to the 4th responded have been directed to file their answering affidavits.		

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

57. Contingencies (continued)

Napoleon Gxumisa vs Umzimvubu Local Municipality The applicant sought an order to compel the first respondent Nkosikhona Gxumisa and all those who occupy a rural site commonly known as Eshoweni bus depot, to be vacated from the premises with 30 days. The Municipality is being cited for compliance purposes. This is a new matter and has been set down for hearing for the 28th of November 2023 and subsequently removed from the roll.	200,000	-
Bulelani Mvundlela vs Umzimvubu Local Municipality The plaintiff Bulelani Mvundlela has instituted damages claim against the municipality resulting from storm water damage to plaintiffs property due to defective drainage systems in the area. The Municipality is defending the matter and a Plea has been filed.	500,000	-
Umzimvubu Local Municipality vs Lwazi Masiko and others - High Court Case no: 3301/2023 The Municipality as applicants in this matter sought an order declaring that the buildings, structure and rudimentary structures upon the remainder of ERF 188 Mount Ayliff are illegal. An intervention application was brought by Mr, Makala and others which varied the final that was initially obtained into a Rule Nisi. The intervening parties failed to file any further papers. The matter is to be set down for finalization.	150,000	-
Nothemba Manxusa vs Umzimvubu Local Municipality - Case no : 3209/2023 The applicant Nothemba Manxusa sought a reversion application against the initial order which was granted against the respondent in the main application bearing the case number 3209/2019 on grounds that it was fraudulently granted to the applicant. The matter was initially an eviction matter where applicant sought the eviction of the first respondent and the municipality was cited as the second respondent for compliance purposes.	200,000	-
Nomxolisi Makaula and another vs Umzimvubu Local Municipality The Municipality as applicants in this matter herein sought an urgent order prohibiting the First to the Fifth respondent (hereinafter referred to as the respondents) from persisting the unlawful conduct they are perpetrating on the property of the applicant which is the Municipality's land. The matter was set down for hearing in Mthatha High Court and the interim order granted in favour of the municipality.	400,000	-
	19,510,209	16,610,209

For all the legal matters above, there are uncertainties regarding the timing and the estimated future monetary outflows and whether, or not, the municipality will be liable to pay for the legal fees and the timing of such. These matters are still ongoing.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

58. Related parties

Related party balances

Receivables from related parties

Staff and councilors debt

Cllr Mdzinwa	332	2,170
Cllr N Garane	1,736	-
GPT Nota (Municipal Manager)	5,850	1,470
KP Dlamini-Tshazi (Senior Manager - Manager Community Services)	-	2,291
AR Makanda (Senior Manager Local Economic Development)	434	-

The services rendered to Related Parties are charged at approved tariffs that were advertised to the public. No bad debts were written off or recognised in respect of amounts owed by related parties.

The amounts outstanding are unsecured and will be settled in cash. Consumer deposits were received from Councillors, the Municipal Manager and Section 57 personnel. No expense has been recognised in the period for bad or doubtful debts in respect of the amounts owed by related parties.

Purchases from Related Parties - GRAP 20 disclosure

The municipality bought goods from the following companies, which are considered to be Related Parties:

Glenhope Trading	3,436,710	-
Related person: Qaba Zembe		
Company Capacity: Owner (wife)		
Municipal Capacity: Snr Manager		
2nd World Guest House	-	22,825
Related person: Mr Mdzinwa		
Company Capacity: Owner (husband)		
Municipal Capacity: Pr Concillor.		
Moepangauta T/A Madlanga Partner	1,104,840	2,083,233
Related person: L. Mandlanga		
Company Capacity: Owner (Brother)		
Municipal Capacity: Official		
Brotherly Love Trading and Projects	169,986	-
Related person: Qaba Zembe		
Company Capacity: Owner (wife)		
Municipal Capacity: Snr Manager		
Myoza-Myoza Trading	4,935,785	10,351,536
Related person: B. Jokazi		
Company Capacity: Owner (wife)		
Municipal Capacity: Official		
Nkwali AM Trading Enterprise	3,372,898	-
Related person: F Nyembezi		
Company Capacity: Brother		
Municipal Capacity: Bid Specification Committee member		

The related parties to the above companies were not involved in procurement processes undertaken in appointing them.

13,020,219	12,457,594
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Leave accrual owed to Executive Management

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

58. Related parties (continued)

Manager - GPT Nota	130,925	117,701
Chief Financial Officer - FT Fundira	-	105,424
Senior Manager Local Economic Development - SC Ntinzi	-	105,424
Senior Manager Infrastructure and Planning - LJ Moleko	46,992	70,327
Senior Manager Chief Operations Officer - N Zembe	88,802	105,424
Senior Manager Corporate Services - TT Madotyeni-Ngcongca	-	101,032
Senior Manager Local Economic Development - AR Makanda	50,965	-
Chief Financial Officer- K Mehlomakhulu	50,965	-
Senior Manager Community Services - KP Dlamini-Tshazi	112,217	96,683

Staff Leave accrues to the staff of the municipality on an annual basis, subject to certain conditions. The liability is an estimate of the amount due at the reporting date.

The cost of leave accrual is recognised in the period in which the service is rendered and are not discounted. The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The entity measure the expected cost of accumulating compensated absences as the additional amount that the municipality expects to pay as a result of the unused entitlement that has accumulated at the reporting date. The leave accrual is expected to be paid out through the compensated absence of employees in the next 12 months.

