

PHUMELELA
LOCAL MUNICIPALITY

PHUMELELA LOCAL MUNICIPALITY

(Registration number Demarcation number: FS 195)

**Annual Financial Statements
for the year ended 30 June 2021**

Phumelela Local Municipality

(Registration number Demarcation number: FS 195)

Annual Financial Statements for the year ended 30 June 2021

General Information

Nature of business and principal activities	Providing municipal services and maintaining the best interests of the local community
Mayoral committee	
Mayor	Cllr. TJ Motaung
Speaker	Cllr. TR Zwane
ExCo Members	Cllr. SE Tshabalala Cllr. DA Wessels Cllr. KA Sibeko Cllr. MM Mashinini Cllr. NJ Mokoena Cllr. ZA Tshabalala Cllr. BV Khumalo Cllr. MS Ntsele Cllr. VP Kibido Cllr. TI Radebe Cllr. JM Mofokeng Cllr. OA Mokoena Cllr. TM Tshabalala
Councillors	
Grading of local authority	Grade 1
Chief Finance Officer (CFO)	NF Ralebenya
Accounting Officer	Mrs NF Malatjie
Registered office	Civic Centre Corner Prinsloo and Kuhn Streets Vrede 9835
Business address	Civic Centre Corner Prinsloo and Kuhn Streets Vrede 9835
Postal address	Private Bag X5 Vrede 9835
Bankers	ABSA Bank Limited FNB Bank Limited
Auditors	Auditor General - South Africa Registered Auditors

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COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

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

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 annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed on:



Mrs NF Malatjie
Accounting officer

Phumelela Local Municipality

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Accounting Officer's Report

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

1. Review of activities

Main business and operations

The municipality is engaged in providing municipal services and maintaining the best interests of the local community.

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

Net surplus of the municipality was R 7 807 541 (2020: deficit R 41 018 541).

2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 418 492 005 .

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

3. Subsequent events

The local municipal election held on the 2nd of November 2021, resulted in a change of councillors and the executive. The following newly elected council members and executive was voted and elected in:

MD Kobeni	- Mayor
TR Zwane	- Speaker
D Wessels	- ExCo member
V Thela-	- ExCo member
KA Sibeko	- MPAC chair
VP Mahlaba	- Councillor
TP Tsotetsi	- Councillor
TN Masiteng	- Councillor
LL Molefe	- Councillor
M Rautenbach	- Councillor
NJ Mokoena	- Councillor
SO Magubane	- Councillor
BA Motsoeneng	- Councillor
NA Mazibuko	- Councillor
IT Radebe	- Councillor

4. Accounting Officer's interest in contracts

The Accounting Officer does not have an interest in contracts.

5. Accounting policies

The annual financial statements have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

6. Accounting Officer

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

Name

Mrs NF Malatjie

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Accounting Officer's Report

7. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at Board meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

Internal audit

The municipality has a fully functional Internal Audit Unit. This is in compliance with the Municipal Finance Management Act, 2003.

8. Bankers

ABSA Bank and First National Bank Limited will continue to provide banking services to the municipality.

9. Auditors

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


10. Public Private Partnership

The Municipality did not enter into any Public Private Partnership for the 2020/2021 financial year, nor does it have any existing PPP's.

11. Non-compliance with applicable legislation

In terms of section 65 (2)(e) of the Municipal Finance Act (No. 56 of 2003), all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement. Due to cash flow constraints, the municipality, could not settle all money owing within the prescribed period.

In terms of section 71 (1) of the Municipal Finance Act (No. 56 of 2003), the accounting officer of a municipality must by no later than 10 working days after the end of each month submit to the mayor of the municipality and the relevant provincial treasury a statement in the prescribed format on the state of the municipality's budget reflecting the following particulars for that month and for the financial year up to the end of that month. During the financial year, the municipality did not comply with the required legislation as reports were submitted late.



Mrs NF Malatjie
Accounting officer

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Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	8	2 299 903	938 847
Receivables from exchange transactions	9&12	11 901 446	11 672 010
Receivables from non-exchange transactions	10&12	2 932 815	2 037 950
VAT receivable	11	45 719 253	36 446 436
Cash and cash equivalents	13	4 277 035	86 327
		67 130 452	51 181 570
Non-Current Assets			
Investment property	3	13 092 879	13 434 023
Property, plant and equipment	4	748 387 375	711 263 937
Heritage assets	5	5 761	5 761
Other financial assets	6	405 035	416 358
		761 891 050	725 120 079
Total Assets		829 021 502	776 301 649
Liabilities			
Current Liabilities			
Payables from exchange transactions	16	361 473 851	322 604 315
Consumer deposits	17	225 323	222 384
Employee benefit obligation	7	964 759	991 410
Unspent conditional grants and receipts	14	3 726 100	18 660
Provisions	15	1 983 019	1 839 507
		368 373 052	325 676 276
Non-Current Liabilities			
Employee benefit obligation	7	4 321 874	4 783 798
Provisions	15	37 834 571	35 157 111
		42 156 445	39 940 909
Total Liabilities		410 529 497	365 617 185
Net Assets		418 492 005	410 684 464
Accumulated surplus		418 492 005	410 684 464

