Nala Local Municipality
(Registration number FS185)
Annual Financial Statements
for the year ended 30 June 2021

General Information

Legal form of entity	Local Municipality, governed by the Municipal Finance Management Act (Act No.56 of 2003)
Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community mainly in the Nala area.
Mayoral committee	
Executive Mayor	Mogoje TA
Speaker	Mashiya MN
Councillors	Botma HJ (Executive) Khati SM Leburu PK Mabaso MK Mabeleng MP Mafojane PK Makhooe NE (Executive) Makunye AM Marumule MS Masencamp BA Moshane Z (Chair) Mohloare TA (Executive) Mokete XE Mokolokolo R Molotsi TL (Executive) Mtombeni J Ngece M Ntseki ML Reed D Ross DC Setheni SE Tau RT
Grading of local authority	Grade 3
Capacity of local authority	Medium Capacity Municipality
Municipal demarcation code	FS185
Acting Accounting Officer	Radebe NE
Chief Finance Officer (CFO)	Busakwe S
Registered office	Municipal Offices 8 Preller Street Bothaville 9660
Postal address	Private Bag X15 Bothaville 9660

General Information

Bankers	First National Bank
External auditors	Auditor-General of South Africa
Attorneys	Podbielski Incorporated Bokwa Law Incorporated Kruger Venter Incorporated Finger Attorneys

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

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
VAT	Value Added Tax
UIF	Unemployment Insurance Fund
PAYE	Pay As You Earn (Employee's Tax)

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the accounting officer is primarily responsible for the financial affairs of the municipality, they are supported by the municipality's internal auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 85, which have been prepared on the going concern basis, were approved by the accounting officer on 10 November 2021 and were signed by:

Radebe NE
Acting Accounting Officer

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	2	2,869,466	953,487
Receivables from exchange transactions	3	123,218,570	135,690,912
Receivables from non-exchange transactions	4	13,843,153	13,566,888
VAT receivable	5	88,212,186	63,147,641
Cash and cash equivalents	6	59,279,676	56,626,316
		287,423,051	**269,985,244**
Non-Current Assets			
Investment property	7	600,319,558	607,879,561
Property, plant and equipment	8	1,143,807,163	1,141,583,473
Intangible assets	9	88,767	88,767
Other financial assets	10	134,718	112,280
		1,744,350,206	**1,749,664,081**
Total Assets		**2,031,773,257**	**2,019,649,325**
Liabilities			
Current Liabilities			
Payables from exchange transactions	11	778,035,456	664,681,830
Consumer deposits	12	3,591,617	3,324,755
Employee benefit obligation	13	658,000	821,000
Unspent conditional grants and receipts	14	4,097,835	6,464,232
		786,382,908	**675,291,817**
Non-Current Liabilities			
Employee benefit obligation	13	5,900,000	6,336,000
Provisions	15	37,441,976	32,266,384
		43,341,976	**38,602,384**
Total Liabilities		**829,724,884**	**713,894,201**
Net Assets		**1,202,048,373**	**1,305,755,124**
Accumulated surplus		1,202,048,373	1,305,755,124

* See Note 36

Nala Local Municipality

(Registration number FS185)
Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Discount received		1,761	275,646
Dividends received	16	8,197	7,725
Interest received - Exchange receivables		32,945,042	28,149,623
Interest received - Investment	16	1,487,301	3,325,758
Other income	17	1,520,157	1,606,452
Rental of facilities		425,303	415,772
Service charges	18	175,218,045	176,510,262
Total revenue from exchange transactions		**211,605,806**	**210,291,238**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	19	24,789,848	22,475,897
Fines, Penalties and Forfeits		66,350	62,396
Interest received - Non exchange receivables		2,804,127	2,462,099
Donated vehicles		-	380,137
Government grants & subsidies	20	208,316,036	166,674,375
Grant: Donated assets		-	45,998,829
Total revenue from non-exchange transactions		**235,976,361**	**238,053,733**
Total revenue	21	**447,582,167**	**448,344,971**
Expenditure			
Employee related costs	22	(161,054,631)	(152,503,356)
Remuneration of councillors	23	(9,001,837)	(8,968,885)
Depreciation and amortisation	24	(35,061,186)	(51,139,113)
Finance costs	25	(17,771,617)	(35,418,607)
Bulk purchases	26	(146,493,180)	(138,119,621)
Contracted services	27	(15,766,142)	(11,553,380)
General Expenses	28	(27,763,778)	(24,957,600)
Repairs and maintenance		(28,226,536)	(12,102,933)
Total expenditure		**(441,138,907)**	**(434,763,495)**
Operating deficit		**6,443,260**	**13,581,476**
Gain / (loss) on property, plant and equipment recognised		(2,923,674)	(98,988,435)
Fair value adjustments on other financial assets		22,438	(5,931)
Actuarial gains / (losses)		(588,770)	1,326,084
Impairment loss	29	(106,660,001)	(112,728,764)
		(110,150,007)	**(210,397,046)**
Deficit for the year		**(103,706,747)**	**(196,815,570)**

* See Note 36

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1,467,772,145	1,467,772,145
Adjustments		
Prior year adjustments (Refer note 36)	34,798,549	34,798,549
Balance at 01 July 2019 as restated	**1,502,570,694**	**1,502,570,694**
Changes in net assets		
Restated deficit for the year	(196,815,570)	(196,815,570)
Total changes	(196,815,570)	(196,815,570)
Restated* Balance at 01 July 2020	**1,305,755,120**	**1,305,755,120**
Changes in net assets		
Deficit for the year	(103,706,747)	(103,706,747)
Total changes	(103,706,747)	(103,706,747)
Balance at 30 June 2021	**1,202,048,373**	**1,202,048,373**

* See Note 36

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Taxation		18,589,445	(925,797)
Sale of goods and services		95,195,204	105,716,486
Grants		205,949,639	170,585,691
Interest income		37,236,470	33,937,480
Dividends received		8,197	7,725
Other receipts		97,592	2,430,335
		357,076,547	311,751,920
Payments			
Employee costs		(170,589,627)	(159,914,078)
Suppliers and other		(110,328,065)	(45,818,437)
Finance costs		(14,187,837)	(32,158,362)
VAT		(25,064,545)	(15,016,355)
		(320,170,074)	(252,907,232)
Net cash flows from operating activities	31	**36,906,473**	**58,844,688**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(43,529,770)	(27,091,595)
Proceeds from sale of investment property	7	9,276,657	-
Net cash flows from investing activities		**(34,253,113)**	**(27,091,595)**
Net increase/(decrease) in cash and cash equivalents		**2,653,360**	**31,753,093**
Cash and cash equivalents at the beginning of the year		56,626,316	24,873,223
Cash and cash equivalents at the end of the year	6	**59,279,676**	**56,626,316**

* See Note 36

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	254,905,455	200,000	**255,105,455**	175,218,045	**(79,887,410)**	Note 45
Rental of facilities and equipment	637,543	-	**637,543**	425,303	**(212,240)**	Note 45
Interest received - Exchange receivables	56,000,000	-	**56,000,000**	32,945,042	**(23,054,958)**	Note 45
Discount received	7,500	-	**7,500**	1,761	**(5,739)**	Note 45
Other income	3,345,934	-	**3,345,934**	1,520,157	**(1,825,777)**	Note 45
Interest received - investment	1,200,000	-	**1,200,000**	1,487,301	**287,301**	Note 45
Dividends received	8,000	-	**8,000**	8,197	**197**	Note 45
Total revenue from exchange transactions	**316,104,432**	**200,000**	**316,304,432**	**211,605,806**	**(104,698,626)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	25,757,468	-	**25,757,468**	24,789,848	**(967,620)**	Note 45
Fines, Penalties and Forfeits	106,000	-	**106,000**	66,350	**(39,650)**	Note 45
Interest received - Non-exchange	-	-	**-**	2,804,127	**2,804,127**	Note 45
Transfer revenue						
Government grants & subsidies	201,463,150	27,258,000	**228,721,150**	208,316,036	**(20,405,114)**	Note 45
Total revenue from non-exchange transactions	**227,326,618**	**27,258,000**	**254,584,618**	**235,976,361**	**(18,608,257)**	
Total revenue	**543,431,050**	**27,458,000**	**570,889,050**	**447,582,167**	**(123,306,883)**	
Expenditure						
Employee related costs	(147,938,314)	(1,789,590)	**(149,727,904)**	(161,054,631)	**(11,326,727)**	Note 45
Remuneration of Councilors	(8,903,514)	(110,000)	**(9,013,514)**	(9,001,837)	**11,677**	Note 45
Depreciation and amortisation	(67,511,600)	-	**(67,511,600)**	(35,061,186)	**32,450,414**	Note 45
Impairment loss/ Reversal of impairments	(60,250,000)	-	**(60,250,000)**	(106,660,001)	**(46,410,001)**	Note 45
Finance costs	(14,257,286)	4,861,982	**(9,395,304)**	(17,771,617)	**(8,376,313)**	Note 45
Bulk purchases	(113,444,739)	-	**(113,444,739)**	(146,493,180)	**(33,048,441)**	Note 45
Contracted Services	(19,810,873)	(4,642,000)	**(24,452,873)**	(15,766,142)	**8,686,731**	Note 45
General Expenses	(34,071,651)	(20,914,492)	**(54,986,143)**	(55,990,314)	**(1,004,171)**	Note 45
Total expenditure	**(466,187,977)**	**(22,594,100)**	**(488,782,077)**	**(547,798,908)**	**(59,016,831)**	
Operating deficit	**77,243,073**	**4,863,900**	**82,106,973**	**(100,216,741)**	**(182,323,714)**	
Loss on disposal of assets and liabilities	-	-	**-**	(2,923,674)	**(2,923,674)**	Note 45
Fair value adjustments	-	-	**-**	22,438	**22,438**	Note 45
Actuarial gains/losses	-	-	**-**	(588,770)	**(588,770)**	Note 45
	-	**-**	**-**	**(3,490,006)**	**(3,490,006)**	
Deficit before taxation	**77,243,073**	**4,863,900**	**82,106,973**	**(103,706,747)**	**(185,813,720)**	

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the 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 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 judgment is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Receivables

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

The impairment for 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 balances in the portfolio and scaled to the estimated loss emergence period.