No leave encashment is made unless an employee has left the municipality.

There are no assets that have been set aside for the leave accrual, these are provided for through the three year MTREF budgeting of employee costs.

Provision for bonus

Manager - GPT Nota	41,507	39,011
Chief Financial Officer - FT Fundira*	-	32,030
Senior Manager Local Economic Development - SC Ntinzi*	-	32,030
Senior Manager Infrastructure and Planning - LJ Moleko	31,150	32,030
Senior Manager Chief Operations Officer - N Zembe	34,080	32,030
Senior Manager Corporate Services - TT Madotyeni-Ngcongca	-	32,030
Senior Manager Community Services - KP Dlamini-Tshazi	34,080	32,030
Chief Financial Officer - K Mehlomakhulu	26,700	-
Senior Manager Local Economic Development - A Makanda	26,700	-

The above amounts have not yet been paid to the managers.

* - Resigned during the year

Key management information

Class	Description	Number
Mayor	Mayor	1
Councillors	Councillors	55
Municipal Manager	Municipal Manager	1
Senior management	Senior management	5

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

58. Related parties (continued)

Remuneration of management

Management class: Councillors

	Basic salary	Allowances	Contributions to funds	Total
2024				
Executive Mayor - Cllr Z Ndevu	498,095	365,503	139,581	1,003,179
Speaker - Cllr N Nomnganga (N1)	351,270	331,654	50,284	733,208
Speaker - Cllr HM Ngqasa (N1)	29,556	21,983	7,873	59,412
Chief whip -Cllr FN Ngonyolo	373,572	293,962	95,034	762,568
Executive committee	2,699,493	2,325,102	562,128	5,586,723
Councillors	7,006,127	7,224,969	1,182,272	15,413,368
	10,958,113	10,563,173	2,037,172	23,558,458

	Basic salary	Allowances	Contributions to funds	Total
Name				
Executive Mayor - Cllr Z Ndevu	461,136	362,838	131,142	955,116
Former Executive Mayor - Cllr SK Mnukwa (2022 backpay)	9,229	-	-	9,229
Speaker - Cllr HM Ngqasa	375,831	309,266	91,688	776,785
Chief whip -Cllr FN Ngonyolo	353,236	289,613	91,059	733,908
Executive committee	2,538,293	2,293,248	535,429	5,366,970
Councillors	6,596,243	7,131,350	1,173,241	14,900,834
	10,333,968	10,386,315	2,022,559	22,742,842

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

58. Related parties (continued)

Councillors were compensated within the limits set by the Remuneration of Public Office Bearers Act No 20 of 1998.

In-kind Benefits

Councillors may utilise official Council transportation when engaged in official duties.

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

Notes

N1 - Speaker, Cllr HM Ngqasa resigned on the 31st of July 2023 and a new Speaker, Cllr N Nomnganga was appointed from the 1st of August 2023. Cllr N Nomnganga has since resigned as Speaker in July 2024.

	Basic salary	Termination benefits	Car and other allowances	Annual bonus	Acting allowance	Contributions to Funds	Total
Name							
Remuneration of Municipal Manager - GPT Nota	887,050	-	482,174	145,731	-	2,262	1,517,217
Remuneration of the Chief Financial Officer - K Mehlomakhulu (N1)	310,167	-	180,931	-	-	1,131	492,229
Remuneration of the Chief Financial Officer - FT Fundira (N2)	109,841	117,636	32,991	118,968	-	189	379,625
Remuneration of the Acting Chief Financial Officer - S Mbusi (N3)	-	-	-	-	43,808	-	43,808
Remuneration of the Senior Manager Local Economic Development - A Makanda (N4)	293,692	-	180,931	-	16,475	1,131	492,229
Remuneration of the Senior Manager Local Economic Development - SC Ntinzi (N5)	222,952	135,779	98,972	47,130	-	566	505,399
Remuneration of the Senior Manager Infrastructure and Planning - LJ Moleko (N6)	528,258	90,534	277,068	42,417	-	1,697	939,974
Remuneration of the Senior Manager Chief Operations Officer - N Zembe	731,954	-	395,889	189,455	-	2,262	1,319,560
Remuneration of the Senior Manager Corporate Services - TT Madotyeni-Ngcongca (N7)	640,563	88,801	342,579	137,225	4,242	2,239	1,215,649
Remuneration of the Acting Senior Manager Corporate Services - T Funani (N8)	-	-	-	-	21,563	-	21,563

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

58. Related parties (continued)

for Related parties (continued)							
Remuneration of the Senior Manager Community Services - KP Dlamini-Tshazi	731,954	-	395,889	133,428	-	2,262	1,263,533
	4,456,431	432,750	2,387,424	814,354	86,088	13,739	8,190,786
		Basic salary	Termination benefits	Car and other allowances	Annual bonus	Contributions to Funds	Total
Name							
Remuneration of Municipal Manager - GPT Nota		850,041	189,166	464,095	168,096	2,067	1,673,465
Remuneration of the Chief Financial Officer - FT Fundira		698,784	-	381,045	108,194	2,255	1,190,278
Remuneration of the Senior Manager Local Economic Development - SC Ntinzi		698,784	-	381,045	54,097	2,255	1,136,181
Remuneration of the Senior Manager Infrastructure and Planning - LJ Moleko		698,784	-	381,045	110,358	2,255	1,192,442
Remuneration of the Senior Manager Chief Operations Officer - N Zembe		701,261	114,527	381,046	180,035	2,067	1,378,936
Remuneration of the Senior Manager Corporate Services - TT Madotyeni-Ngcongca		698,784	-	381,046	116,850	2,255	1,198,935
Remuneration of the Senior Manager Community Services - KP Dlamini-Tshazi		698,784	-	381,046	110,357	2,255	1,192,442
		5,045,222	303,693	2,750,368	847,987	15,409	8,962,679

*Refer to note "Employee related costs"

N1: K Mehlomakhulu was appointed as the Chief Financial Officer from 1 January 2024.