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Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	46 846 422	47 697 834
Rental of facilities and equipment	20	480 614	442 331
Rebate on Eskom Interest received	23	-	1 787 795
Other income	24	1 474 690	591 895
Interest received	25	16 199 141	17 047 187
Gain on disposal of assets and liabilities		-	1 091
Actuarial gains		417 875	433 746
Total revenue from exchange transactions		65 418 742	68 001 879
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	12 883 815	14 689 581
Transfer revenue			
Government grants & subsidies	27	182 295 660	139 349 141
Public contributions and donations	28	32 014	11 676
Fines, Penalties and Forfeits	21	54 715	88 187
Interest received	22	3 130 558	3 309 872
Total revenue from non-exchange transactions		198 396 762	157 448 457
Total revenue	18	263 815 504	225 450 336
Expenditure			
Employee related costs	29	(77 762 463)	(71 127 183)
Remuneration of councillors	30	(6 375 101)	(6 350 536)
Depreciation and amortisation	31	(31 880 228)	(30 654 588)
Impairments	32	872 999	284 931
Finance costs	33	(13 151 912)	(9 791 896)
Debt Impairment	34	(45 547 094)	(65 749 778)
Bulk purchases	35	(31 395 425)	(40 145 774)
Disposal of stands sold		(78 110)	-
General Expenses	36	(50 690 629)	(42 934 053)
Total expenditure		(256 007 963)	(266 468 877)
Surplus/(deficit) for the year		7 807 541	(41 018 541)

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Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	445 147 087	445 147 087
Adjustments		
Correction of errors	6 555 918	6 555 918
Balance at 01 July 2019 as restated*	451 703 005	451 703 005
Changes in net assets		
Surplus for the year	(41 018 541)	(41 018 541)
Total changes	(41 018 541)	(41 018 541)
Opening balance as previously reported	396 258 637	396 258 637
Adjustments		
Correction of errors	14 425 827	14 425 827
Balance at 01 July 2020 as restated*	410 684 464	410 684 464
Changes in net assets		
Surplus for the year	7 807 541	7 807 541
Total changes	7 807 541	7 807 541
Balance at 30 June 2021	418 492 005	418 492 005

Note(s)

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Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Property rates taxation		6 416 662	5 462 698
Service charges		17 720 021	20 364 554
Grants		186 003 100	139 367 801
Interest income		1 065 791	671 647
		211 205 574	165 866 700
Payments			
Employee costs		(84 208 264)	(77 335 828)
Suppliers		(46 191 048)	(47 438 553)
Finance costs		(8 759 243)	(4 732 257)
		(139 158 555)	(129 506 638)
Net cash flows from operating activities	38	72 047 019	36 360 062
Cash flows from investing activities			
Additions to property, plant and equipment	4	(67 867 635)	(40 982 376)
Disposal of property, plant and equipment	4	-	1 205 786
Decrease in other financial assets		11 323	18 711
Net cash flows from investing activities		(67 856 312)	(39 757 879)
Cash flows from financing activities			
Repayment of other financial liabilities		-	(116 430)
Net cash flows from financing activities		-	(116 430)
Net increase/(decrease) in cash and cash equivalents		4 190 707	(3 514 247)
Cash and cash equivalents at the beginning of the year		86 327	3 600 574
Cash and cash equivalents at the end of the year	13	4 277 034	86 327

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	42 309 470	-	42 309 470	46 846 422	4 536 952	Please refer below for reasons.
Rental of facilities and equipment	750 482	-	750 482	480 614	(269 868)	Please refer below for reasons.
Other income	2 482 203	-	2 482 203	1 474 690	(1 007 513)	Please refer below for reasons.
Licences and permits	45 398	-	45 398	-	(45 398)	Please refer below for reasons.
Interest received - investment	24 348 885	-	24 348 885	16 199 141	(8 149 744)	Please refer below for reasons.
Total revenue from exchange transactions	69 936 438	-	69 936 438	65 000 867	(4 935 571)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	14 865 391	-	14 865 391	12 883 815	(1 981 576)	Please refer below for reasons.
Transfer revenue						
Government grants & subsidies	96 458 000	-	96 458 000	182 295 660	85 837 660	Please refer below for reasons.
Public contributions and donations	-	-	-	32 014	32 014	
Fines, Penalties and Forfeits	151 805	-	151 805	54 715	(97 090)	Please refer below for reasons.
Total revenue from non-exchange transactions	111 475 196	-	111 475 196	195 266 204	83 791 008	
Total revenue	181 411 634	-	181 411 634	260 267 071	78 855 437	
Expenditure						
Personnel	(83 315 648)	5 937 428	(77 378 220)	(77 762 463)	(384 243)	Please refer below for reasons.
Remuneration of councillors	(6 773 750)	-	(6 773 750)	(6 375 101)	398 649	Please refer below for reasons.

