TSWELOPELE LOCAL MUNICIPALITY
Annual Financial Statements
for the year ended 30 June 2022

General Information

Legal form of entity	Municipality in terms of section 1 of the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998) read with section 155(1) of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996).
Nature of business and principal activities	Is an organ of state within the local sphere of government exercising legislative and executive authority within an area determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998), providing municipal services and maintain the best interests of the local community mainly in the Tswelopele area.
Mayoral committee	
Executive Mayor	KR Phukuntsi
	TF Matsholo (Previous Mayor) - Term ended
Councillors	MW Raseu (Speaker)
	JM Radienyane (EXCO member)
	MC Mphatsoe (Chairperson Section 79 committee)
	MS Baleni
	MM Snyer
	WS Swart (Resigned 31 March 2022)
	TA Soisa
	EG Pretorius
	MA Muller
	SH Gaebee
	WM Nkomo
	KP Dial
	TS Shuping
	MJ Rabannye
	RA Potsanyane
	NS Twana
	MJ Noosi (Resigned 31 January 2022)
	EJ Pretorius
	C Horn (Deceased 21 August 2021)
	TT Taedi - Term ended
	MS Bonokwane - Term ended
	EC Joubert - Term ended
	BP Eseu - Term ended
	DA Njodina - Term ended
	MA Monei - Term ended
	MH Segopolo - Term ended
	MJ Mgciya - Term ended
	MB Mohlabakoe - Term ended
Grading of local authority	2
Accounting Officer	BP Dikoko (Acting Accounting Officer)
	MRE Mogopodi (Contract ended 30 April 2022)
Chief Finance Officer (CFO)	TJ Matyesini
Registered office	Civic Centre Bosman Street Bultfontein 9670

General Information

Postal address	P.O. Box 3 Bultfontein 9670
Bankers	ABSA Bank Limited Standard Bank of South Africa Limited
Municipal demarcation code	FS183

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

Abbreviations used:

CRR	Capital Replacement Value
DBSA	Development Bank of Southern Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act, 2003 (Act no. 56 of 2003)
MIG	Municipal Infrastructure Grant (Previously CMIP)
mSCOA	Municipal Standard Chart of Accounts

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act, 2003 (Act no. 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2023 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2022 and were signed on its behalf by:

BP Dikoko
Acting Accounting Officer

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories	3	1,097,026	718,175
Other receivables from exchange transactions	4	1,764,170	1,834,268
Receivables from exchange and non-exchange transactions	5	12,781,899	13,021,575
VAT receivable	6	14,603,497	11,862,305
Receivables from exchange transactions	7	25,788,219	23,116,510
Cash and cash equivalents	8	4,579,228	12,487,087
		60,614,039	**63,039,920**
Non-Current Assets			
Biological assets	9	1,314,900	1,310,300
Investment property	10	104,450,043	104,999,390
Property, plant and equipment	11	537,750,894	525,305,685
Other financial assets	12	1,176,047	1,052,424
Receivables from non-exchange transactions	13	42,763	130,579
Receivables from exchange transactions	13	342,646	476,940
		645,077,293	**633,275,318**
Total Assets		**705,691,332**	**696,315,238**
Liabilities			
Current Liabilities			
Other financial liabilities	14	3,176,208	2,040,304
Finance lease obligation	15	374,094	475,704
Payables from exchange transactions	16	118,377,111	95,381,144
Consumer deposits	17	1,648,249	1,442,950
Employee benefit obligation	18	1,128,506	879,278
		124,704,168	**100,219,380**
Non-Current Liabilities			
Other financial liabilities	14	3,542,079	5,584,804
Finance lease obligation	15	375,889	-
Employee benefit obligation	18	7,707,267	8,065,098
Provisions	20	40,441,387	39,195,480
		52,066,622	**52,845,382**
Total Liabilities		**176,770,790**	**153,064,762**
Net Assets		**528,920,542**	**543,250,476**
Accumulated surplus		528,920,543	543,250,474
Total Net Assets		**528,920,543**	**543,250,474**

* See Notes 63 & 50

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	21	61,642,271	58,422,069
Rental of facilities and equipment	22	1,603,389	2,577,585
Licences and permits	23	97,103	67,550
Operational revenue	24	3,583,063	2,112,263
Interest received - investment	25	839,714	795,068
Dividends received	25	96,173	65,454
Total revenue from exchange transactions		**67,861,713**	**64,039,989**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	26,429,031	25,444,738
Availability charges	27	368,809	326,633
Interest - Property rates	28	3,173,250	1,799,263
Transfer revenue			
Government grants & subsidies	29	144,567,800	140,196,059
Public contributions and donations	30	-	196,444
Fines, penalties and forfeits	31	460,500	524,100
Total revenue from non-exchange transactions		**174,999,390**	**168,487,237**
Total revenue		**242,861,103**	**232,527,226**
Expenditure			
Employee related costs	32	(71,835,786)	(69,853,640)
Remuneration of councillors	33	(6,175,513)	(5,711,700)
Depreciation and amortisation	34	(31,481,413)	(32,452,500)
Finance costs	35	(12,024,454)	(10,543,426)
Lease rentals		(211,954)	(261,082)
Debt Impairment	36	(24,335,271)	(18,165,642)
Impairment of assets	37	(1,950,478)	(864,691)
Bulk purchases	38	(51,335,052)	(46,974,651)
Contracted services	39	(10,254,807)	(6,504,544)
General Expenses	40	(46,402,776)	(32,851,872)
Total expenditure		**(256,007,504)**	**(224,183,748)**
Operating (deficit) surplus		**(13,146,401)**	**8,343,478**
Loss on disposal of assets and liabilities		(1,652,302)	(1,443,447)
Fair value adjustments	41	144,418	514,860
Actuarial gains/losses	18	319,752	(95,596)
Gain on biological assets and agricultural produce		4,600	105,100
		(1,183,532)	**(919,083)**
(Deficit) surplus for the year		**(14,329,933)**	**7,424,395**

* See Notes 63 & 50

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	527,766,907	527,766,907
Adjustments		
Prior year adjustments 50	8,059,172	8,059,172
Balance at 01 July 2020 as restated*	**535,826,079**	**535,826,079**
Changes in net assets		
Surplus for the year	7,424,395	7,424,395
Total changes	7,424,395	7,424,395
Restated* Balance at 01 July 2021	**543,250,476**	**543,250,476**
Changes in net assets		
Surplus for the year	(14,329,933)	(14,329,933)
Total changes	(14,329,933)	(14,329,933)
Balance at 30 June 2022	**528,920,543**	**528,920,543**

* See Notes 63 & 50

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		66,433,840	62,797,832
Grants		144,567,800	135,149,688
Interest income		839,714	795,068
Dividends or similar distributions received		96,173	65,454
		211,937,527	198,808,042
Payments			
Employee costs		(79,475,976)	(74,881,035)
Suppliers		(90,057,293)	(65,551,157)
Finance costs		(3,727,480)	(5,892,060)
		(173,260,749)	(146,324,252)
Net cash flows from operating activities	44	**38,676,778**	**52,483,790**
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(45,008,782)	(50,049,901)
Cash flows from financing activities			
Finance lease payments		198,539	(629,109)
Annuity loan re-payment		(1,774,393)	(854,380)
Net cash flows from financing activities		**(1,575,854)**	**(1,483,489)**
Net increase/(decrease) in cash and cash equivalents		**(7,907,858)**	**950,400**
Cash and cash equivalents at the beginning of the year		12,487,087	11,536,684
Cash and cash equivalents at the end of the year	8	**4,579,229**	**12,487,084**

* See Notes 63 & 50

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	61,236,000	2,542,000	**63,778,000**	61,642,271	**(2,135,729)**	
Rental of facilities and equipment	298,000	15,000	**313,000**	1,603,389	**1,290,389**	A1
Licences and permits	60,000	(20,000)	**40,000**	97,103	**57,103**	A2
Operational revenue	1,580,000	1,928,000	**3,508,000**	3,583,063	**75,063**	
Interest received - investment	1,300,000	-	**1,300,000**	839,714	**(460,286)**	A3
Dividends received	100,000	-	**100,000**	96,173	**(3,827)**	
Total revenue from exchange transactions	**64,574,000**	**4,465,000**	**69,039,000**	**67,861,713**	**(1,177,287)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	24,948,000	1,247,000	**26,195,000**	26,429,031	**234,031**	
Availability charges	-	-	**-**	368,809	**368,809**	A4
Interest - Taxation revenue	265,000	-	**265,000**	3,173,250	**2,908,250**	A5
Transfer revenue						
Transfer & subsidies	113,812,000	-	**113,812,000**	144,567,800	**30,755,800**	A6
Fines, penalties and forfeits	389,000	110,000	**499,000**	460,500	**(38,500)**	
Total revenue from non-exchange transactions	**139,414,000**	**1,357,000**	**140,771,000**	**174,999,390**	**34,228,390**	
Total revenue	**203,988,000**	**5,822,000**	**209,810,000**	**242,861,103**	**33,051,103**	
Expenditure						
Employee costs	(73,753,000)	(382,000)	**(74,135,000)**	(71,835,786)	**2,299,214**	
Remuneration of councillors	(7,033,000)	777,000	**(6,256,000)**	(6,175,513)	**80,487**	
Depreciation and amortisation	(20,000,000)	-	**(20,000,000)**	(31,481,413)	**(11,481,413)**	A7
Finance costs	(1,700,000)	(1,000,000)	**(2,700,000)**	(12,024,454)	**(9,324,454)**	A8
Lease rentals	-	-	**-**	(211,954)	**(211,954)**	A9
Debt Impairment	(13,000,000)	-	**(13,000,000)**	(24,335,271)	**(11,335,271)**	10
Impairment of assets	-	-	**-**	(1,950,478)	**(1,950,478)**	A11
Bulk purchases	(71,601,000)	5,292,000	**(66,309,000)**	(51,335,052)	**14,973,948**	A12
Contracted services	(9,618,000)	(11,749,000)	**(21,367,000)**	(10,254,807)	**11,112,193**	A13
Social assistance: Poverty relief	(10,000)	-	**(10,000)**	-	**10,000**	A12
General expenses	(9,997,000)	174,000	**(9,823,000)**	(46,402,776)	**(36,579,776)**	A9
Total expenditure	**(206,712,000)**	**(6,888,000)**	**(213,600,000)**	**(256,007,504)**	**(42,407,504)**	
Operating deficit	**(2,724,000)**	**(1,066,000)**	**(3,790,000)**	**(13,146,401)**	**(9,356,401)**	
Fair value adjustments	-	-	**-**	144,418	**144,418**	A15
Actuarial gains/losses	-	-	**-**	319,752	**319,752**	A16
Loss on disposal of assets and liabilities	-	-	**-**	(1,652,302)	**(1,652,302)**	A17
Gain on biological assets and agricultural produce	-	-	**-**	4,600	**4,600**	A18
	-	**-**	**-**	**(1,183,532)**	**(1,183,532)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Deficit before taxation	**(2,724,000)**	**(1,066,000)**	**(3,790,000)**	**(14,329,933)**	**(10,539,933)**	
	(2,724,000)	**(1,066,000)**	**(3,790,000)**	**(14,329,933)**	**(10,539,933)**	
Statement of Financial Position						
Assets						
Current Assets						
Inventories	87,000	(828,000)	**(741,000)**	1,097,026	**1,838,026**	B1
Other receivables from exchange transactions	6,093,000	110,000	**6,203,000**	1,764,170	**(4,438,830)**	B2
Receivables from exchange and non-exchange transactions	-	-	**-**	12,781,899	**12,781,899**	B3
VAT receivable	-	-	**-**	14,603,497	**14,603,497**	B4
Receivables from exchange transaction	96,937,000	4,484,000	**101,421,000**	25,788,219	**(75,632,781)**	B3
Cash and cash equivalents	24,411,000	1,228,000	**25,639,000**	4,579,228	**(21,059,772)**	B5
	127,528,000	**4,994,000**	**132,522,000**	**60,614,039**	**(71,907,961)**	
Non-Current Assets						
Biological assets	1,205,000	-	**1,205,000**	1,314,900	**109,900**	
Investment property	105,411,000	-	**105,411,000**	104,450,043	**(960,957)**	
Property, plant and equipment	540,786,000	1,260,000	**542,046,000**	537,750,894	**(4,295,106)**	
Other financial assets	-	-	**-**	1,176,047	**1,176,047**	B6
Receivables from non-exchange transactions	-	-	**-**	42,763	**42,763**	B7
Receivables from exchange transactions	-	-	**-**	342,646	**342,646**	B7
	647,402,000	**1,260,000**	**648,662,000**	**645,077,293**	**(3,584,707)**	
Total Assets	**774,930,000**	**6,254,000**	**781,184,000**	**705,691,332**	**(75,492,668)**	
Liabilities						
Current Liabilities						
Other financial liabilities	-	-	**-**	3,176,208	**3,176,208**	B8
Finance lease obligation	-	-	**-**	374,094	**374,094**	B9
Payables from exchange transactions	95,738,000	(1,292,000)	**94,446,000**	118,377,111	**23,931,111**	B10
Consumer deposits	1,303,000	-	**1,303,000**	1,648,249	**345,249**	B11
Employee benefit obligation	-	-	**-**	1,128,506	**1,128,506**	B12
	97,041,000	**(1,292,000)**	**95,749,000**	**124,704,168**	**28,955,168**	
Non-Current Liabilities						
Other financial liabilities	5,611,000	-	**5,611,000**	3,542,079	**(2,068,921)**	B13
Finance lease obligation	-	-	**-**	375,889	**375,889**	B14
Employee benefit obligation	-	-	**-**	7,707,267	**7,707,267**	B15
Provisions	22,648,000	-	**22,648,000**	40,441,387	**17,793,387**	B16
	28,259,000	**-**	**28,259,000**	**52,066,622**	**23,807,622**	
Total Liabilities	**125,300,000**	**(1,292,000)**	**124,008,000**	**176,770,790**	**52,762,790**	
Net Assets	**649,630,000**	**7,546,000**	**657,176,000**	**528,920,542**	**(128,255,458)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Reserves						
Accumulated surplus	649,630,000	7,546,000	**657,176,000**	528,920,542	**(128,255,458)**	
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	73,185,000	-	**73,185,000**	66,433,840	**(6,751,160)**	C1
Grants	113,812,000	-	**113,812,000**	144,567,800	**30,755,800**	C1
Interest income	1,400,000	-	**1,400,000**	839,714	**(560,286)**	C1
Other receipts	1,531,000	1,228,000	**2,759,000**	96,173	**(2,662,827)**	C1
	189,928,000	**1,228,000**	**191,156,000**	**211,937,527**	**20,781,527**	
Payments						
Suppliers and employees	(131,409,000)	(15,118,000)	**(146,527,000)**	(169,533,269)	**(23,006,269)**	C1
Finance costs	(1,700,000)	-	**(1,700,000)**	(3,727,480)	**(2,027,480)**	C1
	(133,109,000)	**(15,118,000)**	**(148,227,000)**	**(173,260,749)**	**(25,033,749)**	
Net cash flows from operating activities	**56,819,000**	**(13,890,000)**	**42,929,000**	**38,676,778**	**(4,252,222)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(30,182,000)	-	**(30,182,000)**	(45,008,782)	**(14,826,782)**	C1
Proceeds from sale of property, plant and equipment	500,000	-	**500,000**	-	**(500,000)**	C1
Net cash flows from investing activities	**(29,682,000)**	**-**	**(29,682,000)**	**(45,008,782)**	**(15,326,782)**	
Cash flows from financing activities						
Finance lease payments	-	-	**-**	198,539	**198,539**	C1
Annuity loan re-payment	-	-	**-**	(1,774,393)	**(1,774,393)**	C1
Net cash flows from financing activities	**-**	**-**	**-**	**(1,575,854)**	**-**	
Net increase/(decrease) in cash and cash equivalents	27,137,000	(13,890,000)	**13,247,000**	(7,907,858)	**(19,579,004)**	
Cash and cash equivalents at the beginning of the year	12,391,000	-	**12,391,000**	12,487,087	**96,087**	
Cash and cash equivalents at the end of the year	**39,528,000**	**(13,890,000)**	**25,638,000**	**4,579,229**	**(19,482,917)**	

Accounting Policies

Figures in Rand	Note(s)	2022	2021

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, 2003 (Act no. 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.