N2: T Fundira's term as the Chief Financial Officer ended on 31 of July 2023

N3: S Mbusi acted as Chief Finance Officer from 1 August 2023 to 31 December 2023

N4: A Makanda was appointed as Senior Manager for Local Economic Development from 1 January 2024. He also acted in the position in December 2023 before his appointment.

N5: SC Ntinzi's term as the Senior Manager Local Economic Development ended on 30 September 2023

N6: LJ Moleko's term as the Senior Manager Infrastructure and Planning ended on 31 August 2023 and was reappointed in December 2023.

N7: Madotyeni-Ngcongca acted as Senior Manager Infrastructure and Planning from September 2023 to November 2023, Furthermore, Madotyeni-Ngcongca's contract as Senior Manager Corporate Services ended in April 2024.

N8: T Funani acted as Senior Manager Corporate Services from May 2024.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

59. Fruitless and wasteful expenditure

Opening balance as previously reported	839,721	862,725
Add: Fruitless and wasteful expenditure identified - current	450,665	-
Less: Amount recovered - current	-	(23,004)
Less: Amount written off - prior period	(450,665)	-
Closing balance	839,721	839,721

Fruitless and wasteful expenditure is presented inclusive of VAT.

The case relates to 3 officials that were formally placed at the eNaTis officials and the result of Disciplinary proceedings led to the recovery that is in progress at reporting date. In addition, there is an amount paid to an incorrect service provider and was not recovered.

After investigation by the MPAC, on the 26th June 2024 as per Council Resolution CR 060/2023/2024, it was resolved that an amount of R450, 665 be written off by Council.

60. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

Current year subscription / fee	1,186,062	1,082,117
Amount paid - current year	(1,186,062)	(1,082,117)
	-	-

Audit fees

Current year subscription / fee	5,164,451	4,738,905
Amount paid - current year	(5,164,451)	(4,738,905)
	-	-

PAYE and UIF

Current year subscription / fee	20,984,023	20,208,926
Amount paid - current year	(20,984,023)	(20,208,926)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	21,944,058	20,610,137
Amount paid - current year	(21,944,058)	(20,610,137)
	-	-

Councillors' arrear consumer accounts

Refer to the related party disclosure note 58

30 June, 2024	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor Mdzinwa	332	-	332
Councillor AN Garane	1,736	-	1,736
	2,068	-	2,068

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

60. Service concession liabilities (continued)

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. There were no transactions incurred through deviations during the year.

61. SCM regulation 45 disclosures

The municipality bought goods from the following companies, where the directors are (related to) government officials.

The transactions were concluded in full compliance with the municipality's Supply Chain Management Policy and the transactions are considered to be at arm's length:

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

61. SCM regulation 45 disclosures (continued)

Njola Mhle Construction	-	75,000
Related person: N. Xashimba		
Company Capacity: Owner (brother)		
Municipal Capacity: Official		
MNP Daughters	-	27,200
Related person: A .Mdledle		
Company Capacity: Owner (mother)		
Municipal Capacity: Official		
Zimomo Trading	-	78,490
Related person: A .Fikeni		
Company Capacity: Owner (Child)		
Municipal Capacity: Official		
SMS Mobile PTY Ltd	-	-
Related person: N. J. Maqulai		
Company Capacity: Owner (Spouser)		
Municipal Capacity: Official		
This is rates based contract.		
Kwik Way Solutions	-	144,104
Related person: A .Tandwa		
Company Capacity: Owner (Wife)		
Government official: Department of Social Development Official		
Funkymilla Trading	-	2,402,671
Related person: A. Mandlana		
Company Capacity: Owner (Brother)		
Municipal Capacity: Official		
Smondez Dyetype Trading	-	25,419
Related person: A. Fikeni		
Company Capacity: Owner (Son)		
Municipal Capacity: Official		
Mfalo Farming and Projects	237,188	330,809
Related person: S. Tshekela		
Company Capacity: Owner (Spouse)		
Municipal Capacity: Official		
Nomako Trading and Construction	50,995	29,265
Related person: P. Conjwa		
Company Capacity: Owner (Daughter)		
Municipal Capacity: Official		
Aphola Trading	-	29,500
Related person:		
Company Capacity: Owner (Spouse)		
Government official: Department of Sports and Culturel		
Lihlume Ilizwe Trading	298,590	282,445
Related person: Ntlamba		
Company Capacity: Owner (Spouse)		
Municipal Capacity: Official		

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

61. SCM regulation 45 disclosures (continued)

Lito Trading Enterprises	-	1,668,414
Related person: Canca		
Company Capacity: Owner (Spouse)		
Municipal Capacity: Official		
Yakhalungisa Engineering	8,425,450	8,306,581
Related person: N. Ndongeni		
Company Capacity: Owner (Sister)		
Municipal Capacity: Official		
	9,012,223	13,399,898

62. Unauthorised expenditure

Opening balance as previously reported	11,030,132	-
Add: Unauthorised expenditure - current	-	11,030,132
Add: Unauthorised expenditure - prior period	623,511	-
Less: Amount written off	(11,653,643)	-
Closing balance	-	11,030,132

2024 financial year

No unauthorised expenditure was incurred during the year.

