Setsoto Local Municipality
(Registration number Municipal demarcation code FS191)
Financial statements
for the year ended 30 June 2021
Auditor-General of South Africa

General Information

Legal form of entity	A municipality which is an organ of state within the local sphere of government exercising legislative and executive authority
Nature of business and principal activities	A Local Authority providing municipal services and maintaining the best interest of the community in the Setsoto Municipal area.
Legislation governing the municipality's operations	Local Government: Municipal Finance Management Act (No.56 of 2003) Local Government: Municipal Systems Act (No.32 of 2000) Local Government: Municipal Systems Amendment Act (No. 44 of 2003) Local Government: Municipal Structures Act (No. 117 of 1998) Local Government: Municipal Structures Amendment Act (No. 33 of 2000) Housing Act (No. 107 of 1997) Constitution of the Republic of South Africa (No. 108 of 1996) Property Rates Act (No. 6 of 2004) Annual Division of Revenue Act Municipal Demarcation Act (No. 27 of 1998) Local Government: Transition Act Second Amendment (No. 97 of 1996) Water Services Act (No. 108 of 1997) Electricity Act (No. 41 of 1987) Intergovernmental Fiscal Relations Act (No. 97 of 1997) Intergovernmental Relations Framework Act (No. 13 of 2005)
Mayor / Executive Mayor	Koalane, Komane Elias (1 July 2020 - 31 May 2021) Maveleliso, Paka Isaac (From 1 June 2021)
Executive Committee / Mayoral Committee	Taylor, Nnini Annie (From 1 July 2020 - 31 May 2021) Hlakane, Moeketsi Selasi, Motsamai William (From 1 July 2020 - 31 May 2021) Khitsane, Nthatisi Petronella (From 1 July 2020 - 31 May 2021) Selikane, Thabiso Shadrack (From 1 June 2021) Sellane, Matieho Theresia (From 1 June 2021) Jakobo, Tsheliso Bernard (From 1 June 2021) Mthimkulu, Mamotena Lydia (From 1 February 2021)
Councillors	Speaker - Mokhuoane, Krog Sexton Koqo, Palesa Elizabeth Mokhele, Modise Moses Mathuhle, Motsamai John Schee, Pulane Constance Lipoko, Ratsholwane Shadrack Makhubu, Ntahli Selina Mohosho, Andronika Modiehi Strydom, Evert Phillip Matsau, Malefane Patrick Makhalanyane, Tieho George Moipatli, Chere Daniel Mothibeli, Moselantja Mercy Selikane, Thabiso Shadrack (From 1 July 2020 - 31 May 2021)

General Information

	Mthimkulu, Mamotena Lydia (From 1 July 2020 - 31 January 2021) Makobane, Serame Ishmael Khatlake, Ntema Peter Jakobo, Tsheliso Bernard (From 1 July 2020 - 31 May 2021) Mthimkhulu, Thabo Isaac Vries, Isak Semahla, Mookho Hilda Matobako, Puseletso Constance Sellane, Matieho Theresia (From 1 July 2020 - 31 May 2021) Mokoena, Teboho Jacob (From 1 July 2020 - 30 November 2020) Maveleliso, Paka Isaac (From 1 July 2020 - 31 May 2021) Maoke, Nthateng Alice Heymans, Maria Cornelia Taylor, Nnini Annie (From 1 June 2021) Selasi, Motsamai William (From 1 June 2021) Khitsane, Nthatisi Petronella (From 1 June 2021) Koalane, Komane Elias (From 1 June 2021)
Grading of local authority	06 - Meduim Capacity
Accounting Officer	Mr. STR Ramakarane
Chief Finance Officer (CFO)	Mr. NL Moletsane
Registered office	27 Voortrekker Street Ficksburg 9730
Business address	27 Voortrekker Street Ficksburg 9730
Postal address	P O Box 116 Ficksburg 9730
Bankers	First National Bank, a division of First Rand Limited
Auditors	Auditor-General of South Africa
Legal Manager	PM Koalane P O Box 116, Ficksburg, 9730 matshediso@setsoto.co.za
Telephone Number	(051) 933 9300
Fax Number	(051) 933 9363

Index

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

Index

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
COGTA	Department of Cooperative Governance and Traditional Affairs
CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers
mSCOA	Municipal Standard Chart of Accounts
IGRAP	Interpretation of the South African Standards of Generally Recognised Accounting Practice

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 financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the 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 financial statements and was given unrestricted access to all financial records and related data.

The financial statements have been prepared as required by in terms of Section 122 of the Municipal Finance Management Act (No.56 of 2003) and in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

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

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the 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, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

The external auditors are responsible for independently reviewing and reporting on the municipality's financial statements. The financial statements have been examined by the municipality's external auditors and their report is presented on page 7.

The financial statements set out on page 7, which have been prepared on the going concern basis, were approved by the accounting officer on 8 September 2021.

Mr. STR Ramakarane
Municipal Manager

Audit & Performance Audit Committee Report

We are pleased to present our report for the financial year ended 30 June 2021.

Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 5 number of meetings were held.

Name of member	Number of meetings attended
Mr H B Mathibela - Chairperson	5
Mr T Zororo	5
Mr L S Mofokeng	5
Ms F Kobo	5
Mrs SJ Masite	5

All members are independent with no interest in the management or conduct of the business of the Municipality and the members of the Audit And Performance Audit Committee were appointed on the 26 June 2017 and their contract will end on 27 July 2022.

Audit and Performance Committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The Audit and Performance Audit Committee has adopted appropriate formal terms of reference as its Audit and Performance Committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is considered generally adeqquate in design and is partially ineffective in its implementation and this was evident by the reasonable assurance given by the Internal Audit Unit. However, there have been some vast improvements on some internal controls. The identification of corrective actions and suggested enhancements to the controls were done through risk management process and interaction with management on the action plan on audited report.

Evaluation of financial statements

The Audit and Performance Audit Committee has:

- reviewed and discussed the unaudited financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed changes in accounting policies and practices;
- reviewed the adjustments made which appear on notes of prior period error and reclassification;
- provide assurance on irregular, fruitless and wastefull expenditure;
- monitors asset management;
- monitor the implementation of the procurement plan;
- monitor the implementation of the SCM policy and deviations.

Internal audit

The Audit and Performance Audit Committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

____

Chairperson of the Audit Committee

Date: ______________________

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2021.

1. Review of activities

Main business and operations

The operating results and state of affairs of the municipality are fully set out in the attached financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R218 145 943 (2020: deficit R41 375 136)

2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of R2 764 462 769 and that the municipality's total assets exceed its liabilities by R2 764 462 769.

The 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.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The Accounting Officer had no interest in any contracts.

5. Accounting policies

The financial statements was prepared as required in terms of Section 122 of the Municipal Finance Management Act (No. 56 of 2003) and in accordance with the South African Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations of such statements issued by the Accounting Practices Board, and in accordance with the prescribed framework by National Treasury.

6. Employee Benefits

Management performed an actuarial valuation of the Employee Benefits of the employer's liability as arising form the Post-Retirement Healthcare Subsidy ("RHS") payable to current and retired employees.

The valuation is in line with the requirements of GRAP 25 and have determined the items required for disclosure in terms of this standard.

Refer to note 8 for detail about these valuations.

7. Non-current assets

There were no major changes in the nature of the non-current assets of the municipality during the year.

8. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mr. STR Ramakarane	RSA

9. Auditors

Auditor-General of South Africa will continue in office for the next financial period.

Accounting Officer's Report

10. Jurisdiction

Setsoto Local Municipality included the following areas:

- Ficksburg
- Senekal
- Marquard
- Clocolan

Mr. STR Ramakarane
Municipal Manager

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	9	2 613 228	2 751 139
Receivables from exchange transactions	11&10	204 187 715	200 815 151
Receivables from non-exchange transactions	12&10	54 248 943	50 021 646 *
VAT receivable	13	30 886 515	12 001 983 *
Cash and cash equivalents	14	45 525 760	30 170 505 *
		337 462 161	**295 760 424**
Non-Current Assets			
Investment property	3	83 725 336	103 133 497 *
Property, plant and equipment	4	2 595 748 879	2 838 980 522 *
Intangible assets	5	545 252	1 307 033 *
Heritage assets	6	15 385 903	15 385 903
Other financial assets	7	3 615 509	3 498 052
		2 699 020 879	**2 962 305 007**
Total Assets		**3 036 483 040**	**3 258 065 431**
Liabilities			
Current Liabilities			
Other financial liabilities	17&16	9 045 133	8 100 734
Payables from exchange transactions	19	118 166 024	128 847 741 *
Consumer deposits	20	3 194 033	3 157 199
Employee benefit obligation	8	3 348 000	3 101 000
Unspent conditional grants and receipts	15	55 259 611	53 334 375 *
		189 012 801	**196 541 049**
Non-Current Liabilities			
Other financial liabilities	17&16	3 626 368	12 671 614
Employee benefit obligation	8	63 585 000	52 503 000
Provisions	18	15 796 102	13 741 077 *
		83 007 470	**78 915 691**
Total Liabilities		**272 020 271**	**275 456 740**
Net Assets		**2 764 462 769**	**2 982 608 691**
Accumulated surplus		2 764 462 769	2 982 608 691 *
Total Net Assets		**2 764 462 769**	**2 982 608 691**

The accounting policies on pages 16 to 44 and the notes on pages 45 to 111 form an integral part of the financial statements.

* See Note 41

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	199 680 856	189 913 073 *
Rental of facilities and equipment	23	1 347 653	1 631 309
Interest received (trading)		28 914 253	33 682 040 *
Licences and permits		70 242	36 776
Commissions received		840 708	1 042 203
Other income	24	3 574 852	1 814 253
Interest received - investment	25	1 850 157	4 120 697 *
Fair value adjustments		115 759	-
Actuarial gains		-	9 883 257
Dividends received	25	46 880	45 156
Total revenue from exchange transactions		**236 441 360**	**242 168 764**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	54 904 834	53 030 041
Transfer revenue			
Government grants & subsidies	28	403 164 146	308 952 655 *
Donated assets		8 076 388	1 012 368
Fines, Penalties and Forfeits		1 084 350	636 300
Total revenue from non-exchange transactions		**467 229 718**	**363 631 364**
Total revenue	21	**703 671 078**	**605 800 128**
Expenditure			
Employee related costs	29	214 610 185	202 482 218 *
Remuneration of councillors	30	12 967 130	13 208 568
Repairs and maintenance		3 754 580	3 527 867 *
Depreciation and amortisation	31	393 083 789	140 772 718 *
Impairment of assets	32	18 136 101	2 824 628 *
Finance costs	33	9 627 724	11 589 677 *
Lease rentals on operating lease		4 667 001	4 600 572 *
Debt impairment	34	111 163 711	120 148 035 *
Bulk purchases	35	80 035 213	72 862 820
Contracted services	36	10 850 314	13 211 320 *
Transfers and Subsidies	27	142 439	190 384 *
Loss on disposal of assets		18 819 974	16 868 983 *
Fair value adjustments		-	276 979
Actuarial losses		5 204 581	-
General Expenses	37	38 754 279	44 610 495 *
Total expenditure		**921 817 021**	**647 175 264**
Deficit for the year		**(218 145 943)**	**(41 375 136)**

* See Note 41

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2019	**2 973 934 064**	**2 973 934 064**
Changes in net assets		
Prior-year adjustments (Refer to note 41)	50 049 763	50 049 763
Net income (losses) recognised directly in net assets	50 049 763	50 049 763
Deficit for the year	(41 375 136)	(41 375 136)
Total changes	8 674 627	8 674 627
Restated* Balance at 01 July 2020	**2 982 608 712**	**2 982 608 712**
Changes in net assets		
Deficit for the year	(218 145 943)	(218 145 943)
Total changes	(218 145 943)	(218 145 943)
Balance at 30 June 2021	**2 764 462 769**	**2 764 462 769**
Note(s)		

* See Note 41

Setsoto Local Municipality

(Registration number Municipal demarcation code FS191)
Financial Statements for the year ended 30 June 2021

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Property Rates		45 043 002	39 392 571 *
Sale of goods and services		91 810 948	87 134 067 *
Grants		404 389 382	346 878 749
Interest income		30 760 371	37 802 737 *
Dividends received		46 880	45 156
Other receipts		5 971 366	7 649 407 *
Fines, penalties and forfeits		1 084 350	636 300
		579 106 299	519 538 987
Payments			
Employee costs		(225 885 120)	(212 497 214)*
Suppliers		(150 106 952)	(149 698 796)*
Finance costs		(3 579 798)	(5 398 508)*
VAT		(18 884 534)	(17 117 991)*
		(398 456 404)	(384 712 509)
Net cash flows from operating activities	38	**180 649 895**	**134 826 478**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(157 756 605)	(126 775 250)*
Proceeds from sale of property, plant and equipment	4	562 812	370 579
Net cash flows from investing activities		**(157 193 793)**	**(126 404 671)**
Cash flows from financing activities			
Take up/(Repayment) of other financial liabilities		(8 100 847)	(7 637 157)
Net cash flows from financing activities		**(8 100 847)**	**(7 637 157)**
Net increase/(decrease) in cash and cash equivalents		**15 355 255**	**784 650**
Cash and cash equivalents at the beginning of the year		30 170 505	29 385 855
Cash and cash equivalents at the end of the year	14	**45 525 760**	**30 170 505**

* See Note 41

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	220 233 708	1 685 296	**221 919 004**	199 680 856	**(22 238 148)**	Over budgeting and income forgone (subsidy to poor) decreased revenue
Rental of facilities and equipment	1 864 716	(506 676)	**1 358 040**	1 347 653	**(10 387)**	Immaterial variance
Interest received (trading)	37 450 236	(10 532 428)	**26 917 808**	28 914 253	**1 996 445**	Immaterial variance
Licences and permits	45 648	-	**45 648**	70 242	**24 594**	Strict implementation of Council policies increased revenue
Commissions received	564 492	(188 508)	**375 984**	840 708	**464 724**	Additional commission received
Other income - (rollup)	1 997 808	662 460	**2 660 268**	3 574 852	**914 584**	Implementation of Council policy on unallocated deposits
Interest received - investment	4 824 684	(2 940 940)	**1 883 744**	1 850 157	**(33 587)**	Immaterial variance
Dividends received	87 996	41 112	**129 108**	46 880	**(82 228)**	Over budgeting on dividend received
Total revenue from exchange transactions	**267 069 288**	**(11 779 684)**	**255 289 604**	**236 325 601**	**(18 964 003)**	

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
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	69 710 100	(2 603 688)	**67 106 412**	54 904 834	**(12 201 578)**	Income forgone implementation iro destitutional help
Transfer revenue						
Government grants & subsidies	207 046 428	36 903 054	**243 949 482**	244 576 339	**626 857**	Immaterial variance
Donated assets	-	-	**-**	8 076 388	**8 076 388**	Under budget on donated assets
Fines, Penalties and Forfeits	845 628	(660 964)	**184 664**	1 084 350	**899 686**	Strict implementation of Council policies increased revenue
Total revenue from non-exchange transactions	**277 602 156**	**33 638 402**	**311 240 558**	**308 641 911**	**(2 598 647)**	
Total revenue	**544 671 444**	**21 858 718**	**566 530 162**	**544 967 512**	**(21 562 650)**	
Expenditure						
Personnel	(211 286 724)	3 525 700	**(207 761 024)**	(214 610 185)	**(6 849 161)**	Immaterial variance
Remuneration of councillors	(14 154 480)	1 143 000	**(13 011 480)**	(12 967 130)	**44 350**	Immaterial variance
Repairs and maintanance	(61 500 948)	21 424 550	**(40 076 398)**	(3 754 580)	**36 321 818**	Classification correction
Depreciation and amortisation	(126 155 652)	-	**(126 155 652)**	(393 083 789)	**(266 928 137)**	Correction of assets register and useful live of assets
Impairment loss/ Reversal of impairments	-	-	**-**	(18 136 101)	**(18 136 101)**	Correction of assets
Finance costs	(7 662 996)	484 528	**(7 178 468)**	(9 627 724)	**(2 449 256)**	Correct implementation of finance costs
Lease rentals on operating lease	(6 343 992)	1 545 954	**(4 798 038)**	(4 667 001)	**131 037**	Immaterial variance

Setsoto Local Municipality

(Registration number Municipal demarcation code FS191)
Financial Statements for the year ended 30 June 2021

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
Debt Impairment	(71 253 360)	-	**(71 253 360)**	(111 163 711)	**(39 910 351)**	Poor payment rate contribute to increased impairment
Bulk purchases	(84 544 080)	(540 264)	**(85 084 344)**	(80 035 213)	**5 049 131**	Immaterial variance
Contracted Services	(27 496 440)	596 384	**(26 900 056)**	(10 850 314)	**16 049 742**	Implementation of strict cost containment measures
Transfers and Subsidies	(22 050 024)	(19 047 472)	**(41 097 496)**	(142 439)	**40 955 057**	Transfer and grants disclosed as income forgone
General Expenses	(21 969 996)	1 127 736	**(20 842 260)**	(38 754 279)	**(17 912 019)**	Classification correction
Total expenditure	**(654 418 692)**	**10 260 116**	**(644 158 576)**	**(897 792 466)**	**(253 633 890)**	
Operating deficit	**(109 747 248)**	**32 118 834**	**(77 628 414)**	**(352 824 954)**	**(275 196 540)**	
Loss on disposal of assets and liabilities	-	-	**-**	(18 819 974)	**(18 819 974)**	Correction of assets
Transfers and subsidies - Capital	169 915 452	6 757 548	**176 673 000**	158 587 807	**(18 085 193)**	Less transfers received from Government
Fair value adjustments	-	-	**-**	115 759	**115 759**	Under budgeting on shares fair value adjustment
Actuarial gains/(losses)	-	-	**-**	(5 204 581)	**(5 204 581)**	Poor economic climate contributes to actuarial loss
	169 915 452	**6 757 548**	**176 673 000**	**134 679 011**	**(41 993 989)**	
Deficit before taxation	**60 168 204**	**38 876 382**	**99 044 586**	**(218 145 943)**	**(317 190 529)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**60 168 204**	**38 876 382**	**99 044 586**	**(218 145 943)**	**(317 190 529)**	

Figures in Rand	Note(s)	2021	2020

1. Presentation of Financial Statements

The 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 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.