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Depreciation and amortisation	(6 947 787)	-	(6 947 787)	(31 880 228)	(24 932 441)	Please refer below for reasons.
Impairment loss/ Reversal of impairments	-	-	-	872 999	872 999	Please refer below for reasons.
Finance costs	(3 791 762)	-	(3 791 762)	(13 151 912)	(9 360 150)	Please refer below for reasons.
Debt Impairment	(20 184 162)	812 285	(19 371 877)	(45 547 094)	(26 175 217)	Please refer below for reasons.
Bulk purchases	(15 844 046)	-	(15 844 046)	(31 395 425)	(15 551 379)	Please refer below for reasons.
General Expenses	(38 142 644)	(6 846 595)	(44 989 239)	(50 690 629)	(5 701 390)	Please refer below for reasons.
Contracted services	(6 296 125)	-	(6 296 125)	-	6 296 125	Please refer below for reasons.
Total expenditure	(181 295 924)	(96 882)	(181 392 806)	(255 929 853)	(74 537 047)	
Operating surplus	115 710	(96 882)	18 828	4 337 218	4 318 390	
Loss on disposal of assets and liabilities	-	-	-	(78 110)	(78 110)	Please refer below for reasons.
Actuarial gains/losses	-	-	-	417 875	417 875	Please refer below for reasons.
	-	-	-	339 765	339 765	
Surplus before taxation	115 710	(96 882)	18 828	4 676 983	4 658 155	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	115 710	(96 882)	18 828	4 676 983	4 658 155	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	925 608	-	925 608	2 299 903	1 374 295	Please refer below for reasons.
Receivables from exchange transactions	330 150 375	-	330 150 375	11 901 446	(318 248 929)	Please refer below for reasons.
Receivables from non-exchange transactions	-	-	-	2 932 815	2 932 815	Please refer below for reasons.
VAT receivable	-	-	-	45 719 253	45 719 253	Please refer below for reasons.
Cash and cash equivalents	18 953 701	(18 102 000)	851 701	4 277 035	3 425 334	Please refer below for reasons.
	350 029 684	(18 102 000)	331 927 684	67 130 452	(264 797 232)	
Non-Current Assets						
Investment property	-	-	-	13 092 879	13 092 879	Please refer below for reasons.
Property, plant and equipment	1 360 916 068	-	1 360 916 068	748 387 375	(612 528 693)	Please refer below for reasons.
Heritage assets	-	-	-	5 761	5 761	Please refer below for reasons.
Other financial assets	-	-	-	405 035	405 035	Please refer below for reasons.
	1 360 916 068	-	1 360 916 068	761 891 050	(599 025 018)	
Total Assets	1 710 945 752	(18 102 000)	1 692 843 752	829 021 502	(863 822 250)	
Liabilities						
Current Liabilities						
Other financial liabilities	109 987	-	109 987	-	(109 987)	Please refer below for reasons.
Payables from exchange transactions	111 579 617	-	111 579 617	361 473 851	249 894 234	Please refer below for reasons.
Consumer deposits	-	-	-	225 323	225 323	Please refer below for reasons.
Employee benefit obligation	-	-	-	964 759	964 759	Please refer below for reasons.

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Unspent conditional grants and receipts	-	-	-	3 726 100	3 726 100	
Provisions	-	-	-	1 983 019	1 983 019	Please refer below for reasons.
	111 689 604	-	111 689 604	368 373 052	256 683 448	
Non-Current Liabilities						
Employee benefit obligation	3 865 633	-	3 865 633	4 321 874	456 241	Please refer below for reasons.
Provisions	76 133 568	-	76 133 568	37 834 571	(38 298 997)	Please refer below for reasons.
	79 999 201	-	79 999 201	42 156 445	(37 842 756)	
Total Liabilities	191 688 805	-	191 688 805	410 529 497	218 840 692	
Net Assets	1 519 256 947	(18 102 000)	1 501 154 947	418 492 005	(1 082 662 942)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	1 519 256 947	(18 102 000)	1 501 154 947	418 492 005	(1 082 662 942)	

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between budget and actual	Reference
Figures in Rand						
Category	Reason					
Revenue						
Service Charges	The increase is due to an increase in electricity usage from consumers coincided with a tariff increase overall from consumers. The municipality is also improving its control environment over revenue collection and billing.					
Rental of Facilities	The basis on rental of facilities was provided incorrectly. This now has been corrected in the new year to provide per property rented out with the percentage increase.					
Other Income	This is due to an overall better increase in revenue management from the municipality coincided with a tariff increase.					
Interest received- Investment	Due to the improvement in controls in the revenue department, an increase in revenue collections occurred. This can also be related to the decrease of impairment movement on consumer debtors. The interest billed is an inverse link to the payment rate of consumers, therefore if the collection rate increase the interest billed will be lower.					
Property rates	The initial basis was incorrect, the indigent allowances was not taken into consideration when the budget was prepared, this was corrected in the new budget 2022.					
Government grants & Subsidies	This is due to capital and operating grants being separately disclosed in the budget forms. The municipality also managed to spent all of its grants allocated on a capital basis for the year. Additional disaster grants was also received for drought relief.					
Licenses and permits	This is a classification matter between other income and the budget statement. The budget statement of 2022 has been corrected.					
Fines, Penalties and Forfeits	This is the cash basis of funds received. The effect of iGrap 1 was not taken into consideration when calculating the revenue from fines. This will be attended to in the next budget process.					
Expenditure						
Personnel	This is inline with the budget, therefore the municipality managed to appoint the new employees its et out to do, managed to curb overtime and ensured expenditure is limited.					
Remuneration of Councilors	The councillors remuneration is in line on the budget and actual.					
Depreciation and amortization	The budget amount used was incorrect. The Fixed asset register will be used going forward to assist the budget unit in the process. This will be attended to in the next budget process.					
Finance costs	The budget amount used was incorrect. The bulk purchases reconciliation will be used as a basis going forward.. This will be attended to in the next budget process.					
Impairment losses	The budget amount used was incorrect. The Fixed asset register will be used going forward to assist the budget unit in the process. This will be attended to in the next budget process.					
Bulk Purchases	The budget amount used was incorrect. The bulk purchases reconciliation will be used as a basis going forward.. This will be attended to in the next budget process.					