2023 financial year

This is impairment of infrastructure assets of R5 607 071 that were damaged due to heavy rains and was not budgeted for. Furthermore due to the slow rate of payments of debtors, there was impairment of receivables from exchange and non exchange transactions of R6 046 572 recognised at year end inline with GRAP 104 requirements. This unauthorised expenditure is a non-cash expenditure.

After investigation by the MPAC, on the 26th June 2024 as per Council Resolution CR 060/2023/2024 it was resolved that an amount of R11 653 643 be written off by Council.

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

Non-cash	-	11,030,132
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Analysed as follows: non-cash

Provision of impairment	-	11,030,132
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63. Irregular expenditure

Opening balance as previously reported	26,840,657	-
Add: Irregular expenditure - current	24,323,341	26,840,657
Less: Amount written off - current	(45,633,423)	-
Closing balance	5,530,575	26,840,657

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

63. Irregular expenditure (continued)

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

	Disciplinary steps taken/criminal proceedings		
Unregulated use of standard price on catering services	N1	802,805	3,691,197
Deviation on existing contract not properly approved	N1	-	4,500,000
Irregular expenditure from improper use of panels	N1	17,989,961	18,469,460
Non compliance with SCM regulations		5,530,575	-
		24,323,341	26,660,657

Amount written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of 45,633,423 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable. The write off was approved on the 26th June 2024 as per Council Resolution CR 060/2023/2024.

Disciplinary steps taken/criminal proceedings

N1: The council resolved that no disciplinary steps / criminal proceedings would be taken against any municipal official as services were rendered and value for money received.

N2: The contract was declared irregular during the 2024 audit. There are no disciplinary steps that have been taken as yet.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

64. Accounting by principals and agents

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

Entity as Agent

Department of Transport

The Municipality is an agent for the Department of Transport wherein it is delegated to register and licence motor vehicles on its behalf.

There are no assets or liabilities that are held or incurred on behalf of the principal and recognised in our financial statements. The risks associated with the principal-agent relationship that exist on any monies collected by the municipality on behalf of the principal lies solely with the municipality.

During the year, all collections made are banked and paid over to the Department of Transport two times a month. The income due to the municipality according to the agreement is 19% of the amount collected subject to certain conditions as per the Service Level Agreement and National Road Traffic Act, Act 93 of 1996. During the year, a total of R14 600 427 (2023: R12 746 633) was collected gross of commission, and the municipality has recognised a revenue of R2 360 443 (2023: R2 065 526) exclusive of VAT.

Monies due to the principal at year end was R492 870 (2023: R635 870).

Minimal risk was transferred from the Department of Transport, as the principal, to Umzimvubu Municipality, as the agent, beyond the cash collected on behalf of the principal.

Eastern Cape Department of Human Settlements.

The Municipality is acting as an agent to the Eastern Cape Department of Human Settlement into a principal agent arrangement entered between the municipality and the department. In this agreement between Eastern Cape Department of Human Settlements and the municipality, transactions are done with a third party in building the houses on behalf of the Department.

The amount received from the Department that remained unspent at 30 June 2024 was R0 (2023: R88 259), and the municipality has paid an amount of R7 839 (2023: R0) on behalf of the Department. The department did not transfer any risks to the municipality in this arrangement. A total of R2 482 200 (2023: R3 484 362) was spent on behalf of the principal during the current reporting period. The municipality has returned an amount of R88 260 (2013: R0) to the principal.

The municipality has recognised a revenue of R818 929 (2023: R0) exclusive of VAT.

Independent Development Trust

The Umzimvubu Local Municipality (ULM) has entered into a Memorandum of Agreement (MoA) with the Independent Development Trust (IDT). In this agreement, the IDT will manage the implementation of the development / construction of new ULM offices to an extent of 4ha in Sophia Town Kwa Bhaca and a the alterations to existing offices in Kwa Bhaca. ULM is a principal to this arrangement.

The purpose of this relationship is to change the face of the Municipality towards service delivery, value additions and to build offices that are accessible to the community of Umzimvubu Local Municipality.

IDT will be responsible for providing and managing all necessary facilities, equipment, internal finances and personnel for the performance of its functions. During the year there has been no changes in the terms and conditions of this agreement.

Amongst others, this arrangement is exposed to the poor delivery by suppliers resulting to slow turnaround time, abandoned variation orders and non compliance with laws and regulations resulting to litigations. The arrangement has a risk management plan in place to address and minimise all the risk identified.

During the current period, the municipality has paid a gross amount of R0 (2023: R7 255 712) which is capitalised as part of the project cost. The total gross amount paid include a 5.5% commission paid to the agent for the current period of R0 (2023: R399 064), which is included in the amount paid to the project.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

64. VAT output accrual (continued)

IDT does not hold any assets or liabilities on behalf of the municipality in its custody.