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Significant judgements and sources of estimation uncertainty

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

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

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

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

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.

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

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

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 18 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. 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 8.

Effective interest rate

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement that material impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

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.

GRAP 24: Presentation of budget information

Deviations between the budget and actual amounts are regarded as material if they exceed a 10% deviation.

All material differences are explained in the notes/appendices to the annual financial statements.

1.2 Significant judgements and sources of estimation uncertainty (continued)

Operating lease commitments

Leases where risks and rewards of ownership are not transferred to the lessee are classified as operating leases. Payments received under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease.

1.3 Investment property

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

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

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

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

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

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

Cost model

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

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

Item	**Useful life**
Property - land	indefinite
Property - buildings	15 - 80 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.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

1.4 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.

1.4 Property, plant and equipment (continued)

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight-line	Infinite
Buildings	Straight-line	10 - 80 years
Plant and machinery	Straight-line	2 - 20 years
Furniture and office equipment	Straight-line	5 - 10 years
Transport assets	Straight-line	5 - 20 years
Office equipment	Straight-line	3 - 7 years
IT equipment	Straight-line	3 - 7 years
Computer equipment	Straight-line	3 - 6 years
Infrastructure - Electricity	Straight-line	5 - 50 years
Buildings and other structures (Community)	Straight-line	25 - 50 years
Other property, plant and equipment	Straight-line	3 - 7 years
Infrastructure - Waste management	Straight-line	5 - 40 years
Infrastucture - Roads, pavements, bridged, and storm water	Straight-line	5 -80 years

1.4 Property, plant and equipment (continued)

Infrastructure - Water	Straight-line	5 - 80 years
Infrastructure - Waste water management	Straight-line	10 - 60 years
Work in progress	Straight-line	Transfer to assets on completion

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 4).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 4).

1.5 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

1.5 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.

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	3 - 5 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 5).

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 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).

1.6 Heritage assets

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

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

1.6 Heritage assets (continued)

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

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

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

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.

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 6).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 6).

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

1.6 Heritage assets (continued)

Transfers

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

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

Derecognition

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

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

1.7 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.

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

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

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

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

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.

Initial recognition

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

Initial measurement of financial assets and financial liabilities

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

Financial Instruments are categorised according to their nature as either financial instruments at fair value, held at amortised cost, or held at cost. The classification depends on purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.

1.7 Financial instruments (continued)

- Financial instruments at cost

Debtors

Debtors are initially recognised at fair value plus any transaction costs and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the debtors. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Impairment losses are recognised in the Statement of Financial Performance.

An estimate is made for doubtful debts based on the categorisation of debts and a review of past trends in collection rates applied to all outstanding amounts at year-end. Bad debts are written off during the year in which they are identified in the Statement of Financial Performance.

Creditors

Trade payables are initially measured at fair value plus any transaction costs,and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

These are initially and subsequently recorded at amortised cost.

For cash flow purposes cash and cash equivalents includes cash on hand, deposits held at call with banks, other short term highly liquid investments, and bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred.

Borrowings and other financial liabilities

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of financial performance over the period of the borrowings using the effective interest method.

Long term borrowings are non-derivative financial loans and the Municipality does not hold financial loans for trading purposes. Long term borrowings are utilised solely for funding capital projects and the book value is disclosed at amortised cost.

Other financial liabilities are carried at amortised cost.

Loans and receivables

Loans and receivables are measured initially and subsequently at fair value, gains and losses arising from changes in fair value are included in the Statement of Financial Performance for the period.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the Statement of Financial Position date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the Statement of Financial Position.

Fixed and negotiable deposits

Fixed and negotiable deposits are non-derivative financial assets with fixed or determinable payments and fixed maturities that the municipality will hold to maturity.

Fixed and negotiable deposits are initially and subsequently measured at fair value which in the case of investments that have an original maturity date of less than 12 months equates the cost. Fixed and negotiable deposits held for greater than 12 months are fair valued annually and the difference recognised in the statement of financial performance.

On disposal of Fixed and negotiable deposits, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

1.8 Tax

The municipality is exempted from tax in terms of section 10(1)(a) of the Income Tax Act.

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.

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

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

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.

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

Accounting Policies

1.10 Inventories (continued)

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

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

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

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

1.11 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.12 Conditional grants and receipts

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

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

An entity needs to assess the degree of certainty attached to the flow of future economic benefits of service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants should only be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue should only be recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. For example, equitable share grants per the Division of Revenue Act where the period of use of such funds is stated, should be recognised on a time proportion basis, i.e. over the stated period. Where there is no restriction on the period, such revenue should be recognised on receipt or when the Act becomes effective, which-ever is earlier.

In certain circumstances government will only remit grants on a re-imbursement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.

Other Grants and Donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

Other grants and donations shall be recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

1.13 Impairment of cash-generating assets

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

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

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

1.13 Tax (continued)

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.

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

Value in use

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

1.14 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

1.15 Employee benefits

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

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

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

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

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

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

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

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

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

Accounting Policies

1.15 Employee benefits (continued)

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

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

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

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

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

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

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

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

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

1.15 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

1.15 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 entity recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

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

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

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

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

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

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

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

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

1.15 Employee benefits (continued)

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

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

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

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

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

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

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

Accounting Policies

1.15 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 entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.15 Employee benefits (continued)

Termination benefits

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

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

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

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

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

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

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

1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

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

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

1.16 Provisions and contingencies (continued)

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

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

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

1.17 Commitments

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

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:
- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

1.18 Revenue from exchange transactions

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

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

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

When uncertainty arises about the delectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Measurement

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

Sale of goods

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

1.18 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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.

Revenue from rental of facilities and equipment is recognised on a straightline basis over the term of the lease agreement.

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

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

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

1.19 Revenue from non-exchange transactions

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

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

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

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

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

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

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

1.19 Revenue from non-exchange transactions (continued)

Assessment rates

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

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

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

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

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

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

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

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

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

Transfers

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

Services in-kind

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

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

1.20 Borrowing costs

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

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

1.21 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Assessing which entity benefits from the transactions with third parties

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

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

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

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

Recognition

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

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

1.21 Accounting by principals and agents (continued)

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

1.22 Comparative figures

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

1.23 Unauthorised expenditure

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

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

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.

1.24 Fruitless and wasteful expenditure

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

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

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

1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy.

Irregular expenditure is defined in section 1 of the MFMA as follows:

"Irregular expenditure”, in relation to a municipality or municipal entity, means:
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality’s by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of “unauthorised expenditure”.

In this context ‘expenditure’ refers to any use of municipal funds that is in contravention of the following legislation:
- Municipal Finance Management Act, Act 56 of 2003, and its regulations;
- Municipal Systems Act, Act 32 of 2000, and its regulations;
- Public Office-Bearers Act, Act 20 of 1998, and its regulations; and
- The municipality’s supply chain management policy, and any by-laws giving effect to that policy

1.25 Irregular expenditure (continued)

Although a transaction or an event may trigger irregular expenditure, a municipality or municipal entity will only identify irregular expenditure when a payment is made, in other words, the recognition of irregular expenditure will be linked to a financial transaction. If the possibility of irregular expenditure is determined prior to a payment being made, the transgression shall be regarded as a matter of non-compliance.

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.

1.26 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 financial statements.

1.27 Events after reporting date

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

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

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

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

1.28 Use of estimates

The preparation of financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in the relevant sections of the financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.29 Value added tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the Standard rate (15%) in terms of section 7(1)(a) of the Value Added Tax Act, (Act 89 of 1991) in respect of the supply goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality account for VAT on a monthly basis.

1.30 Budget information

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

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

The approved budget covers the fiscal period from 01/07/2020 to 30/06/2021.

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

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

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

Figures in Rand	2021	2020

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2021 or later periods:

Standard/ Interpretation:	**Effective date: Years beginning on or after**	**Expected impact:**
• GRAP 104 (amended): Financial Instruments	To be determined	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	To be determined	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
• GRAP 20: Related parties	01 April 2021	Unlikely there will be a material impact
• GRAP 32: Service Concession Arrangements: Grantor	01 April 2021	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2021	Not expected to impact results but may result in additional disclosure
• IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2021	Unlikely there will be a material impact

3. Investment property

	2021			2020		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Investment property	120 198 602	(36 473 266)	83 725 336	130 705 602	(27 572 105)	103 133 497

Reconciliation of investment property - 2021

	Opening balance	**Disposals**	**Impairments**	**Depreciation**	**Total**
Investment property	103 133 497	(10 507 001)	(2 247)	(8 898 913)	83 725 336

Reconciliation of investment property - 2020

	Opening balance	**Disposals**	**Impairments**	**Depreciation**	**Total**
Investment property	105 333 977	(1 017 259)	(21 298)	(1 161 923)	103 133 497

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.

Notes to the Financial Statements

Figures in Rand

4. 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	51 935 480	-	51 935 480	57 830 195	(14 448)	57 815 747
Furniture and Office Equipment	6 399 984	(5 573 906)	826 078	6 437 467	(4 701 312)	1 736 155
Transport assets	54 133 094	(37 246 805)	16 886 289	49 825 554	(17 022 291)	32 803 263
Computer Equipment	8 307 625	(6 313 792)	1 993 833	7 927 085	(5 367 559)	2 559 526
Infrastructure - Electricity	342 294 799	(141 669 860)	200 624 939	323 742 637	(134 034 549)	189 708 088
Buildings & Other Structure Community)	407 669 201	(173 610 438)	234 058 763	397 294 663	(142 681 240)	254 613 423
Infrastructure - Waste management	35 534 067	(17 703 662)	17 830 405	34 165 967	(10 287 156)	23 878 811
Infrastructure: Road, Pavement, Bridges & Storm water	2 764 746 505	(2 008 458 240)	756 288 265	2 761 403 306	(1 769 447 746)	991 955 560
Machinery & Equipment	3 912 144	(3 256 154)	655 990	4 712 644	(3 556 399)	1 156 245
Infrastructure - Waste Water (Sanitation)	606 264 637	(191 311 954)	414 952 683	602 365 634	(152 066 401)	450 299 233
Infrastructure - Water	1 158 997 329	(259 301 175)	899 696 154	1 043 433 705	(210 979 234)	832 454 471
Total	**5 440 194 865**	**(2 844 445 986)**	**2 595 748 879**	**5 289 138 857**	**(2 450 158 335)**	**2 838 980 522**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Work in progress movements	Depreciation	Impairment loss	Provision adjustment	Total
Land	57 815 747	-	(5 880 267)	-	-	-	-	51 935 480
Furniture and Office Equipment	1 736 155	111 229	(11 676)	-	(1 009 630)	-	-	826 078
Transport Assets	32 803 263	4 858 294	(47 826)	-	(20 727 442)	-	-	16 886 289
Computer Equipment	2 559 526	1 204 435	(27 542)	-	(1 742 586)	-	-	1 993 833
Infrastructure Electricity	189 708 088	-	(7 529)	18 561 372	(7 636 992)	-	-	200 624 939
Buildings & Other Structure Community)	254 613 423	24 677 487	(2 171)	(14 298 175)	(29 562 275)	(1 369 526)	-	234 058 763
Infrastructure - Waste management	23 878 811	-	-	-	(7 416 505)	-	1 368 099	17 830 405
Infrastructure: Road, Pavement, Bridges & Storm water	991 955 560	-	(329 841)	4 417 067	(239 754 521)	-	-	756 288 265
Machinery & Equipment	1 156 245	218 248	(1 266)	-	(717 237)	-	-	655 990
Infrastructure - Waste Water (Sanitation)	450 299 233	31 940 391	(963 896)	(25 941 526)	(29 873 790)	(10 507 729)	-	414 952 683
Infrastructure Water	832 454 471	28 190 167	(1 603 774)	91 894 004	(44 982 115)	(6 256 599)	-	899 696 154
	2 838 980 522	**91 200 251**	**(8 875 788)**	**74 632 742**	**(383 423 093)**	**(18 133 854)**	**1 368 099**	**2 595 748 879**

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Reclassification	Work in progress movements	Depreciation	Impairment loss	Provision adjustment	Total
Land	58 043 125	-	(227 378)	-	-	-	-	-	57 815 747
Furniture and Office Equipment	2 595 039	86 277	(2 694)	-	-	(942 467)	-	-	1 736 155
Transport Assets	35 085 750	1 012 368	-	-	-	(3 294 855)	-	-	32 803 263
Computer Equipment	3 343 326	558 498	(40 682)	-	-	(1 301 616)	-	-	2 559 526
Infrastructure Electricity	176 939 685	1 547 042	(733 995)	-	21 476 934	(9 521 578)	-	-	189 708 088
Buildings & Other Structure Community)	272 071 787	-	(1 530 742)	(22 450 673)	17 144 648	(10 603 417)	(18 180)	-	254 613 423
Infrastructure: Waste Management	29 710 699	-	-	(3 131 808)	-	(2 435 560)	-	(264 520)	23 878 811
Infrastructure: Road, Pavement, Bridges & Storm water	1 067 032 189	3 494 303	-	-	(1 137 330)	(74 648 452)	(2 785 150)	-	991 955 560
Machinery & Equipment	1 912 058	24 700	(124 768)	-	-	(655 745)	-	-	1 156 245
Infrastructure - Waste Water (Sanitation)	423 016 270	-	(2 061 448)	29 175 481	14 570 265	(14 401 335)	-	-	450 299 233
Infrastructure - Water	799 465 077	13 203 929	(11 477 362)	(3 593 000)	55 805 984	(20 950 157)	-	-	832 454 471
	2 869 215 005	**19 927 117**	**(16 199 069)**	**-**	**107 860 501**	**(138 755 182)**	**(2 803 330)**	**(264 520)**	**2 838 980 522**

Pledged as security

Carrying value of assets pledged as security:

Transport assets	7 852 410	23 440 425
Transport assets purchased on instalment agreement and financed through ABSA and FNB		

Figures in Rand	2021	2020

4. Property, plant and equipment (continued)

Property, plant and equipment in the process of being constructed or developed

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected	2021	2020
Ficksburg / Meqheleng Rehabilitation of 1.5km Surfaced Roads and Storm water Drainage Due to poor performance, as well as failure to implement the scope and management of cashflow by the contractor, the municipality after engaging with the contractor concluded on the termination of the contract. The municipality will use the retention funds on the project to complete the scope.	6 550 846	2 133 780
Upgrading of the Van Soelen Outfall sewer pipeline and related works in Meqheleng (Phase 2) The project is running behind schedule due to the dispute lodged by the contractor which necessitated the municipality to embark on a mediation process in terms of the GCC.	18 418 696	19 424 961
Construction of new water reticulation of 1110 sites in Marquard / Moemaneng Contract was terminated with the appointed contractor due to poor performance.	15 118 020	14 325 495
Construction of new sewer reticulation of 1110 sites in Marquard / Moemaneng Contract was terminated with the appointed contractor due to poor performance.	17 422 859	16 587 758
Installation of the prepaid electrical meters The project has been delayed due to inaccessible households and the shortage of electrical meters to be installed.	49 021 150	31 067 401
The conversion of 969 VIP toilets in Meqheleng / Ficksburg The project was delayed due to COVID 19 regulations and also by the instruction of the court on the then pending dispute.	24 937 777	23 711 957
Electrification of 205 erven (Skeleton park) and 60 erven (Tienie van Rooyen, Clocolan) Phase 1 of the project was delayed due to COVID 19 regulations.	4 485 668	4 485 668
	135 955 016	**111 737 020**

*The above disclosure note with regards to, property, plant and equipment that is taking a significantly longer period of time to complete than expected, was not presented in the 2019/2020 annual financial statements.