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Debt Impairment						Although the year on year debt impairment (actual) is down due to an increase in credit control processes, the initial budget's base line used was not in relation with the debt impairment of 2020. This will be corrected in 2020's budget process.
Contracted Services						This is due to contracted services being disclosed on its nature and not the function of the expense. The estimated contracted services are deemed to be inline with the estimated budget.
General Expenses						Due to increase in repairs and covid related expenditure, the municipality had an increase in expenditure. Overall based on the estimated expenditure vs total revenue on the budget process to the actual results, the general expenditure is still lower. This means the cost containment measures are deemed to be successful implemented by the municipality.
Operating Deficit						This is the overall effect of expenditure.
Actuarial gains/losses						Budget was not provided for. This will be corrected going forward.
Statement of Financial Position						
Current Assets						
Inventory						The purchases of additional meters and dust bins were not accounted for correctly in the budget process.
Consumer Debtors						This is due the impairment provision not taken into consideration when the budget was performed. This will be corrected in the new budget process.
Vat Receivables						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Cash and Cash Equivalents						This is due to better cost containment processes and an increase in the collection rate
Non-Current Assets						
Investment Property						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Property, plant and equipment						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Other financial assets						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Heritage Assets						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Current Liabilities						
Other financial liabilities						The DBSA loan was settled, the baseline used for the budget was unaudited which resulted in an incorrect budget provision. This will be corrected going forward.
Payables from Exchange transactions						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Employee Benefit obligation						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.

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Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Provisions						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Non-Current Liabilities						
Employee benefit obligation						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.
Provisions						This is due to an incorrect budget process followed, as cash was taken and not the accrual principal. This will be corrected going forward.

Phumelela Local Municipality

(Registration number Demarcation number: FS 195)
Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

Figures in Rand	Note(s)	2021	2020
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1. Presentation of Annual Financial Statements

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

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

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Significant judgements and sources of estimation uncertainty

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

Trade receivables

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the 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 is calculated on a payment rate basis per consumer. The payment rate is calculated on the total payments received per consumer in the current year, and then divided by the total revenue billed per consumer for the current year. The percentage is then converted to a non payment ratio. The non payment ratio is then multiplied with the consumers total outstanding balance. The movement between a consumers yearly impairment balance are accounted through profit and loss in the statement of financial performance.

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1.4 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

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

The 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.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

Useful lives of Property, Plant and Equipment and Investment Properties

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment and investment properties. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives. In the event that a depreciating asset is nearing the end of its useful life, the availability of budget to replace the asset is considered. If the asset is not budgeted to be replaced, the useful life is extended by one year. Depreciation is adjusted going forward.

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.

Effective interest rate

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

Allowance for doubtful debts

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

1.5 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.

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1.5 Investment property (continued)

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

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

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

Cost model

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

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

Item	Useful life
Property - land	indefinite
Property - buildings	15 - 50 years

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

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

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

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight-line	Indefinite
Buildings	Straight-line	15 to 50 years
Plant and machinery	Straight-line	10 years
Furniture and fixtures	Straight-line	10 years
Motor vehicles	Straight-line	10 years
Office equipment	Straight-line	10 years
IT equipment	Straight-line	10 years
Landfill sites	Straight-line	20 to 33 years
Electricity Network	Straight-line	15 to 50 years
Roads network	Straight-line	10 to 80 years
Wastewater network	Straight-line	12 to 50 years
Water network	Straight-line	15 to 80 years

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

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

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

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

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

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.

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1.6 Property, plant and equipment (continued)

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

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

1.7 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.8 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.

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

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

Heritage assets are 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.

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Accounting Policies

1.8 Heritage assets (continued)

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

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.

Derecognition

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

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

1.9 Financial instruments

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

Financial instruments are classified into three categories namely, financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost. The Municipality determines the classification of its financial instruments at initial recognition.

Initial recognition and measurement

A financial instrument is recognised, when the Municipality becomes a party to the contractual provisions of the instrument, and are initially measured at fair value. In the case of a financial instrument not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instrument are added or deducted from the fair value, as appropriate on initial recognition.

Subsequent measurement – financial assets

Financial assets consist of cash and cash equivalents, deposits, receivables and investments.

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1.9 Financial instruments (continued)

A provision for impairment of receivables is established when there is objective evidence that the Municipality will not be able to collect all amounts due according to the original terms of receivables. The 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. Changes in the carrying amount of the provision is recognised in the Statement of Financial Performance. When a receivable is considered uncollectible, it is written off against the provision. Any gains or losses arising from the change in fair value of investments measured at fair value are recognised in the Statement of Financial Performance.

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

Residual interests that do not have a quoted market price in an active market, and the fair value of which cannot be reliably are subsequently measured at cost less any impairment. Impairment is considered when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Any calculated impairment is recognised in the Statement of Financial Performance.

Subsequent measurement – financial liabilities

Financial liabilities consist of payables, interest bearing loans and bank overdrafts. These liabilities are subsequently measured at amortised cost, using the effective interest rate method. Finance costs are expensed in the Statement of Financial Performance in the period in which they are incurred except where stated otherwise (see accounting policy on borrowing costs).

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the Municipality establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs.

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are carried at amortised cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts.

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1.9 Financial instruments (continued)

Classification

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

Class	Category
Trade receivables from Exchange transactions	Financial asset measured at amortised cost
Trade receivables from Non-Exchange transactions	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
VAT Receivable	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

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

Class	Category
Payables from Exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Employee benefit obligations	Financial liability measured at amortised cost
Provisions	Financial liability measured at amortised cost
Finance lease obligations	Financial liability measured at amortised cost
Other financial liabilities	Financial liability measured at amortised cost

1.10 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.

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1.10 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.11 Inventories

Inventory consist of raw materials and consumables, which are valued at the lower of cost, determined on the first in first out basis, and net realisable value, except for items which are valued at the tariffs charged. Where it is held for distribution or consumption at no charge or for a nominal amount, inventories are valued at the lower of cost and current replacement value.