There were no changes made during the year to this arrangement.

There are no risks transferred to the agent in implementing this agreement.

Eskom Holding

FREE BASIC ELECTRICITY

Eskom, on behalf of Umzimvubu Local Municipality (ULM), provides free basic electricity through its prepaid and conventional meters to eligible customers falling within the municipal boundaries of the ULM. The municipality provides Eskom with an indigent list and shall review and resubmit the list but limited to four times a year.

Eskom supplies tokens or allocations to eligible customers on a targeted basis as provided in the FBE Policy or as agreed between the municipality and Eskom.

Eskom provides this service (50kWh) in advance, submit tax invoice and reimbursed by the municipality on the basis of the recommended National Tariff for the provision of FBE as amended by the National Energy Regulator of South Africa (NERSA). Eskom receives no further compensation in terms of the agreement. ULM is a principal to this arrangement.

ULM has paid an amount of R972 771 (2023: R974 062) to Eskom as a reimbursement for the free services provided by Eskom to indigent beneficiaries and no compensation has been paid to Eskom during the current and prior years.

Resource and/or cost implications for the entity if the principal-agent arrangement is terminated

There will be no cost implications for ULM if the arrangement is terminated

65. Going concern

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

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

(i) The Council adopted the 2024 to 2027 Budget. This three-year Medium Term Revenue and Expenditure Framework (MTREF) to support the ongoing delivery of municipal services to residents reflected that the Budget was cash-backed over the three-year period.

(ii) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

(iii) Strict daily cash management processes are embedded in the municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the Budget. The cash management processes is complemented by monthly and quarterly reporting, highlighting the actual cash position, including the associated risks and remedial actions to be instituted.

(iv) As the municipality has the power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services. Certain key financial ratios, such as liquidity, cost coverage, debtors' collection rates and creditors' payment terms are closely monitored and the necessary corrective actions instituted.

Taking the aforementioned into account, management has prepared the Annual financial statements 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.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

66. Prior-year adjustments

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

Statement of financial position

2022

	Note	As previously reported	Correction of error	Change in accounting policy	Restated
Inventories (N5)		2,420,700	(80,100)	-	2,340,600
Property, Plant and Equipment (N1)		925,086,445	1,449,522	-	926,535,967
VAT receivables (N3)		6,860,717	-	(4,013,594)	2,847,123
VAT input accrual (N3)		-	-	2,373,869	2,373,869
VAT output accrual (N3)		-	(10,190,768)	(10,642)	(10,201,410)
Receivables from non-exchange transactions (N2)		15,445,112	(1,708,796)	-	13,736,316
Accumulated surplus		(1,005,928,822)	10,530,142	1,650,367	(993,748,313)
		(56,115,848)	-	-	(56,115,848)

2023

	Note	As previously reported	Correction of error	Change in accounting policy	Re-classification	Restated
Inventories (N5)		2,949,317	(80,100)	-	-	2,869,217
Property, Plant and Equipment (N1)		980,505,106	1,406,208	-	-	981,911,314
Trade and other Payables from Non-Exchange Transactions (N3)		(3,389,169)	1,104	-	(3,610,742)	(6,998,807)
Trade and other Payables from Exchange Transactions		(45,336,507)	(1,091)	-	-	(45,337,598)
Unspent conditional grants and receipts (N4)		(3,610,742)	-	-	3,610,742	-
VAT receivables (N3)		12,605,799	-	(5,763,639)	-	6,842,160
VAT input accrual (N3)		-	-	4,269,939	-	4,269,939
VAT output accrual (N3)		-	(10,497,674)	(10,094)	-	(10,507,768)
Receivables from non-exchange transactions (N2)		20,395,551	(1,722,762)	-	-	18,672,789
Accumulated surplus		(1,035,560,743)	10,894,315	1,503,794	-	(1,023,162,634)
		(71,441,388)	-	-	-	(71,441,388)

N1: The error relates to a Library that was donated to the municipality in 2022 and was not accounted for. This has since been recognised. The cost of the library is R1 462 219. The depreciation for the 2023 was also restated by R43 313.

N4: Unspent conditional grants have been reclassified and are now included in the Trade Payables from Non-exchange transactions. This was necessitated by the fact that the unspent conditional grants are also payables from Non-Exchange transactions and the current disclosure represents an accurate presentation of the liability.

N5: This error relates to the valuation of inventory that had been incorrectly done in the valuation report.

Statement of financial performance

Umzimvubu Local Municipality

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Notes to the Annual Financial Statements

66. Prior-year adjustments (continued)

2023

	Note	As previously reported	Correction of error	Restated
Operational revenue (N7)		(127,967)	(83,443)	(211,410)
Property rates (N2)		(47,151,195)	168,895	(46,982,300)
Interest received - Non-Exchange Transactions (N2)		(2,041,631)	22,925	(2,018,706)
Construction contracts revenue (N3)		(2,352,948)	306,906	(2,046,042)
Fines, Penalties and Forfeits (N8)		(3,337,402)	22,623	(3,314,779)
Depreciation (N1)		71,849,393	43,313	71,892,706
Impairment losses (N2 and N3)		11,030,132	(263,619)	10,766,513
Operational costs (N6)		76,896,550	112,652	77,009,202
Inventory consumed (N6)		10,128,713	(112,652)	10,016,061
Surplus for the year		31,802,972	(217,600)	31,585,372
Surplus for the year		146,696,617	-	146,696,617

N1: The error relates to Land that was previously authorised for disposal by council and was not transferred from Land owned for use to Land owned for disposal. Furthermore, an analysis of moveable's useful lives resulted in the municipality changing these and recognising an error as the assets had no carrying amounts and yet they were still in use. This has led to a increase in depreciation and an increase in the carrying amounts of assets.