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 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.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of 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 15 - Provisions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 13.

Effective interest rate

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

Allowance for doubtful debts

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

1.4 Investment property

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

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

1.4 Investment property (continued)

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.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

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

Item	Useful life
Property - land	indefinite
Property - buildings	50 years

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

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

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.

1.5 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

Accounting Policies

1.5 Property, plant and equipment (continued)

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 unrecognised.

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	Useful life
Land	Straight line	Indefinite
Buildings	Straight line	10 - 60 years
Motor vehicles	Straight line	5 - 15 years
Infrastructure		
- Electricity	Straight line	5 - 60 years
- Roads	Straight line	10 - 80 years
- Structures	Straight line	10 - 60 years
- Stormwater drainage	Straight line	50 - 60 years
- Sewer reticulation	Straight line	5 - 10 years
- Waste water treatment works	Straight line	15 - 80 years
- Water reticulation	Straight line	20 - 60 years
Other property, plant and equipment		
- Furniture and Fittings	Straight line	5 - 7 years
- IT Equipment	Straight line	6 - 7 years
- Landfill sites	Straight line	12 - 13 years
- Office equipment	Straight line	4 - 7 years
- Plant and machinery	Straight line	4 - 7 years
- Vehicles	Straight line	7 - 15 years
- Airports	Straight line	5 - 60 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.

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

1.6 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 an 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.

1.7 Intangible assets

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

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

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

Accounting Policies

1.7 Intangible assets (continued)

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

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

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

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

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

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

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

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

Item	**Useful life**
Computer software, other	4 years

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

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

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

1.8 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.

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

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

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

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

1.8 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, a 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.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the municipality designates at fair value at initial recognition; or

Accounting Policies

1.8 Financial instruments (continued)

- are held for trading.

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

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

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

Classification

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

Class	**Category**
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

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

Class	**Category**
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

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 unrecognised or impaired, or through the amortisation process.

Impairment of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

1.8 Financial instruments (continued)

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

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

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

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

Financial liabilities

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

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

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

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.

Accounting Policies

1.9 Leases

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.10 Inventories

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

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

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.

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.

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.

Accounting Policies

1.11 Impairment of cash-generating assets

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

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

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

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

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

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 test 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.

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.

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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.

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.

1.11 Impairment of cash-generating assets (continued)

Reversal of impairment loss

The municipality assess 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.

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

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

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

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

1.12 Impairment of non-cash-generating assets

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

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

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.

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

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

Identification

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

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

Irrespective of whether there is any indication of impairment, the entity also test 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.

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.

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.

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

Reversal of an impairment loss

The municipality assess 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.

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.

1.13 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the municipality's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the municipality is demonstrably committed to curtailment or settlement.

Accounting Policies

1.13 Employee benefits (continued)

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 amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality’s own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- a municipality’s decision to terminate an employee’s employment before the normal retirement date; or
- an employee’s decision to accept voluntary redundancy in exchange for those benefits.

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

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

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

Accounting Policies

1.13 Employee benefits (continued)

Short-term employee benefits

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

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

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure 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 recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

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

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

Multi-employer plans are defined contribution plans (other than state plans and composite social security programs) 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.

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

The municipality classifies a multi-employer plan and/or state plans and/or composite social security programs 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 municipality accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the municipality 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 municipality account for the plan as if it was a defined contribution plan.

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a municipality 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 municipality during a reporting period, the municipality recognise 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, a municipality recognise 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.

Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognise 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 a entity (a fund) that is legally separate from the reporting municipality 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 municipality’s own creditors (even in liquidation), and cannot be returned to the reporting municipality, unless either:
- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting municipality; or
- the assets are returned to the reporting municipality 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 recognise past service cost as an expense in the reporting period in which the plan is amended.

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 municipality’s informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality’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 municipality determine 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 municipality 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;

Accounting Policies

1.13 Employee benefits (continued)

- 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 municipality 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, a municipality 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 municipality 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.

The municipality 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 municipality 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 municipality offsets an asset relating to one plan against a liability relating to another plan when the municipality 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.

1.13 Employee benefits (continued)

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

Accounting Policies

1.13 Employee benefits (continued)

Termination benefits

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

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

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

- 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.

1.14 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.

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

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

Provisions are not recognised for future operating (deficit).

Contingencies are disclosed in note 34.

1.14 Provisions and contingencies (continued)

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 test 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 1.11 and 1.12.

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.

1.15 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:
- Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.16 Revenue from exchange transactions

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

An exchange transaction is one in which the 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.

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

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

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 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.

Accounting Policies

1.17 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

1.17 Revenue from non-exchange transactions (continued)

Measurement

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

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

Taxes (Property rates for municipalities)

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

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

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

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

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

Transfers

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind are not recognised

1.17 Revenue from non-exchange transactions (continued)

Concessionary loans received

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

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.

1.18 Borrowing costs

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

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

1.19 Comparative figures

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

1.20 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.

1.21 Fruitless and wasteful expenditure

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

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

Accounting Policies

1.22 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -
(a) this Act; or
(b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
(c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant program/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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.

1.23 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisation's (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 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.

Accounting Policies

1.24 Related parties

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

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

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

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

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

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

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

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

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

Accounting Policies

1.25 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.

Since 30 June 2020, the spread of COVID-19 has severely impacted many local economies around the globe. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown.

Global stockmarkets have also experienced great volatility and a significant weakening. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions. As the company is operating in the municipal sector and is classified as an essential service provider that could operate throughout lockdown, the council expect that there will be limited impact on the entity's financial position and performance and it is presumed that funds will be available to finance future operations.

The entity has determined that there are no adjusting subsequent events. Accordingly, the financial position and results of operations have not been adjusted to reflect any subsequent events. The duration and impact of the COVID-19 pandemic, the impact on the financial positions and results of the entity for future periods, as well as the effectiveness of government and central bank responses remain unclear at this time.

The council is not aware of any other material event which occurred after the reporting date and up to the date of this report.

1.26 Value-Added Tax

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

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

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

2. Inventories

Consumables	2,833,323	917,260
Water for distribution	36,143	36,227
	2,869,466	**953,487**

Inventories recognised as an expense during the year	2,748,827	1,715,567

Inventory pledged as security

No inventories was pledged as security for any liabilities.

3. Receivables from exchange transactions

Consumer debtors	787,691,297	695,644,372
Other receivables	5,115,421	12,648,601
Recoverable fruitless and wasteful expenditure	959,632	959,632
Debtors from sale of land	7,118,317	-
Overpayment to councillors	1,460,266	1,460,266
Less: Provision for bad debts on consumer debtors	(673,669,620)	(572,476,246)
Less: Provision for bad debts on other receivables	(5,456,743)	(2,545,713)
	123,218,570	**135,690,912**

3. Receivables from exchange transactions (continued)

Consumer debtor ageing

	2021	2020
Current (not past due)	21,919,732	19,778,832
1 month past due	16,291,346	16,040,174
2 months past due	15,877,379	13,168,600
3 months and more	733,602,840	646,656,766
	787,691,297	**695,644,372**

Consumer debtor services

2021	Gross debtors	Impairment provision	Nett debtors
Electricity	75,641,933	(31,418,685)	44,223,248
Water	412,623,449	(368,985,954)	43,637,495
Sewerage	142,163,463	(130,386,123)	11,777,340
Refuse	157,262,452	(142,878,858)	14,383,594
	787,691,297	**(673,669,620)**	**114,021,677**

2020	Gross debtors	Impairment provision	Nett debtors
Electricity	72,040,575	(28,047,964)	43,992,611
Water	360,460,163	(312,878,003)	47,582,160
Sewerage	121,645,760	(107,598,214)	14,047,546
Refuse	141,497,874	(123,952,065)	17,545,809
	695,644,372	**(572,476,246)**	**123,168,126**

Consumer debtor industries

2021	Gross debtors	Impairment provision	Nett debtors
Households	676,738,807	(637,360,057)	39,378,750
Industrial and commercial	77,422,078	(36,309,563)	41,112,516
National and provincial government	33,530,412	-	33,530,412
	787,691,297	**(673,669,620)**	**114,021,678**

2020	Gross debtors	Impairment provision	Nett debtors
Households	594,355,640	(542,445,345)	51,910,295
Industrial and commercial	73,673,766	(30,030,901)	43,642,865
National and provincial government	27,615,392	-	27,615,392
	695,644,798	**(572,476,246)**	**123,168,552**

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(572,476,246)	(520,947,483)
Provision for impairment	(101,193,374)	(49,680,446)
Adjustments made to prior year	-	(1,848,317)
	(673,669,620)	**(572,476,246)**

Included in the amount of overpayment to councillors is amounts overpaid of R 0 (2020: R 0) to the Municipal Manager and R 0 (2020: R 0) to the Chief Financial Officer. These amounts were repaid after year end.