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

Redundant and slow moving inventory are identified and written down to their estimated net realisable values estimated by management. Inventories are written down according to their age, condition and utility. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventory arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventory recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventory is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

Water Inventory

Water is regarded as inventory when the Municipality purchases water in bulk with the intention to resell it to the consumers or to use it internally, or where the Municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the Municipality but cannot be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the Statement of Financial Position.

The basis of determining the cost of water purchased and not yet sold at Statement of Financial Position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates. Water is valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

1.12 Impairment of cash-generating assets

The Municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Municipality estimates the recoverable amount of the individual asset.

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

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1.12 Impairment of cash-generating assets (continued)

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its 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 estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

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

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

An impairment of assets carried at revalued amount reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

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

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

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

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

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1.12 Impairment of cash-generating assets (continued)

Designation

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

The municipality designates an asset or a cash-generating unit as cash-generating when:

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

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

Administrative/owner-occupied assets

It is accepted that all administrative assets, for example, vehicles, office equipment/furniture, plant and machinery, computer equipment and administrative land and buildings are non-cash generating assets as they do not generate any return.

Infrastructure assets

Infrastructure assets can be divided into five main groups, roads, water, electricity, sewer and waste management. Roads do not generate any return and is therefore categorised as non-cash generating assets.

Water and electricity infrastructure assets in the municipality generate a return in the form of water and electricity service charges. These returns are not considered to be commercial returns for the following reason:

- These levies are determined annually based on:
 - the funds required as per the budget; and
 - the fees set by ESKOM and NERSA
- The budget is prepared to meet the objective of the municipality as set out in the IDP and SDBIP;
- The objectives of the municipality set in the IDP and SDBIP is to deliver services to the community and not to generate a commercial return.

Water and electricity infrastructure assets are non-cash generating assets.

Waste management do generate a return in the form of a fee charged at landfill sites for the disposing of household waste when the load is of a certain size.

These landfill sites are however management to project health, well-being and the environment by providing the facility to safely dispose of household waste. Landfill sites are treated as non-cash generating assets.

Community assets

Community assets are all categorised as non-cash generating assets even if some of these assets, for example, swimming pool, community hall or cemeteries generate a return. The return generated by these assets is small and immaterial in relation to the cost of the assets and therefore is not considered to be a commercial return. In addition, all community assets are held with the primary objectives of service delivery in the community, to uplift the communities and to stimulate and enhance economic growth in the different communities.

1.13 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

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

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

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

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Accounting Policies

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

Designation

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

The municipality designates an asset or a cash-generating unit as cash-generating when:

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

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

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

Administrative/owner-occupied assets

It is accepted that all administrative assets, for example, vehicles, office equipment/furniture, plant and machinery, computer equipment and administrative land and buildings are non-cash generating assets as they do not generate any return.

Infrastructure assets

Infrastructure assets can be divided into five main groups, roads, water, electricity, sewer and waste management. Roads do not generate any return and is therefore categorised as non-cash generating assets.

Water and electricity infrastructure assets in the municipality generate a return in the form of water and electricity service charges. These returns are not considered to be commercial returns for the following reason:

- These levies are determined annually based on:
 - the funds required as per the budget; and
 - the fees set by ESKOM and NERSA
- The budget is prepared to meet the objective of the municipality as set out in the IDP and SDBIP;
- The objectives of the municipality set in the IDP and SDBIP is to deliver services to the community and not to generate a commercial return.

Water and electricity infrastructure assets are non-cash generating assets.

Waste management do generate a return in the form of a fee charged at landfill sites for the disposing of household waste when the load is of a certain size.

These landfill sites are however management to project health, well-being and the environment by providing the facility to safely dispose of household waste. Landfill sites are treated as non-cash generating assets.

Community assets

Community assets are all categorised as non-cash generating assets even if some of these assets, for example, swimming pool, community hall or cemeteries generate a return. The return generated by these assets is small and immaterial in relation to the cost of the assets and therefore is not considered to be a commercial return. In addition, all community assets are held with the primary objectives of service delivery in the community, to uplift the communities and to stimulate and enhance economic growth in the different communities.

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1.14 Employee benefits

The Municipality provides short term benefits, long term benefits and retirement benefits for its employees and councillors.

Short-term employee benefits

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service.

Leave pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end and is shown as an accrual in the Statement of Financial Position.

Bonus Provisions

The Municipality recognises the expected cost of bonuses as a provision only when the Municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made at reporting date.

Post-employment benefits: Defined contribution plans

A defined contribution plan is a plan for Health Care Benefits under which the Municipality pays fixed contributions into a separate entity. The Municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The Municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees.

Past-service costs are recognised immediately, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

Post-employment benefits: Defined benefit plans

A defined benefit plan is a plan that defines an amount of benefit that an employee will receive on retirement.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out by independent qualified actuaries regularly, as may be required for fair presentation.

Actuarial gains or losses recognised immediately in the Statement of Financial Performance.

Long-service Allowance

The Municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the Municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The Municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

1.15 Provisions and contingencies

Provisions are recognised when the Municipality has a present (legal or constructive) obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made.

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Accounting Policies

1.15 Provisions and contingencies (continued)

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the entity, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances, where the provision being measured involves a large population of items; the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

Environmental Rehabilitation Provisions

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

1.16 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.17 Revenue

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

Recognition and measurement

The Municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

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1.17 Revenue (continued)

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

Service Charges – exchange revenue

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

Pre-paid Electricity – exchange revenue

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

Sale of goods – exchange revenue

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

- the Municipality has transferred to the buyer 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;
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividends – exchange revenue

Dividends are recognised on the date that the Municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

Revenue Recognition of Unclaimed Deposits – exchange revenue

Unclaimed deposits older than three (3) years are recognised as revenue.