Figures in Rand	2021	2020

4. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Total
Opening balance	252 817 845	252 817 845
Additions/capital expenditure	151 364 400	151 364 400
Transferred to completed items	(76 731 658)	(76 731 658)
	327 450 587	**327 450 587**

Description	Opening balance	Cost additions	Transfer out	Total
Buildings and other structures (Community)	14 298 175	2 302 925	(16 601 100)	-
Infrastructure Electrical	37 831 445	18 561 372	-	56 392 817
Infrastructure Roads, Pavements, Bridges & Stormwater	2 133 780	4 417 067	-	6 550 847
Infrastructure Waste Water (Sanitation)	94 366 151	5 998 865	(31 940 391)	68 424 625
Infrastructure Water	104 188 294	120 084 171	(28 190 167)	196 082 298
	252 817 845	**151 364 400**	**(76 731 658)**	**327 450 587**

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Total
Opening balance	144 957 344	144 957 344
Additions/capital expenditure	126 105 774	126 105 774
Transferred to completed items	(18 245 273)	(18 245 273)
	252 817 845	**252 817 845**

Description	Opening balance	Cost addition	Transfer out	Reclassification	Total
Buildings and other structures (Community)	19 604 200	17 144 648	-	(22 450 673)	14 298 175
Infrastructure Electrical	16 354 511	22 504 602	(1 027 668)	-	37 831 445
Infrastructure Roads, Pavements, Bridges & Stormwater	3 271 110	2 356 973	(3 494 303)	-	2 133 780
Infrastructure Waste Management	3 131 808	-	-	(3 131 808)	-
Infrastructure Waste Water (Sanitation)	50 620 405	14 570 265	-	29 175 481	94 366 151
Infrastructure Water	51 975 310	69 529 286	(13 723 302)	(3 593 000)	104 188 294
	144 957 344	**126 105 774**	**(18 245 273)**	**-**	**252 817 845**

Expenditure incurred to repair and maintain property, plant and equipment

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

	2021	2020
Repairs and maintenance	3 754 580	3 527 897

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.

Figures in Rand

5. Intangible assets

	2021			2020		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software, other	4 247 016	(3 701 764)	545 252	4 585 469	(3 278 436)	1 307 033

Reconciliation of intangible assets - 2021

	Opening balance	**Amortisation**	**Total**
Computer software, other	1 307 033	(761 781)	545 252

Reconciliation of intangible assets - 2020

	Opening balance	**Amortisation**	**Total**
Computer software, other	2 158 666	(851 633)	1 307 033

6. Heritage assets

	2021			2020		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Historical buildings	14 506 753	-	14 506 753	14 506 753	-	14 506 753
Municipal jewellery	879 150	-	879 150	879 150	-	879 150
Total	**15 385 903**	**-**	**15 385 903**	**15 385 903**	**-**	**15 385 903**

Reconciliation of heritage assets 2021

	Opening balance	Total
Historical buildings	14 506 753	14 506 753
Municipal jewellery	879 150	879 150
	15 385 903	**15 385 903**

Reconciliation of heritage assets 2020

	Opening balance	Total
Historical buildings	14 506 753	14 506 753
Municipal jewellery	879 150	879 150
	15 385 903	**15 385 903**

Notes to the Financial Statements

Figures in Rand	2021	2020

7. Other financial assets

Designated at fair value		
Listed shares	884 404	849 385
Sanlam		
Unlisted shares	1 297 736	1 264 066
OVK/EFC shares		
	2 182 140	**2 113 451**
At amortised cost		
Other financial assets	1 433 369	1 384 601
Consist of Sanlam Redemption fund and a housing collateral at ABSA Bank		
Total other financial assets	**3 615 509**	**3 498 052**
Non-current assets		
Designated at fair value	2 182 140	2 113 451
At amortised cost	1 433 369	1 384 601
	3 615 509	**3 498 052**

Financial assets at fair value

Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

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

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

Level 1		
Sanlam	884 404	849 385

As at 30 June 2021, the Sanlam share value was : R61.37 (2020: R58.94)

Level 3		
OVK	1 297 736	1 264 066

As at 30 June 2021 the OVK share value was as follows:

OVK Operations: R14.00 (2020: R13.85)

OVK Holdings: R16.50 (2020: R15.85)

	2 182 140	**2 113 451**

Financial assets at amortised cost

Fair values of financial assets measured or disclosed at fair value

Class 1	1 433 369	1 384 601

Figures in Rand	2021	2020

8. Employee benefit obligations

Defined benefit plan

The municipality provides retirement benefits for its employees and councillors. Benefits are provided via defined contribution plans and defined benefit plans as listed below and which are administrated by various pension, provident and annuity funds.

These plans are subject to the Pension Fund Act, 1956 (Act No. 24 of 1956) and include defined contribution plans.

The municipality is under no obligation to cover any unfunded benefits. The only obligation of the municipality is to make the specified contributions.

Sufficient information was not available to use defined benefit accounting for the funds and it was accounted for as defined contribution plans due to the following reasons:
- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers;
- One set of financial statements are compiled for all the funds and not for each participating employer; and
- The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

This is in line with the exemption in GRAP 25 paragraph 31 which states that where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans.

The following are defined benefit plans:
- Free State Municipal Pension Fund
- South African Local Authorities Pension Fund

Post retirement medical aid plan

The Post-retirement Medical Plan is a defined benefit plan, of which the members are made up as follows:

Total members		
In service (employee) members	538	527
Contribution members (eg retirees, widows, orphans)	35	33
	573	**560**

In accordance with the requirements of GRAP 25, the Projected Unit Credit method has been applied. The assumption underlying the funding method is that the employer's post-employment medical scheme costs in respect of an employee should be fully recognised by the time that the employee reaches fully accrued age. The valuation has been made with reference Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP 25. The Municipality's current active employees and pensioners have the choice of participating in the following medical schemes:

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

As at 30 June		
Opening balance	(42 839 000)	(46 089 853)
Service costs	(2 028 000)	(2 512 254)
Interest costs	(4 513 000)	(4 320 501)
Actuarial benefits paid	1 455 815	1 472 508
Actuarial gains/(losses)	(5 590 815)	8 611 100
	(53 515 000)	**(42 839 000)**

Notes to the Financial Statements

Figures in Rand	2021	2020

8. Employee benefit obligations (continued)

Long service bonus

An actuarial valuation of the liability in respect of the long service awards was performed by an independent company.

The primary purpose of this valuation is to enable the municipality to comply with the requirements of GRAP 25. The liability amounts are calculated in accordance with GRAP 25 and can therefore be used in the compilation of the Annual Financial Statements of the Municipality.

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality may become entitled to in the future.

Membership data		
Number of current employees	643	644

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

As at 30 June		
Opening balance	(12 765 000)	(12 490 744)
Service cost	(1 289 000)	(1 350 919)
Interest costs	(848 000)	(963 893)
Actuarial benefits paid	1 097 766	768 400
Actuarial gains/(losses)	386 234	1 272 156
	(13 418 000)	**(12 765 000)**

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

Non-current liabilities	(63 585 000)	(52 503 000)
Current liabilities	(3 348 000)	(3 101 000)
	(66 933 000)	**(55 604 000)**

Total net expense recognised in the statement of financial performance

Current service cost	(3 317 000)	(3 861 173)
Interest cost	5 361 000	5 284 394
Actuarial (gains) / losses	5 204 581	(9 883 257)
Benefits paid	2 553 581	2 240 908
	9 802 162	**(6 219 128)**

8. Employee benefit obligations (continued)

Key assumptions used

Post retirement medical aid plan:

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation date for the period over which the liability obligations are to be settle.

	2021	2020
Discount rates used	10.27 %	10.70 %
Index linked yield	4.10 %	4.73 %

Discount Rate:

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 30 June 2021.

These rates were calculated by using a liability-weighted average of the yields for the two components of the liability. Each component's fixed-interest and index-linked yields were taken from the respective bond yield curves at that component's duration, using an iterative process (because the yields depend on the liability, which in turn depends on the yields). The two components are as follows:

	Duration (Years)	Fixed-Interest Yield	Index-Linked Yield
In-service members' retirement liability	23.00	10.73 %	4.28 %
Continuation members' liability	8.50	8.98 %	3.57 %

Health Care Cost Inflation Rate:

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 6.95% (2020: 6.72%) has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.45% (2020: 5.22%). A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 3.10% (2020: 3.73%) which derives from ((1+10.27%)/(1+6.95%))-1.

The expected inflation assumption of 5.45% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (4.10%) and those of fixed interest bonds (10.27%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows: ((1+10.27%-0.50%)/(1+4.10%))-1.

The next contribution increase was assumed to occur with effect from 1 January 2022.

Maximum Subsidy Inflation Rate

This assumption is required to reflect estimated future changes in the maximum amount to which subsidies are limited. This maximum amount is set at R 4,773.12 (2020: R 4,773.12) for the year ending 30 June 2021. The annual increases to this maximum amount are periodically specified by the local government bargaining council.

8. Employee benefit obligations (continued)

Recent past annual increases balanced with sustainability needs of employees have resulted in this assumption being set at 7.5% of salary inflation. The future salary inflation assumption of 6.45% (2020: 6.22%), was set to be 1.00% above expected CPI inflation. Thus a maximum subsidy inflation assumption of 4.84% (2020: 4.67%) was assumed. The next increase to the maximum subsidy was assumed to occur with effect from 1 July 2022.

Replacement Ratio

This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

Demographic Assumptions

Mortality During Employment

SA 85-90 ultimate table, adjusted for female lives.

Post-Employment Mortality

PA(90) ultimate table, adjusted down by one year of age, and a 1% annual compound mortality improvement from 2010. This means that we expect 1% fewer people to die next year. In the year thereafter, we expect 1.99% fewer people to die, i.e. 1.99% is derived from [1 - (1 - 1%)2], and so on.

Withdrawal from Service

If an in-service member leaves, the employer’s liability in respect of that employee ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

Age	Withdrawal rate females	Withdrawal rate males
20	9 %	9 %
25	8 %	8 %
30	6 %	6 %
35	5 %	5 %
40	5 %	5 %
45	4 %	4 %
50	3 %	3 %
55+	0 %	0 %

Average Retirement Age

The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 62 on average, which then implicitly allows for expected rates of ill-health and early retirement. In-service members who have passed the assumed retirement age, have been assumed to retire at their next birthday.

Continuation of Membership

It has been assumed that 75% of in-service members will remain on the Municipality’s health care arrangement should they stay until retirement.

Family Profile

It has been assumed that female spouses will be five years younger than their male counterparts. Furthermore, we’ve assumed that 60% of eligible in-service members on a health care arrangement at retirement will have a spouse dependant on their medical aid. For current retiree members, actual medical aid dependants were used and the potential for remarriage was ignored.

Notes to the Financial Statements

8. Employee benefit obligations (continued)

Medical Scheme Option

It has been assumed that continuation members will remain on the same medical scheme and option. In-service members were assumed to remain on the same medical scheme and option, should they continue to receive the subsidy after retirement.

Plan Assets

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post-employment health care liability.

Other Assumptions

It was assumed that the Municipality's health care arrangements and subsidy policy would remain as outlined in Section 3. Furthermore, it was assumed that the level of benefits receivable, and the contributions payable in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments. Implicit in this approach is the assumption that current levels of cross-subsidy from in-service members to continuation members within the medical scheme are sustainable and will continue.

Long service bonus:

In estimating the unfunded liability for Long Service Award of the Municipality a number of actuarial assumptions are required. The GRAP 25 Statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

It is difficult to predict future investment returns and earnings inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the Long Service Awards arrangement - this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and Current-Service costs are recognised over time.

The key financial and demographic assumptions are summarised 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:

	Current valuation	Preceding valuation
Discount rate	8.98 %	7.12 %
CPI (consumer price inflation)	5.74 %	3.84 %
Normal salary increase rate	4.00 %	6.25 %
Net effective discount rate	3.07 %	3.16 %

Discount Rate:

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

8. Employee benefit obligations (continued)

Consequently, a discount rate of 8.98% (2020: 7.12%) per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payments of long service awards, for each employee. The 8.98% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 3,57% (2020: 3.68%). These rates do not reflect any adjustment for taxation. These rates were deducted from the interest rate data obtained from the JSE after the market close on 30 June 2021. The liability-weighted average term of the liability is 8.50 years (2019: 6.25 years)

Earnings Inflation Rate:

This assumption is required to reflect the estimated growth in earnings of the eligible employees until retirement. It is important in that the Long Service Awards are based on an employee's earnings at the date of the award

The assumption is traditionally split into two components, namely General Earnings Inflation and Promotional Escalation. The latter is considered under demographic assumptions.

General Earnings Inflation:

This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, earnings inflation is between 1.0% and 1.5% above CPI inflation.

The expected inflation assumption of 4.74% (2020: 2.84%) was obtained from the differential between market yields on index-linked bonds (3.57%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.98%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as ((1+8.98%-0,50%)/(1+3.57%))-1.

Thus, a general earnings inflation rate of 5.74% per annum over the expected term of the liability has been assumed, which is 1,00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 3.07%.

It has been assumed that the next earnings increase will take place on 1 July 2022.

Demographic Assumptions:

Demographic assumptions are required about the future characteristics of current employees who are eligible for Long Service Awards.

Promotional Earnings Scale:

The annual inflation rates below are in addition to the General Earnings Inflation assumption of 5.74% (2020: 3.84%) per annum for all employees.

In addition to the normal salary inflation rate, we assumed the following promotional salary increase:

Age Band	Additional promotional scale
20 - 24	5 %
25 - 29	4 %
30 - 34	3 %
35 - 39	2 %
40 - 44	1 %
> 44	0 %

Average Retirement Age:

The normal retirement age of employees is 65. It has been assumed that employees will retire at age 62 on average, which then implicitly allows for expected rates of all ill-health and early retirement. Employees who have passed the assumed retirement age, have been assumed to retire at their next birthday.

8. Employee benefit obligations (continued)

Pre-retirement Mortality:

SA85-90 ultimate table, adjusted down for female lives.

Withdrawal from Service:

If an employee leaves, the employer's liability in respect of that employee ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below.

Age Band	Withdrawal rate females	Withdrawal rate males
20	9 %	9 %
25	8 %	8 %
30	6 %	6 %
35	5 %	5 %
40	5 %	5 %
45	4 %	4 %
50	3 %	3 %
55+	0 %	0 %

Plan Assets:

Management has indicated that there are currently no long-term assets set aside off-balance sheet in respect of the LSA liability.

LSA Arrangement Assumptions:

It was assumed that the employer’s LSA arrangements would remain as outlined in Section 3, and that the level of benefits in respect of such, would remain unchanged, with the exception of allowing for inflationary adjustments.

Defined contribution plan

The following are defined contribution plans:
- Free State Municipal Provident Fund
- South African Local Authorities Provident Fund
- National Fund for Municipal Workers

These are not treated as a defined benefit plan as defined by GRAP 25, but as a defined contribution plan. These funds are multi-employer plans and actuarial valuations done by actuaries could not be provided due to lack of information. According to the actuaries, it is not possible to report each municipality separately, thus it has been classified as a contribution plan.

Some employees belong to the SALA Pension Fund. The latest actuarial valuation of the funds was on 1 July 2010. These valuations indicate that the funds are in sound financial position. The estimated liabilities of the fund are R 7 418 million (2009: R 6 568 million) which is adequately financed by assets of R 7 110 million (2009: R 6 304 million). The actuarial valuations states that the fund is currently 96% funded by employer contributions. If the current employer contribution rate is maintained the fund is expected to be close to 100% funded at the next statutory valuation.

A few employees belong to the Free State Municipal Pension Fund. The latest actuarial valuations of the fund were on 30 June 2015. These valuations indicate that the fund is in a sound financial position. The estimated liabilities of the fund are R1 308 million which is adequately financed by assets of R 1 531 million. The actuarial valuation determined that the retirement plan was in a sound financial position.

Notes to the Financial Statements

Figures in Rand	2021	2020

9. Inventories

Consumable stores	2 409 093	2 627 233
Water for distribution	204 135	123 906
	2 613 228	**2 751 139**
Carrying value of inventories carried at fair value less costs to sell	2 613 228	2 751 139
Inventories recognised as an expense during the year	6 164 120	10 438 154

Carrying value of inventories carried at fair value less costs to sell.