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Significant judgements and sources of estimation uncertainty

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

These estimates and underlying assumptions are reviewed on an ongoing basis. Significant judgements include:

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

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

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

1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

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

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

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

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.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time.

Provisions

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

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

The municipality has an obligation to rehabilitate its landfill sites in terms of its licencing stipulations. Provision is made for this obligation based on the net present value of cost.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges of property, plant and equipment. The estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives, and vice-versa.

Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 18.

1.4 Significant judgements and sources of estimation uncertainty (continued)

Effective interest rate

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

Allowance for impairment

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.

1.5 Biological assets

The entity recognises biological assets or agricultural produce when, and only when:
- the municipality controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Biological assets are measured at their fair value less costs to sell.

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

A gain or loss arising on initial recognition of biological assets or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

1.6 Investment property

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

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

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

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

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

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

1.6 Investment property (continued)

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.

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

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

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

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

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties;
- Land held for 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 business, the land is regarded as held for capital appreciation) is classified as investment properties;
- A building that is owned by the municipality (or held by the municipality under a finance lease) and leased out under one or more operating leases is classified as investment properties.
- A building that is vacant but is held to be leased out under one or more operating lease on a commercial basis to external parties is classified as investment properties.

The following assets do not fall in the ambit of investment properties and shall be classified as property, plant and equipment, inventory or non-current assets held for sale, as appropriate:

- Property intended 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 awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
- Property held for strategic purposes or service delivery.

1.7 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

1.7 Property, plant and equipment (continued)

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.

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

Item	Depreciation method	Average useful life
Land		Indefinite
Infrastructure	Straight-line	2-100 years
Community assets	Straight-line	5-100 years
Other property, plant and equipment	Straight-line	3-100 years

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

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

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

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.

1.7 Property, plant and equipment (continued)

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 11).

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

In accordance with standards of GRAP, the landfill sites and borrowing pits (included under community assets) is depreciated over their determined remaining useful lives.

1.8 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.9 Financial instruments

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

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

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

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’).

1.9 Financial instruments (continued)

- 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.

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

Accounting Policies

1.9 Financial instruments (continued)

- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

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

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

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

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

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

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

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

Initial recognition

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

The entity recognises financial assets using trade date accounting.

1.9 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

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

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

Subsequent measurement of financial assets and financial liabilities

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

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

All financial assets measured at amortised cost, or cost, are subject to an impairment review. The amortised cost of a financial asset of financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any differences between the initial amount and the maturity amount, minus any reduction (directly or through the use of an allowance account) for impairment or uncollectability in the case of a financial asset.

Fair value measurement considerations

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

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

Short term receivables and payables are not discounted where the initial credit period granted or received is consistent with terms used in the public sector, either through established practices or legislation.

Gains and losses

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

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

Impairment and uncollectibility of financial assets

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

<u>Financial assets measured at amortised cost</u>:

Accounting Policies

1.9 Financial instruments (continued)

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

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

Where financial assets are impaired through the use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenditure. When such financial assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenditure.

<u>Financial assets measured at cost</u>:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

1.9 Financial instruments (continued)

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

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

Financial liabilities

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

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

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

Presentation

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

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

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

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

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

1.10 Statutory receivables

Identification

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

Recognition

Statutory receivables are recognised when the related revenue (exchange or non-exchange revenue) is recognised or when the receivable meets the definition of an asset.

Initial measurement

1.10 Statutory receivables (continued)

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

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.

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.

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

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

Derecognition

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

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

1.11 Leases

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

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

Finance leases - lessee

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

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

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

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

1.11 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

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

Any contingent rents are recognised separately as revenue in the period in which they are incurred.

1.12 Inventories

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

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

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

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

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

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

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

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

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

1.13 Impairment of cash-generating assets

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

1.13 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

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

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

Designation

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

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

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

Identification

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

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

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

Value in use

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

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

1.13 Impairment of cash-generating assets (continued)

Basis for estimates of future cash flows

In measuring value in use the municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Reversal of impairment loss

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

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

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

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

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

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

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

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

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

Redesignation

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

1.14 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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.

Accounting Policies

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

Designation

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

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

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

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.15 Employee benefits

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

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

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

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

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

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

1.15 Employee benefits (continued)

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.

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

Post-employment benefits

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

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

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

1.15 Employee benefits (continued)

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity accounts for the plan as if it was a defined contribution plan.

Post-employment benefits: Defined contribution plans

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

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

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

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

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

1.15 Employee benefits (continued)

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

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

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

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

The amount recognised as a defined benefit liability is the net total of the following amounts:
- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement.

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:
- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

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

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

Accounting Policies

1.15 Employee benefits (continued)

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

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

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

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

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.

Other post retirement obligations

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

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

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

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

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

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

1.15 Employee benefits (continued)

- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Termination benefits

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

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

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

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

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

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

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

1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

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

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

1.16 Provisions and contingencies (continued)

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 46.

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:
- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability is a present obligation that arises from past events but is not recognised because:
- it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
- the amount of the obligation cannot be measured sufficient reliability; or

1.16 Provisions and contingencies (continued)

- a possible obligation that arises from past events but whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future event not wholly within the control of the municipality.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

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

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

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

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

1.16 Provisions and contingencies (continued)

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date.

1.18 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

Accounting Policies

1.18 Revenue from exchange transactions (continued)

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

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

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

Interest, royalties and dividends

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

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

Interest is recognised, in surplus or deficit, using the effective interest rate method.

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

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

1.19 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by a municipality, which represents an increase in net assets.

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

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

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

Recognition

An inflow of resources from a non-exchange transaction recognised as revenue.

Revenue received from conditional grants, donations and funding is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, condition or obligation has not been met a liability is recognised.

Measurement

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

1.19 Revenue from non-exchange transactions (continued)

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

Taxes

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

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

Transfers

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

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

Collection charges and penalties

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

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

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

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

The municipality makes use of estimates to determine the amount of revenue that it is entitled to collect. Where settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by the debtors.

Gifts and donations, including goods in-kind

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

Services in-kind

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

Concessionary loans received

A concessionary loan is a loan granted to or received by a property, plant and equipment on terms that are not market related.

1.19 Revenue from non-exchange transactions (continued)

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

1.20 Borrowing costs

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

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

1.21 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

1.21 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

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

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

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

Recognition

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

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

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

1.22 Discontinued operations

Discontinued operations is a component of the municipality that has been disposed of and:
- represents a distinguishable activity, group of activities or geographical area of operations;
- is part of a single co-ordinated plan to dispose of a distinguishable activity, group of activities or geographical area of operations; or
- is a controlled entity acquired exclusively with a view to resale.

A component of the municipality is the operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the municipality.

1.23 Comparative figures

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

Refer to notes for detail.

1.24 Unauthorised expenditure

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

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

1.25 Fruitless and wasteful expenditure

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

1.26 Irregular expenditure

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

1.27 Segment information

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

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

Measurement

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

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

1.28 Budget information

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

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

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

The approved budget covers the fiscal period from 2021/07/01 to 2022/06/30.

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.

1.29 Related parties

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

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

1.29 Related parties (continued)

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

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

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

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

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

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

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

1.30 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:
- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

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

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

1.31 Accumulated surplus

The accumulated surplus represents the net difference between the total assets and the total liabilities of the municipality. Any surpluses and deficits realised during a specific financial year are credited / debited against the accumulated surplus / deficit.

Prior year adjustments, relating to income and expenditure, are debited / credited against accumulated surplus / deficit when retrospective adjustments are made.

1.32 Value-added tax (VAT)

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

Accounting Policies

1.33 Grants in aid

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid; 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 that the events giving rise to the transfer occurred.

1.34 Operating expenditure

Expenses encompasses losses as well as those expenses that arise in the course of the operating activities of the municipality.

Expenses take the form of an outflow of depletion of assets such as cash and cash equivalents, inventory, property, plant and equipment.

Losses represent decreases in economic benefits or service potential. Losses are recognised net of the related revenue to reflect the substance of the transaction.

Expenses are recognised in the statement of financial performance in the year that the expenditure was incurred.

The expenditure is classified in accordance with the nature of the expense.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• The Application of Standards of GRAP by Public Entities that Apply IFRS Standards	01 April 2022	Unlikely there will be a material impact
• The Effect of Past Decisions on Materiality	01 April 2022	Unlikely there will be a material impact

3. Inventories

	2022	2021
Water reserves	52,272	47,595
Fuel (diesel and petrol)	299,330	160,860
Electrical	268,982	158,936
Mechanical	22,421	127,022
Water equipment	352,297	223,762
Road signs	101,724	-
	1,097,026	**718,175**

Reconciliation of 2022 movement:	Opening balance	Movement	Purchases	Issues	Total
Water reserves	47,595	4,677	-	-	52,272
Fuel (diesel and oil)	160,860	-	2,928,404	(2,789,934)	299,330
Electrical	158,935	-	375,028	(264,981)	268,982
Mechanical	127,022	-	122,953	(227,554)	22,421
Water equipment	223,763	-	338,633	(210,099)	352,297
Road signs	-	-	115,224	(13,500)	101,724
	718,175	**4,677**	**3,880,242**	**(3,506,068)**	**1,097,026**

Reconciliation of 2021 movement:	Opening balance	Movement	Purchases	Issues	Total
Water reserves	61,524	(13,929)	-	-	47,595
Fuel (diesel and oil)	202,745	-	1,428,620	(1,470,505)	160,860
Electrical	185,755	-	44,974	(71,794)	158,935
Mechanical	124,740	-	190,417	(188,135)	127,022
Water equipment	255,639	-	66,048	(97,924)	223,763
	830,403	**(13,929)**	**1,730,059**	**(1,828,358)**	**718,175**

Inventory pledged as security

No inventory was pledged as security during the current financial year.

4. Other receivables from exchange transactions

	2022	2021
Eskom deposits	1,078,821	1,044,384
Other receivables	685,349	789,884
	1,764,170	**1,834,268**

Figures in Rand	2022	2021

5. Receivables from exchange and non-exchange transactions

	2022	2021
Gross balances		
Consumer debtors - Rates	57,075,029	42,641,768
Consumer debtors - Availability charges	1,104,316	1,085,456
Traffic fines debtor	956,238	735,020
	59,135,583	**44,462,244**
Less: Allowance for impairment		
Consumer debtors - Rates	(44,897,442)	(30,210,725)
Consumer debtors - Availability charges	(853,879)	(762,050)
Traffic fines debtor impairment	(602,363)	(467,894)
	(46,353,684)	**(31,440,669)**
Net balance		
Consumer debtors - Rates	12,177,587	12,431,043
Consumer debtors - Availability charges	250,437	323,406
Traffic fines debtor	353,875	267,126
	12,781,899	**13,021,575**

Impairment reconciliation 2022	Opening balance	Impairment raised	Impairment reversed/ Bad debt written off	Closing balance
Consumer debtors - Rates	30,210,725	14,686,326	-	44,897,051
Consumer debtors -Availability charges	762,050	92,220	-	854,270
Traffic fines debtor	467,894	134,469	-	602,363
	31,440,669	**14,913,015**	**-**	**46,353,684**

Impairment reconciliation 2021	Opening balance	Impairment raised	Impairment reversed/ Bad debt written off	Closing balance
Consumer debtors - Rates	25,497,881	4,712,844	-	30,210,725
Consumer debtors -Availability charges	721,839	40,211	-	762,050
Traffic fines debtor	206,035	261,859	-	467,894
	26,425,755	**5,014,914**	**-**	**31,440,669**

Ageing of impaired receivables by debt type 2022	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
Consumer debtors - Rates	1,069,286	650,579	496,183	447,132	54,411,849	57,075,029
Consumer debtors -Availability charges	33,501	30,735	20,649	20,166	999,265	1,104,316
Traffic fines debtor	32,872	94,922	81,441	141,829	605,174	956,238
Sub-total	1,135,659	776,236	598,273	609,127	56,016,288	59,135,583
Less: Impairment	(559,409)	(505,286)	(426,596)	(446,359)	(44,416,034)	(46,353,684)
	576,250	**270,950**	**171,677**	**162,768**	**11,600,254**	**12,781,899**

Ageing of impaired receivables by customer group 2022	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
Residential	516,702	387,476	270,702	299,117	7,300,251	8,774,248
Business	476,962	385,971	324,806	307,178	48,578,403	50,073,320
National and provincial government	141,995	2,789	2,765	2,832	137,634	288,015
Sub-total	1,135,659	776,236	598,273	609,127	56,016,288	59,135,583
Less: Impairment	(559,409)	(505,286)	(426,596)	(446,359)	(44,416,034)	(46,353,684)