Figures in Rand	2021	2020

3. Receivables from exchange transactions (continued)

Trade and other receivables pledged as security

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

4. Receivables from non-exchange transactions

Consumer debtors - Rates	67,044,584	60,844,181
Less: Provision for bad debts on consumer debtors	(53,201,431)	(47,277,293)
	13,843,153	**13,566,888**

Non-exchange ageing

	2021	2020
Current (not past due)	2,074,617	1,977,259
1 month past due	1,557,517	1,241,611
2 months past due	1,220,885	981,064
3 months and more	62,191,565	56,644,449
	67,044,584	**60,844,383**

Non exchange services

2021	Gross debtors	Impairment provision	Nett debtors
Property rates	67,044,584	(53,201,431)	13,843,153
	67,044,584	**(53,201,431)**	**13,843,153**

2020	Gross debtors	Impairment provision	Nett debtors
Property rates	60,844,381	(47,277,293)	13,567,088
	60,844,381	**(47,277,293)**	**13,567,088**

Non exchange industries

2021	Gross debtors	Impairment provision	Nett debtors
Households	54,854,983	(49,779,142)	5,075,841
Industrial and commercial	5,199,452	(3,422,289)	1,777,162
National and provincial government	6,990,149	-	6,990,149
	67,044,584	**(53,201,431)**	**13,843,152**

2020	Gross debtors	Impairment provision	Nett debtors
Households	50,187,277	(44,547,568)	5,639,709
Industrial and commercial	4,061,929	(2,729,725)	1,332,204
National and provincial government	6,595,177	-	6,595,177
	60,844,383	**(47,277,293)**	**13,567,090**

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

Figures in Rand	2021	2020

4. Receivables from non-exchange transactions (continued)

Consumer debtors - Rates

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings or to historical information:

Receivables from non-exchange transactions

None of the receivables from non-exchange transactions was pledged as security by the municipality during the financial year.

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

	2021	2020
Opening balance	(47,277,293)	(36,228,491)
Provision for impairment	(5,974,138)	(10,877,796)
Adjustments made to prior year	-	(171,006)
	(53,251,431)	**(47,277,293)**

Statutory receivables general information

Transaction(s) arising from statute

Rates - Municipal Property Rates Act (MRP Act) section 2 states that a metropolitan or local municipality may levy a rate on property in its area.

Determination of transaction amounts

Rates - Rates are determined in terms of section 11 of the MRP Act and the approved policies of the municipality.

Transitional provisions

For the current financial year the municipality has taken advantage of the transitional provisions as per Directive 4, which states that municipalities are not required to change their accounting policies in respect of the classification and measurement of statutory receivables for reporting periods beginning on a date within three years following the date of first adoption of GRAP 108 : Statutory Reveivables.

The municipality is in the process of updating and implementing accounting policies that are consistent with GRAP 108 and will be effected in the 2021/2022 financial year.

5. VAT receivable

	2021	2020
VAT	88,212,186	63,147,641

6. Cash and cash equivalents

Cash and cash equivalents consist of:

	2021	2020
Bank balances	(806,423)	(897,545)
Short-term deposits	60,086,099	57,523,861
	59,279,676	**56,626,316**

No cash and cash equivalents was pledged as security for liabilities.

The municipality has a guarantee arrangement of R39,800 with Eskom which expires on 31 December 2025.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	**30 June 2020**	**30 June 2019**	**30 June 2021**	**30 June 2020**	**30 June 2019**
FNB - Current Account 62025990765	1,103,573	1,247,319	1,316,526	(806,423)	(897,545)	477,575
FNB - Money Market 62026222521	13,340,950	46,038,327	19,894,044	13,340,950	46,038,327	19,894,044
FNB - Money Market 62002839506	10,316,670	11,485,410	4,501,443	10,316,595	11,485,373	4,501,443
FNB - Money Market 62373464503	36,428,553	161	161	36,428,554	161	161
Total	**61,189,746**	**58,771,217**	**25,712,174**	**59,279,676**	**56,626,316**	**24,873,223**

Differences between bank statement and cashbook 2021:	Bank statement	Cashbook	Difference
FNB - Current Account 62025990765	1,103,573	(806,423)	1,909,996
FNB - Money Market - 62002839506	10,316,670	10,316,595	75
	11,420,243	**9,510,172**	**1,910,071**

The difference amounting to R1,909,996 is as a result of unallocated deposits of R2,805,891 and outstanding deposits of R(895,895).

Differences between bank statement and cashbook 2020:	Bank statement	Cashbook	Difference
FNB - Current Account 62025990765	1,247,319	(897,545)	2,144,864
FNB - Money Market - 62002839506	11,485,410	11,485,373	37
	12,732,729	**10,587,828**	**2,144,901**

The difference amounting to R2,144,901 is as a result of unallocated deposits of R4,797,376 and outstanding deposits of R(2,652,511).

The difference of R37 is due to rounding.

7. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	600,744,286	(424,728)	600,319,558	608,245,056	(365,495)	607,879,561

Reconciliation of investment property - 2021

	Opening balance	Write-off at caryring value	Depreciation	Total
Investment property	607,879,561	(7,500,770)	(59,233)	600,319,558

Reconciliation of investment property - 2020

	Opening balance	Write-off at caryring value	Depreciation	Total
Investment property	616,895,621	(8,951,394)	(64,666)	607,879,561

Pledged as security

No investment property were pledged as security.

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

8. Property, plant and equipment

	2021			2020		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	125,474,957	-	125,474,957	125,474,957	-	125,474,957
Buildings	155,575,445	(97,071,909)	58,503,536	154,804,375	(94,643,516)	60,160,859
Motor vehicles	10,771,261	(5,139,765)	5,631,496	10,771,261	(4,578,003)	6,193,258
Infrastructure	1,848,723,872	(896,962,959)	951,760,913	1,817,594,945	(869,560,878)	948,034,067
Other equipment	7,867,889	(5,431,628)	2,436,261	6,962,725	(5,242,393)	1,720,332
Total	**2,148,413,424**	**(1,004,606,261)**	**1,143,807,163**	**2,115,608,263**	**(974,024,790)**	**1,141,583,473**

Reconciliation of property, plant and equipment - 2021

	Opening balance	**Additions**	**WIP Transfer**	**Write-offs at carrying value**	**Landfill adjustment**	**Depreciation**	**Impairment loss**	**Total**
Land	125,474,957	-	-	-	-	-	-	125,474,957
Buildings	60,160,859	3,203,245	-	(899,206)	-	(2,250,930)	(1,710,432)	58,503,536
Motor vehicles	6,193,258	-	-	-	-	849,644	(1,411,406)	5,631,496
Infrastructure	948,034,067	33,403,682	6,016,682	(3,800,167)	1,949,812	(33,451,604)	(391,559)	951,760,913
Other equipment	1,720,332	6,922,843	(6,016,682)	(189)	-	(149,066)	(40,977)	2,436,261
	1,141,583,473	**43,529,770**	**-**	**(4,699,562)**	**1,949,812**	**(35,001,956)**	**(3,554,374)**	**1,143,807,163**

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	WIP Transfer	Donated assets	Write-offs at carrying value	Landfill adjustment	Depreciation	Impairment loss	Total
Land	208,432,631	-	-	-	(82,957,674)	-	-	-	125,474,957
Buildings	68,446,978	3,648,185	-	-	(2,048,699)	-	(3,058,993)	(6,826,612)	60,160,859
Motor vehicles	8,359,883	-	56,620	380,137	(829,860)	-	(380,745)	(1,392,777)	6,193,258
Infrastructure	964,700,162	21,448,543	1,580,844	45,998,829	(3,208,277)	(1,125,102)	(47,246,585)	(34,114,347)	948,034,067
Other equipment	2,718,747	2,907,792	(2,550,389)	-	(992,530)	-	(345,653)	(17,635)	1,720,332
	1,252,658,401	**28,004,520**	**(912,925)**	**46,378,966**	**(90,037,040)**	**(1,125,102)**	**(51,031,976)**	**(42,351,371)**	**1,141,583,473**

Included in Property, Plant and Equipment is Land assets, registered as Nala at the Deeds Office although the Land is occupied. This is a historic matter as a result of delays in issuing of title deeds to previously disadvantaged communities.

In the jurisdiction of Nala Local Municipality is land that does not have title.

Pledged as security

No property, plant and equipment were pledged as security.

8. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress

	Included within Infrastructure
Opening balance	26,826,967
Additions/capital expenditure	43,529,769
Other movements [specify]	(36,427,615)
	33,929,121

Repairs and maintenance expenditure incurred on capital assets during the year amounted to R28,226,536 (2020: R12,102,933).

Included in the work in progress amount is a project amounting to R1,566,182 for which no movement was shown for the last 4 years as final completion await action from third party.

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Total
Opening balance	16,504,440	46,352,683
Additions/capital expenditure	29,279,146	68,911,647
Other movements [specify]	(18,956,597)	(79,405,878)
	26,826,989	**35,858,452**

9. Intangible assets

	2021			2020		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Patents, trademarks and other rights	1,804,500	(1,715,733)	88,767	1,804,500	(1,715,733)	88,767

Reconciliation of intangible assets - 2021

	Opening balance	Total
Computer software	88,767	88,767

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software	131,239	(42,472)	88,767

Pledged as security

No intangible assets were pledged as security for liabilities.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

10. Other financial assets

Designated at fair value		
Unlisted shares	134,718	112,280
Unlisted shares consist of 8 236 (2020 : 8 236) equity shares values at R6.30 (2020: R5.00) each in Agribel Limited and 7 110 (2020 : 7 110) equity shares in Senwes Limited valued at R11.65 (2020: R10.00) each.		
Non-current assets		
Designated at fair value	134,718	112,280

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 1		
Senwes Beleggings (Agribel Limited)	51,887	41,180
Senwes Limited	82,832	71,100
	134,719	**112,280**

11. Payables from exchange transactions

Trade payables	738,981,928	631,570,421
Payments received in advanced	9,834,386	5,414,943
Accrued leave pay	20,217,051	18,818,350
Accrued bonus	3,951,465	3,982,406
Other creditors	2,030,472	2,385,621
Retentions	3,020,154	2,510,089
	778,035,456	**664,681,830**

12. Consumer deposits

Electricity and water	3,591,617	3,324,755

Consumer deposits are raised when a services account is opened and is refunded to the consumer after the account is closed.

There are no guarantees held for electricity and water deposits.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

13. Employee benefit obligations

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

	2021	2020
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(7,157,000)	(7,241,000)
Present value of the defined benefit obligation-partly or wholly funded	1,244,833	1,057,334
Fair value of plan assets	(645,833)	(973,334)
	(6,558,000)	**(7,157,000)**
Non-current liabilities	(5,900,000)	(6,336,000)
Current liabilities	(658,000)	(821,000)
	(6,558,000)	**(7,157,000)**

One ZAQ Consultants and Actuaries has been briefed to perform an actuarial valuation of Nala Municipality's Post-employment Medical Aid Benefits Liability as at 30 June 2021 for the purpose of reporting under the Statement of Generally Recognised Accounting Practice 25 (GRAP25) of the Accounting Standards Board (ASB) Directive 5. The valuation was performed by Julian van der Spuy B.Comm.(CERA) (FIA) in my capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (Pty) Ltd.

The previous year's actuarial valuation was also conducted by ZAQ Consultants and Actuaries and the valuation was performed by Niel Fourie B.Comm.(CERA) (FASSA) in my capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (Pty) Ltd.

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

	2021	2020
Opening balance	(7,157,000)	(7,241,000)
Contributions by plan participants	1,244,833	1,057,334
Net movement recognised in the statement of financial performance	(645,833)	(973,334)
	(6,558,000)	**(7,157,000)**

Net movement recognised in the statement of financial performance

	2021	2020
Interest cost	(821,000)	(677,000)
Actuarial (gains) / losses	175,167	(296,334)
	(645,833)	**(973,334)**

13. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

In estimating the liability for post-employment medical aid benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

APN 301 states that the assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount- and medical aid inflation rates. We have assumed the following values for these variables:

Financial Variable Assumed	2021 Valuation	2020 Valuation
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and yield curves	Difference between nominal and yield curves
Medical Aid Contribution Inflation	CPI+1	CPI+1%
Net Effective Discount Rate	Yield curve based	Yield curve based

Discount Rate

We used the nominal and real zero curves as at 30 June 2021 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, we use the prevailing yield at the time of performing our calculations. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period..
South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would out-strip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants

13. Employee benefit obligations (continued)

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

Withdrawal

A table setting out the assumed rates of withdrawal from service is set out below:
As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. Therefore no assets was considered as part of the valuation.

A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60 +	0%	0%

Current (In Service) Members

The table below provides a summary of details for current employees.

	Male	Female	Total
Number of active employees	1	0	1
Subsidy weighted average age	70	N/A	70
Subsidy weighted average past service	20.6	N/A	20.6
Average monthly subsidy payable during retirement	R 2 020	N/A	R 2 020

Continuation Members (Pensioners)

The table below provides a summary of details for continuation members.

	Male	Female	Total
Number of continuation members	6	6	12
Subsidy weighted average age	85.0	76.6	81.2
Average monthly subsidy	R 5 930	R 4 860	R 5 400

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

13. Employee benefit obligations (continued)

Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

	One percentage point decrease	**One percentage point increase**
Effect on the aggregate of the service cost and interest cost	620,000	700,000
Effect on defined benefit obligation	6,199,000	6,948,000

Amounts for the current and previous four years are as follows:

	2021 R	**2020 R**	**2019 R**	**2018 R**	**2017 R**
Defined benefit obligation	(6,558,000)	(7,157,000)	(7,241,000)	(8,905,000)	(11,490,000)
Surplus (deficit)	(6,558,000)	(7,157,000)	(7,241,000)	(8,905,000)	(11,490,000)
Experience adjustments on plan liabilities	13,538,000	13,538,000	13,538,000	13,538,000	13,538,000

Defined contribution plan asset

As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. Therefore no assets was considered as part of the valuation.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Unspent grants	4,097,835	6,464,232

Movement during the year

Balance at the beginning of the year	6,464,232	2,552,916
Additions during the year	206,513,640	170,361,999
Income recognition during the year	(208,316,037)	(166,674,375)
Local Government Sector Education and Training Authority Grant (LG SETA)	-	227,791
Other income recognition during the year	-	(4,099)
Income withheld from equitable share	(564,000)	-
	4,097,835	**6,464,232**

Reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

14. Unspent conditional grants and receipts (continued)

Integrated National Electrification Program Grant (INEP) - Operating		
Balance at beginning of year	1,397,427	153,596
Additions during the year	-	5,890,000
Income recognition - Capital	(1,079,482)	(4,646,169)
Income recognition - VAT	(161,923)	-
	156,022	**1,397,427**

Municipal Infrastructure Grant - Capital		
Balance unspent at beginning of year	1,620,521	2,237,203
Additions during the year	32,052,793	28,162,750
Income recognition during the year	(27,868,907)	(23,145,440)
National Treasury offset*	(564,000)	(2,237,203)
Income recognition - VAT	(4,143,298)	(3,396,789)
	1,097,109	**1,620,521**

*National Treasury has added an amount of R564 000 (2020: R2 237 203) that is receivable by the Municipality and deducted R564 000 from the equitable share due to Nala Municipality accelerated spending of MIG monies the for 2020/21 financial period.

Financial Management Grant (FMG) - Operating		
Additions during the year	3,000,000	2,880,000
Conditions met - transferred to revenue	(3,000,000)	(2,880,000)
	-	**-**

Extended Public Works Program Grant (EPWP) - Operating		
Additions during the year	1,000,000	1,097,000
Conditions met - transferred to revenue	(989,730)	(1,097,000)
	10,270	**-**

South African National Energy Development Institute (SANEDI) - Capital		
Additions during the year	-	161,018
National Treasury offset*	-	(161,018)
	-	**-**

Municipal Infrastructure Grant - Operational (MIG) - Capital		
Additions during the year	1,473,400	1,482,250
Conditions met - transferred to revenue	(1,473,400)	(1,482,250)
	-	**-**

Energy Efficiency and Demand Site Management (EEDSM) - Capital		
Balance unspent at beginning of year	-	1,099
Additions during the year	4,502,500	7,000,000
Conditions met - transferred to revenue	(3,912,990)	(6,084,348)
Conditions met - transferred to other income	-	(4,099)
Income recognition - VAT	(586,948)	(912,652)
	2,562	**-**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

14. Unspent conditional grants and receipts (continued)

COVID-19 Disaster Relief - Operating		
Additions during the year	2,579,808	179,000
Conditions met - transferred to revenue	(2,579,808)	(179,000)
	-	-

Water Services Infrastructure Grant (WSIG) - Capital		
Additions during the year	10,000,000	-
Income recognition during the year	(7,055,293)	-
Income recognition - VAT	(1,058,294)	-
	1,886,413	**-**

Municipal Support Program - Capital		
Balance unspent at beginning of year	3,446,284	-
Additions during the year	-	4,000,000
Conditions met - transferred to revenue	(2,174,630)	(481,492)
Income recognition - VAT	(326,195)	(72,224)
	945,459	**3,446,284**

Municipal Infrastructure Grant (MIG) - Capital - Grants is used to fund the infrastructure project/capital projects of the municipality

Financial Management Grant - Grant is used to fund to assist to pay the financial systems expense of the municipality and the improvement of financial systems.