Inventory pledged as security

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

Notes to the Financial Statements

Figures in Rand	2021	2020

10. Consumer debtors disclosure

	2021	2020
Gross balances		
Consumer debtors - Rates	70 223 687	61 697 622
Consumer debtors - Electricity	47 425 279	30 999 919
Consumer debtors - Water	171 146 643	141 540 932
Consumer debtors - Sewerage	87 618 945	73 283 449
Consumer debtors - Refuse	118 260 212	98 977 617
Consumer debtors - Other	5 506 650	19 442 581
	500 181 416	**425 942 120**
Less: Allowance for impairment		
Consumer debtors - Rates	(27 061 514)	(21 809 769)
Consumer debtors - Electricity	(12 368 835)	(9 548 387)
Consumer debtors - Water	(95 287 395)	(64 464 786)
Consumer debtors - Sewerage	(48 301 531)	(36 354 106)
Consumer debtors - Refuse	(67 326 672)	(50 369 649)
Consumer debtors - Other	(2 485 581)	(2 692 422)
	(252 831 528)	**(185 239 119)**
Net balance		
Consumer debtors - Rates	43 162 173	39 887 853
Consumer debtors - Electricity	35 056 444	21 451 532
Consumer debtors - Water	75 859 248	77 076 145
Consumer debtors - Sewerage	39 317 414	36 929 343
Consumer debtors - Refuse	50 933 540	48 607 968
Consumer debtors - Other	3 021 069	16 750 159
	247 349 888	**240 703 000**

Reconciliation of allowance for impairment 2021	Opening balance	Impairment raised	Impairment reversed / Debt written off	Closing balance
Rates	21 809 769	5 824 184	(572 439)	27 061 514
Electricity	9 548 387	4 168 858	(1 348 410)	12 368 835
Water	64 464 786	48 171 565	(17 348 956)	95 287 395
Sewerage	36 354 106	22 511 371	(10 563 946)	48 301 531
Refuse	50 369 649	31 959 177	(15 002 154)	67 326 672
Other	2 692 422	6 149 597	(6 356 438)	2 485 581
	185 239 119	**118 784 752**	**(51 192 343)**	**252 831 528**

Reconciliation of allowance for impairment 2020	Opening balance	Impairment raised	Impairment reversed / Debt written off	Closing balance
Rates	16 141 458	9 524 310	(3 855 999)	21 809 769
Electricity	11 888 404	798 927	(3 138 944)	9 548 387
Water	63 810 115	43 336 541	(42 681 870)	64 464 786
Sewerage	34 528 722	21 812 113	(19 986 729)	36 354 106
Refuse	47 382 261	30 388 050	(27 400 662)	50 369 649
Other	2 718 565	14 498 792	(14 524 935)	2 692 422
	176 469 525	**120 358 733**	**(111 589 139)**	**185 239 119**

Notes to the Financial Statements

Figures in Rand	2021	2020

10. Consumer debtors disclosure (continued)

Rates		
Current (0 -30 days)	124 592	(150 977)
31 - 60 days	4 062 146	4 082 896
61 - 90 days	3 050 609	2 339 396
91 - 120 days	2 826 321	3 142 715
121 - > 365 days	60 160 019	52 283 592
Impairment	(27 061 514)	(21 809 769)
	43 162 173	**39 887 853**
Electricity		
Current (0 -30 days)	11 867 930	9 428 379
31 - 60 days	5 126 810	2 377 741
61 - 90 days	2 318 560	1 056 035
91 - 120 days	1 819 642	739 064
121 - > 365 days	26 292 337	17 398 700
Impairment	(12 368 835)	(9 548 387)
	35 056 444	**21 451 532**
Water		
Current (0 -30 days)	1 688 448	752 594
31 - 60 days	6 049 849	5 760 862
61 - 90 days	5 050 819	4 816 023
91 - 120 days	4 914 238	4 697 612
121 -> 365 days	153 443 289	125 513 840
Impairment	(95 287 395)	(64 464 786)
	75 859 248	**77 076 145**
Sewerage		
Current (0 -30 days)	72 403	515
31 - 60 days	2 898 687	2 746 563
61 - 90 days	2 731 384	2 575 580
91 - 120 days	2 643 981	2 467 039
121 -> 365 days	79 272 490	65 493 752
Impairment	(48 301 531)	(36 354 106)
	39 317 414	**36 929 343**
Refuse		
Current (0 -30 days)	93 867	815
31 - 60 days	4 204 206	3 535 675
61 - 90 days	3 542 023	3 319 276
91 - 120 days	3 434 063	3 239 948
121 -> 365 days	106 986 053	88 881 903
Impairment	(67 326 672)	(50 369 649)
	50 933 540	**48 607 968**

Notes to the Financial Statements

Figures in Rand	2021	2020

10. Consumer debtors disclosure (continued)

Other		
Current (0 -30 days)	(146 744)	(4 333 536)
31 - 60 days	25 678	717 365
61 - 90 days	59 886	533 314
91 - 120 days	81 980	540 925
121 -> 365 days	5 485 850	21 984 513
Impairment	(2 485 581)	(2 692 422)
	3 021 069	**16 750 159**

Consumer debtors past due but not impaired 2021	Current	31-60 Days	61-90 Days	91-120 Days	121 - >365 Days	Total
Rates	76 579	2 496 751	1 875 021	1 737 165	36 976 657	43 162 173
Electricity	8 772 691	3 789 704	1 713 864	1 345 067	19 435 118	35 056 444
Water	748 390	2 681 541	2 238 731	2 178 193	68 012 393	75 859 248
Sewerage	32 492	1 300 733	1 225 659	1 186 439	35 572 091	39 317 414
Refuse	40 427	1 810 711	1 525 516	1 479 018	46 077 868	50 933 540
Other	(80 507)	14 086	32 855	44 976	3 009 659	3 021 069
	9 590 072	**12 093 526**	**8 611 646**	**7 970 858**	**209 083 786**	**247 349 888**

Consumer debtors past due but not impaired 2020	Current	31-60 Days	61-90 Days	91-120 Days	121 - >365 Days	Total
Rates	(97 607)	2 639 615	1 512 432	2 031 783	33 801 630	39 887 853
Electricity	6 524 314	1 645 365	730 762	511 422	12 039 669	21 451 532
Water	409 825	3 137 079	2 622 566	2 558 086	68 348 589	77 076 145
Sewerage	262	1 384 060	1 297 898	1 243 202	33 003 921	36 929 343
Refuse	402	1 736 372	1 630 098	1 591 140	43 649 956	48 607 968
Other	(3 733 425)	618 024	459 460	466 017	18 940 083	16 750 159
	3 103 771	**11 160 515**	**8 253 216**	**8 401 650**	**209 783 848**	**240 703 000**

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	10 211 674	9 571 188
31 - 60 days	14 834 939	14 338 015
61 - 90 days	12 476 720	12 077 201
91 - 120 days	12 092 558	11 636 387
121 -> 365 days	368 591 595	318 607 933
	418 207 486	**366 230 724**

Industrial/ commercial		
Current (0 -30 days)	2 940 978	849 662
31 - 60 days	5 060 229	3 356 897
61 - 90 days	2 030 519	1 623 061
91 - 120 days	1 708 809	1 418 525
121 -> 365 days	47 814 127	39 256 252
	59 554 662	**46 504 397**

Figures in Rand	2021	2020

10. Consumer debtors disclosure (continued)

National and provincial government		
Current (0 -30 days)	547 847	(1 411 163)
31 - 60 days	2 472 206	1 850 714
61 - 90 days	2 246 042	987 599
91 - 120 days	1 918 857	1 677 030
121 -> 365 days	15 234 319	10 102 815
	22 419 271	**13 206 995**

Total		
Current (0 -30 days)	13 700 496	9 009 686
31 - 60 days	22 367 374	19 545 628
61 - 90 days	16 753 281	14 687 863
91 - 120 days	15 720 224	14 731 942
121 -> 365 days	431 640 041	367 967 001
	500 181 416	425 942 120
Less: Allowance for impairment	(252 831 528)	(185 239 120)
	247 349 888	**240 703 000**

Past due but not impaired 2021	Current	31 - 60 Days	61 - 90 Days	91 - 120 Days	120 - >365 Days	Total
Consumers	10 211 672	14 834 939	12 476 720	12 092 558	368 591 594	418 207 483
Industrial/Commercial	2 940 978	5 060 229	2 030 519	1 708 809	47 814 127	59 554 662
National and provincial government	547 847	2 472 206	2 246 042	1 918 857	15 234 319	22 419 271
Subtotal	13 700 497	22 367 374	16 753 281	15 720 224	431 640 040	500 181 416
Less: Impairment	(4 110 424)	(10 273 846)	(8 141 635)	(7 749 366)	(222 556 257)	(252 831 528)
	9 590 073	**12 093 528**	**8 611 646**	**7 970 858**	**209 083 783**	**247 349 888**

Past due but not impaired 2020	Current	31 - 60 Days	61 - 90 Days	91 120 Days	120 - > 365 Days	Total
Consumers	9 571 188	14 338 015	12 077 201	11 636 387	318 607 933	366 230 724
Industrial/Commercial	849 662	3 356 897	1 623 061	1 418 525	39 256 254	46 504 399
National and provincial government	(1 411 163)	1 850 714	987 599	1 677 030	10 102 817	13 206 997
Subtotal	9 009 687	19 545 626	14 687 861	14 731 942	367 967 004	425 942 120
Less: Impairment	(2 594 024)	(8 060 586)	(6 386 405)	(6 425 653)	(161 772 452)	(185 239 120)
	6 415 663	**11 485 040**	**8 301 456**	**8 306 289**	**206 194 552**	**240 703 000**

Notes to the Financial Statements

Figures in Rand	2021	2020

11. Receivables from exchange transactions

Consumer debtors - Electricity	35 056 444	21 451 532
Consumer debtors - Water	75 859 248	77 076 145
Consumer debtors - Sewerage	39 317 414	36 929 343
Consumer debtors - Refuse	50 933 540	48 607 968
Consumer debtors - Other	3 021 069	16 750 163
	204 187 715	**200 815 151**

Trade and other receivables pledged as security

No consumer debtors were pledged as security.

Fair value of trade and other receivables

In determining the recoverability of consumer debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of consumer debtors has been made for all consumer balances outstanding based on the payment ratio over a 12 months period per service type. No further credit provision is required in excess of the provision for impairment.

12. Receivables from non-exchange transactions

Fines	227 071	26 430
Salary receivable (COGTA)	1 400 000	700 000
Legal fees recoverable	-	236 741
Cashiers short banking	338 657	354 934
Prepayment (Infrastructure project)	5 729 021	5 729 021
Sundry Debtors	189 000	-
Prepayments (Eskom and Fuel Deposits)	3 203 021	3 086 665
Rates (Details as per note 10 above)	43 162 173	39 887 855
	54 248 943	**50 021 646**

13. VAT

VAT	30 886 515	12 001 983

The municipality is registered on the payment basis, VAT is paid over to the South African Revenue Services (SARS) only once payment is received from debtors. VAT payables and receivables are shown separate in note 49

Figures in Rand	2021	2020

14. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	2 006 189	1 124 417
Short-term deposits	43 510 364	29 036 881
Cash on hand	9 207	9 207
	45 525 760	**30 170 505**

Cessions

A cession to the amount of R5 729 021 in favour of Setsoto Local Municipality is held in terms of the upgrading of the Van Soelen outfall sewer pipeline project. The cession is with ABSA bank and the account details are as follows:

ABSA Bank		
Linomtha Planthire and Road Construction (Pty) Ltd - account 93 5340 6209	5 729 021	5 729 021

Cash and cash equivalents pledged as collateral

No cash and cash equivalents were pledged as collateral for the current financial year.

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 Bank - Account - 620 480 92647	1 741 934	877 290	2 372 705	2 006 189	1 124 417	2 427 931
FNB Bank - Business Money Market - 621 517 83563	731 781	717 907	9 540	731 781	717 907	9 540
FNB Bank - NSTD Account - 620 490 46205	1 371 301	54 009	439 969	1 375 340	54 009	440 638
FNB Bank - Call Account - 623 105 40465	24 872 038	28 264 965	26 317 817	24 872 038	28 264 965	26 498 539
STD Bank - Notice Deposit - 48445851002	10 220 950	-	-	10 220 950	-	-
STD Bank - Notice Deposit - 48445851003	6 310 255	-	-	6 310 255	-	-
Total	**45 248 259**	**29 914 171**	**29 140 031**	**45 516 553**	**30 161 298**	**29 376 648**

Differences between bank statement and cashbook 2021:	Bank statement	Cash book	Difference
FNB Bank - Account 620 480 92647	1 741 934	2 006 189	264 255
FNB Bank - NSTD Account - 620 490 46205	1 371 301	1 375 340	4 039
	3 113 235	**3 381 529**	**268 294**

The difference of R264 255 is due to cashier receipts captured before year end and only deposited after year end.

The difference of R4 039 is due to interest accrued.

Differences between bank statement and cashbook 2020:	Bank statement	Cash book	Difference
FNB Bank - Account 620 480 92647	877 290	1 124 415	247 125

The difference of R247 125 is due to cashier receipts captured before year end and only deposited after year end.

Notes to the Financial Statements

Figures in Rand	2021	2020

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant	-	5 520 276
Water Services Infrastructure Grant	5 729 021	15 542 987
Regional Bulk Infrastructure Grant (RBIG)	40 551 330	23 291 852
Provincial Government - Free State	8 979 260	8 979 260
	55 259 611	**53 334 375**

Movement during the year

Balance at the beginning of the year	53 334 375	14 708 281
Additions during the year	405 089 382	347 578 749
Income recognition during the year	(403 164 146)	(308 952 655)
	55 259 611	**53 334 375**

See note 28 for reconciliation of grants from National/Provincial Government.

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

16. Other financial liabilities

At amortised cost		
Bank loan	2 657 156	3 246 165
Financial liabilities - Instalment sales agreements	10 014 345	17 526 183
	12 671 501	**20 772 348**
Total other financial liabilities	**12 671 501**	**20 772 348**

Refer to Appendix A for further details on other financial liabilities.

Non-current liabilities		
At amortised cost	3 626 368	12 671 614
Current liabilities		
At amortised cost	9 045 133	8 100 734

Figures in Rand	2021	2020

17. Finance lease obligation

Minimum lease payments due		
- within one year	9 107 194	9 107 194
- in second to fifth year inclusive	1 661 711	10 768 906
	10 768 905	19 876 100
less: future finance charges	(754 560)	(2 349 917)
Present value of minimum lease payments	**10 014 345**	**17 526 183**
Present value of minimum lease payments due		
- within one year	8 387 313	7 511 839
- in second to fifth year inclusive	1 627 032	10 014 344
	10 014 345	**17 526 183**

Finance lease obligations are included and form part of the total other financial liabilities disclosed in note 16.

It is municipality policy to lease certain vehicles,computers, faxes, equipment and photo copy machines under finance leases.

The average lease term was 3 - 5 years and the average effective borrowing rate was 11% (2020: 11%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 4.

Figures in Rand	2021	2020

18. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Change in estimate	Unwinding of provision	Total
Environmental rehabilitation	13 741 077	1 368 099	686 926	15 796 102

Reconciliation of provisions - 2020

	Opening Balance	Unwinding of provision	Change in discount factor	Total
Environmental rehabilitation	13 150 795	854 802	(264 520)	13 741 077

Environmental Rehabilitation (Landfill Sites)

In terms of the Mineral and Petroleum Resources Development Act, 2002 (No 28 of 2002), it is required from the municipality to execute the environmental management program to restore the landfill sites at Ficksburg, Clocolan, Marquard and Senekal. Provision has been made for this cost based on actual cost calculations received from Consulting Engineers. The value of the provision is based on the expected future cost to rehabilitate the various sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The Municipality estimates the useful lives and makes assumptions as to the useful lives of these assets, which influence the provision for future costs.

The following assumptions were used to calculate the provision
- Total area expected to be rehabilitated: 140 300 (2020: 125 500) square metres
- Average rate per square metre: R130.45 (2020: R132.86) escalating every year 5% (2020: 5%)

Total area to be rehabilitated can reconciled to the different sites as follows:
- Ficksburg - 52 800 m2 (2020: 38 000 m2)
- Senekal - 32 400 m2 (2020: 32 400 m2)
- Marquard - 27 000 m2 (2020: 27 000 m2)
- Clocolan - 28 100 m2 (2020: 28 100 m2

Each of the landfill site has different remaining lifespans ranging from 5 months to 20 years.
- Ficksburg - 10 years(2020: 20 years)
- Senekal - 13 years (2020: 19 years)
- Marquard - 1 year (2020: 2 years)
- Clocolan - 5 months (2020: 1 year and 5 months)

For events afer the reporting period affecting provisions please refer to note 44.