Rates and Taxes – non-exchange revenue

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1.17 Revenue (continued)

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

1.18 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.

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.

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1.18 Revenue from non-exchange transactions (continued)

Measurement

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

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

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

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Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Rates and Taxes – non-exchange revenue

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

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

Fines – non-exchange revenue

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the Municipality is entitled to collect.

Subsequent to initial recognition and measurement, the Municipality assess the collectability of the revenue and recognises a separate impairment loss where appropriate.

Donations and Contributions – non-exchange revenue

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

Transfers and subsidies – non-exchange revenue

Unconditional Grants

Equitable share allocations are recognised in revenue in the beginning of the financial year.

Conditional Grants

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

Interest earned on grants received and invested is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the Municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

Services Received In-kind – non-exchange revenue

Services in kind are recognised at its fair value when it is significant to the operations and/or service delivery objectives and when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, only the nature and type of services in-kind received during the reporting period is disclosed.

Transfers and subsidies – non-exchange expenditure

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Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

The Municipality transfers money to individuals, organisations and other sectors of government from time to time. These transfers are recognised in the financial statements as expenses in the period that the events giving rise to the transfer occurred.

1.19 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value-added taxation.

1.20 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.21 Borrowing costs

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

1.22 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

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Accounting Policies

1.22 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

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

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

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

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

Recognition

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

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

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

1.23 Comparative figures

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

1.24 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.25 Fruitless and wasteful expenditure

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

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

1.26 Irregular expenditure

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

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Accounting Policies

1.26 Irregular expenditure (continued)

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

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

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

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

1.27 Segment information

A segment is an activity of an entity:

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

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

1.28 Budget information

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

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

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

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

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

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

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

Comparative information is not required.

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Accounting Policies

1.29 Related parties

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, Municipal Manager, executive directors and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

1.30 Events after reporting date

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

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

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

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

1.31 Value added tax

The municipality is registered with the SARS for VAT on the payment basis, in accordance with the Section 15(2)(a) of the Value Added Tax Act no 89 of 1991. Revenue, expenses and assets are recognised net of the amounts of value added tax. Value added tax is accounted for using the payment basis.

Revenue, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on the purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item applicable; and
- Receivables and payables that are stated with the amount VAT included.

1.32 Grants-in aid (Expense)

The municipality annually awards grants to individuals and organisations based on merit. When making these transfers, the municipality does not

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

Notes to the Annual Financial Statements

Figures in Rand

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2020

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:

Effective date: Years beginning on or after

Expected impact:

- GRAP 110 (as amended 2016): Living and Non-living Resources 01 April 2020 The impact of the is not material.
 - Directive 7 (revised): The Application of Deemed Cost 01 April 2020 The impact of the is not material.
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2. New standards and interpretations (continued)

2.2 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2025	Unlikely there will be a material impact
• iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact
• GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	Unlikely there will be a material impact

2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2021 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 108: Statutory Receivables	30 June 2022	Unlikely there will be a material impact

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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	31 464 154	(18 371 275)	13 092 879	31 464 154	(18 030 131)	13 434 023

Reconciliation of investment property - 2020

	Opening balance	Depreciation	Total
Investment property	13 434 023	(341 144)	13 092 879

Reconciliation of investment property - 2020

	Opening balance	Depreciation	Total
Investment property	13 775 843	(341 820)	13 434 023

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.

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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	76 308 828	(25 590 839)	50 717 989	76 386 938	(25 768 454)	50 618 484
Buildings	129 918 078	(78 137 404)	51 780 674	129 689 071	(73 059 679)	56 629 392
Landfill site	19 970 263	(11 632 327)	8 337 936	19 132 309	(10 385 084)	8 747 225
Plant and machinery	670 409	(231 035)	439 374	556 531	(89 456)	467 075
Motor vehicles	12 902 169	(7 461 200)	5 440 969	7 730 082	(6 992 249)	737 833
Office equipment	1 632 810	(1 271 172)	361 638	1 524 430	(1 165 633)	358 797
IT equipment	5 566 630	(4 352 341)	1 214 289	5 063 314	(3 889 008)	1 174 306
Infrastructure - Road network	350 379 246	(197 522 841)	152 856 405	350 379 246	(185 539 629)	164 839 617
Infrastructure - Electricity network	38 432 959	(8 469 432)	29 963 527	38 432 959	(7 240 286)	31 192 673
Work In Progress	72 793 235	-	72 793 235	37 852 632	-	37 852 632
Wastewater network	131 700 089	(60 511 628)	71 188 461	119 115 734	(57 005 523)	62 110 211
Water network	421 806 400	(118 513 522)	303 292 878	408 428 345	(111 892 653)	296 535 692
Total	1 262 081 116	(513 693 741)	748 387 375	1 194 291 591	(483 027 654)	711 263 937