Municipal System Improvement Grant - Grant is to assist to pay the expenses that relates to addressing the audit action plan issues and the funding of municipal interns.

Integrated National Electrification Program Grant (INEP) - Grant is used to fund the electrification of new townships establishments.

Extended Public Works Program Grant (EPWP) - Grant is used to fund social uplifting projects.

South African National Energy Development Institute (SANEDI) - The Grant is used to fund the installation of smart meters and energy efficiency

Municipal Infrastructure Grant (MIG) - Operational - Grants is used to fund the project management unit of the municipality

Energy Efficiency and Demand Site Management (EEDSM) - used to fund the implementation of the retrofit "Energy Efficient Lighting Technologies" in the Municipal buildings, street and traffic lighting infrastructure and the efficient technologies in the water treatment and pump stations..

Water Services Infrastructure Grant (WSIG) - This project is used to fund projects whose purpose is to provide water and sanitation services and reduce backlogs.

Notes to the Annual Financial Statements

Figures in Rand

15. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Current Service Cost	Paid during the year	Interest Cost	Actuarial Loss/(Gain)	Change in estimate	Total
Environmental rehabilitation	22,769,384	-	-	1,650,780	-	1,949,812	26,369,976
Long Service Bonus Awards	9,497,000	822,000	(1,122,937)	1,112,000	763,937	-	11,072,000
	32,266,384	**822,000**	**(1,122,937)**	**2,762,780**	**763,937**	**1,949,812**	**37,441,976**

Reconciliation of provisions - 2020

	Opening Balance	Current Service Cost	Paid during the year	Interest Cost	Actuarial Loss/(Gain)	Change in estimate	Total
Environmental rehabilitation	22,279,241	-	-	1,615,245	-	(1,125,102)	22,769,384
Long Service Bonus Awards	9,994,000	894,000	(736,582)	968,000	(1,622,418)	-	9,497,000
	32,273,241	**894,000**	**(736,582)**	**2,583,245**	**(1,622,418)**	**(1,125,102)**	**32,266,384**

Environmental rehabilitation provision

The municipality engages in waste disposal operations from residential and business areas within the following areas:
- Bothaville
- Wesselsbron

In terms of licensing of the landfill refuse sites, the municipality will incur licensing and rehabilitation costs to restore the sites at the end of its useful life. The landfill sites are not licensed and the municipality could incur penalties for not being licensed.

In terms of GRAP 19, provisions should be evaluated at each year-end to reflect the best estimate at that date of the provision.

15. Provisions (continued)

Financial assumptions used

- For calculating the inflation on construction works the “Construction Materials Price Indices – P0151.1, specifically Table 1 - Contract price adjustment provisions (CPAP) work group indices” was used. The price adjustment from May 2020 to May 2021 is 3,9%;

- The same applies to anticipated future maintenance cost;

- For calculating the inflation on professional services, the “Consumer Price Index – P0141, specifically Table B2 - CPI headline year-on-year rates” was used. The price adjustment from June 2020 to June 2021 is 4,9%;

-The remaining site life is 4 years (the licence expires 2025) and an inflation rate of 4.38% (based on South African Government Bonds Yield curve);

- The discount rate used is 6.91% for a 4-year period since the anticipated closure of the site is in 2025 (based on South African Government Bonds Yield curve).

Long service awards provision

ZAQ Consultants and Actuaries has been briefed to perform an actuarial valuation of Nala Municipality’s (‘Nala’)s long service bonus awards liability at 30 June 2021 for the purpose of reporting under the Statement of Generally Recognised Accounting Practice 25 (GRAP25) of the Accounting Standards Board (ASB) Directive 5, which is based on the International Accounting Standard 19 (IAS19). The valuation was performed by Julian van der Spuy B.Comm (CERA) (FIA) in my capacity as a Fellow of the Actuarial Society of South Africa and as an employee of ZAQEN Actuaries (Pty) Ltd

A previous actuarial valuation was performed by ZAQ Consultants and Actuaries as at 30 June 2020 to disclose on the long service bonus awards in Nala’s financial statements.

15. Provisions (continued)

Key assumptions used

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

Financial Variable Assumed	2021 Valuation	2020 Valuation
Discount Rate	Yield Curve	Yield Curve
CPI (Consumer Price Inflation)	Difference between nominal and real yield curve	Difference between nominal and real yield curve
Normal Salary Increase Rate	Equal to CPI+1%	Equal to CPI+1%
Net Effective Discount Rate	Yield Curve Based	Yield Curve Based

Discount Rate

We use the nominal and real zero curves as at 30 June 2021 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. We have changed this methodology from a point estimate in order to present a more accurate depiction of the liability. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years.

The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2021 of 6.25%. The next salary increase was assumed to take place on 01 July 2022.
In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

Promotional Salary Increase Rates

Age Band	Promotional Increase
20 - 24	5%
25 - 29	4%
30 - 34	3%
35 - 39	2%
40 - 44	1%
45 and over	0%

Notes to the Annual Financial Statements

15. Provisions (continued)

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for illhealth and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal Decrements

A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	1%	1%
60 +	0%	0%

15. Provisions (continued)

Membership Data

The information below is based on the membership data received from the Municipality.

Eligible male employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	2	R 106 198	2.49	R 3 649
30 - 39	60	R 171 043	8.30	R 19 614
40 - 49	121	R 193 007	11.58	R 28 016
50 - 59	106	R 224 133	18.48	R 30 300
60 +	48	R 203 548	18.45	R 6 169
Total	337	R 199 873	14.48	R 23 982

Eligible female employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	1	R 224 104	5.25	R 9 057
30 - 39	27	R 200 741	8.29	R 21 416
40 - 49	39	R 237 924	15.09	R 41 024
50 - 59	25	R 221 473	18.86	R32 096
60 +	7	R 190 828	23.01	R 0
Total	99	R 220 159	14.74	R30 198

Total eligible employees

Age band	Number of employees	Average annual salary	Salary weighted average past service (Years)	Average accrued liability
20 - 29	3	R 145 500	3.91	R 5 451
30 - 39	87	R 180 260	8.30	R 20 173
40 - 49	160	R 203 956	12.58	R 31 187
50 - 59	131	R 223 625	18.55	R 30 643
60 +	55	R 201 929	19.00	R 5 384
Total	436	R 204 479	14.55	R 25 394

Valuation of Assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

16. Investment revenue

Dividend revenue		
Other financial assets	8,197	7,725
Interest revenue		
Bank: Investment	1,487,301	3,325,758
	1,495,498	**3,333,483**

17. Other income

Admin fees	16,408	19,911
Advertisement	839	1,081
Burial income	795,212	564,662
Cemeteries	-	660
Connection Fees	90,541	72,241
Fees earned	393,595	468,442
Insurance claims received	2,793	16,865
Public donation: COVID-19	-	42,460
Levies	181,501	384,525
Meter tampering/testing	1,300	650
Stock adjustment	-	9,527
Valuation certificates	37,968	25,428
	1,520,157	**1,606,452**

18. Service charges

Sale of electricity	91,509,658	89,928,341
Sale of water	48,658,616	52,234,809
Sewerage and sanitation charges	21,676,319	21,240,574
Refuse removal	13,373,452	13,106,538
	175,218,045	**176,510,262**

Included in the above service charges is income forgone to the amount of R44 838 874 (2020: R48 585 481).

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

19. Property rates

Rates levied

	2021	2020
Property rates	41,756,038	34,676,225
Less: Income forgone	(16,966,190)	(12,200,328)
	24,789,848	**22,475,897**

Valuations

	2021	2020
Residential	1,993,115,900	1,383,696,309
Commercial	141,822,000	294,990,703
State	147,482,000	215,207,785
Municipal	85,402,600	32,259,976
Agriculture	109,463,000	2,807,609,036
Other	36,928,700	85,452,584
	2,514,214,200	**4,819,216,393**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 01 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The first R80 000 of the rateable value of residential property are exempted from taxes.
A 100% rebate is granted to churches, public benefit organisations and municipal property.
Furthermore a rebate of 50% is granted to farms, 60% to sectional title properties within agricultural land and 40% to other sectional title properties.

Rates are levied on an monthly basis and interest is levied on outstanding amounts.