19. Payables from exchange transactions

	2021	2020
Trade payables	52 457 124	70 874 906
Payments received in advanced	8 891 933	10 146 429
Bonus - 13th Cheque	4 744 812	4 427 371
Accrued leave pay	19 491 100	17 170 013
Salary control - third parties	9 580 112	11 289 864
Retention monies	17 173 121	10 977 577
Unallocated deposits	3 598 608	2 051 478
Payments received in advance - Prepaid electricity	2 229 214	1 910 103
	118 166 024	**128 847 741**

Notes to the Financial Statements

Figures in Rand	2021	2020

20. Consumer deposits

Electricity	2 788 793	2 765 425
Water	133 271	123 870
Rental deposits	271 969	267 904
	3 194 033	**3 157 199**

21. Revenue

Service charges	199 680 856	189 913 073
Rental of facilities and equipment	1 347 653	1 631 309
Interest received (trading)	28 914 253	33 682 040
Licences and permits	70 242	36 776
Commissions received	840 708	1 042 203
Other income	3 574 852	1 814 253
Interest received - investment	1 850 157	4 120 697
Dividends received	46 880	45 156
Property rates	54 904 834	53 030 041
Government grants & subsidies	403 164 146	308 952 655
Donated assets	8 076 388	1 012 368
Fines, Penalties and Forfeits	1 084 350	636 300
	703 555 319	**595 916 871**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	199 680 856	189 913 073
Rental of facilities and equipment	1 347 653	1 631 309
Interest received (trading)	28 914 253	33 682 040
Licences and permits	70 242	36 776
Commissions received	840 708	1 042 203
Other income	3 574 852	1 814 253
Interest received - investment	1 850 157	4 120 697
Dividends received	46 880	45 156
	236 325 601	**232 285 507**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	54 904 834	53 030 041
Transfer revenue		
Government grants & subsidies	403 164 146	308 952 655
Donated assets	8 076 388	1 012 368
Fines, Penalties and Forfeits	1 084 350	636 300
	467 229 718	**363 631 364**

Notes to the Financial Statements

Figures in Rand	2021	2020

22. Service charges

Sale of electricity	87 986 621	76 013 316
Sale of water	49 821 909	50 979 406
Sewerage and sanitation charges	27 236 922	27 779 561
Refuse removal	34 635 404	35 140 790
	199 680 856	**189 913 073**

23. Rental of facilities and equipment

Premises		
Premises	1 346 455	1 623 296
Facilities and equipment		
Rental of facilities	1 198	8 013
	1 347 653	**1 631 309**

24. Other income

Sundry income	2 325 309	1 051 851
Cemetery fees	1 249 543	762 402
	3 574 852	**1 814 253**

25. Investment revenue

Dividend revenue		
Unlisted financial assets - Local	46 880	45 156
Interest revenue		
Interest earned on cash and bank	385 854	494 673
Investment and short term deposits	1 464 303	3 626 024
	1 850 157	**4 120 697**
	1 897 037	**4 165 853**

Notes to the Financial Statements

Figures in Rand	2021	2020

26. Property rates

Rates received

Residential	49 844 654	47 857 777
State	16 573 005	16 407 538
Less: Income forgone	(11 512 825)	(11 235 274)
	54 904 834	**53 030 041**

Valuations

Residential	2 300 699 100	2 258 492 100
Commercial	620 429 000	619 906 000
State	486 836 200	482 636 200
Municipal	905 148 700	939 164 700
Small holdings and farms	3 974 527 300	3 963 957 300
Churches	66 288 000	66 558 000
	8 353 928 300	**8 330 714 300**

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

A general rate of R0.02 (2020: R0.02) is applied to property valuations to determine assessment rates of residential.
A general rate of R0.04 (2020: R0.04) is applied to property valuations to determine assessment rates of business.

Rebates of 47% (2020: 50%) are granted to the residential and state property owners.

Rates are levied on an annual basis with equal payments over twelve months. Interest at prime plus 1% per annum is levied on outstanding rates.

27. Transfers and subsidies

Other subsidies

Distitutional help	142 439	190 384

Figures in Rand	2021	2020

28. Government grants and subsidies

Operating grants		
Equitable share	240 513 857	193 149 000
EPWP Grant	1 802 000	1 769 000
Financial Management Grant (FMG)	2 000 000	2 165 000
Municipal Disaster Relief Grant	-	238 000
SETA Funding	260 482	333 749
	244 576 339	**197 654 749**
Capital grants		
Municipal Infrastructure Grant	46 365 138	41 682 724
Water Services Infrastructure Grant	19 374 999	2 686 034
National Government - Integrated National Electricity Grant	-	2 600 000
National Government - Regional Bulk Infrastructure	92 847 670	64 329 148
	158 587 807	**111 297 906**
	403 164 146	**308 952 655**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Equitable Share

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

All registered indigents receive a monthly subsidy of R471 (2020: R444), which is funded from the grant.

An amount of R36 583 956 was withheld from equitable share.

An amount of R700 000 (2020: R700 000) was recognised under equitable share for the municipal manager salary debtor receivable from COGTA.

MIG Grant

Balance unspent at beginning of year	5 520 276	-
Current-year receipts	44 323 000	47 203 000
Conditions met - transferred to revenue	(46 365 138)	(41 682 724)
Roll over withheld	(3 478 138)	-
	-	**5 520 276**

Conditions still to be met - remain liabilities (see note 15).

In terms of the MFMA Circular No. 48, all conditional allocations (excluding interest earned thereon) that at year-end are not utilised must revert back to National Revenue Fund unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects. The municipality reports at year - end all unspent conditional grants were committed to identifiable projects.

The grant is used to supplement municipal capital budget to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households. The grants were used construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas.

Figures in Rand	2021	2020

28. Government grants and subsidies (continued)

EPWP Grant

Current-year receipts	1 802 000	1 769 000
Conditions met - transferred to revenue	(1 802 000)	(1 769 000)
	-	-

The grant is used for job creation projects in previous disadvantage areas.

Water Services Infrastructure Grant

Balance unspent at beginning of year	15 542 987	5 729 021
Current-year receipts	19 374 999	12 500 000
Conditions met - transferred to revenue	(19 374 999)	(2 686 034)
Roll over withheld	(9 813 966)	-
	5 729 021	**15 542 987**

Conditions still to be met - remain liabilities (see note 15).

This grant was used to address water loss control and assisting with water shortages in Clocolan, Marquard and Senekal during drought period.

Financial Management Grant (FMG)

Current-year receipts	2 000 000	2 165 000
Conditions met - transferred to revenue	(2 000 000)	(2 165 000)
	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

INEG Grant

Current-year receipts	-	2 600 000
Conditions met - transferred to revenue	-	(2 600 000)
	-	-

This grant is provided by the Department of Energy to upgrade the electric network.

SETA Funding

Current-year receipts	260 482	333 749
Conditions met - transferred to revenue	(260 482)	(333 749)
	-	-

SETA will ensure that the skill requirements sector is identified and that adequate and appropriate skills are readily given to staff of the Municipality.

Notes to the Financial Statements

Figures in Rand	2021	2020

28. Government grants and subsidies (continued)

Regional Bulk Infrastructure Grant

Balance unspent at beginning of year	23 291 852	-
Current-year receipts	133 399 000	87 621 000
Conditions met - transferred to revenue	(92 847 670)	(64 329 148)
Roll over withheld	(23 291 852)	-
	40 551 330	**23 291 852**

Conditions still to be met - remain liabilities (see note 15).

The purpose of the grant is to assist the municipality in alleviating water availability and scarcity in the municipal area.

Provincial Government Free State

Balance unspent at beginning of year	8 979 260	8 979 260

Conditions still to be met - remain liabilities (see note 15).

Municipal Disaster Relief Grant

Current-year receipts	-	238 000
Conditions met - transferred to revenue	-	(238 000)
	-	**-**

The grant was provided to municipalities for response and intervention measures for the COVID-19 pandemic.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 9 of 2020), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

Figures in Rand	2021	2020

29. Employee related costs

Basic salary	124 709 417	117 063 671
Medical aid - company contributions	17 603 157	15 990 242
Unemployment Insurance Fund	1 147 481	1 118 243
Workers Compensation Act Levies	482 682	574 213
Skills Development Levies	1 419 725	1 292 952
Leave pay provision charge	3 847 537	3 948 586
Defined contribution plans	21 833 383	21 260 737
Travel, motor car, accommodation, subsistence and other allowances	13 615 914	12 465 992
Overtime payments	12 788 917	11 918 893
Long-service awards	1 289 001	1 350 920
Acting allowances	2 190 767	2 640 331
Housing benefits and allowances	2 565 065	2 516 773
Holiday Bonus	10 374 636	9 600 718
Allowance - Telephone	665 965	668 235
Industrial Council Levies	76 538	71 712
	214 610 185	**202 482 218**

Remuneration of Municipal Manager: Mr STR Ramakarane

Annual remuneration	945 828	928 827
Bonus	78 819	77 273
Backpay	-	17 000
Travel allowance	168 216	168 183
Housing allowance	116 700	116 700
Cellphone allowance	40 932	40 932
Non pension allowance	791 607	790 222
Reimbursive tax	-	98 939
Subsistence allowance	-	13 050
Company contributions	212 690	212 689
	2 354 792	**2 463 815**

There is an amount of R236 456.97 payable to the municipal manager in terms of an arbitration award. This amount has not been included in the annual remuneration disclosed above.

COGTA agreed to finance an amount of R700 000 per annum towards the salary of the Municipal Manager. Funds received during the financial period amounted to R0 (2020: R0).

Remuneration of Acting Municipal Manager: Me TF Zondi

Acting allowance	50 511	-

Me TF Zondi was acting municipal manager for the period 10 June 2020 until 21 September 2020 for the 2020/2021 financial year.

Remuneration of Acting Municipal Manager: Mr NL Moletsane

Acting allowance	130 638	-

Mr NL Moletsane was acting municipal manager for the period 10 November 2020 until 10 May 2021 for the 2020/2021 financial year.

Notes to the Financial Statements

Figures in Rand	2021	2020

29. Employee related costs (continued)

Remuneration of Acting Municipal Manager: Mr TR Zondo

Acting allowance	-	10 132

Mr TR Zondo was acting municipal manager for the period 1 December 2019 until 31 December 2019 for the 2019/2020 financial year.

Remuneration of Chief Financial Officer: Mr NL Moletsane

Salary	754 992	-
Travel allowance	132 000	-
Cellphone allowance	12 400	-
Non pensionable	130 660	-
Reimbursive tax	15 430	-
	1 045 482	**-**

Mr NL Moletsane was appointed on 1 August 2020.

Remuneration of Acting Chief Financial Officer: Mr DJ van Tonder

Acting allowance	61 588	307 077

Mr DJ van Tonder was acting chief financial officer for the period 1 June 2020 until 31 July 2020 for the 2020/2021 financial year.

Mr DJ van Tonder was acting chief financial officer for the period 12 July 2019 until 30 June 2020 for the 2019/2020 financial year.

Remuneration of Acting Chief Financial Officer: Mrs M Marx

Acting allowance	-	48 915

Mrs M Marx was acting chief financial officer for the period 1 July 2019 until 11 July 2019 for the 2019/2020 financial year.

Remuneration of Corporate Services Director: Mr TP Motsima

Salary	784 705	291 564
Bonus	65 392	-
Backpay	-	35 395
Travel allowance	283 366	118 069
Non pensionable	45 339	18 891
Reimbursive tax	6 285	3 223
Subsistence allowance	-	180
Company contributions	65 868	-
	1 250 955	**467 322**

Mr TP Motsima was appointed as Corporate Services Director in February 2020.

Notes to the Financial Statements

Figures in Rand	2021	2020

29. Employee related costs (continued)

Remuneration of Acting Corporate Services Director: Me BL Mokoena

Acting allowance	92 551	70 451

Me BL Mokoena was acting corporate services director for the period 12 October 2020 until 24 December 2020 for the 2020/2021 financial year.

Me BL Mokoena was acting corporate services director for the period 1 December 2019 until 4 January 2020 for the 2019/2020 financial year.

Remuneration of Acting Corporate Services Director: Mr SG Skosana

Acting allowance	-	234 660

Mr SG Skosana was acting corporate services director for the period 1 July 2019 until 30 November 2019 for the 2019/2020 financial year.

Remuneration of Engineering Services Director: Me TF Zondi

Salary	463 021	363 071
Backpay	-	8 335
Bonus	69 194	-
Travel allowance	107 618	86 195
Housing allowance	34 592	27 610
Cellphone allowance	23 283	18 380
Non pensionable	67 688	53 953
Leave pay out	56 462	-
Company contributions	46 670	34 614
Reimbursive tax	-	20 009
Subsistence allowance	-	90
	868 528	**612 257**

The Director resigned from her position during February 2021.

Remuneration of Acting Engineering Services Director: Mr MA Mokhethoa

Acting allowance	77 535	-

Mr MA Mokhethoa was acting engineering services director for the period 1 March 2021 until 30 June 2021 for the 2020/2021 financial year.

Figures in Rand	2021	2020

29. Employee related costs (continued)

Remuneration of Acting Engineering Services Director: Mr MS Radiopane

Acting allowance	-	133 953

Mr MS Radiopane was acting engineering services director for the period 1 July until 30 September 2019 for the 2019/2020 financial year.

Remuneration of Acting Engineering Services Director: Mr S Kunene

Acting allowance	-	22 049

Mr S Kunene was acting engineering services director for the period 1 December 2019 until 31 December 2019 for the 2019/2020 financial year.

Remuneration of Director Development, Planning and Security Services: Mr TR Zondo

Salary	885 906	675 001
Bonus	73 826	54 652
Backpay	-	210 904
Travel allowance	112 171	112 171
Acting allowance	-	10 132
Housing allowance	30 960	30 960
Cellphone allowance	15 300	15 300
Reimbursive tax	-	12 196
Subsistence allowance	-	360
Non pensionable	60 639	50 522
Company contributions	165 783	160 911
	1 344 585	**1 333 109**

Notes to the Financial Statements

Figures in Rand	2021	2020

30. Remuneration of councillors

Executive Mayor	905 259	905 840
Mayoral Committee Members	3 070 494	3 486 806
Speaker	733 088	733 088
Councillors	8 258 289	8 082 834
	12 967 130	**13 208 568**

In-kind benefits

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

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

Executive Mayor		
Basic salary	681 513	861 440
Travelling allowance	179 346	-
Cell phone allowance	44 400	44 400
	905 259	**905 840**

Mayoral Committee Members		
Basic salary	2 271 872	2 832 378
Travelling allowance	580 322	410 228
Cell phone allowance	218 300	244 200
	3 070 494	**3 486 806**

Speaker		
Basic salary	516 516	516 516
Travelling allowance	172 172	172 172
Cell phone allowance	44 400	44 400
	733 088	**733 088**

Councillors		
Basic salary	6 085 070	6 065 236
Travelling allowance	1 041 019	885 398
Cell phone allowance	1 132 200	1 132 200
	8 258 289	**8 082 834**

31. Depreciation and amortisation

Property, plant and equipment	383 423 093	138 759 162
Investment property	8 898 913	1 161 923
Intangible assets	761 783	851 633
	393 083 789	**140 772 718**

32. Impairment of assets

Impairments		
Property, plant and equipment	18 133 854	2 803 330
Investment property	2 247	21 298
	18 136 101	**2 824 628**

Various assets were found to be not in a working condition and were impaired in the current financial year.