5. Receivables from exchange and non-exchange transactions (continued)

576,250	**270,950**	**171,677**	**162,768**	**11,600,254**	**12,781,899**

Ageing of impaired receivables by debt type 2021	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
Consumer debtors - Rates	855,187	554,209	476,482	450,208	40,305,682	42,641,768
Consumer debtors -Availability charges	46,185	41,377	41,029	33,906	922,959	1,085,456
Traffic fines debtor	75,257	70,711	56,190	70,460	462,402	735,020
Sub-total	976,629	666,297	573,701	554,574	41,691,043	44,462,244
Less: Impairment	(946,716)	(415,127)	(391,495)	(391,170)	(29,296,161)	(31,440,669)
	29,913	**251,170**	**182,206**	**163,404**	**12,394,882**	**13,021,575**

Ageing of impaired receivables by customer group 2021	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
Residential	574,844	352,163	287,781	278,284	6,751,845	8,244,917
Business	399,545	311,708	283,933	274,336	31,511,602	32,781,124
National and provincial government	2,240	2,426	1,987	1,954	3,427,596	3,436,203
Sub-total	976,629	666,297	573,701	554,574	41,691,043	44,462,244
Less: Impairment	(946,716)	(415,127)	(391,495)	(391,170)	(29,296,161)	(31,440,669)
	29,913	**251,170**	**182,206**	**163,404**	**12,394,882**	**13,021,575**

Receivables past due but not impaired 2022	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
Consumer debtors - Rates	549,096	224,673	136,253	105,347	11,162,609	12,177,978
Consumer debtors - Availability charges	14,989	11,149	5,285	4,935	213,688	250,046
Traffic fines debtor	12,165	35,128	30,139	52,487	223,957	353,876
	576,250	**270,950**	**171,677**	**162,769**	**11,600,254**	**12,781,900**

Receivables past due but not impaired 2021	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
Consumer debtors - Rates	(1,499)	207,317	139,613	120,877	11,964,736	12,431,044
Consumer debtors - Availability charges	4,062	18,156	22,173	16,918	262,097	323,406
Traffic fines debtors	27,350	25,697	20,420	25,609	168,049	267,125
	29,913	**251,170**	**182,206**	**163,404**	**12,394,882**	**13,021,575**

Statutory receivables included in consumer debtors above are as follows:

	2022	2021
Property rates	12,177,587	12,431,043
Traffic fines	353,875	267,126
	12,531,462	**12,698,169**

Property rates are charged based on the Municipal Properties Rates Act, 2004 (Act No. 6 of 2004) on all applicable properties under the demarcation of the municipality. The initial transaction is recorded as per GRAP 23. The receivable includes all fines, interest and penalties as permitted by the relevant laws.

Traffic fines are charged in accordance with the National Road Traffic Act, 1996 (Act No. 93 of 1996) on road traffic offences as permitted by the legislation. The initial transaction is recorded as per GRAP 23. The receivable includes all fines, interest and penalties as permitted by the relevant law.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

6. VAT receivable

VAT	14,603,497	11,862,305

7. Receivables from exchange transactions

	2022	2021
Gross balances		
Electricity	16,339,949	15,948,110
Water	16,221,509	15,419,672
Sewerage	23,999,987	22,693,594
Refuse	16,525,866	15,889,029
Other	8,523,194	7,181,898
	81,610,505	**77,132,303**
Less: Allowance for impairment		
Electricity	(7,085,203)	(7,353,127)
Water	(11,827,644)	(11,826,583)
Sewerage	(18,268,592)	(18,087,516)
Refuse	(12,756,368)	(12,849,371)
Other	(5,884,479)	(3,899,196)
	(55,822,286)	**(54,015,793)**
Net balance		
Electricity	9,254,746	8,594,983
Water	4,393,865	3,593,089
Sewerage	5,731,395	4,606,078
Refuse	3,769,498	3,039,658
Other	2,638,715	3,282,702
	25,788,219	**23,116,510**

Impairment reconciliation 2022	Opening balance	Impairment raised	Impairment reversed/ Bad debt written off	Closing balance
Electricity	7,353,127	-	(267,924)	7,085,203
Water	11,826,583	1,061	-	11,827,644
Sewerage	18,087,516	181,076	-	18,268,592
Refuse	12,849,371	-	(93,003)	12,756,368
Other	3,899,196	1,985,283	-	5,884,479
	54,015,793	**2,167,420**	**(360,927)**	**55,822,286**

Impairment reconciliation 2021	Opening balance	Impairment raised	Impairment reversed/ Bad debt written off	Closing balance
Electricity	7,131,618	221,509	-	7,353,127
Water	9,202,329	2,624,254	-	11,826,583
Sewerage	13,602,310	4,485,206	-	18,087,516
Refuse	9,716,262	3,133,109	-	12,849,371
Other	2,053,713	1,845,483	-	3,899,196
	41,706,232	**12,309,561**	**-**	**54,015,793**

Ageing of impaired consumer debtors by type 2022	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
Electricity	4,454,201	2,359,463	1,071,073	905,557	7,549,657	16,339,951
Water	1,148,799	326,071	291,840	298,550	14,156,250	16,221,510

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

7. Receivables from exchange transactions (continued)

Sewerage	1,246,385	596,625	452,127	435,197	21,269,652	23,999,986
Refuse	1,045,595	327,941	314,776	300,948	14,536,605	16,525,865
Other	1,980,592	24,893	16,409	15,603	6,485,697	8,523,194
Sub-total	9,875,572	3,634,993	2,146,225	1,955,855	63,997,861	81,610,506
Less: Impairment	(4,952,360)	(1,583,590)	(1,231,359)	(1,161,582)	(46,893,396)	(55,822,287)
	4,923,212	**2,051,403**	**914,866**	**794,273**	**17,104,465**	**25,788,219**

Ageing of impaired consumer debtors by customer group 2022	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
Residential	4,552,662	1,663,812	1,129,628	1,057,107	46,098,882	54,502,091
Business	4,712,190	1,630,963	768,338	639,816	16,162,398	23,913,705
National and provincial government	610,720	340,217	248,259	258,932	1,736,581	3,194,709
Sub-total	9,875,572	3,634,992	2,146,225	1,955,855	63,997,861	81,610,505
Less: Impairment	(4,952,360)	(1,583,590)	(1,231,359)	(1,161,581)	(46,893,396)	(55,822,286)
	4,923,212	**2,051,402**	**914,866**	**794,274**	**17,104,465**	**25,788,219**

Ageing of impaired consumer debtors by type 2021	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
Electricity	4,959,938	1,955,346	1,577,037	1,175,149	6,280,638	15,948,108
Water	956,082	381,398	331,258	288,323	13,462,612	15,419,673
Sewerage	1,251,245	482,356	456,919	450,598	20,052,477	22,693,595
Refuse	1,041,202	324,212	307,432	301,948	13,914,235	15,889,029
Other	2,136,421	27,840	25,865	46,649	4,945,123	7,181,898
Sub-total	10,344,888	3,171,152	2,698,511	2,262,667	58,655,085	77,132,303
Less: Impairment	(6,925,229)	(1,624,790)	(1,399,659)	(1,395,110)	(42,671,005)	(54,015,793)
	3,419,659	**1,546,362**	**1,298,852**	**867,557**	**15,984,080**	**23,116,510**

Ageing of impaired consumer debtors by customer group 2021	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
Residential	4,633,115	1,601,519	1,220,140	1,113,529	45,647,742	54,216,045
Business	4,740,310	1,321,140	1,236,287	892,530	9,889,751	18,080,018
National and provincial government	971,463	248,493	242,084	256,608	3,117,592	4,836,240
Sub-total	10,344,888	3,171,152	2,698,511	2,262,667	58,655,085	77,132,303
Less: Impairment	(6,925,229)	(1,624,790)	(1,399,659)	(1,395,110)	(42,671,005)	(54,015,793)
	3,419,659	**1,546,362**	**1,298,852**	**867,557**	**15,984,080**	**23,116,510**

Consumer debt past due but not impaired 2022	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
Electricity	3,326,961	1,616,867	590,037	479,806	3,241,075	9,254,746
Water	452,677	114,716	89,334	94,915	3,642,224	4,393,866
Sewerage	294,119	207,980	143,800	134,966	4,950,531	5,731,396
Refuse	216,164	96,001	83,900	77,175	3,296,259	3,769,499
Other	633,291	15,839	7,796	7,412	1,974,376	2,638,714
Total	**4,923,212**	**2,051,403**	**914,867**	**794,273**	**17,104,465**	**25,788,221**

Consumer debt past due but not impaired 2021	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
Electricity	2,623,103	1,155,563	988,177	609,588	3,218,551	8,594,982
Water	29,325	151,088	110,849	43,464	3,258,365	3,593,091
Sewerage	(68,542)	136,738	113,556	110,321	4,314,005	4,606,078

Notes to the Annual Financial Statements

Figures in Rand					2022	2021

7. Receivables from exchange transactions (continued)

Refuse	(62,558)	78,294	63,609	60,994	2,899,317	3,039,656
Other	898,331	24,678	22,661	43,187	2,293,846	3,282,703
Total	**3,419,659**	**1,546,361**	**1,298,852**	**867,554**	**15,984,084**	**23,116,510**

Collection rate of consumer receivables (average days)

	2022	2021
Electricity	1.16	14.20
Water	20.15	76.74
Sewerage	29.35	86.02
Refuse	29.58	123.72
Other	131.30	59.02
	211.54	**359.70**

Consumer debtors pledged as security

No consumer debtors have been pledged as security.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

	2022	2021
Cash on hand	4,919	4,900
Bank balances	694,108	4,563,826
Short-term deposits	3,880,201	7,918,361
	4,579,228	**12,487,087**

Cash and cash equivalents pledged as collateral

	2022	2021
Total financial assets pledged as collateral for an Eskom electricity deposit for the waste water project in Phahameng	1,100,000	1,100,000
Limited cession to secure the guarantee of R1 100 000 over account 9108352550	1,520,000	1,520,000

8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances 30 June 2022	Bank statement balances 30 June 2021	Bank statement balances 30 June 2020	Cash book balances 30 June 2022	Cash book balances 30 June 2021	Cash book balances 30 June 2020
ABSA Bank - Cheque - 8101422227	553,758	4,545,754	3,883,478	694,108	4,563,826	3,818,436
ABSA Bank - Money market - 9108352550	1,778,730	1,617,827	1,546,171	1,778,730	1,617,827	1,546,171
ABSA Bank - Investment account - 9310197560	49,318	10,567	770,744	49,318	10,567	770,744
Standard Bank - Investment account - 398478066003	-	3,991,334	5,318,286	-	3,991,334	5,318,286
ABSA Bank - Investment account - 4094721884	-	80,835	78,147	-	80,835	78,147
ABSA Bank - Investment account - 9359158036	-	2,182,370	-	-	2,182,370	-
Petty cash on hand	-	-	-	4,919	4,900	4,900
Standard Bank - Investment account - 398478066004	-	7,853	-	-	7,853	-
Standard Bank - Investment account - 398478066006	-	27,575	-	-	27,575	-
Standard Bank - Investment account - 398478066014	2,052,153	-	-	2,052,153	-	-
Total	**4,433,959**	**12,464,115**	**11,596,826**	**4,579,228**	**12,487,087**	**11,536,684**

Cash at banks earns interest at floating rates based on the daily bank deposit rates.

Short term deposits are made for varying periods, depending on the immediate cash requirements, earn interest at the respective short-term deposit rate.

The municipality has a fleet card facility of R23 000.

9. Biological assets

	2022 Cost / Valuation	2022 Accumulated depreciation and accumulated impairment	2022 Carrying value	2021 Cost / Valuation	2021 Accumulated depreciation and accumulated impairment	2021 Carrying value
Biological assets	1,314,900	-	1,314,900	1,310,300	-	1,310,300

Reconciliation of biological assets - 2022

	Opening balance	Increase/Decrease due to assets acquired through a non-exchange transaction	Decrease due to assets lost through a non-exchange transaction	Total
Game	1,310,300	(53,500)	58,100	1,314,900

Reconciliation of biological assets - 2021

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

9. Biological assets (continued)

	Opening balance	Increase/Decrease due to assets acquired through a non-exchange transaction	Decrease due to assets lost through a non-exchange transaction	Total
Game	1,205,200	170,100	(65,000)	1,310,300

Non-financial information

Quantities of each biological asset	2022	2021
Blesbuck	194	195
Oryx	53	65
Kudu	6	14
Impala	20	18
Red Hartebeest	22	25
Springbuck	174	217
Black Springbuck	23	18
Black Wildebeest	255	222
Ostrich	3	6
Zebra	19	16
Horses	9	8
	778	**804**

Pledged as security

No biological assets have been pledged as security.

Methods and assumptions used in determining fair value

The fair value of game was based on trends during various game auctions held, they are based on breeding groups and not on trophy or non-trophy animals.

10. Investment property

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	104,450,043	-	104,450,043	104,999,390	-	104,999,390

Reconciliation of investment property - 2022

	Opening balance	Derecognition	Fair value adjustments	Total
Investment property	104,999,390	(570,142)	20,795	104,450,043

Reconciliation of investment property - 2021

	Opening balance	Fair value adjustments	Total
Investment property	104,664,464	334,926	104,999,390

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

10. Investment property (continued)

Pledged as security

No investment properties have been pledged as security.

11. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	33,866,586	-	33,866,586	33,866,585	-	33,866,585
Other property, plant and equipment - under construction	-	-	-	53,364	-	53,364
Infrastructure	687,781,534	(352,885,286)	334,896,248	681,227,122	(328,281,215)	352,945,907
Community	165,991,202	(98,938,257)	67,052,945	167,972,404	(94,360,284)	73,612,120
Other property, plant and equipment	23,054,745	(15,705,109)	7,349,636	23,801,033	(16,225,444)	7,575,589
Infrastructure - under construction	94,585,479	-	94,585,479	57,252,120	-	57,252,120
Total	**1,005,279,546**	**(467,528,652)**	**537,750,894**	**964,172,628**	**(438,866,943)**	**525,305,685**

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Transfers	Change in provision for landfill sites	Retention	Depreciation	Impairment loss	Total
Land	33,866,585	-	-	-	-	-	-	-	33,866,586
Other property, plant and equipment - under construction	53,364	19,651	-	(73,015)	-	-	-	-	-
Infrastructure	352,945,907	116,755	(261,944)	12,477,099	(5,397,367)	-	(23,119,048)	(1,865,154)	334,896,248
Community	73,612,120	-	(205,730)	-	-	-	(6,295,989)	(57,456)	67,052,945
Other property, plant and equipment	7,575,589	2,837,141	(1,041,865)	73,015	-	-	(2,066,376)	(27,868)	7,349,636
Infrastructure - under construction	57,252,120	49,533,695	-	(12,477,099)	-	276,763	-	-	94,585,479
	525,305,685	**52,507,242**	**(1,509,539)**	**-**	**(5,397,367)**	**276,763**	**(31,481,413)**	**(1,950,478)**	**537,750,894**

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Transfers received	Derecognition	Change in provision for landfill sites	Retention	Depreciation	Impairment loss	Total
Land	33,866,585	-	-	-	-	-	-	-	-	33,866,585
Other property, plant and equipment - under construction	9,144	44,220	-	-	-	-	-	-	-	53,364
Infrastructure	346,364,413	278,975	(677,270)	20,298,753	-	10,283,012	-	(23,531,053)	(70,923)	352,945,907
Community	81,444,595	-	(26,864)	-	-	-	-	(7,104,581)	(701,030)	73,612,120
Other property, plant and equipment	9,503,422	1,696,883	(1,715,112)	-	-	-	-	(1,816,866)	(92,738)	7,575,589
Infrastructure - under construction	37,761,416	37,676,189	-	(20,298,753)	(2,500)	-	2,115,768	-	-	57,252,120
	508,949,575	**39,696,267**	**(2,419,246)**	**-**	**(2,500)**	**10,283,012**	**2,115,768**	**(32,452,500)**	**(864,691)**	**525,305,685**

Pledged as security

No property, plant and equipment has been pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

11. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

	2022	2021
Other property, plant and equipment	742,820	350,435

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Other PPE	Total
Opening balance	57,252,120	53,364	57,305,484
Additions/capital expenditure	49,533,695	19,651	49,553,346
Transferred to completed items	(12,477,099)	(73,015)	(12,550,114)
Retentions	276,763	-	276,763
	94,585,479	**-**	**94,585,479**

11. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Other PPE	Total
Opening balance	37,761,416	9,144	37,770,560
Additions/capital expenditure	37,676,189	44,220	37,720,409
Transferred to completed items	(20,298,753)	-	(20,298,753)
Retentions	2,115,768	-	2,115,768
Derecognition	(2,500)	-	(2,500)
	57,252,120	**53,364**	**57,305,484**

Contractual commitments 2022	Infrastructure assets	Community infrastructure	Total
Commitments to construct or develop property, plant and equipment	37,676,273	809,672	38,485,945

Contractual commitments 2021	Infrastructure assets	Community infrastructure	Total
Commitments to construct or develop property, plant and equipment	14,577,702	434,272	15,011,974

Reconciliation of (gain) / loss on disposal of assets and liabilities

	2022	2021
Cost price	6,849,862	10,634,084
Accumulated depreciation and impairment	(4,770,181)	(8,214,838)
	2,079,681	2,419,246
Proceeds from disposals	(93,914)	(975,799)
De-recognition of finance lease liability	(333,465)	-
	1,652,302	**1,443,447**

Land

A register containing the information required by section 63 of the MFMA is available for inspection at the registered office of the municipality.

12. Other financial assets

	2022	2021
Designated at fair value		
Unlisted shares	1,176,047	1,052,424
49 383 Senwes shares at R14.00 per share (2021: R11.65)		
75 732 Senwesbel shares at R6.40 per share (2021: R6.30)		
Non-current assets		
Designated at fair value	1,176,047	1,052,424

13. Long-term receivables

The following receivables from exchange and non-exchange transactions were reclassified from current assets to non-current assets due to the consumers having payment arrangements with the municipality.

Consumer debtors - 2022	Receivables from exchange transactions	Receivables from non-exchange transactions	Total
Water	58,363	-	58,363
Electricity	228,410	-	228,410
Refuse	22,996	-	22,996
Sewerage	29,833	-	29,833
Other	3,044	-	3,044
Property rates	-	42,763	42,763
	342,646	**42,763**	**385,409**

Consumer debtors - 2021	Receivables from exchange transactions	Receivables from non-exchange transactions	Total
Water	47,991	-	47,991
Electricity	385,354	-	385,354
Refuse	16,461	-	16,461
Sewerage	22,925	-	22,925
Other	4,209	-	4,209
Property rates	-	130,579	130,579
	476,940	**130,579**	**607,519**

Ageing of non-current consumer debtors 2022	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
Water	3,519	3,891	5,042	3,913	41,998	58,363
Electricity	27,363	19,081	24,925	17,424	139,618	228,411
Refuse	1,556	1,386	1,257	1,146	17,650	22,995
Sewerage	2,078	1,830	1,615	1,566	22,745	29,834
Other	2,628	290	126	-	-	3,044
Property rates	4,224	3,672	3,675	3,477	27,715	42,763
	41,368	**30,150**	**36,640**	**27,526**	**249,726**	**385,409**

Ageing of non-current consumer debtors 2021	Current	31-60 Days	61-90 Days	91-120 Days	120+ Days	Total
Water	5,490	7,001	5,900	4,029	25,571	47,991
Electricity	75,232	43,591	44,325	31,689	190,516	385,353
Refuse	2,393	2,224	1,939	1,605	8,300	16,461
Sewerage	3,380	3,059	2,695	2,251	11,540	22,925
Other	2,861	503	503	251	92	4,210
Property rates	11,115	9,671	8,250	7,873	93,670	130,579
	100,471	**66,049**	**63,612**	**47,698**	**329,689**	**607,519**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

14. Other financial liabilities

At amortised cost		
Annuity loans	6,718,287	7,625,108
The annuity loan comprises a Development Bank of Southern Africa loan. The endowments are made on a six-monthly basis. The loan will be redeemed on the 31st of December 2024. The loan carries interest at 11.9% per annum.		
Non-current liabilities		
At amortised cost	3,542,079	5,584,804
Current liabilities		
At amortised cost	3,176,208	2,040,304

15. Finance lease obligation

Minimum lease payments due		
- within one year	430,095	499,237
- in second to fifth year inclusive	394,254	-
	824,349	499,237
less: future finance charges	(74,366)	(23,533)
Present value of minimum lease payments	**749,983**	**475,704**
Present value of minimum lease payments due		
- within one year	-	475,704

Non-current liabilities	375,889	-
Current liabilities	374,094	475,704
	749,983	**475,704**

It is municipality policy to lease copiers under finance leases.

The average lease term was 3 years and the average effective borrowing rate was 1% (2021: 10%).

Interest rates are fixed at the contract date. All leases have fixed repayments

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

Carrying amount of assets under the finance lease	742,820	350,435

16. Payables from exchange transactions

Trade payables	91,376,519	68,288,879
Payments received in advance	1,816,781	1,194,740
Accrued leave pay	9,534,093	9,940,809
Accrued bonus	1,733,534	1,728,563
Salary control account	2,592,290	3,273,664
Accrued councillor backpay	117,681	-
Deposits received	2,227,387	2,264,080
Retention payables	3,430,896	3,154,132
Cash suspense account	5,547,930	5,536,277
	118,377,111	**95,381,144**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

16. Payables from exchange transactions (continued)

Salary control account consists of the following amounts:

PAYE liability	689,728	770,403
UIF liability/(receivable)	75,741	78,487
SDL liability	54,949	56,225
Medical aid liability	-	676,567
Provident fund liability	44,525	60,210
Pension fund liability	898,923	910,139
Personal insurances liability	333,141	297,400
Other	495,356	424,233
	2,592,363	**3,273,664**

17. Consumer deposits

Electricity	1,256,584	1,091,552
Water	391,665	351,398
	1,648,249	**1,442,950**

Deposits are released on termination of the contract or when the contractual services are delivered.

18. Employee benefit obligations

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

Carrying value		
Present value of the post-employment medical aid liability	(4,460,975)	(4,758,388)
Present value of the long service awards liability	(4,374,798)	(4,185,988)
	(8,835,773)	**(8,944,376)**

Non-current liabilities	(7,707,267)	(8,065,098)
Current liabilities	(1,128,506)	(879,278)
	(8,835,773)	**(8,944,376)**

Changes in the present value of the post-employment medical aid liability is as follows:

Opening balance	4,758,388	5,504,035
Current interest cost	388,667	440,655
Benefits paid	(530,246)	(700,332)
Actuarial (gain)/loss	(155,834)	(485,970)
	4,460,975	**4,758,388**

Changes in the present value of the long service awards liability is as follows:

Opening balance	4,185,988	3,461,450
Current service cost	380,040	321,544
Current interest cost	321,720	247,528
Benefits paid	(349,032)	(426,100)
Actuarial (gain)/loss	(163,918)	581,566
	4,374,798	**4,185,988**

Figures in Rand	2022	2021

18. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

	2022	2021
Current service cost	(499,238)	(804,888)
Interest cost	710,387	688,183
Actuarial (gains) losses	(163,918)	581,566
	47,231	**464,861**

Key assumptions used

Assumptions used at the reporting date:

	2022	2021
Post-employment medical aid liability		
Discount rates used	11.32 %	8.65 %
Consumer price inflation	7.32 %	5.45 %
Health care cost inflation	8.82 %	6.95 %
Net discount rate	2.30 %	1.59 %
Average age (years)	76.17	75
Average employer monthly contribution (R)	3,982	4,572
Long service awards liability		
Discount rate	10.41 %	8.02 %
Consumer price inflation (CPI)	7.21 %	5.02 %
Salary increase rate	8.21 %	6.02 %
Net discount rate	2.03 %	1.89 %
Number of employees	197	211
Average annual salary	187,657	179,845
Average age (years)	48	46
Average past service (years)	14	12

The discount rate is determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2022 of 10.41% per annum. The yield of inflation-linked bonds of a similar term is 2.98% per annum. This implies an underlying expectation of inflation of 7.21% per annum.

The valuation basis assume that the salary inflation rate would exceed general inflation by 1.00% per annum, i.e. 8.21% per annum. The effect of a 1% increase and decrease in the salary inflation rates is as follows:

Salary increase rate	1% decrease (R)	30 June 2022 valuation basis (R)	1% increase (R)
Employer's accrued liability	4,151,663	4,374,817	4,618,513
Employer's current service cost	347,778	368,189	390,620
Employer's interest cost	402,483	425,713	451,082
	4,901,924	**5,168,719**	**5,460,215**

Post-employment medical aid liability

The discount rate is determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2022 of 11.32% per annum. The yield on inflation-linked bonds of a similar term is 3.73% per annum. This implies an underlying expectation of inflation of 7.32% per annum.

The valuation results are sensitive to changes in the underlying assumptions. The effect of a 1% increase and decrease in the health care cost inflation rate is as follows:

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

18. Employee benefit obligations (continued)

Health care cost inflation rate	1% decrease (R)	30 June 2022 valuation basis (R)	1% increase (R)
Employer's accrued liability	4,180,320	4,460,975	4,770,274
Interest cost	441,790	473,411	508,275
	4,622,110	**4,934,386**	**5,278,549**

19. Unspent conditional grants and receipts

There were no unspent conditional grants at the end of the financial year.

See note 29 for reconciliation of grants from National/Provincial Government.

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

20. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	39,195,480	(5,397,367)	6,643,274	40,441,387

Reconciliation of provisions - 2021

	Opening Balance	Reversed during the year	Change in discount factor	Total
Environmental rehabilitation	22,648,236	10,283,012	6,264,232	39,195,480

Environmental rehabilitation provision

The provision relates to the estimated future rehabilitation costs relating to two existing landfill sites in Bultfontein and Hoopstad respectively.

The expected date of rehabilitation is in 2037 for the Bultfontein site and 2038 for the Hoopstad site. and therefore the expected remaining useful life is estimated at 15 and 16 years respectively as at the beginning of the period.

It is assumed that the population growth of the town is correct and therefore the dumping rate will not significantly change over the useful life of the landfill sites. The current weighted average cost of borrowings for the municipality is 9.39% (2021: 9.10%) and this percentage was used as a discount factor for future rehabilitation costs. The evaluation of the rehabilitation procedures and costs was performed by Rofhiwa Khaukanani (Pr.Eng).

Estimations used in the calculation of the provisions are as follows:

30 June 2022	Bultfontein	Hoopstad
Discount rate used	9.39%	9.39%
Rehabilitation area (m2)	126,000	124,500
Rehabilitation cost excl VAT	17,880,614	30,620,121
Unit costs (R/m2)	141.10	245.95

30 June 2021	Bultfontein	Hoopstad
Discount rate used	9.10%	9.10%
Rehabilitation area (m2)	126,000	124,500
Rehabilitation cost excl VAT	13,590,879	27,354,339
Unit costs (R/m2)	107.86	219.71

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

21. Service charges

Sale of electricity	46,148,308	42,987,093
Sale of water	5,594,506	5,512,853
Sewerage and sanitation charges	6,008,235	6,001,406
Refuse removal	3,891,222	3,920,717
	61,642,271	**58,422,069**

22. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	1,601,408	2,570,437
Rental of equipment	1,981	7,148
	1,603,389	**2,577,585**

23. Licences and permits

Licences and permits	97,103	67,550

24. Operational revenue

Insurance revenue	1,103,310	952,951
Commission received	305,351	281,173
Grave fees	507,981	455,960
Gravel sales	2,747	17,779
Special meter reading	1,281	1,677
Building plan fees	23,810	29,856
Connection fees	166,759	67,899
Sundry income	168,814	28,964
Meter tempering fee	260,399	-
Zoning application fees	3,478	2,218
Tender documentation	96,130	188,870
Scrap sales	457,826	-
Installation fees	335,160	-
Discount received	18,013	-
Recoveries	132,004	84,916
	3,583,063	**2,112,263**

25. Investment revenue

Dividend revenue		
Unlisted financial assets - Local	96,173	65,454
Dividends received	**96,173**	**65,454**
Interest revenue		
Interest received - ABSA Call Account	44,568	62,292
Interest received - Investment accounts	760,709	693,313
Interest received - Eskom deposits	34,437	39,463
Interest received - investments	**839,714**	**795,068**
Investment revenue	**935,887**	**860,522**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

26. Property rates

Rates received

Property rates	26,429,031	25,444,738

Properties as per billing category

Agricultural	9,432,871	8,911,462
Business	2,548,014	2,432,330
Government	9,767,702	9,215,409
Residential	4,587,212	4,797,553
Vacant properties	93,232	87,984
	26,429,031	**25,444,738**

27. Availability charges

Electricity	230,368	197,392
Sewerage	63,927	59,170
Water	74,514	70,071
	368,809	**326,633**

28. Interest from non-exchange receivables

Interest - Property rates	3,173,250	1,799,263

29. Government grants & subsidies

Operating grants		
Equitable share	81,535,000	91,453,000
Expanded Public Works Programme Grant	985,000	1,168,000
Financial Management Grant	2,100,000	1,900,000
Provincial Treasury Grant	648,321	409,107
	85,268,321	**94,930,107**
Capital grants		
Municipal Infrastructure Grant	17,192,000	21,250,371
Regional Bulk Infrastructure Grant	30,107,479	13,015,581
Water Services Infrastructure Grant	12,000,000	11,000,000
	59,299,479	**45,265,952**
	144,567,800	**140,196,059**

Equitable Share

The municipality received R81 535 000 as Equitable Share during the 2021/2022 financial year as compared to the gazette. No amount was withheld in the current year.