N2: On a quarterly basis the Department of Cooperative Governance and Traditional Affairs convenes arear debt forum meetings where all Government Departments and Municipalities attend to discussed property ownership issues and progress on payments to municipalities. It was from these meetings that the Umzimvubu local municipality discovered that Isipetu Hospital does not fall within the jurisdiction of the municipality as such an amount billed in 2021-2022 financial year had to be reversed. The municipality further found that ERF 1571 that is owned by Millenium Development trust was subdivided into various ERVEN with only 1571 that is registered at the Deeds office, however ERVEN that are not registered were billed. An adjustment had to be made for billing, interest and impairment for these accounts. Also an RDP house was erroneously billed as government property and was subsequently corrected.

N3: During the year, NT issued a guideline informed by the ASB fact sheet stating that VAT should be split between what is declared to SARS and what is not yet paid to the creditor or received from the debtor. Furthermore, an amount of R10 497 674 relates to the output VAT on INEP Grant that had not been recognised. The error corrected is for a period from 2020 to 2023 financial year.

N6: Correction of printing costs that had been incorrectly classified as inventory consumed.

N7: Being correction of revenue incorrectly recognised.

N8: Being the adjustment to traffic fines which had been incorrectly recorded on the traffic fines schedule.

67. Budget differences

Material differences between budget and actual amounts

Below are explanations of variances that are more than 10% between budgeted amounts and actual amounts for the year.

- N1 The anticipated revenue was based on the historical performance on the sale of goods but the municipality could not collect the projected revenue.
- N2 Some rental properties for the municipality are still vacant and advertised for occupancy
- N3 Variance is as a result of having less investments than anticipated
- N4 The anticipated management fee from human settlement could not be achieved
- N5 The identified variance is caused by enforcement made on businesses that failed to pay their licences

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

67. Budget differences (continued)

N6	The identified variance is as a result of VAT being budgeted as a revenue line item
N7	The interest was budgeted for under exchange transactions
N8	The Department of Human Settlement issued an addendum to increase allocation to implement housing projects but the actual amount will be received for work done on sites.
N9	The current year budget was based on the prior year actuals but fines could not be collected as anticipated
N10	Public donations and contributions were not anticipated during the budget process hence the variance
N11	The variance is as a result of anticipated assets to be acquired during the year
N12	The impairment budget was adjusted upwards due to damages caused by heavy rains on infrastructure
N13	The municipality did not anticipate to incur interest when budgeting hence the variance
N14	The cause of the variance is the incentive scheme granted to consumer debtors
N15	The implementation of cost containment measures is the cause of the variance
N16	The implementation of cost containment measures is the cause of the variance
N17	The implementation of cost containment measures is the cause of the variance
N18	The identified variance is as a result of budget not being allocated to this line item
N19	The identified variance is as a result of budget not being allocated to this line item
N20	The identified variance is as a result of inventory acquired at year end which was not anticipated
N21	The line item was budgeted for under receivables from exchange transactions
N22	The variance is as a result of inclusion of other receivables from exchange transactions
N23	Collection from debtors who took advantage of the incentive scheme caused the variance
N24	The identified variance is as a result of VAT being budgeted under non exchange transactions
N25	The identified variance is a result of taking advantage of 5% discount on SALGA fees by paying in advance
N26	The variance is caused by unanticipated debtors during the year
N27	There was over budgeting that caused the variance on this line item
N28	Under budgeting is the cause of the variance
N29	The free WiFi project could not be implemented in the year under review hence the variance
N30	The cause of the variance is as result of assets not being budgeted for
N31	The increase in the value of accruals is the cause of the variance
N32	Unspent conditional grants from DSRAC and MDRF is the cause of the variance
N33	There was an increase in advance payments by consumers
N34	Newly introduced VAT regulations caused the variance
N35	There was an increase in provisions which were not anticipated

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

67. Budget differences (continued)

- N36 The variance is caused by the line item not being budgeted for
- N37 There was an increase in provisions which was not anticipated
- N38 The anticipated revenue budget was based on the prior year actuals however there was under collection in the current year
- N39 The identified variance is caused by INEP being budgeted for as a transfer
- N40 The variance is caused by Human Settlement Grant being over budgeted for ever since the addendum received in November 2023.
- N41 The identified variance is caused by increase in the value of accruals and payables at year-end
- N42 Finance costs were not budgeted for hence the variance
- N43 The municipality anticipated to acquire more PPE during the year through implementation of Human settlement housing projects.
- N44 The variance was caused by disposals that were not anticipated during budgeting
- N45 PPE purchases were re-classified as investment property

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

Notes to the Annual Financial Statements

68. Segment reporting

A segment is an activity of an entity.

a) that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);

(b) whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and

(c) for which separate financial information is available.