Notes to the Financial Statements

Figures in Rand	2021	2020

33. Finance costs

Employee benefits	5 361 000	5 284 394
Trade and other payables	1 628 624	2 541 784
Unwinding of provision for landfill sites	686 926	854 802
Other financial liabilities	1 951 174	2 908 697
	9 627 724	**11 589 677**

34. Debt impairment

Contributions to debt impairment provision	59 971 368	8 558 896
Bad debts written off	51 192 343	111 589 139
	111 163 711	**120 148 035**

Reconciliation of debt impairment		
Actual bad debt written off - consumer debtors	51 192 343	111 589 139
Increase in provision for impairment - other receivables	510 352	193 816
Increase in provision for impairment - consumer debtors	59 461 016	8 365 080
	111 163 711	**120 148 035**

35. Bulk purchases

Electricity - Eskom	80 035 213	72 862 820

36. Contracted services

Outsourced Services		
Meter Management	82 000	66 409
Consultants and Professional Services		
Business and Advisory	7 308 882	10 221 019
Legal Cost	3 138 782	2 822 679
Contractors		
Electrical	300 830	63 006
Employee Wellness	2 100	3 790
Sports and Recreation	17 720	34 417
	10 850 314	**13 211 320**

Notes to the Financial Statements

Figures in Rand	2021	2020

37. General expenses

Advertising and publicity	436 333	1 238 821
Auditors remuneration	418 778	557 009
Bank charges	959 692	568 176
Commission paid	2 444 243	2 216 006
Community development and training	701 885	422 632
Conferences and seminars	17 066	662 457
Materials and supplies	8 848 011	8 190 768
Entertainment	2 524	56 500
Fuel and oil	5 308 634	5 951 307
Insurance	1 508 338	1 384 150
IT expenses	3 287 394	2 719 621
Laboratory Services - Water	153 905	176 598
Other expenses	245 699	263 456
Postage and courier	106 324	501 721
Protective clothing	328 781	1 911 917
Royalties and license fees	610 318	518 351
Security (Guarding of municipal property)	1 581 740	1 064 326
Subscriptions and membership fees	2 427 720	2 313 316
Telephone and fax	810 357	935 139
Travel - local	574 338	1 695 163
Ward committee expenses	1 922 000	1 968 000
Water & Chemicals	6 060 199	9 295 061
	38 754 279	**44 610 495**

38. Cash generated from operations

Deficit	(218 145 943)	(41 375 136)
Adjustments for:		
Depreciation and amortisation	393 083 789	140 772 718
(Gain) / loss on disposal of assets and liabilities	18 819 974	16 868 983
Fair value adjustments	(115 759)	276 979
Finance costs - provisions	686 926	854 802
Impairment deficit	18 136 101	2 824 628
Debt impairment	111 163 711	120 148 035
Movements in retirement benefit assets and liabilities	763 419	1 622 265
Interest income other financial asset	-	(51 973)
Other non-cash item	-	(25 269)
Interest accrual	(4 039)	-
Finance costs - employee benefits	5 361 000	5 284 394
Donated Assets	(8 076 388)	(1 012 368)
Actuarial (gain) / losses	5 204 581	(9 883 257)
Changes in working capital:		
Inventories	137 911	3 099 597
Receivables from exchange transactions	(108 199 376)	(102 487 698)
Receivables from non-exchange transactions	(10 561 831)	(14 179 395)
Payables from exchange transactions	(10 681 717)	(9 356 869)
VAT	(18 884 534)	(17 117 991)
Unspent conditional grants and receipts	1 925 236	38 626 094
Consumer deposits	36 834	(62 061)
	180 649 895	**134 826 478**

Notes to the Financial Statements

Figures in Rand	2021	2020

39. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	89 465 723	319 605 344
Total capital commitments		
Already contracted for but not provided for	89 465 723	319 605 344

Notes to the Financial Statements

Figures in Rand	2021	2020

40. Related parties

Related entities	Tema Resources : Reg number 2003/004389/07 (Director : STR Ramakarane - Municipal Manager)
	Morakare Trading Enterprises : Reg number 2005/113728/23 (Member : STR Ramakarane - Municipal Manager)
	Mhlekazi Investment Holding : Reg number 2021/496181/07 (Director : NL Moletsane - CFO)
	KNTLD Trading : Reg number 2007/038077/23 (Member : NL Moletsane - CFO)
	MDJ Entertainment : Reg number 2009/020357/23 (Member : NL Moletsane - CFO)
	Manthateng Enterprise : Reg number 2017/282819/07 (Director : TR Zondo - Director DPSS)
	Poloko Trading : Reg number 2006/055436/23 (Member : TR Zondo - Director DPSS)
	Tshepiso Flying Pest Control and Contractors : Reg number 2006/192177/23 (Member: T Motsima - Directors DCS)
	Landiwe Makhalema Foundation: Reg number 2019/362236/08 (Director : T Motsima - Directors DCS)
	Phatsima Suppliers : Reg number 2006/038397/23 (Member : T Motsima - Directors DCS)
	Motjha Iketsetse Trading : Reg number 2006/044703/23 (Member : T Motsima - Directors DCS)
	Phatsimo Security Services : Reg number 2006/180316/23 (Member : T Motsima - Directors DCS)
	Motsima Trading : Reg number 2006/214460/23 (Member : T Motsima - Directors DCS)
	Big Brothers Trading: Reg number 2006/082498/23 (Member : T Motsima - Directors DCS)
	Bright Idea Project 2397: Reg number 2009/201765/23 (Member : T Motsima - Directors DCS)

No business was conducted with any of the above mentioned companies by Setsoto Local Municipality.

Figures in Rand	2021	2020

40. Related parties (continued)

The municipality did business with the following suppliers:

Supplier	Employee	Position	Relationship
ERB Marketing & Business Solutions	R Burgwandeen	IT specialist	Close family relation
Eternal City Trading	LZ Tlale & TE Majoale	Building inspector & SCM manager	Close family relation
Lira Transport	MP Lira	Asset clerk	Close family relation
Mohautse Transport	S Mohautse	Assistant accountant : service charges	Close family relation
Mthembana Construction	S Melithafa	Human resource advisor	Close family relation
Selane Transport	NMA Selane	Traffic officer	Close family relation
Tlou Letebele	T Shabalala	EPWP employee	Owner of Tlou Letebele
MC Enterprise	ML Mthimkulu	Councillor	Close family relation

Related party transactions

Purchases from (sales to) related parties		
ERB Marketing & Business Solution	104 348	180 000
Eternal City Trading	28 496	3 000
Lira Transport	1 610	10 190
Mohautse Transport	-	3 000
Mthembana Construction	4 250	1 875
Selane Transport	4 500	78 635
Tlou Letebele	52 505	80 116
MC Enterprise	675 600	416 925

41. Prior-year adjustments

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

Trade payables

During the year under errors were identified in prior period accruals raised, these errors were corrected. The salary control disclosure amount was also reclaculated and the disclosure corrected.

The effect is as follows:
- Decrease in payables from exchange - trade payables amounting to R6 212 344
- (Increase) in accumulated surplus amounting to R2 486 483
- (Increase) in payables from exchange - salary control amounting to R3 725 861

Trade payables

During the year under review the accruals raised during the 2019/2020 financial period were corrected.

The effect is as follows:
- Decrease in payables from exchange transactions - trade payables amounting to R321 890
- (Decrease) in employee costs - skills development levies amounting to R145 250
- (Decrease) in general expenses - security amounting to R176 640

Salary control

During the year under review the salary control - third parties was corrected with interest and penalties reversed.

The effect is as follows:
- Decrease in payables from exchange transactions - salary control amounting to R2 512 323
- (Decrease) in finance costs amounting to R1 547 872
- (Increase) in accumulated surplus amounting to R964 451

Trade payables

During the year under review it was found that the following order accruals were raised incorrectly in the 2017/2018 and 2018/2019 financial years. The accounting treatment of these accruals were corrected.

The effect is as follows:
- (Increase) in payables from exchange transactions - trade payables amounting to R126 101
- Increase in VAT receivable amounting to R105 657
- Increase in general expenses - auditors remuneration amounting to R365
- Increase in contracted services - business and advisory amounting to R9 000
- Increase in contracted services - employee wellness amounting to R1 000
- Increase in repairs and maintenance amounting to R483 417
- Increase in general expenses - security amounting to R109 430
- Increase in contracted services - sports and recreation amounting to R7 152
- Increase in general expenses - materials and supplies to R1 134 691
- Increase in lease rentals on operating leases amounting to R14 538
- Increase in general expenses - advertising and publicity amounting to R99 184
- Increase in general expenses - IT expenses amounting to R64 782
- Increase in general expenses - conferences and seminars amounting to R6 261
- Increase in general expenses - travel local amounting to R38 022
- Increase in general expenses - protective clothing amounting to R184 165
- Increase in transfers and subsidies amounting to R7 240
- (Increase) in accumulated surplus amounting to R2 138 803

41. Prior-year adjustments (continued)

Sale of land

During the year under review it was noted that sale of water was incorrectly classified and disclosed as sale of land in the 2019/2020 financial period, the classification was corrected.

The effect is as follows:
- Decrease in sale of land amounting to R64 449
- (Increase) in service charges - water amounting to R64 449

Provision for impairment of consumer debtors

During the year under review it was noted that the VAT on the movement of the 2020 provision for impairment movement was incorrectly included under the debt impairment expense.

The effect is as follows:
- Increase in VAT receivable amounting to R404 515
- (Decrease) in debt impairment expense amounting to R404 515

Traffic fines impairment

During the year under review it was noted that traffic fines impairment was incorrectly classified and disclosed as impairment loss in the 2019/2020 financial period, the classification was corrected.

The effect is as follows:
- Increase in debt impairment expense amounting to R193 816
- (Decrease) in impairment loss expense amounting to R193 816

Post-retirement medical aid payments

During the year under review it was noted that GRAP 25 post-retirement medical aid payments were incorrectly disclosed in the 2019/2020 financial year as defined contribution plan payments in the notes to the AFS, the classification was corrected.

The effect is as follows:
- Increase in employee cost - medical aid - company contributions amounting to R2 512 254
- (Decrease) in employee cost - defined contribution plans amounting to R2 512 254

Receivables from non-exchange (Prepayments)

During the year under review it was noted that interest received on the eskom deposits for the 2019/2020 financial year was corrected.

The effect is as follows:
- Increase in receivables from non-exchange - prepayment amounting to R16 641
- (Increase) in interest received amounting to R16 641

41. Prior-year adjustments (continued)

General expenses

During the year under review it was noted that the classification of some expenses in the statements of financial performance was incorrect. These classifications were corrected.

The effect is as follows:
- Increase in general expenses - advertising amounting to R22 821
- Increase in general expenses - materials and supplies (previously named inventory consumed) amounting to R3 108 669
- Increase in general expenses - entertainment amounting to R56 500
- Increase in general expenses - fuel and oil amounting to R623 210
- Increase in general expenses - IT expenses amounting to R10 022
- Increase in general expenses - royalties and licence fees amounting to R9 810
- (Decrease) in general expenses - water and chemicals amounting to R3 831 032

Provisions

During the year under review it was noted that provision for landfill sites was not accounted for in term of GRAP. The accounting treatment was corrected and opening balances corrected.

The effect is as follows:
- Decrease in provisions amounting to R2 063 013
- Increase in property, plant and equipment - infrastructure waste management cost - amounting to R12 097 762
- (Increase) in property, plant and equipment - waste management accumulated depreciation amounting to R4 383 258
- (Decrease) in VAT receivable amounting to R1 020 835
- (Increase) in accumulated surplus amounting to R10 558 421
- (Decrease) in general expenses - departmental inventory consumed amounting to R591 775
- Increase in finance costs amounting to R854 802
- Increase in depreciation expense amounting to R1 538 712

Trade payables

During the year under review credit notes were issued for invoices incorrectly captured in the 2019/2020 financial year. The credit notes were moved to the 2019/2020 financial year.

The effect is as follows:
- Decrease in payables from exchange transactions - trade payables amounting to R324 031
- (Decrease) in VAT receivable amounting to R42 090
- (Decrease) in contracted services - legal cost amounting to R253 713
- (Decrease) in lease rentals on operating lease expense amounting to R19 449
- (Decrease) in repairs and maintenance amounting to R8 779

Cash and cash equivalents - Investments

During the year under review it was noted that in the 2019/2020 financial year the investment bank account balances per the annual financial statement and the register did not agree. The error was corrected.

The effect is as follows:
- (Decrease) in cash and cash equivalents - short-term deposits amounting to R46 171
- Decrease in interest received - investments amounting to R46 171

41. Prior-year adjustments (continued)

Trade payables

During the year under review it was found that the following accruals were raised incorrectly in the 2019/2020 financial year. These accruals were corrected and reversed.

The effect is as follows:
- (Decrease) in general expenses - advertising and publicity amounting to R28 253
- (Decrease) in general expenses - materials and supplies to R105 895
- (Decrease) in general expenses - fuel and oil amounting to R1 844
- (Decrease) in general expenses - security amounting to R38 010
- (Decrease) in general expenses - protective clothing amounting to R186 506
- (Decrease) in repairs and maintenance amounting to R201 690
- (Decrease) in lease rentals on operating lease amounting to R1 073
- (Decrease) in contracted services - electrical amounting to R18 848
- (Decrease) in contracted services - legal amounting to R3 441
- Decrease in payables from exchange transactions - trade payables amounting to R585 560

Employee benefits

During the year under review it was found that the interest costs on the employee benefit obligations were included as employee costs instead of finance costs. The classification was corrected.

The effect is as follows:
- Increase in finance costs - employee benefits amounting to R5 284 394
- (Decrease) in employee related costs - medical aid - amounting to R4 320 501
- (Decrease) in employee related costs - long service awards amounting to R963 893

Statement of financial position

2020

	Note	As previously reported	Correction of error	Restated
ASSETS				
Inventories	9	2 751 139	-	2 751 139
Receivables from exchange transactions	11	200 815 148	3	200 815 151
Receivables from non-exchange transactions	12	43 575 983	6 445 663	50 021 646
VAT receivable	13	13 302 005	(1 300 022)	12 001 983
Cash and cash equivalents	14	30 216 676	(46 171)	30 170 505
Investment property	3	64 837 312	38 296 185	103 133 497
Property, plant and equipment	4	2 838 585 796	394 726	2 838 980 522
Intangible assets	5	115 529	1 191 504	1 307 033
Heritage assets	6	15 385 903	-	15 385 903
Other financial assets	7	3 498 052	-	3 498 052
LIABILITIES				
Other financial liabilities	16	(8 100 734)	-	(8 100 734)
Payables from exchange transactions	19	(134 951 926)	6 104 185	(128 847 741)
Consumer deposits	20	(3 157 199)	-	(3 157 199)
Employee benefit obligation	8	(3 101 000)	-	(3 101 000)
Unspent conditional grants and receipts	15	(47 605 354)	(5 729 021)	(53 334 375)
Other financial liabilities	16	(12 671 614)	-	(12 671 614)
Employee benefit obligation	8	(52 503 000)	-	(52 503 000)
Provisions	18	(15 804 090)	2 063 013	(13 741 077)
ACCUMULATED SURPLUS		(2 935 188 626)	(50 049 763)	(2 985 238 389)
		-	**(2 629 698)**	**(2 629 698)**

Notes to the Financial Statements

Figures in Rand	2021	2020

41. Prior-year adjustments (continued)

Statement of financial performance

2020

	Note	As previously reported	Correction of error	Re-classification	Restated
REVENUE					
Service charges	22	(189 848 624)	-	(64 449)	(189 913 073)
Rental of facilities and equipment	23	(1 631 309)	-	-	(1 631 309)
Interest received - trading		(33 665 399)	(16 641)	-	(33 682 040)
Licences and permits		(36 776)	-	-	(36 776)
Commissions received		(1 042 203)	-	-	(1 042 203)
Sale of land		(64 449)	-	64 449	-
Actuarial gains	8	(9 883 257)	-	-	(9 883 257)
Other income	24	(1 814 253)	-	-	(1 814 253)
Interest received - investments	25	(4 166 869)	46 172	-	(4 120 697)
Dividends received	25	(45 156)	-	-	(45 156)
Property rates	26	(53 030 041)	-	-	(53 030 041)
Government grants & subsidies	28	(308 252 655)	(700 000)	-	(308 952 655)
Donated assets		(1 012 368)	-	-	(1 012 368)
Fines, penalties and forfeits		(636 300)	-	-	(636 300)
EXPENDITURE					
Employee related costs	29	207 911 862	(145 250)	(5 284 394)	202 482 218
Remuneration of councillors	30	13 208 568	-	-	13 208 568
Repairs and maintenance		3 254 919	272 948	-	3 527 867
Depreciation and amortisation	31	136 668 317	4 104 401	-	140 772 718
Impairment loss	32	3 039 741	-	(215 113)	2 824 628
Finance costs	33	6 998 353	(693 070)	5 284 394	11 589 677
Lease rentals on operating leases		4 606 557	(5 985)	-	4 600 572
Debt impairment	34	120 358 734	(404 515)	193 816	120 148 035
Bulk purchases	35	72 862 820	-	-	72 862 820
Contracted services	36	13 470 172	(258 852)	-	13 211 320
Transfers and subsidies	27	183 144	7 240	-	190 384
Loss on disposal of assets		16 932 414	(84 728)	21 297	16 868 983
Fair value adjustments		276 979	-	-	276 979
General expenses	37	44 102 517	507 978	-	44 610 495
Deficit / (Surplus) for the year		**38 745 438**	**2 629 698**	**-**	**41 375 136**

Notes to the Financial Statements

Figures in Rand	2021	2020

41. Prior-year adjustments (continued)

Cash flow statement

2020

	Note	As previously reported	Correction of error	Restated
Cash flow from operating activities				
RECEIPTS				
Property rates		43 880 765	(4 488 194)	39 392 571
Sale of goods and services		121 375 998	(34 241 931)	87 134 067
Grants		346 878 749	-	346 878 749
Interest income		4 114 895	33 687 842	37 802 737
Dividends received		45 156	-	45 156
Other receipts		-	7 649 407	7 649 407
Fines, penalties and forfeits		636 300	-	636 300
PAYMENTS				
Employee costs		(213 878 236)	1 381 022	(212 497 214)
Suppliers		(161 180 692)	11 481 896	(149 698 796)
Finance costs		(6 998 353)	1 599 845	(5 398 508)
VAT		-	(17 117 991)	(17 117 991)
		134 874 582	**(48 104)**	**134 826 478**
Cash flow from investing activities				
Purchase of property, plant and equipment		(126 777 185)	1 935	(126 775 250)
Proceeds from sale of property, plant and equipment		370 579	-	370 579
		(126 406 606)	**1 935**	**(126 404 671)**
Cash flow from financing activities				
Take up/(Repayment) of other financial liabilities		(7 637 157)	-	(7 637 157)