Figures in Rand	2022	2021

29. Government grants & subsidies (continued)

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	5,046,371
Current-year receipts	17,192,000	16,204,000
Conditions met - transferred to revenue	(17,192,000)	(21,250,371)
	-	-

The Municipal Infrastructure Grant (MIG) was allocated for the construction of roads, basic sewerage and water infrastructure as part of the upgrading of poor households, micro enterprises and social institutions, and to provide for new, rehabilitation and upgrading of municipal infrastructure.

All the conditions of the grant were met and no funds were withheld.

Financial Management Grant

Current-year receipts	2,100,000	1,900,000
Conditions met - transferred to revenue	(2,100,000)	(1,900,000)
	-	-

The grant is paid by National Treasury to municipalities to help with the implementation 1of the financial reforms required by the MFMA. The grant also pays for the cost of the financial management internship programme.

All conditions of the grant were met and no funds were withheld.

Expanded Public Works Programme Grant

Current-year receipts	985,000	1,168,000
Conditions met - transferred to revenue	(985,000)	(1,168,000)
	-	-

To incentivise the municipalities to expand work creation efforts through the use of labour intensive delivery methods in the identified focus areas, in compliance with the EPWP guidelines.

All conditions of the grant were met and no funds were withheld.

Regional Bulk Infrastructure Grant

Current-year receipts	30,107,479	13,015,581
Conditions met - transferred to revenue	(30,107,479)	(13,015,581)
	-	-

To develop new, refurbish, upgrade and replace ageing bulk water and sanitation infrastructure of regional significance that connects water resources to infrastructure serving extensive areas across municipal boundaries or large regional bulk infrastructure serving numerous communities over a large area within a municipality; to implement bulk infrastructure with a potential of addressing water conservation and water demand management projects; to facilitate and contribute to the implementation of local water conservation and water demand management projects that will directly impact on bulk infrastructure requirements.

All conditions of the grant were met and no funds were withheld.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

29. Government grants & subsidies (continued)

Water Services Infrastructure Grant

Current-year receipts	12,000,000	11,000,000
Conditions met - transferred to revenue	(12,000,000)	(11,000,000)
	-	-

Facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and enhance the sustainability of services especially in rural municipalities; provide basic and intermittent water and sanitation supply that ensures provision of services of identified and prioritised communities, including spring protection and groundwater development; support municipalities in implementing water conservation and water demand management projects; support the close-out of the existing Bucket Eradication Programme intervention in formal residential areas; support drought relief projects in affected municipalities.

All conditions of the grant were met and no funds were withheld.

Provincial Treasury Grant

Current-year receipts	648,321	409,107
Conditions met - transferred to revenue	(648,321)	(409,107)
	-	-

According to the Public Audit Act the Municipality is only responsible for an audit fee from the offices of the Auditor-General equal to 1% of their total expenditures per annum. The balance of the audit fees is payable by Treasury.

30. Public contributions and donations

Department of Sports Arts Culture and Recreation	-	4,449
Public contributions and donations	-	191,995
	-	**196,444**

31. Fines, penalties and forfeits

Traffic fines	460,500	524,100

32. Employee related costs

Basic	42,640,792	43,204,277
Medical aid - company contributions	4,383,849	4,247,068
UIF	429,282	402,665
SDL	546,946	449,233
Leave pay and leave accrual	1,123,336	1,395,726
Defined contribution plans	7,015,056	7,119,343
Travel, motor car and other allowances	4,477,842	4,147,785
Overtime payments	4,067,553	3,094,423
Long-service awards	393,402	587,294
Prorata bonus and bonus accrual	4,971	77,895
Housing benefits and allowances	598,143	574,235
Other short-term costs	25,843	26,106
Cellphone allowance	111,080	174,230
Standby allowance	1,319,638	1,131,437
	67,137,733	**66,631,717**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

32. Employee related costs (continued)

Remuneration of Municipal Manager (MRE Mogopodi/BP Dikoko)

Annual remuneration	589,588	702,365
Car allowance	63,189	75,816
Annual bonus	48,766	58,530
Contributions to UIF, medical and pension funds	163,477	195,860
Cellphone allowance	34,000	40,800
Leave pay	320,483	-
Other costs	46,517	50,247
	1,266,020	**1,123,618**

The contract of the Municipal Manager, MRE Mogopodi, ended 30 April 2022.

An acting Municipal Manager. BP Dikoko was appointed effective 01 May 2022.

Remuneration of Chief Finance Officer (TJ Matyesini)

Annual remuneration	633,382	188,810
Car allowance	94,736	24,000
Annual bonus	52,782	8,797
Contributions to UIF, medical and pension funds	172,132	38,599
Cellphone allowance	40,800	10,200
Leave pay	-	294,579
Other costs	46,558	10,011
	1,040,390	**574,996**

The post of Chief Finance Officer was vacant from 1 August 2020. Mr TJ Matyesini acted on the position until his appointment as the Chief Financial Officer on 1 May 2021.

Remuneration of Director Community Services (MJ Mahlanyane)

Annual remuneration	621,530	127,149
Car allowance	96,000	16,000
Annual bonus	51,794	10,563
Contributions to UIF, medical and pension funds	183,709	5,099
Cellphone allowance	40,800	6,800
Other costs	46,215	8,023
	1,040,048	**173,634**

The post of the Director Community Services was vacant in 2020. The Manager Environmental Management and Manager Community Services acted in the position and Mr MJ Mahlanyane was appointed on 1 May 2021.

Remuneration of Director Technical Services (BP Dikoko)

Annual remuneration	896,297	896,297
Car allowance	90,671	91,544
Annual bonus	74,691	74,691
Contributions to UIF, medical and pension funds	238,662	237,478
Cellphone allowance	40,800	40,800
Other costs	10,474	8,865
	1,351,595	**1,349,675**

Total employee related costs

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

32. Employee related costs (continued)

Employee costs	67,137,733	66,631,717
Remuneration of Municipal Manager	1,266,020	1,123,618
Remuneration of Chief Financial Officer	1,040,390	574,996
Remuneration of Director Community Services	1,040,048	173,634
Remuneration of Director Technical Services	1,351,595	1,349,675
	71,835,786	**69,853,640**

33. Remuneration of councillors

Councillors remuneration	4,929,830	4,252,387
Medical aid contributions	226,402	382,799
Cellphone and data allowances	719,527	666,000
Pension fund contributions	243,911	368,533
SDL	55,843	41,981
	6,175,513	**5,711,700**

In-kind benefits

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

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

A new Government gazette No. 46470 for the determination of upper limits of salaries, allowances and benefits of different members of Municipal Councils was issued on 02 June 2022 affecting remuneration of Municipal Councils from 1 July 2021. In terms of the Government Gazette, before the salaries, allowance and benefits are paid, there must be a concurrence from the Member of the Executive Committee (MEC) responsible for local government giving effect to theses salaries. Thereafter a council resolution must be obtained for the implementation of this gazette. The concurrence by the MEC was issued on 23 June 2022 and the Council resolved on 27 July 2022 that the government gazette be implemented effective August 2022.

An accrual of R117 609 is included in Councillors remuneration.

2022	Allowance	Cellphone allowance	Data allowance	SDL	Total
Current serving council					
Mayor - KR Phukuntsi	521,793	26,293	2,320	5,504	555,910
Speaker - MW Raseu	644,853	40,800	3,600	5,373	694,626
Part-time EXCO member - JM Radienyane	203,992	26,293	2,320	2,130	234,735
Part-time EXCO member - WS Swart (Resigned March 2022)	134,005	16,093	1,420	1,515	153,033
Part-time Chairperson Sec 79 committee - MC Mphatsoe	195,243	26,293	2,320	2,176	226,032
Part-time councillor - MM Snyer	253,247	40,800	3,600	2,977	300,624
Part-time councillor - MS Baleni	289,328	40,800	3,600	2,707	336,435
Part-time councillor - TA Soaisa	255,091	40,800	3,600	3,008	302,499
Part-time councillor - EG Pretorius	191,318	30,600	2,700	2,246	226,864
Part-time councillor - MA Muller	165,129	26,293	2,320	1,937	195,679
Part-time councillor - MJ Noosi (Resigned December 2021)	37,583	5,893	520	440	44,436

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Figures in Rand				2022	2021

33. Remuneration of councillors (continued)

Part-time councillor - SH Gaebee	165,129	26,293	2,320	1,937	195,679
Part-time councillor - WM Nkomo	165,129	26,293	2,320	1,937	195,679
Part-time councillor - KP Dial	165,129	26,293	2,320	1,840	195,582
Part-time councillor - TS Shuping	165,129	26,293	2,320	1,937	195,679
Part-time councillor - MJ Rabannye	165,129	26,293	2,320	1,792	195,534
Part-time councillor - RA Potsanyane	165,129	26,293	2,320	1,792	195,534
Part-time councillor - NS Twana	125,420	20,400	1,800	1,476	149,096
Part-time EXCO member - EJ Pretorius	84,315	10,200	900	954	96,369
Served in previous council					
Mayor - FT Matsholo	288,034	14,507	1,280	3,039	306,860
Chairperson Sec 79 committee - BP Eseu	116,979	14,507	1,280	1,055	133,821
Part-time EXCO member - C Horn (Deceased August 2021)	56,210	6,800	600	636	64,246
Part-time councillor - TT Taedi	91,153	14,507	1,280	1,069	108,009
Part-time councillor - MS Bonokwane	91,152	14,507	1,280	885	107,824
Part-time councillor - DA Njodina	91,152	14,507	1,280	1,069	108,008
Part-time councillor - EC Jourbert	91,153	14,507	1,280	857	107,797
Part-time councillor - MA Monei	91,152	14,507	1,280	875	107,814
Part-time councillor - MH Segopolo	91,152	14,507	1,280	875	107,814
Part-time councillor - MJ Mgciya	91,153	14,507	1,280	891	107,831
Part-time councillor - MB Mohlabakoe	91,153	14,507	1,280	914	107,854
	5,282,534	**661,186**	**58,340**	**55,843**	**6,057,903**

2021	Allowance	Cellphone allowance	Data allowance	SDL	Total
Mayor - FT Matsholo	806,066	40,800	3,600	7,191	857,657
Speaker - MW Raseu	644,853	40,800	3,600	4,475	693,728
Part-time EXCO member - C Horn	337,261	40,800	3,600	3,181	384,842
Part-time EXCO member - MS Baleni	337,261	40,800	3,600	2,552	384,213
Part-time Chairperson Sec 79 committee - BP Eseu	327,367	40,800	3,600	2,416	374,183
Part-time councillor - MS Bonokwane	255,091	40,800	3,600	2,033	301,524
Part-time councillor - EC Joubert	255,091	40,800	3,600	1,964	301,455
Part-time councillor - TT Taedi	255,091	40,800	3,600	2,496	301,987
Part-time councillor - DA Njodina	255,091	40,800	3,600	2,496	301,987
Part-time councillor - MM Snyer	255,091	40,800	3,600	2,496	301,987
Part-time councillor - MA Monei	255,091	40,800	3,600	2,009	301,500
Part-time councillor - MH Segopolo	255,091	40,800	3,600	2,009	301,500
Part-time councillor - TA Soaisa	255,091	40,800	3,600	2,503	301,994
Part-time councillor - MJ Mgciya	255,091	40,800	3,600	2,050	301,541
Part-time councillor - MB Mohlabakoe	255,091	40,800	3,600	2,111	301,602
	5,003,718	**612,000**	**54,000**	**41,982**	**5,711,700**

34. Depreciation and amortisation

	2022	2021
Property, plant and equipment	31,481,413	32,452,500

35. Finance costs

	2022	2021
Non-current borrowings	867,572	881,243
Trade and other payables	3,727,481	2,632,947
Finance leases	75,740	76,821
Employee costs	710,387	688,183
Unwinding costs on provisions	6,643,274	6,264,232
	12,024,454	**10,543,426**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

36. Debt impairment

Debt impairment - other receivables	-	261,859
Debt impairment - consumer debtors	24,335,271	17,903,783
	24,335,271	**18,165,642**

Reconciliation of debt impairment

Actual bad debt written off - consumer debtors	7,911,179	2,430,930
Increase in provision for doubtful debt - other receivables	134,469	261,859
Increase in provision for doubtful debt - consumer debtors	8,823,847	15,472,853
	16,869,495	**18,165,642**

37. Impairment of assets

Impairments

Property, plant and equipment	1,950,478	864,691
Impairment losses are due to the change in the condition of assets as at year end.		