Rates tariffs - 2021	
Residential	0.01000000
Business	0.02000000
Industrial	0.01999000
Municipal	0.01000000
Government	0.02999000
Agricultural	0.00250000
Multi purpose: Business	0.01999000
Multi purpose: Residential	0.01499000
Multi purpose: Guesthouse	0.01499000
Multi purpose: Agricultural	0.00250000
Non permitted use	0.03998000
Public benefit organisation	0.00250000
Education	0.02999000
Guesthouse	0.01499000
Crèche	0.01499000
Public workshop	0.00250000
PSI	0.00250000
Vacant	0.03998000
	-

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

20. Government grants and subsidies

Operating grants		
Equitable share	150,202,000	122,069,220
Municipal Infrastructure Grant	1,473,400	1,482,250
Financial assistance Grant (COGTA)	1,500,000	-
Financial Management Grant	3,000,000	2,880,000
Extended Public Works Grant	989,730	1,097,000
Local Government Sector Education and Training Authority Grant (LG SETA)	203,139	227,791
COVID-19 Disaster Relief	2,579,808	179,000
	159,948,077	**127,935,261**
Capital grants		
Municipal Infrastructure Grant	32,012,204	26,542,228
Integrated National Electrification Programme Grant (INEP)	1,241,405	4,646,169
Energy Efficiency Demand Side Management (EEDSM)	4,499,938	6,997,000
Municipal Support Program	2,500,825	553,717
Water Services Infrastructure Grant (WSIG)	8,113,587	-
	48,367,959	**38,739,114**
	208,316,036	**166,674,375**

21. Revenue

Discount received	1,761	275,646
Dividends received	8,197	7,725
Donated vehicles	-	380,137
Fines, penalties and forfeits	66,350	62,396
Government grants & subsidies	208,316,036	166,674,375
Grant: Donated assets	-	45,998,829
Interest received - Interest received - exchange receivables	32,945,042	28,149,623
Interest received - non exchange receivables	2,804,127	2,462,099
Interest received - investment	1,487,301	3,325,758
Other income	1,520,157	1,606,452
Property rates	24,789,848	22,475,897
Rental of facilities	425,303	415,772
Service charges	175,218,045	176,510,262
	447,582,167	**448,344,971**

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

Discount received	1,761	275,646
Dividends received	8,197	7,725
Interest received - exchange receivables	32,945,042	28,149,623
Interest received - investment	1,487,301	3,325,758
Other income	1,520,157	1,606,452
Rental of facilities	425,303	415,772
Service charges	175,218,045	176,510,262
	211,605,806	**210,291,238**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

21. Revenue (continued)

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

Taxation revenue		
Property rates	24,789,848	22,475,897
Fines, penalties and forfeits	66,350	62,396
Interest received - non exchange receivables	2,804,127	2,462,099
Transfer revenue		
Donated vehicles	-	380,137
Government grants & subsidies	208,316,036	166,674,375
Grant: Donated assets	-	45,998,829
	235,976,361	**238,053,733**

22. Employee related costs

Acting allowances	2,210,029	1,544,403
Basic	91,038,414	89,977,150
Bonus	7,230,769	7,201,969
Employee benefits - costs	822,000	894,000
Leave pay provision charge	1,398,701	2,608,751
Medical aid - company contributions	8,043,118	7,893,162
Night shift allowance	105,331	32,945
Housing subsidies	408,600	388,032
Overtime payments	15,442,658	10,854,680
Pension	16,010,798	15,628,877
SDL	994,470	980,867
Travel, motor car, accommodation, subsistence and other allowances	15,753,718	13,000,674
UIF	748,477	746,050
WCA	847,548	751,796
	161,054,631	**152,503,356**

Remuneration of Acting Municipal Manager - Radebe NE

Annual Remuneration	439,082	106,073

N Radebe was seconded from CoGTA and was appointed as Acting Municipal Manager on 1 March 2020.

The annual remuneration to the amount of R439,081.75 is the difference between the remuneration for the acting position and the remuneration received from CoGTA.

Remuneration of Municipal Manager - Mokomela BC

Annual Remuneration	852,425	1,278,637
Car Allowance	72,000	108,000
Leave pay	410,445	-
	1,334,870	**1,386,637**

BC Mokomela was suspended as Municipal Manager on 20 December 2019 and on 28 February 2021 he resigned as the Municipal Manager.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

22. Employee related costs (continued)

Remuneration of Chief Finance Officer - Busakwe S

Annual Remuneration	953,463	953,463
Car Allowance	180,000	193,160
Subsistence allowance	-	1,700
Remuneration for acting Municipal Manager	-	41,047
	1,133,463	**1,189,370**

S Busakwe was the acting municipal manager for January 2020 and February 2020.

Remuneration of Executive Corporate Services - Molupe BP

Annual Remuneration	802,689	593,402
Car Allowance	330,780	246,463
Acting allowance	21,097	-
Reimbursive allowance	14,584	-
	1,169,150	**839,865**

Remuneration of Executive Infrastructure and Technical Services - Mr IJ Mokotedi

Annual Remuneration	392,276	-
Car Allowance	80,000	-
	472,276	**-**

IJ Mokotedi was appointed as the director for Infrastructure and Technical Services on 1 February 2021.

Remuneration of acting Director of Community Services - Mr T Majoe

Acting allowance	27,113	-

T Majoe was appointed as the acting director of Community Services on 25 May 2021.

The remuneration of staff is within the upper limits of the SALGA Bargaining Council determinations

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

23. Remuneration of councillors

Mayor	907,183	901,659
Chairperson	392,821	390,417
Speaker	733,907	729,488
Executive Members	1,613,199	1,618,740
Councillors	5,354,727	5,328,581
	9,001,837	**8,968,885**

There are 4 (2020: 4) Executive Committee Members and 20 (2020: 21) Other Councillors.

The remuneration of the counsillors are within the upper limits of the framework.

In-kind benefits

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

The Mayor has the use of Council owned vehicles for official duties.

The Mayor has one full-time bodyguard and one full-time driver.

24. Depreciation and amortisation

Property, plant and equipment	35,001,952	51,031,975
Investment property	59,234	64,666
Intangible assets	-	42,472
	35,061,186	**51,139,113**

25. Finance costs

Provisions and employee benefit obligations	3,583,780	3,260,245
Trade and other payables	14,187,837	32,158,362
	17,771,617	**35,418,607**

26. Bulk purchases

Electricity - Eskom	89,712,836	85,012,228
Water	56,780,344	53,107,393
	146,493,180	**138,119,621**

Refer to note 44 for the detail regarding the distribution losses.

27. Contracted services

Presented previously	
Meter Readers	3,117,299
Operating Leases	(95,775)
Specialist Services	8,349,108
Other Contractors	182,748
	11,553,380

The prior year balances were reclassified to be in accordance with the MSCOA classification of Outsourced Services, Consultants and Professional Services and Contractors

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

27. Contracted services (continued)

Outsourced Services		
Catering Services	559	182,748
Meter Management	3,018,213	3,117,299
Consultants and Professional Services		
Business and Advisory	9,152,180	7,633,505
Legal Services	2,991,281	715,603
Contractors		
Transportation	570,445	(95,775)
Other contractors	33,464	-
	15,766,142	**11,553,380**

28. General expenses

Accommodation	47,451	8,828
Accounts delivery cost	858,000	715,000
Advertising	442,379	398,805
Administration fees	22,072	23,262
Auditors remuneration	5,329,479	5,645,606
Bank charges	861,211	894,982
Cashier shortages	435	489
Conferences and seminars	48,114	364,240
Consulting and professional fees	-	15,000
Consumables	2,748,827	1,388,264
Electricity	3,131,788	2,942,653
Entertainment	4,808	3,003
Fuel and oil	2,096,553	2,227,874
Hire of equipment	2,087,788	593,673
Insurance	1,484,333	690,998
License fees	1,256,140	1,503,591
Membership fees	1,676,930	1,742,420
Postage and courier	1,025,791	898,061
Printing and stationery	1,156,393	669,674
Project workers	1,371,224	2,094,052
Stock value adjustments	5,330	-
Telephone and fax	2,064,643	1,866,293
Transport and freight	-	75,477
Venue expenses	44,089	195,355
	27,763,778	**24,957,600**

29. Impairment of assets and provision for bad debts

Impairments		
Property, plant and equipment	3,554,374	42,351,371
Assets identified during the year that was not in a working condition was impaired.		
Trade and other receivables	103,105,627	70,377,393
Provision for bad debts on trade and other receivables that was provided for.		
	106,660,001	**112,728,764**

30. Auditors' remuneration

Fees	5,329,479	5,645,606

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

31. Cash generated from operations

Surplus/(deficit)	(103,706,747)	(196,815,570)
Adjustments for:		
Depreciation and amortisation	35,061,186	51,139,113
Loss on properly, plant and equipment	2,923,674	98,988,435
Fair value adjustments	(22,438)	5,931
Impairment loss assets	3,554,374	42,351,371
Impairment loss receivables	103,105,627	70,377,393
Movements in provisions and employee benefits	2,038,010	2,360,329
Actuarial gains and loss	588,770	(1,326,084)
Donated assets	-	(46,378,966)
Changes in working capital:		
Inventories	(1,915,979)	70,069
Receivables from exchange transactions	(84,709,146)	(70,829,555)
Receivables from non-exchange transactions	(6,200,403)	(23,401,694)
Payables from exchange transactions	113,353,625	142,864,838
VAT	(25,064,545)	(15,016,355)
Consumer deposits	266,862	544,117
Unspent conditional grants	(2,366,397)	3,911,316
	36,906,473	**58,844,688**

32. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	123,218,570	123,218,570
Receivables from non-exchange transactions	-	13,843,153	13,843,153
Cash and cash equivalents	-	59,279,676	59,279,676
Other financial assets	134,718	-	134,718
	134,718	**196,341,399**	**196,476,117**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	778,035,456	778,035,456
Consumer deposits	3,591,617	3,591,617
	781,627,073	**781,627,073**