ULM Identification of segments

For management purposes, the municipality is organised and operates in four key functional segments (or business units). To this end, management monitors the operating results of these business units for the purpose of making decisions about resource allocations and assessment of performance. Revenues and expenditures relating to these business units are allocated at a transactional level. However, management could not be able to allocate individual assets and liabilities to these business units as budgeting is on financial performance and not financial position. Costs relating to the governance and administration of the municipality are not allocated to these business units.

The four key business units, which are reportable segments, comprise of:

- Economic and Environmental Services which includes hawker permits, trading licences and SMMEs support;
- Public safety which includes vehicle licencing, driver learners licencing, traffic fines, animal pounding and DoT agency services;
- Roads & Infrastructure which include building plan approvals, construction of houses on behalf of Department of Human Settlement, construction and maintenance of municipal infrastructure for service delivery, municipal plant hire and construction of electric infrastructure on behalf of Department of Energy and Mineral Resources;
- Community services which includes rental of halls and facilities, selling of burial plots, cleaning of municipal facilities, solid waste removal and library services.

The identification of these segments is consistent with the functional classification of government activities which considers the nature of the services, the beneficiaries of such services and the fees charged for the services rendered (if any), no aggregation of segments.

Management does monitor performance geographically and presently, have reliable separate financial information for decision making purposes. Processes have been put in place to generate this information at a transaction level and in the most cost-effective manner.

Non-segments

Administration and corporate
Office of the Municipal Manager
Budget and treasury
Council support

Goods and/or services

Administration services.
Strategic services
Financial Services.
Political administration.

For detailed presentation of the segment information, refer to Annexure A.

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

ANNEXURE A to the Annual Financial Statements

	Economic & Environmental Services	Roads & Infrastructure	Community Services	Public Safety	Total
2024					
	Economic & Environmental Services	Roads & Infrastructure	Community Services	Public Safety	Total
Revenue					
Service charges	-	-	1,296,952	-	1,296,952
Rental of facilities and equipment	-	8,821	182,503	-	191,324
Construction contract revenue	-	13,782,609	-	-	13,782,609
Sale of goods	7,651	221,939	14,950	-	244,540
Income from agency services	-	818,929	-	2,360,443	3,179,372
Licenses and permits	-	-	-	1,921,051	1,921,051
Revenue from non-exchange transactions					
Government grants and subsidies	-	80,933,655	3,659,528	-	84,593,183
Donations	12,560,492	-	-	-	12,560,492
Fines	-	-	-	3,642,390	3,642,390
Licenses and permits	158,059	-	-	-	158,059
Total segment revenue	12,726,202	95,765,953	5,153,933	7,923,884	121,569,972
Interest earned- Exchange					10,726,289
Operational Revenue					179,148
Sale of goods					4,792
Rental of facilities and equipment					4,948,305
Interest earned on outstanding debtors - non-Exchange					2,114,413
Property Rates					46,521,963
Actuarial gains					4,190
Donations					86,957
Fair value adjustment					712,476
Government grants and subsidies					277,315,053
Total revenue reconciling items					342,613,586
Municipality's revenue					464,183,558

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

ANNEXURE A to the Annual Financial Statements

	Economic & Environmental Services	Roads & Infrastructure	Community Services	Public Safety	Total
Expenditure					
Employee costs	(3,647,668)	(11,352,772)	(15,671,421)	(20,678,075)	(51,349,936)
Depreciation and amortisation	-	-	(27,711,591)	-	(27,711,591)
Impairment losses	-	-	(1,322,706)	-	(1,322,706)
Finance costs	-	-	(380,270)	-	(380,270)
Operating lease rentals	-	-	-	(24,108)	(24,108)
Inventory consumed	(62,866)	-	(2,857,901)	(359,706)	(3,280,473)
Contracted services	(491,758)	(12,195,248)	(13,249,841)	(23,642,651)	(49,579,498)
Transfers and subsidies	(14,442,270)	(849,180)	(645,055)	(509,174)	(16,445,679)
Operational costs	(3,162,465)	(12,452,105)	(4,019,582)	(1,231,874)	(20,866,026)
Construction contract expenditure	-	(13,782,609)	-	-	(13,782,609)
Total segment expenditure	(21,807,027)	(50,631,914)	(65,858,367)	(46,445,588)	(184,742,896)
Total segmental surplus/(deficit)	(9,080,825)	45,134,039	(60,704,434)	(38,521,704)	(63,172,924)
Total expenditure reconciling items					(261,334,207)
Employee costs					(41,657,371)
Remuneration of councillors					(23,558,458)
Depreciation and amortisation					(50,277,667)
Impairment losses					(40,662,554)
Finance costs					(733,665)
VAT Provision write off					(2,347,536)
Operating lease rentals					(820,910)
Inventory consumed					(3,235,313)
Transfers and subsidies					(2,254,412)
Contracted services					(43,514,334)
Operational costs					(51,642,935)
Loss on disposal of assets					(629,052)
Entity's surplus (deficit) for the period					18,106,455