The main classes of assets affected by impairment losses are:

Infrastructure assets	1,865,154	70,923
Community assets	57,456	701,030
Other property, plant and equipment	27,868	92,738
	1,950,478	**864,691**

38. Bulk purchases

Electricity	42,987,493	38,765,877
Electricity (Indigent relief)	2,905,079	2,527,440
Water	5,442,480	5,681,334
	51,335,052	**46,974,651**

Electricity losses

Units purchased	26,190,379	28,134,511
Units sold	(21,993,230)	(23,745,187)
Total loss	**4,197,149**	**4,389,324**
Rand value loss	6,038,332	5,337,013
Percentage loss	16.03 %	15.06 %

Notes to the Annual Financial Statements

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38. Bulk purchases (continued)

Water losses

Units purchased	3,964,550	4,194,120
Units sold	(3,214,812)	(3,369,468)
Total	**749,738**	**824,652**
Rand value loss	1,046,893	1,133,719
Percentage loss	18.91 %	19.66 %

39. Contracted services

Outsourced Services		
Security services	2,741,047	2,191,628
Consultants and Professional Services		
Business and advisory	4,762,275	2,916,545
Legal cost	1,885,093	1,072,865
Contractors		
Maintenance - labour costs	866,392	323,506
	10,254,807	**6,504,544**

Included under Business and Advisory:		
Accounting services	1,250,667	1,110,713
Audit committee	111,897	57,987
Valuer and assessors	1,172,245	541,550
Other	2,227,466	1,206,295
	4,762,275	**2,916,545**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

40. General expenses

Advertising	156,102	193,847
Auditors remuneration	5,411,297	4,471,308
Bank charges	276,452	258,869
Cleaning	-	78,150
Computer expenses	3,430,019	2,735,624
Entertainment	56,721	3,858
Hire charges	1,885,252	1,607,048
Insurance	838,296	808,403
Materials and supplies	12,192,549	9,041,323
Motor vehicle expenses	107,684	128,405
Fuel and oil	3,388,172	1,931,325
Printing and stationery	16,942	22,407
Protective clothing	432,344	394,458
Licence fees	24,293	22,548
Subscriptions and membership fees	811,790	521,258
Telephone and fax	485,824	471,476
Training	744,534	374,468
Travel - local	1,683,584	727,547
Transport costs	270,652	156,485
Operating grant expenditure	3,377,452	2,829,944
Remuneration of ward committees	290,000	469,000
Workmens compensation fund	319,319	323,719
Chemicals	10,136,809	5,274,129
Other expenses	66,689	6,273
	46,402,776	**32,851,872**

41. Fair value adjustments

Investment property	20,795	334,926
Other financial assets		
• Share investments	123,623	179,934
	144,418	**514,860**

42. COVID 19 related expenditure

Included under expenditure are the following expenses relating to COVID 19		
Lease rentals	-	480,000
General expenditure - materials and supplies	-	248,170
General expenditure - protective clothing	-	3,600
Other property, plant and equipment	-	25,000
	-	**756,770**

43. Auditors' remuneration

Fees	5,411,297	4,471,308

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

44. Cash generated from operations

(Deficit) surplus	(14,329,933)	7,424,395
Adjustments for:		
Depreciation and amortisation	31,481,413	32,452,500
Impairment loss	1,950,478	864,691
Fair value adjustments	(144,418)	(514,860)
Finance costs	943,312	1,198,150
Gain with disposal of assets and liabilities	1,652,302	1,443,447
Gain on biological assets	(4,600)	(105,100)
Non-cash movement: Public contributions and donations	-	(196,444)
Changes in working capital:		
Inventories	(378,851)	112,228
Other receivables from exchange transactions	70,098	(141,908)
Receivables from exchange transactions	(2,537,415)	(3,094,451)
Other receivables from non-exchange transactions	(1,622,986)	(7,551,590)
Payables from exchange transactions	22,995,967	8,230,907
VAT	(2,741,192)	139,960
Consumer deposits	205,299	742,101
Unspent conditional grants and receipts	-	(5,046,371)
Employee benefit obligations	(108,603)	(21,109)
Provisions	1,245,907	16,547,244
	38,676,778	**52,483,790**

45. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	38,485,945	15,011,974
Total capital commitments		
Already contracted for but not provided for	38,485,945	15,011,974

Total commitments

Total commitments		
Authorised capital expenditure	38,485,945	15,011,974

Notes to the Annual Financial Statements

Figures in Rand		2022	2021

46. Contingencies

Name	**Details**		
MT Makoko	Unfair dismissal. The dispute relates to the condonation application for dismissal of Tekoeng Makoko which took place on the 29th of January 2016. This matter is handled internally and therefore there is no legal council. The applicant has abandoned the matter.	-	-
LJ Leoatle	The matter relates to damage to Mr LJ Leoatle's vehicle. He drove into a pothole and damaged his vehicle. The matter is still pending. This matter is handled internally and therefore there is no legal council. An arrangement was reached on 02 September 2021 that Tswelopele Local Municipality (defendant) will pay the plaintiff the amount of R40 000.	-	46,210
Dr KM Mapesela	The matter relates to a dispute with regards to medical services rendered and invoiced.	60,040	60,040
Senwes Limited	Senwes Limited is taking the municipality to court to review an application to set aside the council resolution of June 2020 to approve tariff policy and the specific basic electricity charge in respect of the industrial silos.	68,720	-
DT Bombare	The matter relates to an action instituted against the municipality to recover damages as a result of an accident that occurred on 6 January 2020. The suffered damages amount to R400 000.	400,000	400,000
HT Pelatona	Review application at High Court to set-aside appointment of NSM Consulting	15,835,749	-
Tswelopele Local Municipality	Eviction application for unlawful occupants on ERF 7286, 7288 and Matjabeng	-	-
Tswelopele Local Municipality	Preservation Order on Crops of Tikwe Farming Pty for lease rental owed to the Municipality	886,890	-
		17,251,399	**506,250**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

47. Related parties

Relationships	
Related entities	Thati Entle Registration number:K2020787675 Barolo Di-Tholo General Trading Registration number:K2021107468 (Director - MRE Mogopodi: Municipal Manager -term ended 30 April 2022) Nomzi Fragrances Registration number:K2022337039 (Director-TJ Matyesini-Chief Financial Officer) Free State Arts and Culture Council (MJ Mahlanyane) Mulcon Civils Registration number:B2011100388 (Director-MA Muller - Councillor) Motaung and Motshweneng Associates Registration number:K2022449643 (Director- KP Dial - Councillor) Nettsecter Multi-Purpose Registration number:C2011004875 Lavida Co-operative Limited Registration number:C2012013414 TAS1985 Investments Registration number:K2021434070 (Director - TA Soaisa - Councillor)
Members of key management	MRE Mogopodi (Municipal Manager - term ended 30 April 2022) TJ Matyesini (Chief Financial Officer) BP Dikoko (Director Technical Services) MJ Mahlanyane (Director Community Services)

Related party balances

	2022	2021
Amounts included in receivable from exchange from exchange and non-exchange transactions		
Councillor C. Horn	-	93,626
Tikwe Farming	-	1,083,248

Related party transactions

	2022	2021
Service charges rendered to related parties - Councillors		
Current serving council		
Mayor - KR Phukuntsi	10,781	-
Part-time EXCO member - JM Radienyane	1,299	-
Part-time EXCO member - WS Swart (Resigned 31 March 2022)	26,175	-
Part-time EXCO member - EJ Pretorius	1,164	-
Part-time Chairperson Sec 79 committee - MC Mphatsoe	1,137	-
Part-time councillor - MM Snyer	1,299	6,790
Part-time councillor - MS Baleni	1,299	1,839
Part-time councillor - TA Soaisa	1,137	-
Part-time councillor - EG Pretorius	5,318	-
Part-time councillor - MA Muller	6,238	-
Part-time councillor - MJ Noosi (Resigned 31 January 2022)	487	-
Part-time councillor - SH Gaebee	1,299	-
Part-time councillor - WM Nkomo	1,137	-
Part-time councillor - KP Dial	1,299	-
Part-time councillor - TS Shuping	1,299	-
Part-time councillor - MJ Rabannye	1,299	-
Part-time councillor - RA Potsanyane	1,137	-

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

47. Related parties (continued)

Part-time councillor - NS Twana	(3,623)	-
Served in previous council		
Mayor - FT Matsholo	650	1,839
Chairperson Sec 79 committee - BP Eseu	650	1,839
Part-time EXCO member - C Horn (Deceased 21 August 2021)	26,972	67,760
Part-time councillor - TT Taedi	1,299	3,677
Part-time councillor - MS Bonokwane	650	1,839
Part-time councillor - DA Njodina	650	1,839
Part-time councillor - MA Monei	650	1,839
Part-time councillor - MH Segopolo	650	1,839
Part-time councillor - MJ Mgciya	650	1,839
Part-time councillor - MB Mohlabakoe	650	1,839

Property rates levied to related parties - Councillors

Current serving council		
Part-time EXCO member - WS Swart (Resigned 31 March 2022)	1,734	-
Part-time EXCO member - EJ Pretorius	305	-
Part-time councillor - MM Snyer	-	1,015
Part-time councillor - TA Soaisa	94	-
Part-time councillor - EG Pretorius	3,759	-
Part-time councillor - MA Muller	3,447	-
Part-time councillor - TS Shuping	94	-
Part-time councillor - MJ Rabannye	103	-
Part-time councillor - RA Potsanyane	163	-
Part-time councillor - NS Twana	(13,431)	-
Served in previous council		
Mayor - FT Matsholo	177	353
Part-time EXCO member - C Horn (Deceased 21 August 2021)	8,353	24,287
Part-time councillor - TT Taedi	657	1,865
Part-time councillor - MB Mohlabakoe	15	43

Other services levied to related parties - Councillors

Current serving council		
Part-time councillor - NS Twana	(1,193)	-
Served in previous council		
Mayor - FT Matsholo	-	26,321
Part-time EXCO member - C Horn (Deceased 21 August 2021)	41,853	41,671

Rent paid to (received from) related parties

Councillor C. Horn	-	(45,671)
Tikwe Farming	-	(502,493)

Service charges rendered to related parties - Key management

Director Community Services - MJ Mahlanyane	16,614	1,307

Property rates levied to related parties - Key management

Director Community Services - MJ Mahlanyane	6,759	632

Remuneration of management

Management class: Councillors

Refer to note 33 "Remuneration of councillors" and note 58 ''Additional disclosure in terms of the MFMA.

Management class: Key management

*Refer to note 32 "Employee related costs"

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

48. Accounting by principals and agents

The entity is a party to a principal-agent arrangement(s).

Details of the arrangements are as follows:

Tswelopele Local Municipality is the Agent in the Principal-Agent arrangement with various personal insurance companies, unions and legal firms. The municipality deducts specified amounts from the salaries of municipal employees on behalf of the principle in exchange for commission of 2.5% and 5%. No significant judgements are applied in determining that the municipality was the agent in the arrangement. There has been no significant changes in the terms and conditions of the arrangements during the reporting period. There are no risks and benefits associated with the principle agent arrangement.

Compensation received from agency activities		
Commission (Payroll deductions)	305,351	281,173

Tswelopele Local Municipality was paid 2.5% and 5% commission by various personal insurance companies, unions and legal firms for acting as an agent on its behalf during the financial year.

Resources under custodianship

There are no resources of the principal under the custodianship of Tswelopele Local Municipality, nor have that been recognised as such.

49. Change in estimate

Property, plant and equipment

During the current financial year a physical verification and condition assessment was undertaken. This resulted in changes in the conditions of certain assets and the remaining useful life of these assets were adjusted. The effect of this revision is as follows:

- Decrease in Infrastructure depreciation expense amounting to R1 100 512
- Increase in Community assets depreciation expense amounting to R881 321.
- Decrease in Other assets depreciation expense amounting to R72 732.
- Decrease in Other property, plant and equipment depreciation expense amounting to R264 558.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

50. 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

2021

	Note	As previously reported	Correction of error	Restated
Inventories	3	718,175	-	718,175
Other receivables from exchange transactions	4	1,757,122	77,147	1,834,269
Receivables from non-exchange transactions	5	7,927,309	5,094,267	13,021,576
VAT receivable	6	5,330,649	6,531,656	11,862,305
Receivables from exchange transactions	7	27,018,549	(3,902,040)	23,116,509
Cash and cash equivalents	8	12,487,087	-	12,487,087
Biological assets that form part of agricultural activity	9	1,310,300	-	1,310,300
Investment property	10	104,999,390	-	104,999,390
Property, plant and equipment	11	525,276,074	29,611	525,305,685
Other financial assets	12	1,052,424	-	1,052,424
Long-term receivables from exchange and non-exchange transactions	13	605,405	2,114	607,519
Other financial liabilities	14	(7,625,108)	-	(7,625,108)
Finance lease obligations	15	(475,704)	-	(475,704)
Payables from exchange transactions	16	(95,249,208)	(131,935)	(95,381,143)
Consumer deposits	17	(1,442,950)	-	(1,442,950)
Employee benefit obligation	18	(7,964,940)	(979,436)	(8,944,376)
Provisions	20	(39,195,480)	-	(39,195,480)
Accumulated surplus		(536,529,094)	(8,059,172)	(544,588,266)
		-	**(1,337,788)**	**(1,337,788)**

Statement of financial performance

2021

	Note	As previously reported	Correction of error	Re-classification	Restated
Service charges	21	(58,748,704)	326,634	-	(58,422,070)
Rental of facilities and equipment	22	(2,577,585)	-	-	(2,577,585)
Interest received - trading		(1,799,263)	-	-	(1,799,263)
Licence and permits	23	(67,550)	-	-	(67,550)
Operational revenue	24	(2,112,263)	-	-	(2,112,263)
Interest received - investments	25	(795,068)	-	-	(795,068)
Fair value adjustments	41	(514,860)	-	-	(514,860)
Actuarial gains	18	(837,347)	932,943	-	95,596
Gain of biological assets and agricultural produce		(105,100)	-	-	(105,100)
Dividends received	25	(65,454)	-	-	(65,454)
Property rates	26	(25,444,738)	-	-	(25,444,738)
Availability charges	27	-	(326,634)	-	(326,634)
Government grants and subsidies	29	(139,786,952)	(409,107)	-	(140,196,059)
Public contributions and donations	30	(152,569)	(43,875)	-	(196,444)
Fines, penalties and forfeits	31	(524,100)	-	-	(524,100)
Employee related costs	32	69,839,361	14,277	-	69,853,638
Remuneration of councillors	33	5,711,700	-	-	5,711,700
Depreciation and amortisation	34	32,401,260	51,240	-	32,452,500
Impairment of assets	37	864,691	-	-	864,691
Finance costs	35	10,540,821	2,605	-	10,543,426
Lease rentals		1,868,129	-	(1,607,048)	261,081
Debt impairment	36	17,699,080	466,562	-	18,165,642
Bulk purchases	38	46,974,651	-	-	46,974,651

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

50. Prior-year adjustments (continued)

Contracted services	39	6,504,544	-	-	6,504,544
Loss on disposal of assets and liabilities	11	1,437,736	5,711	-	1,443,447
Work-in-progress write off		2,500	-	(2,500)	-
General expenditure	40	30,924,893	317,431	1,609,548	32,851,872
Surplus for the year		**(8,762,187)**	**1,337,787**	**-**	**(7,424,400)**

Errors

The following prior period errors adjustments occurred:

Provincial Treasury Grant

According to the Public Audit Act the municipality is only responsible for audit fees from the office of the Auditor General to 1% of their total expenditure per annum. The balance of the audit fees are payable by Treasury.

The effect of the correction is as follows:

Government grants and subsidies - Increase	-	(409,107)
General expenditure - Increase	-	409,107
	-	-

Trade and other payables

Recognition of SARS amounts outstanding in 2021 for a temporary employee.

The effect of the correction is as follows:

Trade and other payables - Increase	(5,652)	(5,652)
Accumulated surplus - Decrease	5,652	-
General expenditure - Increase	-	5,652
	-	-

Property, plant and equipment

During the year management embarked on a full asset verification to ensure the accuracy, completeness and validity of the fixed asset register being compiled and submitted.