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	WIP additions	Disposals	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Land	50 618 484	-	-	(78 111)	-	-	(1 479 226)	1 656 842	50 717 989
Buildings	56 629 392	36 490	-	-	192 517	(3 662 483)	(1 765 996)	350 754	51 780 674
Landfill site	8 747 225	837 954	-	-	-	(1 247 243)	-	-	8 337 936
Plant and machinery	467 075	113 878	-	-	-	(58 839)	(82 740)	-	439 374
Motor vehicles	737 833	5 172 087	-	-	-	(433 914)	(40 216)	5 179	5 440 969
Office equipment	358 797	108 380	-	-	-	(97 770)	(9 883)	2 114	361 638
IT equipment	1 174 306	503 316	-	-	-	(197 894)	(305 505)	40 066	1 214 289
Infrastructure - Road network	164 839 617	-	-	-	-	(12 212 570)	(496 427)	725 785	152 856 405
Infrastructure - Electricity network	31 192 673	-	61 012 135	-	(26 071 532)	(1 228 018)	(1 128)	-	29 963 527
Work in progress	37 852 632	-	-	-	-	-	-	-	72 793 235
Wastewater network	62 110 211	-	-	-	12 584 355	(3 163 930)	(395 688)	53 513	71 188 461
Water network	296 535 692	83 395	-	-	13 294 660	(9 236 425)	(305 839)	2 921 395	303 292 878
	711 263 937	6 855 500	61 012 135	(78 111)	-	(31 539 086)	(4 882 648)	5 755 648	748 387 375

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4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	WIP additions	Disposals	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Land	50 618 483	-	-	(316 928)	-	-	-	316 929	50 618 484
Buildings	54 664 992	48 116	-	-	5 452 792	(3 536 508)	-	-	56 629 392
Landfill site	8 994 677	837 954	-	-	-	(1 085 406)	-	-	8 747 225
Plant and machinery	23 023	481 270	-	-	-	(36 435)	(783)	-	467 075
Motor vehicles	1 110 699	-	-	-	-	(372 866)	-	-	737 833
Office equipment	442 659	131 325	-	-	-	(212 127)	(3 060)	-	358 797
IT equipment	1 135 077	163 945	-	-	-	(96 561)	(28 155)	-	1 174 306
Infrastructure - Roads network	166 637 806	-	-	-	10 288 176	(12 086 365)	-	-	164 839 617
Infrastructure - Electricity network	13 382 771	643 401	-	-	18 385 023	(1 218 522)	-	-	31 192 673
Work in progress	68 150 539	-	38 652 993	(887 767)	(68 063 133)	-	-	-	37 852 632
Wastewater network	64 787 257	6 420	-	-	-	(2 683 466)	-	-	62 110 211
Water network	271 566 108	16 957	-	-	33 937 137	(8 984 510)	-	-	296 535 692
	701 514 091	2 329 388	38 652 993	(1 204 695)	(5)	(30 312 766)	(31 998)	316 929	711 263 937

Pledged as security

None of the Property, plant and equipment has been pledged as security.

Capitalised expenditure (excluding borrowing costs)

Buildings	229 007	5 500 908
Plant and machinery	113 878	481 270
Motor vehicles	5 172 087	-
Office equipment	108 380	131 325
IT equipment	503 316	163 945
Infrastructure	-	29 316 600
Wastewater network	12 584 355	6 420
Water network	13 378 055	33 954 094
	32 089 078	69 554 562

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	2021	2020
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4. Property, plant and equipment (continued)

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

Cumulative expenditure recognised in the carrying value of property, plant and equipment

Infrastructure - Roads network	468 944	-
Community	1 697 709	-
Infrastructure - Electricity network	18 426 112	4 487 995
Infrastructure - Water network	31 779 781	19 997 282
Wastewater network	20 420 689	13 367 355
	72 793 235	37 852 632

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Total
Opening balance	37 852 632	37 852 632
Additions/capital expenditure	61 012 134	61 012 134
Transferred to completed items	(26 071 532)	(26 071 532)
	72 793 234	72 793 234

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Total
Opening balance	68 150 539	68 150 539
Additions/capital expenditure	38 652 993	38 652 993
Disposal of WIP (Water meters)	(887 767)	(887 767)
Transferred to completed items	(68 063 133)	(68 063 133)
	37 852 632	37 852 632

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

Expenditure incurred to repair and maintain property, plant and equipment	8 731 989	4 602 237
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

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5. Heritage assets

	2021			2020		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	5 761	-	5 761	5 761	-	5 761

Reconciliation of heritage assets 2021

	Opening balance	Total
Art Collections, antiquities and exhibits	5 761	5 761

Reconciliation of heritage assets 2020

	Opening balance	Total
Art Collections, antiquities and exhibits	5 761	5 761

6. Other financial assets

Designated at fair value

VKB Shares	405 035	416 358
Unlisted shares at fair value.		

Non-current assets

Designated at fair value	405 035	416 358
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Financial assets at fair value

Fair values of financial assets measured or disclosed at fair value

Unlisted shares	405 035	416 358
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As the shares is traded on an open market security exchange - fair value is taken on year end for the share price traded on the exchange. The fair value measurement level 1 inputs was used to determine the fair value of the investment. Any gains or losses are accounted through fair value through profit and loss.

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7. Employee benefit obligations

Defined benefit plan

It is the policy of the municipality to provide retirement benefits to all its employees who elect to participate in the different available schemes. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose. The majority of employees belong to three benefit retirement funds. One fund is administered by the Provincial Pension Fund. These benefit funds are multi-employer funds and as such they are treated as contribution plans in terms of exemption included in GRAP 25.

The last actuarial valuation was dated 30 June 2021.