2020

Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	135,690,912	135,690,912
Receivables from non-exchange transactions	-	13,566,888	13,566,888
Cash and cash equivalents	-	56,626,316	56,626,316
Other financial assets	112,280	-	112,280
	112,280	**205,884,116**	**205,996,396**

Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	664,681,830	664,681,830
Consumer deposits	3,324,755	3,324,755
	668,006,585	**668,006,585**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

33. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	26,214,448	8,472,423
Total capital commitments		
Already contracted for but not provided for	26,214,448	8,472,423

This committed expenditure relates to property, plant and equipment and will be financed by existing cash resources and MIG Grants funds.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

34. Contingencies

Patula Balekane Joint Venture issued summons against the municipality for payment in respect of outstanding payments due for construction work at the sewerage works in Wesselsbron to the plaintiff of a capital amount of R2.6mil plus interest (+/- R2.1mil) and legal cost (+/- R300 000).	5,200,000	5,200,000
State vs BP Molupe - Attendance court day fee.	137,500	137,500
Eskom/Mieliehoofstad Business Chamber - Interdict application and application to review Eskom disconnection notice.	350,000	350,000
Nala vs Eskom - Application for warrant of execution in respect of arrears account.	250,000	250,000
Nala vs Eskom - Eskom sues for payment of arrear account, Nala intends to file counter claim/summons for debatement and reduction of account.	350,000	350,000
Nala vs Eskom - Application for access to information and action to debate and reduce current arrear account.	350,000	350,000
Nala vs Mashalaba - Action for payment and Nala application for dismissal of action.	50,000	50,000
Sekonyela Joseph Lehloenya vs Nala - Unfair discrimination dispute against the municipality	150,000	-
SAMWU obo Thulo Majoe & 4 others vs Nala - contempt of court application of the Labour Court	200,000	-
Maximum Profit Recovery vs Nala - urgent application to stay the execution of warrant against the municipality.	100,000	-
	7,137,500	**6,687,500**

Unlicenced landfill site

The Municipality has two active landfill sites. It has been identified that the landfill sites situated in Bothaville and Wesselsbron are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), In accordance with section 68(1) of the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008), a person convicted of an offence referred to in section 67(1)(a), (9) or (h) is liable to a fine not exceeding R10 000 000 or to imprisonment for a period not exceeding 10 years, or to both such fine and such imprisonment, in addition to any other penalty or award that may be imposed or made.

Eskom

Eskom has a payment agreement with Nala Local Municipality to recover the area balances as agreed, the interest will be charged according to the payment agreement, the interest in the AFS is currently disclosed according to the invoices and statements of Eskom.

Although there is a standing payment arrangement since 2017, the payment agreement date, we are not certain of:
1. The amount of interest that will be charged by Eskom, since the matter dates back to 2017 and we are uncertain of the balance they will use to charge the interest.
2. If Eskom will charge interest since this has not occured in so many years.

35. Related parties

Relationships	
Accounting Officer	Ms NE Radebe
Members of key management	Refer to note 22

No transaction were concluded with related parties during the financial year.

36. Prior-year adjustments

Property, Plant and Equipment: Moveable assets amounting to R306,239 were incorrectly expensed under repairs and maintenance. Depreciation was also recognised for this asset amounting to The amounts were capitalised to property, plant and equipement and reduced repairs and maintanance by the same amount. The landfill provision asset was not created and therefore the change in estimate adjustment of the provision was done through finance cost and not the landfill provision asset. An asset of R22,279,241.16 was created against the opening balance of accumulated surplus and deprecaited over the remaining useful life of the landfill asset. Accumulated depreciation was also brought in for the landfill site of R13,776,535.28. Depreciation of R1,797,525.87 was recognised on this asset. The change in estimate entry of R1,125,101.67 was moved from finance cost to the landfill provision asset. There is land that the municipality had already lost control over and subsequently land of R8,951,394.31 was derecognised from investment property and R82,957,674.68 from property, plant and equipment. Assets that were previously not recognised but identified when doing verification were recognised at a cost of R28,931,449.05, accumulated depreciation of R9,627,080.19 and depreciation for the year recognised at R964,552.79. There were assets with a carrying value of R0.00 but were still in use, these assets remaining useful life was adjusted and therefore, decreased the assets' accumuated depreciation by R6,991,474.34 and depreciation recognised for these assets of R923,305.95. There were assets that were previously written off but identified during verification. These write-off of these assets was reversed at a cost of R1,516,454.47, accumulated depreciation of R748,910.97 and accumulated impairment of R274,810.51. Depreciation for the year for these assets of R116,327.13.

Trade receivables: Interest was incorrectly charged against indigent debtor accounts, the interest was reversed for that financial year. Interest received and trade receivables decreased by R8,536,202.47. This led to some consumer accounts being overpaid, therefore payments received in advance was increased by R18,712.56. The provision for impairment calculation was subsequently affected and the provision decreased by R8,515,916.06. Furthermore, goverment debtors that were incorrectly included in the impairment provision calculation had a provision balance of R284,560.03. The amount of R284,560.03 was reversed, that led to the VAT impaired of R6,655.97. The balance of the impairment adjustments were made against impairment loss. Interest on consumer accounts for non-exchange transaction was disclosed under receivables from exchange transactions. The interest of R11,648,048.90 and related impairment provision of R8,831,790.04 was reclassified to receivables from non-exchange transactions.

Payables from exchange transactions: An amount of R128,667 was not disclosed and this amount should have been disclosed as retention. This increased payables from exchange transactions and property, plant and equipment (WIP). The leave provision amount included employees that no longer worked for the municipality, the provision reversed for these employees amounted to R249,294.06. A liability for COIDA was recognised at R751,796.31.

Employee benefit obligation: The current portion of the employee benefit obligation was not as per the report received from the actuaries. The current portion was decreased by R21,000 to correctly disclose it at R821,000.

Expenditure: An amount of R421,753.58 was reclassified from repairs and maintenance to consumables, this was done in the incorrect financial period period. It was supposed to be done for the 2018/2019 and not 2019/2020. As this was a reclassifcation transaction between income statement amounts the transaction was just reversed.

Interest received: Due to the changes to the interest on the consumer accounts, the calculation of the interest split between exchange and non-exchange transactions changed by R688,482. This amount was a reclassification from interest received from non exchange transactions to interest received from exchange transactions.

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

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

36. Prior-year adjustments (continued)

Statement of financial position

2020

	As previously reported	Correction of error	Reclassification	Restated
Current assets				
Inventory	953,487	-	-	953,487
Trade receivables from exchange transactions	138,294,988	264,272	(2,868,348)	135,690,912
Receivables from non-exchange transactions	10,679,827	-	2,887,061	13,566,888
VAT receivable	63,154,297	(6,656)	-	63,147,641
Cash and cash equivalents	56,626,316	-	-	56,626,316
Non-current assets				
Investment property	616,830,955	(8,951,394)	-	607,879,561
Property, plant and equipment	1,193,745,359	(52,161,886)	-	1,141,583,473
Other financial assets	112,280	-	-	112,280
Intangible assets	88,767	-	-	88,767
Current liabilities				
Payables from exchange transactions	(664,031,948)	(631,169)	(18,713)	(664,681,830)
Employee benefit obligation	(842,000)	-	21,000	(821,000)
Consumer deposits	(3,324,755)	-	-	(3,324,755)
Unspent conditional grants and receipts	(6,464,232)	-	-	(6,464,232)
Non-Current liabilities				
Employee benefit obligation	(6,315,000)	-	(21,000)	(6,336,000)
Provisions	(32,266,384)	-	-	(32,266,384)
Net Assets				
Accumulated surplus	(1,367,241,957)	61,486,833	-	(1,305,755,124)
Accumulated surplus opening balance	-	34,798,549	-	34,798,549
	-	**34,798,549**	**-**	**34,798,549**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

36. Prior-year adjustments (continued)

Statement of financial performance

2020

	As previously reported	Correction of error	Reclassification	Restated
Revenue from exchange transactions				
Service charges	176,510,262	-	-	176,510,262
Discount received	275,646	-	-	275,646
Rental income	415,772	-	-	415,772
Other income	1,606,452	-	-	1,606,452
Interest received - exchange transactions	36,017,343	(8,536,202)	668,482	28,149,623
Interest received - investment	3,325,758	-	-	3,325,758
Dividends received	7,725	-	-	7,725
Revenue from non-exchange transactions				
Property rates	22,475,897	-	-	22,475,897
Government grants & subsidies	166,674,375	-	-	166,674,375
Grant: donated assets	45,998,829	-	-	45,998,829
Donated vehicles	380,137	-	-	380,137
Interest received - non exchange receivables	3,130,581	-	(668,482)	2,462,099
Fines, Penalties and Forfeits	62,396	-	-	62,396
Expenditure				
Employee related costs	(152,000,854)	(502,502)	-	(152,503,356)
Remuneration of councillors	(8,968,885)	-	-	(8,968,885)
Depreciation and amortisation	(47,333,814)	(3,805,299)	-	(51,139,113)
Finance costs	(34,293,505)	(1,125,102)	-	(35,418,607)
Bulk purchases	(138,119,621)	-	-	(138,119,621)
Contracted services	(11,553,380)	-	-	(11,553,380)
Repairs & maintenance	(11,987,418)	(115,515)	-	(12,102,933)
General expenses	(25,379,354)	421,754	-	(24,957,600)
Fair value adjustments	(5,931)	-	-	(5,931)
Loss on disposal of assets	(7,572,099)	(91,416,336)	-	(98,988,435)
Impairment loss	(121,522,584)	8,793,820	-	(112,728,764)
Actuarial gain	1,326,084	-	-	1,326,084
Surplus for the year	**(100,530,188)**	**(96,285,382)**	**-**	**(196,815,570)**