The effect of the correction is as follows:

Property, plant and equipment - Decrease	(141,770)	(141,770)
Accumulated surplus - Decrease	141,770	146,382
Depreciation and amortisation - Decrease	-	(10,323)
Gain on disposal of assets and liabilities - Increase	-	5,711
	-	-

Other property, plant and equipment

Recognition of asset received via donation during the previous financial period.

The effect off the correction is as follows:

Property, plant and equipment - Increase	43,434	43,434
Accumulated surplus - Increase	(43,434)	-
Public contributions and donations - Increase	-	(43,875)
Depreciation and amortisation - Increase	-	441
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

50. Prior-year adjustments (continued)

Hire charges

Hire charges previously included in lease rentals have been reclassified to General expenses.

The effect of the correction is as follows:

Lease rentals - Decrease	-	1,607,048
General expenses - Increase	-	(1,607,048)
	-	-

Material and supplies

During the year under review it was found that the municipality has a credit with a supplier, Imperial Developments emanating from the previous years' transactions. The credit note by the supplier had not been accounted for in the previous year.

The effect of the correction is as follows:

Other receivables from exchange transactions - Increase	26,108	26,108
Accumulated surplus -Increase	(26,108)	-
General expenses - Decrease	-	(26,108)
	-	-

Defined Contribution plans

The salary control of the previous financial period included a refund from National Fund of Municipal Workers of which the further information was required. During the current year under review the information was received.

The effect of the correction is as follows:

Trade and other payables - Decreased	878	878
Accumulated surplus - Increases	(878)	-
Employee related costs - Decreased	-	(878)
	-	-

Fruitless and wasteful receivable

During the financial year under review a Fruitless and wasteful debtor was raised for VAT incorrectly charges by a supplier in the previous years.

The effect of the correction is as follows:

Other receivables from exchange transactions - Increase	24,039	24,039
Accumulated surplus - Increased	(24,039)	(24,039)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

50. Prior-year adjustments (continued)

Consumer debtors

Reclassification of consumer debtors to separately disclose availability charges and correct classification of debtors.

The effect of the correction is as follows:

Receivables from non-exchange transactions - Increase	3,795,673	3,795,673
Receivables from exchange transactions - Decrease	(3,806,332)	(3,806,332)
Long-term receivables from exchange transactions - Increase	2,114	2,114
Payables from exchange transactions - Decrease	8,545	8,545
Service charges - Decrease	-	326,634
Availability charges - Increase	-	(326,634)
	-	-

Debt impairment

Calculations for the past three years were reperformed due to the reclassification of availability charges.

The effect of the correction is as follows:

Receivables from non-exchange transactions - Increase	1,298,594	1,298,594
Receivables from exchange transactions - Decrease	(95,707)	(95,707)
VAT Receivable - Increase	6,531,656	6,531,656
Accumulated surplus - Increase	(7,734,543)	(8,201,104)
Debt impairment - Increase	-	466,561
	-	-

Retentions

Accounting for retentions not accounted for the prior period.

The effect of the correction is as follows:

Property, plant and equipment	135,706	135,706
Payables from exchange transactions	(135,706)	(135,706)
	-	-

Derecognition of asset addition

Asset that was purchased but not received in the prior period additionally the item was incorrectly classified as repairs and maintenance.

Other receivables from exchange transactions - Increase	27,000	27,000
Accumulated surplus - Increase	(27,000)	-
General expenses - Decrease	-	(27,000)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

50. Prior-year adjustments (continued)

Capitalization of trailer

Purchase of supplies for a trailer build by the municipality, expenditure was incorrectly included in repairs and maintenance and not capitalized.

Property, plant and equipment - Increase	53,364	53,364
Accumulated surplus - Increase	(53,364)	(9,144)
General expenses - Decrease	-	(44,220)
	-	-

Employee benefit obligation

When actuarial reports for the current period was investigated it was determined that remuneration packages as well as long service schemes provided to the actuaries where incorrect.

The effect of the correction is as follows:

Employee benefit obligations - Increase	(979,436)	(979,436)
Accumulated surplus - Decrease	979,436	28,733
Actuarial gains - Decrease	-	932,943
Employee related costs - Increase	-	15,155
Finance costs - Increase	-	2,605
	-	-

Additional depreciation

During the financial period it was noted that depriciation recognised on disposed assets was incorrectly accounted for the prior year.

The effect of the correction is as follows:

Property, plant and equipment - decreased	(61,123)	(61,123)
Accumulated surplus - decreased	61,123	-
Depreciation - increased	-	61,123
	-	-

51. Comparative figures

Certain comparative figures have been reclassified.

Notes to the Annual Financial Statements

52. Risk management

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.

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

At 30 June 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	3,176,208	2,042,725	1,499,354	-
Derivative financial instruments	374,094	375,888	-	-
Trade and other payables	91,376,519	-	-	-
	94,926,821	**2,418,613**	**1,499,354**	**-**

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	2,040,304	1,820,597	3,542,079	-
Derivative financial instruments	475,704	-	-	-
Trade and other payables	68,288,878	-	-	-
	70,804,886	**1,820,597**	**3,542,079**	**-**

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

Risk from biological assets

The municipality is exposed to financial risks arising from changes in game prices. The municipality does not anticipate that prices will decline significantly in the foreseeable future. The municipality has not entered into derivative contracts to manage the risk of a decline in game prices. The municipality reviews its outlook for game prices regularly in considering the need for active financial risk management.

52. Risk management (continued)

Interest rate risk

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

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

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift.

Fair value interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Fixed interest loan from DBSA Ltd	11.90 %	1,820,597	2,042,725	1,499,354	-	-

53. Financial instruments disclosure

Categories of financial instruments

2022

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	25,788,219	25,788,219
Cash and cash equivalents	-	4,579,228	4,579,228
Other receivables from exchange transactions	-	1,764,170	1,764,170
Other financial assets	1,176,047	-	1,176,047
	1,176,047	**32,131,617**	**33,307,664**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	6,718,287	6,718,287
Payables from exchange transactions	118,377,111	118,377,111
Consumer deposits	1,648,249	1,648,249
	126,743,647	**126,743,647**

2021

Financial assets

53. Financial instruments disclosure (continued)

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	23,116,510	23,116,510
Cash and cash equivalents	-	12,487,087	12,487,087
Other receivables from exchange transactions	-	1,834,268	1,834,268
Other financial assets	1,052,424	-	1,052,424
	1,052,424	**37,437,865**	**38,490,289**

Financial liabilities

	At amortised cost	Total
Other financial liabilities	7,625,108	7,625,108
Payables from exchange transactions	95,381,144	95,381,144
Consumer deposits	1,442,950	1,442,950
	104,449,202	**104,449,202**

54. Unauthorised expenditure

	2022	2021
Opening balance as previously reported	13,004,222	20,597,282
Add: Unauthorised expenditure - current	18,763,709	1,387,000
Less: Amount authorised - Approved/condoned/authorised by council	-	(8,980,060)
Closing balance	**31,767,931**	**13,004,222**

Details of unauthorised expenditure

	2022	2021
Vote 1 - Council	-	1,367,000
Vote 2 - Budget and Treasury	3,828,451	-
Vote 3 - Community Services	6,231,319	-
Vote 5 - Sports grounds	-	20,000
Vote 7 - Sewerage Management	457,800	-
Vote 8 - Public Works: Roads	1,396,044	-
Vote 9 - Water	4,824,614	-
Vote 10- Electricity	2,025,481	-
	18,763,709	**1,387,000**

The unauthorised expenditure has been disclosed at amounts exclusive of VAT.

55. Fruitless and wasteful expenditure

	2022	2021
Opening balance as previously reported	543,847	2,901,282
Add: Fruitless and wasteful expenditure identified - current	3,734,381	24,039
Less: Amount written off - current	(2,091,543)	-
Less: Amount written off - prior period	-	(2,381,474)
Closing balance	**2,186,685**	**543,847**

Details of fruitless and wasteful expenditure

	2022	2021
Eskom interest charges	2,063,760	-
Sandvet interest charges	1,561,324	-
Other suppliers interest charges	109,297	-
VAT not recovered from non-registered vendor	-	24,039
	3,734,381	**24,039**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

55. Fruitless and wasteful expenditure (continued)

During the year under review, after the council committee investigations, council adopted the council committee recommendation to write-off an amount of R 2 091 543 from the total fruitless and wasteful expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

The amount of R24 039 incurred in 2021 was acknowledged and is recoverable from the supplier. An arrangement was made by the supplier to pay in 12 months instalments effective 01 August 2022.

After council committee investigations, the council resolved to write off fruitless and wasteful expenditure incurred in the current financial year amounting to R1 642 838 on 31 August 2022.

56. Irregular expenditure

	2022	2021
Opening balance as previously reported	60,272,876	109,708,305
Add: Irregular expenditure - current	35,882,570	19,805,365
Add: Irregular expenditure - prior period	-	5,474,101
Less: Amount written off - current	(1,999,409)	(7,309,328)
Less: Amount written off - prior period	(16,835,374)	(67,405,567)
Closing balance	**77,320,663**	**60,272,876**

Details of Irregular expenditure

	2022	2021
Strip and quote	-	161,195
Emergencies	1,497,482	894,074
Other	3,714,917	2,075,912
Tenders awarded with insufficient information	-	744,043
Adjustments - tenders, senior SCM Practitioner	30,670,170	15,930,142
	35,882,569	**19,805,366**

After council committee investigations, the council resolved to write off Irregular expenditure incurred amounting to R9 805 783 on 31 August 2022.

Included in the irregular for the 2022 period is an amount of R33,142,557 still under investigation.

57. Deviation from supply chain management regulations

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

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

There was duplication for the following transaction on the deviation register for 2021 financial year which occurred at time of adjustment to AFS.
IVY & Nyasha - R159 870.29
Kalosi Trading - R160 200
Keritrix Pry Ltd - R156 00000

Details of deviations

	2022	2021
Strip and quote	1,090,017	408,867
Emergencies	7,943,509	3,458,322
Classified as normal	745,367	1,008,876
Tenders	-	24,370,065

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

57. Deviation from supply chain management regulations (continued)

	9,778,893	**29,246,130**

58. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

	2022	2021
Opening balance	5,422	5,130
Current year subscription / fee	60,471	66,008
Amount paid - current year	(65,893)	(65,716)
	-	**5,422**

Audit fees

	2022	2021
Opening balance	1,439,572	62,150
Current year subscription / fee	5,493,086	4,651,053
Amount paid - current year	(6,677,552)	(3,273,631)
	255,106	**1,439,572**

PAYE and UIF

	2022	2021
Opening balance	848,891	680,690
Current year subscription / fee	10,369,937	9,518,182
Amount paid - current year	(10,453,358)	(9,349,981)
	765,470	**848,891**

Pension and Medical Aid Deductions

	2022	2021
Opening balance	1,647,795	1,536,767
Current year subscription / fee	19,465,443	19,462,323
Amount paid - current year	(20,169,790)	(19,351,295)
	943,448	**1,647,795**

The PAYE, SDL and UIF for the 2021 financial year was restated due to the total obligation not being disclosed previously but only the company contributions.

VAT

	2022	2021
VAT receivable	14,603,497	11,862,305

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2022:

30 June 2022	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Baleni, MS	206	-	206
Dial, KP	187	-	187
Gaebee, SH	187	-	187
Muller, MA	1,539	-	1,539
Nkomo, WM	187	-	187
Phukuntsi, KR	1,722	-	1,722
Potsanyane, RA	210	-	210
Rabannye, MJ	198	-	198
Radienyane, JM	187	-	187
Shuping, TS	198	-	198
Snyer, MM	584	-	584
Soisa, TA	600	3,435	4,035
Twana, NS	13	321	334
	6,018	**3,756**	**9,774**

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
FT Matsholo	(14)	-	(14)
MH Segopolo	168	-	168
MM Snyer	1,080	3,251	4,331
C Horn	-	95,876	95,876
TT Taedi	500	-	500
DA Njodina	168	-	168
MS Bonokwane	168	-	168
BP Eseu	168	-	168
MA Monei	168	-	168
MJ Mgciya	168	-	168
MS Baleni	168	-	168
MB Mohlabakoe	168	-	168
	2,910	**99,127**	**102,037**

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2022	Highest outstanding amount	Aging (in days)
Soisa, TA	2,123	365
Twana, NS	164	365
	2,287	**730**

30 June 2021	Highest outstanding amount	Aging (in days)
MM Snyer	1,842	365
C Horn	47,954	365
	49,796	**730**

59. Material non-compliance

Creditors were not paid within 30 days as per the requirements of the MFMA due to cash-flow constraints and resulted in fruitless and wasteful expenditure (interest) being incurred in certain instances.

VAT returns were not submitted in line with the legislated time frames due to system challenges post mSCOA implementation.

The municipality incurred irregular expenditure as a result of non-compliance with the relevant legislation governing procurement.

60. Budget differences

Material differences between budget and actual amounts

Variances of more than 10% between actual results and budgeted amounts are considered material and explanation for these variances are included below.

Statement of financial performance

A1 - This line item includes correction of billing for rental of contracts on municipal land that was adjusted during the year due under billing on these rental contracts.

A2 - More licences were paid than initially budgeted.

A3 - Conditional grants were invested for a shorter period than anticipated due to capital projects that were completed sooner than anticipated.

A4 - Availability Charges was budgeted for under the Service charges revenue as part of Exchange transactions.

A5 - More interest was charged on accounts with long-outstanding debt during the year, some of this interest was charged on clients who qualified for the rebate and will be reversed accordingly.

A6 - Inclusive in the Budget for Conditional Grants is budget Indirect Grants and the municipality does not Budget for indirect grants.

A7 - Depreciation is calculated once a year which makes it difficult to estimate during the budgeting process

A8 - When budgeting for Finance cost, the Municipality took into consideration the condition of the initial agreement entered into with the third parties which states that the interest will be reversed should municipality stick to the agreement.

A9 - Included in the general expenditure is the amount for Chemicals, remuneration relating to project workers, bank charges, Legal fees, Medical Expenses, etc most of which were under budgeted for.

A10 - The debt Impairment is informed by the movement which affects the provisions.

A11 - The budget for impairment could not be determined during the budgeting process.

A12 - The municipality had budgeted for Bulk Purchases at the estimated rate that was higher than the approved tariff.

A13 - Inclusive in the budget for Contracted Services is the budget for the newly appointed valuer which had included both main and supplementary roll which relates to future periods.

A14 - The expenditure for poverty relief was spent from the budget for disaster.

A15 - Municipality does not have the basis to budget for Fair Value Adjustment which makes it difficult to estimate the amount to be budgeted for in the line item of Fair Value.