Notes to the Financial Statements

Figures in Rand	2021	2020

41. Prior-year adjustments (continued)

The following adjustments were made to disclosure notes:

Cash generated from operations	As previously reported	Correction of error	Re-classification	Restated
Surplus (deficit)	(38 745 438)	(2 629 698)	-	(41 375 136)
Depreciation and amortisation	136 668 317	4 104 401	-	140 772 718
Assets write-off	16 932 414	(63 431)	-	16 868 983
Fair value adjustments	276 979	-	-	276 979
Interest income	(51 973)	-	-	(51 973)
Impairment deficit	3 039 741	(215 113)	-	2 824 628
Debt impairment	120 358 734	(210 699)	-	120 148 035
Movements in retirement benefits	(2 976 597)	4 598 862	-	1 622 265
Movements in provisions	680 540	(680 540)	-	-
Donated assets	(1 012 368)	-	-	(1 012 368)
Other non-cash item	(25 269)	-	-	(25 269)
Finance costs provision	-	854 802	-	854 802
Finance costs employee benefits	-	5 284 394	-	5 284 394
Actuarial (gain) / loss	-	(9 883 257)	-	(9 883 257)
CHANGES IN WORKING CAPITAL				
Inventories	3 099 597	-	-	3 099 597
Receivabels from exchange transactions	7 942 215	(110 429 913)	-	(102 487 698)
Other receivables from exchange transactions	(120 358 734)	120 358 734	-	-
Other receivables fro non-exchange transactions	(3 887 400)	3 887 400	-	-
Receivables from non-exchange transactions	-	(14 179 395)	-	(14 179 395)
Payables from exchange transactions	(8 697 094)	(659 775)	-	(9 356 869)
VAT	(16 933 115)	(184 876)	-	(17 117 991)
Unspent conditional grants and receipts	38 626 094	-	-	38 626 094
Consumer deposits	(62 061)	-	-	(62 061)
	134 874 582	**(48 104)**	**-**	**134 826 478**

Related parties - Purchases from (sales to) related parties	As previously reported	Correction of error	Re-classification	Restated
Eternal City Trading	-	3 000	-	3 000
Mohautse Transport	-	3 000	-	3 000
Tlou Letebele	104 307	(24 191)	-	80 116
MC Enterprise	-	416 925	-	416 925
	104 307	**398 734**	**-**	**503 041**

Contingent liabilities	As previously reported	Correction of error	Re-classification	Restated
IMATU obo. F. Viljoen & M Marx	982 446	(803 770)	-	178 676
Fundisol Pty (Ltd)	-	65 000	-	65 000
	982 446	**(738 770)**	**-**	**243 676**

Notes to the Financial Statements

Figures in Rand	2021	2020

41. Prior-year adjustments (continued)

General expenses	As previously reported	Correction of error	Re-classification	Restated
Advertising	1 145 070	70 930	22 821	1 238 821
Auditors remuneration	556 644	365	-	557 009
Bank charges	568 176	-	-	568 176
Commission paid	2 216 006	-	-	2 216 006
Community development and training	422 632	-	-	422 632
Conferences and seminars	656 196	6 261	-	662 457
Materials and supplies	4 645 079	437 020	3 108 669	8 190 768
Entertainment	-	-	56 500	56 500
Fuel and oil	5 329 941	(1 844)	623 210	5 951 307
IT expenses	2 644 817	64 784	10 020	2 719 621
Insurance	1 384 150	-	-	1 384 150
Laboratory services - water	176 598	-	-	176 598
Other expenses	263 456	-	-	263 456
Postage and courier	501 721	-	-	501 721
Protective clothing	1 914 257	(2 340)	-	1 911 917
Royalties and licence fees	508 541	-	9 810	518 351
Security	1 169 546	(105 220)	-	1 064 326
Subscriptions and membership fees	2 313 316	-	-	2 313 316
Telephone and fax	935 139	-	-	935 139
Travel - local	1 657 141	38 022	-	1 695 163
Ward committee expenses	1 968 000	-	-	1 968 000
Water and chemicals	13 126 091	-	(3 831 030)	9 295 061
	44 102 517	**507 978**	**-**	**44 610 495**

41. Prior-year adjustments (continued)

During the year under review the the fixed asset register was reviewed and the errors found corrected. The following corrections were made to the movable and immovable assets.

Intangible assets, Investment property, Property plant and equipment

- Increase in property, plant and equipment - land cost amounting to R1 888 989
- Decrease in property, plant and equipment - land accumulated depreciation amounting to R470 450
- Increase in property, plant and equipment - furniture cost amounting to R153 111
- Decrease in property, plant and equipment - furniture accumulated depreciation amounting to R1 187 487
- Increase in property, plant and equipment - transport assets cost amounting to R113 153
- Decrease in property, plant and equipment - transport assets accumulated depreciation amounting to R246 448
- Increase in property, plant and equipment - computer equipment cost amounting to R482 360
- Decrease in property, plant and equipment - computer equipment accumulated depreciation amounting to R76 566
- Increase in property, plant and equipment - infrastructure electrical cost amounting to R1 800 368
- (Increase) in property, plant and equipment - infrastructure electrical accumulated depreciation amounting to R733 821
- Increase in property, plant and equipment - infrastructure buildings and other cost amounting to R5 453 186
- (Increase) in property, plant and equipment - infrastructure buildings and other accumulated depreciation amounting to R3 038 293
- (Decrease) in property, plant and equipment - infrastructure waste management cost amounting to R51
- (Decrease) in property, plant and equipment - infrastructure roads and other cost amounting to R277 631
- Increase in property, plant and equipment - machinery and equipment cost amounting to R358 016
- Decrease in property, plant and equipment - machinery and equipment accumulated depreciation amounting to R42 098
- (Decrease) in property, plant and equipment - infrastructure waste water cost amounting to R4 208 933
- (Increase) in property, plant and equipment - infrastructure waste water accumulated depreciation amounting to R2 233 421
- (Decrease) in property, plant and equipment - infrastructure water cost amounting to R4 092 544
- (Increase) in property, plant and equipment - infrastructure water accumulated depreciation amounting to R25 558
- Increase in depreciation expense amounting to R2 565 689
- (Decrease) in loss on disposal of assets and liabilities amounting to R84 729
- (Increase) in accumulated surplus amounting to R39 630 629
- Increase in investment property cost amounting to R38 353 402
- (Increase) in investment property accumulated depreciation amounting to R57 217
- Decrease in intangible assets accumulated depreciation and amortisation amounting to R1 191 504
- Increase in loss on disposal of assets and liabilities amounting to R21 298
- (Decrease) in impairment loss amounting to R21 298
- Increase in heritage assets - municipal jewellery amounting to R879 150
- (Decrease) in heritage assets - historical buildings amounting to R879 150t

Unspent grants

- (Increase) in unspent grants amounting to R5 729 021
- (Decrease) in work in progress waste water management amounting to R4 981 757
- Increase in receivables from non-exchange - prepayments amounting to R5 729 021
- Decrease in accumulated surplus amounting to R5 729 021
- (Decrease) in VAT receivable amounting to R747 264

41. Prior-year adjustments (continued)

Property, plant and equipment	As previously reported	Correction of error	Reclassification	WIP	Restated
Land - Cost	55 941 206	1 890 000	(1 011)	-	57 830 195
Land - A/D	(484 898)	469 439	1 011	-	(14 448)
Furniture and equipment - Cost	6 284 352	153 026	89	-	6 437 467
Furniture and equipment - A/D	(5 888 799)	1 187 576	(89)	-	(4 701 312)
Transport assets - Cost	49 712 406	113 148	-	-	49 825 554
Transport assets - A/D	(17 268 739)	246 448	-	-	(17 022 291)
Computer equipment - Cost	7 444 726	30 606	451 753	-	7 927 085
Computer equipment - A/D	(5 444 124)	528 318	(451 753)	-	(5 367 559)
Infrastructure - electrical - cost	321 942 269	1 269 084	13 848	517 436	323 742 637
Infrastructure - electrical - A/D	(133 300 728)	(719 973)	(13 848)	-	(134 034 549)
Infrastructure - buildings and other - cost	414 292 150	4 688 889	764 297	(22 450 673)	397 294 663
Infrastructure - buildings and other - A/D	(139 642 948)	(2 273 995)	(764 297)	-	(142 681 240)
Infrastructure - waste - cost	22 068 205	12 097 812	-	(50)	34 165 967
Infrastructure - waste - A/D	(5 903 848)	(4 383 308)	-	-	(10 287 156)
Infrastructure - roads and other - cost	2 761 680 936	(277 630)	-	-	2 761 403 306
Infrastructure - roads and other - A/D	(1 769 447 746)	-	-	-	(1 769 447 746)
Machinery and equipment - cost	4 354 630	139 363	218 651	-	4 712 644
Machinery and equipment - A/D	(3 598 497)	260 749	(218 651)	-	(3 556 399)
Infrastructure - waste water - cost	583 846 460	(4 283 498)	37 182	22 765 490	602 365 634
Infrastructure - waste water - A/D	(149 832 980)	(2 196 239)	(37 182)	-	(152 066 401)
Infrastructure - water - cost	1 052 785 439	(3 986 703)	448 928	(5 813 959)	1 043 433 705
Infrastructure - water - A/D	(210 953 676)	423 370	(448 928)	-	(210 979 234)
	2 838 585 796	**5 376 482**	**-**	**(4 981 756)**	**2 838 980 522**

Work-in-progress	As previously reported	Correction of error	Reclassification	Restated
Buildings and other	36 748 847	-	(22 450 672)	14 298 175
Infrastructure electrical	37 312 072	-	519 373	37 831 445
Infrastructure roads	2 133 780	-	-	2 133 780
Infrastructure waste water	71 638 044	(4 981 756)	27 709 863	94 366 151
Infrastructure water	109 966 858	-	(5 778 564)	104 188 294
	257 799 601	**(4 981 756)**	**-**	**252 817 845**

Investment property	As previously reported	Correction of error	Reclassification	Restated
Cost	92 944 395	38 353 402	(592 195)	130 705 602
Accumulated depreciation	(28 107 083)	(57 217)	592 195	(27 572 105)
	64 837 312	**38 296 185**	**-**	**103 133 497**

Intangible assets	As previously reported	Correction of error	Reclassification	Restated
Cost	4 585 469	-	-	4 585 469
Accumulated amortisation	(4 469 940)	1 191 504	-	(3 278 436)
	115 529	**1 191 504**	**-**	**1 307 033**

Heritage assets	As previously reported	Correction of error	Reclassification	Restated
Historical buildings	15 385 903	-	(879 150)	14 506 753
Municipal jewellery	-	-	879 150	879 150
	15 385 903	**-**	**-**	**15 385 903**

Figures in Rand	2021	2020

41. Prior-year adjustments (continued)

Receivables from non-exchange

During the year under review a receivable for the outstanding money owed to the municipality with regards to the municipal manager salary was raised. Refer to note 29 for further details.

The effect is as follows:
- Increase in receivables from non-exchange transactions - salary receivable amounting to R700 000
- (Increase) in government grants and subsidies - equitable share amounting to R700 000

42. Risk management

Financial risk management

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

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

Liquidity risk

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

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

The table below analyses the municipality's financial liabilities 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
Borrowings	9 045 133	2 361 264	1 265 104	-
Consumer deposits	3 194 033	-	-	-
Unspent conditional grants and receipts	55 259 611	-	-	-
	67 498 777	**2 361 264**	**1 265 104**	**-**

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	8 100 846	9 176 517	3 494 983	-
Consumer deposits	3 157 199	-	-	-
Unspent conditional grants and receipts	53 334 375	-	-	-
	64 592 420	**9 176 517**	**3 494 983**	**-**

The 2020 disclosure figures were corrected to agree with the statement of financial position.

42. Risk management (continued)

Credit risk

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

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

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

Financial instrument	2021	2020
Receivables from exchange transactions	204 187 715	200 815 151
Receivables from non-exchange transactions	54 248 943	50 021 646
VAT receivables	30 886 515	12 001 983
Cash and cash equivalents	45 525 760	30 170 505

Market risk

Interest rate risk

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

43. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of R 2 764 462 769 and that the municipality's total assets exceed its liabilities by R 2 764 462 769. Furthermore the municipality incurred a loss of R218 145 943 (2020: R41 375 136) for the 2020/2021 financial year.

In addition, the municipality had an average creditors payment period of 139 days and the municipality owed Eskom R28 064 402 (2020: R32 779 491) as at 30 June 2021, which was long overdue. These events or conditions, along with other matters set forth in note 43, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

The 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.

Covid-19

The coronavirus outbreak has been international news since December 2019, but the South African National Institute for Communicable Diseases only confirmed the first positive case of COVID-19 in South Africa on 5 March 2020. On the 23rd of March 2020 President Cyril Ramaphosa announced the nationwide lockdown. On 30 March 2020 the Minister of Finance issued a conditional Exemption Notice in terms of section 177(1)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), in order to facilitate and enable the performance of legislative responsibilities by municipalities and municipal entities during the national state of disaster.

Due to the national state of disaster, various regulatory requirements were instituted in order to ensure that the impact of the spread of the virus is limited. The impact has been devastating to the most vulnerable in our community. As far as possible the Municipality factored in the effect of the lockdown regulations on our economic environment. At this stage, it is still uncertain how long the pandemic will remain or how long the economy will take to recover from the lockdown levels.

The Municipality assessed the impact of COVID-19 pandemic by comparing the financial indicators of 2021 and 2020 as illustrated below:

	2021	2020
Current ratio (norm - 2 : 1)	1.8	1.5
Creditors days (norm - 30 days or less)	138.54 days	92.56 days
Debtors collection rate (norm - 30 days)	354.63 days	361.63 days

When analysing the results of the ratios, it can be concluded that the COVID-19 pandemic had an adverse effect from a financial sustainability perspective. The results are not solely due to the effects of COVID-19 and subsequent lockdown regulations, but has been significantly impacted by the pandemic. These events or conditions, along with other matters set forth in note 51, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

COVID-19 - Response Expenditure

The summary below indicates the total Covid-19 response expenditure for the period ending 30 June 2021 and 30 June 2020.

	2021	2020
Type of expenditure		
Cleaning materials	124 808	91 107
Food parcels	-	18 602
Masks, gloves, and hand sanitizer	36 732	223 482
Thermometer	-	28 950
Transport	-	5 175
	161 540	**367 316**

	2021	2020
Funding		
Own revenue	161 540	129 316
Grant funding	-	238 000
	161 540	**367 316**

Notes to the Financial Statements

Figures in Rand	2021	2020

44. Events after the reporting date

The municipality applied to the Department of Economic Development, Tourism and Environmental Affairs for an amendment to the waste licence of Clocolan and Marquard on the 14th of September 2021.

The Department granted the extention of the waste licenses for Clocolan and Marquard with a period of three years from 14 October 2021.

45. Unauthorised expenditure

Opening balance as previously reported	127 354 819	855 835 944
Opening balance as restated	**127 354 819**	**855 835 944**
Add: Expenditure identified - current	319 561 516	127 354 819
Less: Approved/condoned/authorised by council	-	(855 835 944)
Closing balance	**446 916 335**	**127 354 819**

Unauthorised expenditure derived mainly from the correction and revaluation of assets which resulted in a loss which is a non-cash financial entry.

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

Overspending of expenditure votes, mainly contributed by depreciation	319 561 516	127 354 819

46. Fruitless and wasteful expenditure

Opening balance as previously reported	286 354	31 668
Correction of prior period error	(48 330)	-
Opening balance as restated	**238 024**	**31 668**
Add: Expenditure identified - current	2 504 899	4 333 747
Less: Amount written off - current	(1 593)	(4 079 061)
Closing balance	**2 741 330**	**286 354**

Details of fruitless and wasteful expenditure		
Payments made on interest and penalties	1 531 269	4 333 747
Other payments	973 630	-
	2 504 899	**4 333 747**

Prior period errors		
Balance previously reported	-	286 354
Less: Fruitless and wasteful expenditure reversed	-	(1 547 872)
Add: Write off of fruitless and wasteful expenditure reversed	-	1 499 542
	-	**238 024**

Notes to the Financial Statements

Figures in Rand	2021	2020

47. Irregular expenditure

Opening balance as previously reported	189 971 894	133 404 252
Correction of prior period error	15 340 406	-
Opening balance as restated	**205 312 300**	**133 404 252**
Add: Irregular Expenditure - current	77 876 589	92 455 092
Less: Amount written off - current	(849 049)	(18 501 792)
Less: Amounts duplicated on the register	-	(17 385 658)
Closing balance	**282 339 840**	**189 971 894**

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

Expenditure items identified where the SCM processes and procedures were not followed	56 658 488	41 690 371
Procurement without competitive bidding	599 599	50 764 721
BAC composition	20 618 502	-
	77 876 589	**92 455 092**

Payments to be recouped

Opening balance	2 967	-
Overpayment of councillors	-	531 145
From mayor - payment of calendars	189 000	-
Amounts recovered	-	(528 178)
	191 967	**2 967**

Correction of error

Balance previously reported	-	189 971 894
Add: Additional irregular expenditure identified	-	29 134 263
Less: Irregular removed - BAC composition	-	(13 793 857)
	-	**205 312 300**

48. Audit and Performance Audit Committee Fees

Audit and Performance Audit Committee	418 778	557 009

The 2020 financial year balance was restated with an amount of R365.