Cash flow statement

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

36. Prior-year adjustments (continued)

2020

	As previously reported	Correction of error	Restated
Cash flow from operating activities			
Receipts			
Taxation	10,784,648	(11,710,445)	-
Sale of goods and services	76,087,261	29,629,225	-
Grants	170,585,691	-	-
Interest income	42,473,682	(8,536,202)	33,937,480
Dividends received	7,725	-	7,725
Other receipts	-	2,430,335	2,430,335
Payments			
Employee costs	(158,882,879)	(1,031,199)	(159,914,078)
Suppliers and other	(46,158,166)	339,729	(45,818,437)
Finance costs	(32,158,362)	-	(32,158,362)
VAT	-	(15,016,355)	(15,016,355)
	62,739,600	**(3,894,912)**	**58,844,688**
Cash flow from investing activities			
Purchase of property, plant and equipment	(30,986,507)	3,894,912	(27,091,595)
	(30,986,507)	**3,894,912**	**(27,091,595)**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

37. Risk management

Financial risk management

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

Liquidity risk

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

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 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	778,035,456	-	-	-
Consumer deposits	3,591,617	-	-	-

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	664,681,830	-	-	-
Consumer deposits	3,324,755	-	-	-

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.

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 management.

Consumer balances outstanding for more than three months are reviewed for impairment and provided for as bad debts as applicable.

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

Financial instrument	2021	2020
Cash and cash equivalents	59,279,676	56,626,316
Receivables from exchange transactions	123,218,570	135,690,912
Receivables from non-exchange transactions	13,843,153	13,566,888
Other financial assets	134,718	112,280

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.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

38. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of R 1,202,048,373 and that the municipality's total assets exceed its liabilities by R 1,202,048,373. The municipality's current liabilities exceed its current assets by R498 959 857.The municipality incurred a deficit of R103 706 747 for the year (2020: R196 815 570).

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officers continue to procure funding for the ongoing operations for the municipality as the current and liquidity ratio state that it will not be able to pay their short term liabilities as they come due unless funds are received to increase the current assets of the municipality. The solvency ratio of the municipality did well increase as other long term liabilities was settled during the year.

The main ratio in this regard is as follow:	2021	2020
Solvency ratio	40.84%	35.35%

39. Unauthorised expenditure

Opening balance as previously reported	121,118,399	3,624,621
Opening balance as restated	**121,118,399**	**3,624,621**
Add: Expenditure identified - current	172,263,505	-
Add: Expenditure identified - prior period	-	117,493,778
Closing balance	**293,381,904**	**121,118,399**

40. Fruitless and wasteful expenditure

Opening balance as previously reported	40,014,715	6,315,268
Opening balance as restated	**40,014,715**	**6,315,268**
Add: Expenditure identified - current	13,776,657	32,004,289
Add: Expenditure identified - prior period	111,803	70,933
Less: Amounts recoverable - prior period	-	1,624,225
Closing balance	**53,903,175**	**40,014,715**

Interest is charged on arrear accounts by the creditors due to the fact that late payments are made to the creditors.

41. Irregular expenditure

Opening balance as previously reported	88,928,918	42,859,671
Opening balance as restated	**88,928,918**	**42,859,671**
Add: Irregular Expenditure - current	644,837	1,676,452
Add: Irregular Expenditure - prior period	-	44,392,795
Less: Amount written off - current	(644,837)	-
Closing balance	**88,928,918**	**88,928,918**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

42. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	(569,943)	(2,029,407)
Current year subscription / fee	(1,676,930)	(1,744,415)
Amount paid - current year	2,246,873	3,203,879
	-	**(569,943)**

Audit fees

Opening balance	597,920	1,277,573
Current year subscription / fee	6,183,529	6,492,447
Amount paid - current year	(4,300,453)	149,229
Amount paid - previous years	(597,920)	(7,321,329)
	1,883,076	**597,920**

PAYE and UIF

Current year subscription / fee	23,007,702	21,652,311
Amount paid - current year	(23,004,971)	(21,652,311)
	2,731	**-**

Pension and Medical Aid Deductions

Opening balance	22,881	109,718
Current year subscription / fee	40,371,112	39,301,472
Amount paid - current year	(40,368,426)	(39,388,309)
	25,567	**22,881**

VAT

VAT receivable	88,212,186	63,147,641

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

Councillors' arrear consumer accounts

The following Councillors had accounts outstanding at 30 June 2021:

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

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mogoje TA	19,588	1,587	21,175
Mashiya MN	951	-	951
Khati SM	635	-	635
Leburu PK	464	-	464
Makhooe NE	365	-	365
Makunye AM	276	-	276
Marumule MS	378	-	378
Masencamp BA	969	-	969
Moshane Z	208	-	208
Mohloare TA	295	-	295
Mokete XE	454	-	454
Mtombeni J	489	-	489
Ngece M	301	-	301
Reed D	781	-	781
Setheni SE	71	-	71
Tau RT	399	-	399
	26,624	**1,587**	**28,211**

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mogoje T.A	36,030	239,163	275,193
Mashiya M.N	287	-	287
Botma H	3,055	267	3,322
Leburu P	531	-	531
Moshane Z	845	-	845
Marumule M.S	314	-	314
Molutsi T.L	273	-	273
Mohloare T.A	707	-	707
Masencamp B.A	629	-	629
Mokete X.E	844	-	844
Makunye A.M	1,103	-	1,103
Mtombeni J	768	-	768
Jika N.E	545	-	545
Ngece M	614	-	614
Ntseki M.L	1,380	-	1,380
Setheni	900	1,755	2,655
Makhooe N.E	1,240	-	1,240
Tau R.T	1,689	27,500	29,189
Mabeleng M.P	1,708	7,685	9,393
Sebate K.E	1,667	-	1,667
Mabaso M.K	867	-	867
Mafojane P.W	1,595	10,047	11,642
	57,591	**286,417**	**344,008**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

43. Deviation from supply chain management regulations

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

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

	2021	2020
The following expenses relate to deviations that the accounting officer approved		
Emergencies	907,252	2,382,071
Sole suppliers	41,423	117,883
	948,675	**2,499,954**

44. Distribution Losses

	2021	2020
Electricity - Rand		
Sold	102,861,035	100,580,307
Purchased	89,712,836	85,012,228
Electricity - Units		
Sold	63,932,882	66,022,871
Purchased	75,718,585	75,517,953
Electricity - Tariffs		
Sold	1.61	1.52
Purchased	1.18	1.13
Electricity - Losses		
Units	11,785,703	9,495,083
Rand value	13,963,928	10,688,824
Percentage	15.57%	12.57%
Water - Rand		
Sold	54,826,018	52,112,889
Purchased	56,780,260	53,108,944
Water - Units		
Sold	2,604,475	2,581,579
Purchased	4,778,110	4,584,620
Water - Tariffs		
Sold	21.05	20.19
Purchased	11.88	11.58
Water - Losses		
Units	2,173,635	2,003,041
Rand value	25,830,205	23,203,535
Percentage	45.49%	43.69%

45. Budget differences

Notes on budget variances

Service Charges: There was a reduction as result of the lower collection rate for the year.

Rental of Facilities and equipment: Fewer facilities rented out than anticipated.

Interest received - consumer: There was a reduction as result of the the approved amounts being lower than the budget projections and a slight pickup on collections.

Interest Received - Investment: Delay in expenditure during the year has increased the balance of the investment.

Dividends Received: Due to the weaker performance of Senwes shares.

Property rates: There was a reduction as result of the the approved amounts being lower than the budget projections.

Fines, Penalties and Forfeits: The municipality met their third party obligations during the year.

Government Grants and Subsidies: This was as a result of fiscus allocation.

Personnel: Due to a number of personnel who resigned and retired.

Depreciation and amortisation: There was a reduction as a result of the impairment loss and the assets written off.

Impairment loss: As a result of old assets of which the condition was deteriorating.

Finance cost: This is as a result of a high balance of historic debt on bulk supplies.

Bulk Purchases: This is as a result of township developments that is taking place.

Contracted services: The increase in contracted services is linked with the township development.

General expenses: The change is due to the increased use of project workers.

Notes to the Annual Financial Statements

46. New standards and interpretations

46.1 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 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Guideline on Accounting for Landfill Sites	To be determined	Unlikely there will be a material impact
• GRAP 104 (amended): Financial Instruments	01 April 2025	Not expected to impact results but may result in additional disclosure
• iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact
• GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	Unlikely there will be a material impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2021	Unlikely there will be a material impact