A16 - Municipality does not have the basis to budget for gain or loss on Actuarials which makes it difficult to estimate the amount to be budgeted for in the line item of Actuarial.

A17 - This is part of year-end adjustments and thus not budgeted for.

Figures in Rand	2022	2021

60. Budget differences (continued)

A18 - The difference is informed by the movement on year end counts and thus not budgeted for.

Statement of financial position

B1 - The inventory in store at year-end was less than what was anticipated by the municipality in the Budget.

B2 - The difference in the balance for the receivables is affected by the debt impairment as well as provisions in the statement of financial performance.

B3 - This result from the decrease in the collection rate due high level of unemployment and indigent households who do register accordingly.

B4 - Municipality does not budget for VAT receivable because the anticipation is that the VAT will be full paid or received by year-end.

B5 - The municipality had paid most their debt and the conditional grants were fully spent at year-end, thus no need for and grant to be cash-backed.

B6 - Budget for other Financial assets is included in the cash and cash equivalent line item above.

B7 - The difference in the balance for the long-term receivables is affected by the debt impairment, arrangements made by the clients on their outstanding debt as well as provisions in the statement of financial performance.

B8 - The amount for the DBSA loan was budgeted for as the non-current current liability, and no potion thereof was budgeted under current liability.

B9 - The municipality did not anticipate a closing balance on finance lease.

B10 - Included in this line item is the amount paid by the clients for the sites in the new area, and will be transferred to revenue once the area is fully developed.

B11 - The municipality had budgeted for less consumer deposits due to the fact that the municipality had anticipated to install the pre-paid meters thus the deposits for electricity will decrease.

B12 - Municipality did not budget for employee benefit obligation.

B13 - See the difference in the current portion of Other Finance Liabilities.

B14 - The municipality did not anticipate a closing balance on finance lease.

B15 - Municipality did not budget for employee benefit obligation.

B16 - The increase in the provision is informed by the workings in debt impairment as well as the amount of long outstanding debt.

Cashflow Statement

C1 - All cashflow movements are informed by the movement in the Statement of Financial Position and Statement of Financial Performance.

61. Events after the reporting date

The municipality is not aware of any events after the reporting period.

Notes to the Annual Financial Statements

62. 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.

We draw attention to the following indicators which indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern:

- Current liabilities as a percentage of next year's budgeted resources is 97%
- Trade payables for the current year is R91 376 519 compared to R68 288 878 in 2021.
- Retentions payables for the current year is R3 430 896 compared to R3 154 132 in 2021.
- Capital commitments already contracted for but not provided for the current financial year is R38 441 390 compared to R15 011 974 in 2021.
- The municipality's current liabilities exceeded its current assets by R64 090 129. This increased from 2021 when the net current liability position was R37 179 460.
- The municipality owed Eskom R71 064 141 (2021:R51 859 855)
- The municipality owed the water board, Sandvet, R14 415 790 (2021:R11 336 897)
- Creditors payment period is 400 days
- Debtor payment period is 159 days.
- 72% old debtors is expected to be impaired.
- Debt to asset ratio is sitting at 025:1
- Creditors as a percentage of cash and cash equivalents is 2585%

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

Regardless of the negative indicators disclosed above, the following funding procured by the accounting officer will ensure ongoing operations of the municipality:

- At 30 June 2022, the municipality had an accumulated surplus (deficit) of R528 920 543 and that the municipality's total assets exceeded its liabilities by R528 920 543.
- Cash and cash equivalents are positive for 2021/22 (R4 579 228) and 2020/21 (R12 487 087).
- The loss for the current year is R14 329 933 compared to a profit of the prior year of R7 424 395.
- R56 745 430 of the liabilities for the municipality is based on items that do not form part of the normal day-to-day activities of the municipality.
- Overall, the municipality's assets exceed the municipality's liabilities by R528 920 543
- Council approved the budget for the 2021/22 to 2022/23 financial years. 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.
- 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.
- 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 cashflow forecast supporting the budget.
- As the municipality has power to levy fees, tariffs and charges, this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services.
- The municipality is in the process of implementing revenue enhancement programs. These revenue enhancement programs will include a specific recovery of arrear amounts from clients.
- The municipality has installed pre-paid meters effective financial year 2022/23 in municipal licenced areas to enhance revenue collection.
- The DoRA allocation for the grants to be received in the 2022/2023 financial year equals R85 462 000.

63. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

64. Segment information

General information

Identification of segments

The municipality is organised and reports to management on the basis of 11 main votes. Management uses these same segments for compilation of the IDP, SDBIP, budget and monthly and quarterly reporting. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

Types of goods and/or services by segment

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

Reportable segment	Reportable segment	Goods and/or services
Vote 1	Executive and Council	Provides political leadership to the municipality for the generation of economic benefits and service potential
Vote 2	Budget and Treasury Office	Provides financial leadership to the municipality for the generation of economic benefits and service potential
Vote 3	Community and Social Services	Provides social services, public safety, public spaces, local economic development and housing to the municipality for the generation of economic benefits and service potential
Vote 4	Public Safety	Provides public safety to the municipality for the generation of economic benefits and service potential
Vote 5	Sport and Recreation	Provides sport fields to the municipality for the generation of economic benefits and service potential
Vote 6	Waste Management	Provides infrastructure for the provision of refuse removal to the municipality for the generation of economic benefits and service potential
Vote 7	Waste Water Management	Provides infrastructure for the provision of sanitation to the municipality for the generation of economic benefits and service potential
Vote 8	Road Transport	Provides infrastructure for the provision of water to the municipality for the generation of economic benefits and service potential
Vote 9	Water	Provides infrastructure for the provision of water to the municipality for the generation of economic benefits and service potential
Vote 10	Electricity	Provides infrastructure for the provision of electricity to the municipality for the generation of economic benefits and service potential
Vote 11	Corporate Services	Provides legal and management services including HR and IT to the municipality for the generation of service potential

Geographical considerations

Tswelopele Local Municipality falls in the Lejweleputswa District area and is situated in the north western parts of the Free State and borders the North West Province to the north. The major towns that form part of the Tswelopele Local Municipality are Bultfontein/Phahameng and Hoopstad/Tikwana as well as their surrounding rural areas. Management has as per the GRAP standards decided to report on Tswelopele as a single geographical area.

Management is of the opinion that as per paragraph 32 of GRAP 18, the cost of developing geographical information would be excessive, secondly, that due to the nature of the municipality, the geographical area, although two towns are demarcated as a single municipal area in the same province and district municipality and it would therefore not be in the interest of the users of the financial statements to develop geographical information for reporting.

Notes to the Annual Financial Statements

Figures in Rand

64. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2022

	Budget and Treasury office	Community and Social Services	Corporate Services	Electricity	Executive and Council	Road Transport	Sport and Recreation	Waste Management	Waste water management	Water	Total
Revenue											
Service charges	-	-	-	(46,378,676)	-	-	-	(3,891,222)	(6,072,162)	(5,669,020)	(62,011,080)
Rental of facilities and equipment	-	(1,103,500)	-	-	(496,770)	(1,981)	(1,138)	-	-	-	(1,603,389)
Licences and permits	-	(97,103)	-	-	-	-	-	-	-	-	(97,103)
Operational revenue	(1,612,085)	(535,270)	(132,004)	(422,387)	(846,454)	(2,747)	-	-	-	(32,117)	(3,583,064)
Interest received - investment	(839,714)	-	-	-	-	-	-	-	-	-	(839,714)
Dividends received	(96,173)	-	-	-	-	-	-	-	-	-	(96,173)
Property rates	(26,429,031)	-	-	-	-	-	-	-	-	-	(26,429,031)
Interest - Taxation revenue	(3,173,250)	-	-	-	-	-	-	-	-	-	(3,173,250)
Government grants and subsidies	(32,855,799)	-	-	-	(82,520,000)	(17,192,000)	-	-	-	(12,000,000)	(144,567,799)
Fines, penalties and forfeits	-	-	-	-	-	(460,500)	-	-	-	-	(460,500)
Actuarial gains	(319,752)	-	-	-	-	-	-	-	-	-	(319,752)
Fair value adjustments	(144,419)	-	-	-	-	-	-	-	-	-	(144,419)
Gain on biological assets and agricultural produce	-	(4,600)	-	-	-	-	-	-	-	-	(4,600)
Total segment revenue	**(65,470,223)**	**(1,740,473)**	**(132,004)**	**(46,801,063)**	**(83,863,224)**	**(17,657,228)**	**(1,138)**	**(3,891,222)**	**(6,072,162)**	**(17,701,137)**	**(243,329,874)**

Notes to the Annual Financial Statements

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64. Segment information (continued)

	Budget and Treasury office	Community and Social Services	Corporate Services	Electricity	Executive and Council	Road Transport	Sport and Recreation	Waste Management	Waste water management	Water	Total
Expenditure											
Employee related costs	14,367,252	14,041,424	7,179,025	2,809,055	3,957,111	10,729,281	-	7,795,731	7,186,203	3,770,706	71,835,788
Remuneration of councillors	-	-	-	-	6,175,513	-	-	-	-	-	6,175,513
Depreciation and amortisation	-	-	-	-	31,481,413	-	-	-	-	-	31,481,413
Finance costs	4,513,608	-	-	-	6,643,274	-	-	-	867,572	-	12,024,454
Lease rentals	-	-	211,954	-	-	-	-	-	-	-	211,954
Debt impairment	17,331,899	54,099	-	127,607	658,998	-	-	2,000,861	2,642,961	1,518,846	24,335,271
Impairment of assets	-	-	-	-	1,950,478	-	-	-	-	-	1,950,478
Bulk purchases	-	-	-	45,892,572	-	-	-	-	-	5,442,480	51,335,052
Contracted services	5,628,667	-	1,885,093	-	2,741,047	-	-	-	-	-	10,254,807
General expenses	11,080,543	676,556	2,531,848	2,735,581	6,366,369	5,097,354	39,720	1,620,014	4,016,578	12,238,212	46,402,775
Loss on disposal of assets and liabilities	-	-	-	-	-	1,652,302	-	-	-	-	1,652,302
Total segment expenditure	**52,921,969**	**14,772,079**	**11,807,920**	**51,564,815**	**59,974,203**	**17,478,937**	**39,720**	**11,416,606**	**14,713,314**	**22,970,244**	**257,659,807**
Total segmental surplus/(deficit)											**14,329,933**

64. Segment information (continued)

2021

	Budget and Treasury office	Community and Social Services	Corporate Services	Electricity	Executive and Council	Road Transport	Sport and Recreation	Waste Management	Waste water management	Water	Total
Revenue											
Service charges	-	-	-	(43,184,486)	-	-	-	(3,920,717)	(6,060,577)	(5,582,924)	(58,748,704)
Rental of facilities and equipment	-	(1,064,044)	-	-	(1,500,806)	(7,148)	(5,587)	-	-	-	(2,577,585)
Licences and permits	-	(67,550)	-	-	-	-	-	-	-	-	(67,550)
Operational revenue	(1,425,628)	(488,998)	(84,916)	(68,167)	(17,472)	(17,779)	-	-	-	(9,304)	(2,112,264)
Interest received - investment	(795,068)	-	-	-	-	-	-	-	-	-	(795,068)
Dividends received	(65,454)	-	-	-	-	-	-	-	-	-	(65,454)
Property rates	(25,444,738)	-	-	-	-	-	-	-	-	-	(25,444,738)
Interest - Taxation revenue	(1,799,263)	-	-	-	-	-	-	-	-	-	(1,799,263)
Government grants and subsidies	(15,324,688)	-	-	-	(92,621,000)	(21,250,371)	-	-	-	(11,000,000)	(140,196,059)
Public contributions and donations	-	-	-	(191,995)	-	-	(4,449)	-	-	-	(196,444)
Fines, penalties and forfeits	-	(34,195)	-	-	-	(489,905)	-	-	-	-	(524,100)
Fair value adjustments	(514,860)	-	-	-	-	-	-	-	-	-	(514,860)
Gain on biological assets and agricultural produce	-	(105,100)	-	-	-	-	-	-	-	-	(105,100)
Total segment revenue	**(45,369,699)**	**(1,759,887)**	**(84,916)**	**(43,444,648)**	**(94,139,278)**	**(21,765,203)**	**(10,036)**	**(3,920,717)**	**(6,060,577)**	**(16,592,228)**	**(233,147,189)**

Notes to the Annual Financial Statements

Figures in Rand

64. Segment information (continued)

	Budget and Treasury office	Community and Social Services	Corporate Services	Electricity	Executive and Council	Road Transport	Sport and Recreation	Waste Management	Waste water management	Water	Total
Expenditure											
Employee related costs	13,720,787	13,682,490	7,939,603	2,223,174	3,794,275	10,233,630	-	7,596,165	7,068,413	3,595,104	69,853,641
Remuneration of councillors	-	-	-	-	5,711,699	-	-	-	-	-	5,711,699
Depreciation and amortisation	(907)	-	-	-	32,453,407	-	-	-	-	-	32,452,500
Finance costs	3,397,951	-	-	-	6,264,232	-	-	-	881,243	-	10,543,426
Lease rentals	-	-	261,082	-	-	-	-	-	-	-	261,082
Debt impairment	980,639	15,472,853	-	1,845,236	(11,308)	-	-	(78,890)	63,499	(106,387)	18,165,642
Impairment of assets	-	-	-	-	864,691	-	-	-	-	-	864,691
Bulk purchases	-	-	-	41,293,318	-	-	-	-	-	5,681,334	46,974,652
Contracted services	5,431,679	-	1,072,865	-	-	-	-	-	-	-	6,504,544
General expenses	7,499,322	507,700	1,602,903	1,590,509	7,852,473	3,143,474	109,315	1,013,623	2,688,451	6,844,100	32,851,870
Loss on disposal of assets and liabilities	5,711	-	-	-	-	1,437,736	-	-	-	-	1,443,447
Actuarial loss	95,596	-	-	-	-	-	-	-	-	-	95,596
Total segment expenditure	**31,130,778**	**29,663,043**	**10,876,453**	**46,952,237**	**56,929,469**	**14,814,840**	**109,315**	**8,530,898**	**10,701,606**	**16,014,151**	**225,722,790**
Total segmental surplus/(deficit)											**(7,424,399)**

Assets and liabilities as per the Statement of Financial Position is not disclosed in the segment reporting as the municipality does not report on these components on a regular basis internally.

Included in reportable segments is Vote 4 - Public Safety. The budgeted amounts for this vote was:
Expenditure: R733 000

During the reporting period no income or expenditure was incurred under this vote, thus no column was included in the above disclosure.