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGA)

Opening balance	(4 390)	-
Current year subscription / fee	2 313 310	2 298 400
Amount paid - current year	(2 308 920)	(2 302 790)
	-	**(4 390)**

Notes to the Financial Statements

Figures in Rand	2021	2020

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

Reticulation (Distribution) losses

Electricity

The implementation of prepaid electricity meters contributed positively to the decrease in electricity losses.

The prescribed norm from National Treasury for electricity losses is estimated to be between 7% and 10%.

Estimated electricity losses suffered by the municipality for the year under review are as follows:

Electricity		
Estimated electricity losses	10 706 280	11 112 061

Electricity		
Percentage losses	12 %	13 %

Water

Estimated water losses included distribution to townships with unmetered water.

The prescribed norm from National Treasury for water losses is estimated to be between 15% and 30%.

Estimated water losses suffered by the municipality for the year under review is as follows:

Water		
Estimated water losses	12 098 388	15 425 713

Water		
Percentage losses	29 %	42 %

Audit fees

Opening balance	5 194 774	2 947 655
Current year subscription / fee	7 178 351	6 925 052
Amount paid - current year	(7 952 245)	(4 677 933)
Credit notes	(211 462)	-
	4 209 418	**5 194 774**

PAYE and UIF

Opening balance	6 543 365	5 994 600
Current year subscription / fee	27 707 711	25 941 576
Amount paid - current year	(31 884 689)	(25 392 811)
	2 366 387	**6 543 365**

The opening balance of the 2020 financial year was restated with an amount of R184 302.

Pension and Medical Aid Deductions

Opening balance	4 662 863	4 307 788
Current year subscription / fee	57 578 687	54 931 732
Amount paid - current year	(57 343 105)	(54 576 657)
	4 898 445	**4 662 863**

Figures in Rand	2021	2020

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

VAT

VAT receivable	100 901 525	75 407 351
VAT payable	(70 015 010)	(63 405 368)
	30 886 515	**12 001 983**

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2021:

30 June 2021	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor TB Jakobo	1 281	211	1 492
Councillor TB Jakobo (Plus one other)	4 523	40 594	45 117
Councillor RS Lipoko	2 536	4 152	6 688
Councillor MK Ralehlatsi	2 597	845	3 442
Councillor MM Mokhele	5 066	13 033	18 099
Councillor TG Makhalanyane	-	8 164	8 164
Councillor TI Mthimkhulu	1 228	7 088	8 316
Councillor MM Mothibeli	1 773	891	2 664
	19 004	**74 978**	**93 982**

30 June 2020	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor A Taylor	1 304	4 423	5 727
Councillor TP Jakobo (Plus one other)	4 060	35 344	39 404
Councillor RS Lipoko	5 276	6 717	11 993
Councillor TG Makhalanyane	1 273	8 790	10 063
Councillor TJ & PE Matobako	-	160	160
Councillor MO Mokhele	4 582	12 504	17 086
Councillor KS Mokhuoane	2 526	31 576	34 102
Councillor TI Mthimkhulu	4 607	3 267	7 874
Councillor KE Koalane	1 367	1 176	2 543
Councillor MK Ralehlatsi	10 084	2 600	12 684
Councillor TB Jakobo	1 187	23	1 210
Councillor M Makobane	648	-	648
	36 914	**106 580**	**143 494**

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

30 June 2021	Highest outstanding amount	Aging (in days)
Councillor MM Mokhele	22 082	649
Councillor RS Lipoko	11 420	274
Councillor MK Ralehlatsi	20 953	191
Councillor I Vries	8 257	388
Councillor TG Makhalanyane	1 454	99
Councillor KE Koalane	1 689	109
Councillor A Taylor	4 849	340
Councillor TB Jakobo	1 469	104
Councillor TB Jakobo (Plus one other)	58 074	525
Councillor TI Mthimkhulu	11 735	720
Councillor MM Mothibeli	3 744	137
	145 726	**3 536**

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

30 June 2020

	Highest outstanding amount	Aging (in days)
Councillor AMO Mokhele	19 576	778
Councillor PE Koqo	3 078	545
Councillor EM Makobane	7 961	410
Councillor RS Lipoko	15 276	228
Councillor MK Ralehlatsi	45 996	718
Councillor TJ & PE Matobako	12 867	751
Councillor GTG Makhalanyane	14 806	1 004
Councillor KE Koalane	12 149	753
Councillor A Taylor	15 516	1 000
Councillor TP Jakobo (Plus one other)	46 052	1 002
Councillor TI Mthimkhulu	12 612	527
	205 889	**7 716**

Money to be recouped from councillors

From mayor - payment of calendars	189 000	-

Skills development levies

Opening balance	141 907	402 906
Current year subscription/fee	1 529 734	1 437 850
Amount paid - current year	(1 518 668)	(1 698 849)
	152 973	**141 907**

Non-compliance with the Municipal Finance Management Act

The municipality did not always pay employee's third party deduction(s) to benefit funds on time due to cash-flow constraints.

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

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

50. 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 financial statements.

Various goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the normal procurement processes as required by paragraph 12(1) of the same gazette. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. These deviations were recorded and reported to the meeting of council.

Figures in Rand	2021	2020
Deviation summary listing		
Emergency cases	2 420 478	3 429 144
Sole / Limited provider	1 757 570	1 671 888
Impractical to follow SCM process	2 637 751	1 046 160
Technical nature of the service	742 908	996 159
	7 558 707	**7 143 351**

The 2019/2020 amount for emergency cases was adjusted by R341 520.

Figures in Rand	2021	2020

51. Accounting by principals and agents

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

Details of the arrangement is as follows:

The municipality has appointed a service provider to sell prepaid electricity on its behalf. A binding written agreement is in place with the service provider.

Setsoto Local Municipality is the principal. The assumption made in this regard are as follows:

- Setsoto Local Municipality is responsible for the provision of electricity municipal services within its legislated area of jurisdiction.
- Electricity tariffs are determined by the municipality.
- The municipality is liable to pay the usage to the electricity provider (Eskom).
- Ownership in and to the vending of electricity is and shall at all times remain vested in the municipality and shall under no circumstances vest in the agent.

The service provider is responsible for the implementation of a prepaid electricity vending system and accepts customer payments on the municipality's behalf. The vending system is also used as a form of credit control, integrating the system with the municipality's debt collection systems, in order to balance out the payment of arrears for post-paid services with customer payments for prepaid electricity.

The municipality shall pay over a commission of 5% (5.7% inclusive of VAT) in respect of service vended.

There were no changes to the terms of the agreement from the previous financial year.

Risks are managed through the supplier being required to pay over receipts collected on a daily basis to the municipality.

Entity as principal

Resources (including assets and liabilities) of the entity under the custodianship of the agent

There are no resources of the municipality under the custodianship of the agent.

Fee paid

	2021	2020
Fee paid as compensation to the agent	2 444 243	2 216 006

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

Should the agreement be terminated, in order to provide a similar experience to consumers, the municipality will need to incur the following costs:

- Purchase of vending machines
- Set up of networks
- Arrangements with banks
- Security costs to protect the network and machines
- Additional insurance

52. Contingencies

The municipality had the following contingent liabilities for the 2020/2021 financial year:

Name	Details	2021	2020
Rudnat Projects CC	Claim in regard to a project that was initiated by the Department of Water Affairs for a feasibility study for the construction of a dam. Matter finalized: Plaintiffs withdrew the action against Setsoto Local Municipality. The Municipality only had to pay its own legal costs, which have been paid.	-	5 287 036
MM. Masisi	Former CFO, claiming breach of contract by the Municipality in rescinding her employment contract	3 788 206	846 180
Salemane and Others	Claim for compensation following the death of plaintiff’s son, who fell into a decommissioned pump station in Clocolan in 2017 Matter finalized: A settlement of R612 000 was reached with the plaintiffs, the amount included the plaintiff's legal costs.	-	867 000
SALGBC & IMATU obo TJ Ntombela, P Potsane & M Nteso	Alleged that Setsoto Local Municipality (Respondent) did not comply to the Clause 14.6 of SALGBC Disciplinary Procedure Collective Agreement Settlement Agreement reached for two employees and the other one resigned.	-	7 145
IMATU obo F. Viljoen & M Marx	(Applicants) alleges unfair labour practice by the Municipality (Respondent) by not remunerating them like other Managers. An amount of R89 338 was awarded per manager as per the arbitration process at 30 June 2021. The municipality has obtained a legal opinion, and the legal opinion states that there is a low probability that this amount will have to be paid. The matter will be referred to court.	178 676	178 676
J De Buys	Flooding of property due to storm water drainage directing water into the yard Matter finalized following investigations by the Department Engineering Services, which revealed that the burst storm water pipe was that of the provincial department, and not of the Municipality.	-	14 850
Linomtha	The contractor is disputing the claims paid to him for the work done on the project of Van Soelen Sewer Line	5 213 566	5 213 566

Notes to the Financial Statements

Figures in Rand		2021	2020

52. Contingencies (continued)

Mr. Zondi	Damaged palisade (Third Party) at 65 Bloem Street Ficksburg during work in progress by the municipal officials	30 000	30 000
Mr Xaba	Third Party's vehicle slipped and he lost control of a vehicle due to water and oil on the street which caused him to collide with other vehicle Claim submitted to the Municipality's insurers.	26 000	26 000
Mr. Swanepoel	Damaged wall of third party during repairs of pipe burst at Caledon park in front of Sand and Klip Ficksburg	30 000	30 000
L. Mokoena	Claim for R54 832.82 for vehicle damages as a result of colliding with a third party's vehicle whilst trying to avoid a pothole on Andries Pretorius Street in Clocolan on the 10th July 2020.	54 833	-
Roland Bottin	Mr. Bottin is alleging that the Municipality, alternatively, the MEC for Roads and Transport, is responsible for the alleged incident which allegedly resulted in his injuries, medical expenses and loss of income. The plaintiff's Attorneys, Corne Van De Venter Inc are demanding R530 544.62 (Five hundred and thirty thousand five hundred and forty-four Rands and sixty-two cents).	530 545	-
Montsioa Constructions	The plaintiff was suing the Municipality for costs allegedly incurred in the preparation of land to be developed following the revocation of a 2014 tender the Municipality had awarded to the plaintiff fo the development of 60 sites in Ficksburg. Matter finalized: File closed on recommendation of the Municipality's attorneys on 25 June 2020. Plaintiff's attorneys withdrew from the matter and neither the plaintiff nor the director could be traced, Municipality's attorneys advised that it would not be cost effective for the Municipality to try and collect wasted costs.	-	-
Fundisol PTY (LTD)	Claim for renovations to station houses donated to the Municipality by Transnet. Matter finalized. A total settlement of R62 000 was reached with the claimants.	-	65 000
		9 851 826	**12 565 453**

Figures in Rand	2021	2020

52. Contingencies (continued)

Contingent assets

The municipality had the following contingent assets for the 2020/2021 financial year:

Name	Details	2021	2020
Bastian Finance and Sharp Connect	Civil Claim for R208 280.30 for unauthorised and illegal deduction from the municipal account after the services of Sharp Connect were terminated in July 2015. Ponoane Attorneys have indicated that they are unable to locate Bastian Finance, and there is no likelihood of the matter being resolved in the 2021/2022 financial year.	-	208 280
Senekal Motor Ingenieurs BK	Service Provider Claims for motor repair services and the case is likely to be in the favour of the municipality The Sheriff could not enforce the warrant of execution, and Fixane Attorneys has opted to apply for the plaintiff's account to be frozen, as recovery of the due amount is highly unlikely.	-	40 908
		-	**249 188**

53. Change in estimate

Property, plant and equipment

During the 2021 financial year physical verification and condition assessment of the municipality's assets was undertaken as a result there was a change in the remaining useful lives of assets.

This resulted in an increase of depreciation of R292 960 195.

Investment property

During the 2021 financial year physical verification and condition assessment of the municipality's assets was undertaken as a result there was a change in the remaining useful lives of assets.

This resulted in an increase of depreciation of R627 422.

Setsoto Local Municipality
Appendix A
June 2021

Schedule of external loans as at 30 June 2021

	Loan Number	Redeemable	Balance at Tuesday, 30 June 2020 Rand	Interest for the period Rand	Redeemed written off during the period Rand	Balance at Wednesday, 30 June 2021 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Development Bank of South Africa								
DBSA Loan @11.36%	101389	31/12/2024	3 246 165	352 712	941 721	2 657 156	-	-
			3 246 165	**352 712**	**941 721**	**2 657 156**	**-**	**-**
Instalment sales agreements - ABSA Bank Limited								
ABSA Bank Limited at 10%	89515381	01/06/2022	414 691	32 619	229 649	217 661	-	-
ABSA Bank Limited at 10%	89514989	01/06/2022	299 465	23 556	165 839	157 182	-	-
ABSA Bank Limited at 10%	89516256	01/06/2022	623 236	49 023	345 138	327 121	-	-
ABSA Bank Limited at 10%	89515861	01/06/2022	231 457	18 206	128 177	121 486	-	-
ABSA Bank Limited at 10%	89516272	01/06/2022	623 236	49 023	345 138	327 121	-	-
ABSA Bank Limited at 10%	89515110	01/07/2022	1 143 118	90 993	610 155	623 956	-	-
ABSA Bank Limited at 10%	89514009	01/07/2022	518 558	41 278	276 787	283 049	-	-
ABSA Bank Limited at 10%	89514076	01/07/2022	518 558	41 278	276 787	283 049	-	-
ABSA Bank Limited at 10%	89516795	01/06/2022	28 449	2 238	15 754	14 933	-	-
ABSA Bank Limited at 10%	89516779	01/06/2022	28 449	2 238	15 754	14 933	-	-
ABSA Bank Limited at 10%	89517519	01/09/2022	776 558	63 114	386 879	452 793	-	-
ABSA Bank Limited at 10%	89512457	01/09/2022	1 734 647	140 982	864 197	1 011 432	-	-
ABSA Bank Limited at 10%	89512260	01/09/2022	776 979	63 148	387 089	453 038	-	-
ABSA Bank Limited at 10%	89512260	08/08./202	1 179 742	94 934	607 913	666 763	-	-
			8 897 143	**712 630**	**4 655 256**	**4 954 517**	**-**	**-**
Instalment sales agreement - Wesbank								
Wesbank, a division of First Rand Limited	85265501996	01/08/2022	413 294	42 380	236 450	219 224	-	-
Wesbank, a division of First Rand Limited	852654478490	01/09/2022	692 626	72 862	357 410	408 078	-	-
Wesbank, a division of First Rand Limited	85264693609	01/09/2022	2 325 726	232 696	1 188 119	1 370 303	-	-

Setsoto Local Municipality
Appendix A
June 2021

Schedule of external loans as at 30 June 2021

	Loan Number	Redeemable	Balance at Tuesday, 30 June 2020 Rand	Interest for the period Rand	Redeemed written off during the period Rand	Balance at Wednesday, 30 June 2021 Rand	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
Wesbank, a division of First Rand Limited	85264694308	01/09/2022	2 325 726	232 696	1 188 119	1 370 303	-	-
Wesbank, a division of First Rand Limited	852663344384	01/09/2022	870 398	91 563	449 143	512 818	-	-
Wesbank, a division of First Rand Limited	85266283448	01/09/2022	870 398	91 563	449 143	512 818	-	-
Wesbank, a division of First Rand Limited	8526662844159	01/09/2022	438 249	46 103	226 146	258 206	-	-
Wesbank, a division of First Rand Limited	8526537408	01/09/2022	692 626	72 862	357 410	408 078	-	-
			8 629 043	**882 725**	**4 451 940**	**5 059 828**	**-**	**-**
Total external loans								
Development Bank of South Africa			3 246 165	352 712	941 721	2 657 156	-	-
Instalment sales agreements - ABSA Bank Limited			8 897 143	712 630	4 655 256	4 954 517	-	-
Instalment sales agreement - Wesbank			8 629 043	882 725	4 451 940	5 059 828	-	-
			20 772 351	**1 948 067**	**10 048 917**	**12 671 501**	**-**	**-**