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

ANNEXURE A to the Annual Financial Statements

	Economic & Environmental Services	Roads & Infrastructure	Community Services	Public Safety	Total
Statement of financial Position**					
Segment assets	(84,263,215)	93,025,594	(371,578,774)	(46,079,552)	(408,895,947)
Segment liabilities	(2,335,883)	199,934,212	(35,233,574)	(7,466,405)	154,898,350
Segment net assets	(86,599,098)	292,959,806	(406,812,348)	(53,545,957)	(253,997,597)
Unallocated assets					1,600,941,288
Unallocated liabilities					(271,659,914)
Total net assets as per Statement of financial Position					1,075,283,777
Other information			Economic & Environmental Services	Community Services	Non-reportable segments
Non-cash items					
Non-cash revenue (included above)			(12,560,492)	-	(716,666)
Non-cash expenses (included above)			-	26,388,885	93,585,633
			(12,560,492)	26,388,885	92,868,967

Umzimvubu Local Municipality

Annual Financial Statements for the year ended 30 June, 2024

ANNEXURE A to the Annual Financial Statements

2023

	Economic & Environmental Services	Roads & Infrastructure	Community Services	Public Safety	Total
Revenue					
Service charges	-	-	1,262,598	-	1,262,598
Rental of facilities and equipment	-	8,810	182,999	-	191,809
Construction contract revenue	-	2,046,041	-	-	2,046,041
Income from Agency services	-	-	-	2,065,526	2,065,526
Other income	654	1,023,776	23,488	-	1,047,918
Licenses and permits	-	-	-	1,759,925	1,759,925
Revenue from non-exchange transactions					
Government grants and subsidies	-	73,109,077	9,201,999	-	82,311,076
Licenses and permits	198,383	-	-	-	198,383
Fines	-	-	511,612	2,803,167	3,314,779
Awards received	-	-	500,000	-	500,000
Total segment revenue	199,037	76,187,704	11,682,696	6,628,618	94,698,055
Interest earned on outstanding debtors - Exchange					9,828,364
Rental of facilities					6,165,024
Other income					(10,848)
Operating revenue					211,410
Insurance proceeds					170,417
Fair value adjustments					3,481,623
Government grants and subsidies					273,855,912
Interest earned on outstanding debtors - non-Exchange					2,018,849
Property rates					46,982,156
Total revenue reconciling items					342,702,907
Municipality's revenue					437,400,962
Expenditure					
Employee costs	(4,175,427)	(12,283,107)	(14,948,165)	(19,032,276)	(50,438,975)
Depreciation and amortization	-	-	(71,388,843)	-	(71,388,843)
Impairment losses	-	-	(1,195,657)	-	(1,195,657)
Lease rentals on operating lease	-	-	-	(22,684)	(22,684)
Construction contract expenditure	-	(1,747,642)	-	-	(1,747,642)
Finance costs	-	-	(1,037,984)	-	(1,037,984)
Inventory consumed	(243,242)	-	(3,498,044)	(340,798)	(4,082,084)
Contracted services	(376,450)	(14,248,302)	(12,965,456)	(19,729,525)	(47,319,733)
Transfers and subsidies	(13,522,238)	(9,041,796)	(611,962)	(261,175)	(23,437,171)
Operational costs	(3,581,889)	(6,004,023)	(9,646,564)	(1,188,404)	(20,420,880)
Total segment expenditure	(21,899,246)	(43,324,870)	(115,292,675)	(40,574,862)	(221,091,653)
Total segmental surplus/(deficit)	(21,700,209)	32,862,834	(103,609,979)	(33,946,244)	315,789,708

	Economic & Environmental Services	Roads & Infrastructure	Community Services	Public Safety	Total
Total revenue reconciling items					(184,723,938)
Employee costs					(41,583,620)
Remuneration of councilors					(22,742,841)
Depreciation and amortization					(503,863)
Impairment losses					(9,570,856)
Lease rentals on operating lease					(284,898)
Actuarial loss					(19,000)
Inventory consumed					(5,933,977)
Contracted services					(45,075,832)
Transfers and subsidies					(1,569,983)
Loss on disposal of assets					(850,738)
Operational costs					(56,588,330)
Entity's surplus (deficit) for the period					31,585,371

Statement of financial Position**

Segment assets	(71,836,143)	63,860,549	(251,895,962)	(25,256,233)	(285,127,789)
Segment Liabilities	(3,585,387)	158,125,288	(29,347,805)	(3,941,681)	121,250,415
Net assets /(liabilities) of the segments	(75,421,530)	221,985,837	(281,243,767)	(29,197,914)	(163,877,374)
Non segment assets					1,427,470,490
Non segment liabilities					(206,417,110)
Total assets as per Statement of financial Position					1,057,176,006

**Segment reporting explanatory note:

The municipality has only reported the detailed financial performance of the identified segments and only the summary on the financial position. Upon aggregating the assets and liabilities for the identified segments, the municipality has identified that there are segments liabilities that are reported as positive and assets reported as negative.

Amongst others, these are some of the reasons why the municipality has these unusual item balances:

The municipality is only budgeting for its financial performances per segments and not the financial position per segment.

Revenue sources like equitable share and property rates, which contribute majority of operational expenditure and internally funded capital projects are only budgeted for and received by finance department, which is not a reportable segment.

Reportable Segments fund their operations through funding from non-reportable segment, making it not possible to report on the financial position rather the performance.

The performance of each reportable segment is measured mainly on its operational budget implementation, rather than capital.

Despite the unusual account balances on reportable segments' total assets and total liabilities, the overall municipal financial position in the segment reporting is the true reflection of the whole entity as reported in its statement of financial position.