Post retirement medical aid plan

NET DISCOUNT RATE

The key assumptions used in the valuation, with the prior years assumptions shown for comparison, are summarised below:

Assumption	30 June 2021	30 June 2020
Discount Rate (D)	7.71%	10.46%
Consumer price inflation (CPI)	4.27%	5.20%
Health care cost inflation (H = 1.50% + CPI)	5.77%	6.70%
Maximum Subsidy Cap Increase (MSC = (1.00% + CPI)*75%)	1.83%	6.70%

It is the relative levels of the discount rate and health care cost inflation to one another that are important, rather than the nominal values. The assumption regarding the relative levels of these two rates is our expectation of the long-term average.

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2020 the duration of liabilities was 5.96 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2021 is 8.02% per annum, and the yield on the inflation-linked bonds of a similar term was about 4.38% per annum, implying an underlying expectation of inflation of 3.01% per annum $([1 + 8.02\% - 0.50\%] / [1 + 4.38\%] - 1)$.

A healthcare cost inflation rate of 4.51% was assumed. This is 1.50% in excess of the expected inflation over the expected term of the liability, consistent with the previous actuary.

In addition, for continuation pensioners whose subsidy was higher than the subsidy cap of R4,773, we assumed a maximum subsidy cap increase of 3.01% which is 75% of the salary inflation. Salary inflation was assumed to be 1.00% in excess of the expected inflation over the expected term of the liability

DEMOGRAPHIC AND DECREMENT ASSUMPTIONS

The demographic and decrement assumptions were consistent in the previous and current valuation period, and are as follows:

Assumption	Continuation Pensioners 30 June 2021	Continuation Pensioners 30 June 2020
Age difference between spouses	5 years	5 years
Proportion married	Data provided	Data provided

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7. Employee benefit obligations (continued)

Mortality	PA (90) - 1 with a 1% mortality improvement p.a from 2010	PA (90) - 1 with a 1% mortality improvement p.a from 2010
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POST EMPLOYMENT MEDICAL SUBSIDY:

The employer's post-employment health care liability consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member.

Phumelela is committed to pay subsidies broadly as follows:

In-service members are not eligible to receive the post employment medical subsidy.

All continuation members and their eligible dependants receive a 60% subsidy. As at the valuation date none of the continuation pensioners had a spouse.

All post-employment subsidies are subject to a maximum of R 4,773 as at 1 July 2021. The maximum subsidy amount has been assumed to increase in future at 75% of salary inflation.

Long service award liability

The Municipality offers employees LSA for every five years of service completed, from five years of service to 45 years of service, inclusive.

Table below describes the benefits awarded.

Completed Service (in years)	Long Service Bonuses (% of Annual Salary)	Description
5	2.0%	$(5 / 250 + 2\%) \times \text{annual earnings}$
10	3.0%	$(10 / 250 + 3\%) \times \text{annual earnings}$
15	4.0%	$(15 / 250 + 4\%) \times \text{annual earnings}$
20	5.0%	$(15 / 250 + 5\%) \times \text{annual earnings}$
25, 30, 35, 40, 45	6.0%	$(15 / 250 + 6\%) \times \text{annual earnings}$

Notes to above Table:

-Long service accumulated leave must be taken within one year of receiving such leave or may be wholly or partially cashed. Phumelela advised that in most cases, employees choose to exercise the option to wholly convert their accumulative leave bonus days into cash.

-The amount of the gift is assumed to stay level, consistent with the assumption at the previous valuation.

VALUATION ASSUMPTIONS:

NET DISCOUNT RATE

The key assumptions used in the valuation, with the prior years' assumptions shown for comparison, are summarised below:

Assumption	30 June 2021	30 June 2020
Discount Rate	9.29%	7.82%
CPI	4.39%	2.86%

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7. Employee benefit obligations (continued)

Salary increase rate	5.39%	3.86%
Net discount rate	3.70%	3.81%

GRAP25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation.

The methodology of setting financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2019 the duration of liabilities was 5.85 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2020 is 7.82% per annum, and the yield on inflation-linked bonds of a similar term was about 4.34% per annum. This implies an underlying expectation of inflation of 2.86% per annum $([1 + 7.82\% - 0.5\%] / [1 + 4.34\%] - 1)$.

We have assumed that salary inflation would exceed general inflation by 1.00% per annum, i.e. 3.86% per annum

However, it is the relative levels of the discount rate and salary inflation to one another that is important, rather than the nominal values. We have thus assumed a net discount factor of 3.81% per annum $([1 + 7.82\%] / [1 + 3.86\%] - 1)$.

PROMOTIONAL SALARY INCREASE RATES

In addition to the normal salary inflation rate, we have assumed promotional salary increases consistent with the prior actuary. The rates are reflected in the table below:

Age band	Additional promotional scale
20 – 24	5.0%
25 – 29	4.0%
30 – 34	3.0%
35 – 39	2.0%
40 – 44	1.0%
> 44	0.0%

DEMOGRAPHIC AND DECREMENT ASSUMPTION

The demographic and decrement assumptions were consistent in the previous and current valuation period, and are as follows:

Assumption	30 June 2021	30 June 2020
Normal retirement age (years)	65	65
Average retirement age (years)	62	62
Mortality	SA85-90	SA85-90

The average retirement age for all active employees was assumed to be 62 years to implicitly allow for ill-health and early retirements

The following withdrawal assumptions were applicable over the prior and current valuation periods

Age	Withdrawal rates (Male)	Withdrawal rates (Female)
20	9%	9%
25	8%	8%
30	6%	6%
35	5%	5%
40	5%	5%

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7. Employee benefit obligations (continued)

45	4%	4%
50	3%	3%
55+	-	-

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

Carrying value

Present value of the defined benefit obligation - Post employment benefit plan	(1 027 009)	(1 614 781)
Present value of the defined benefit obligation - Long service awards	(4 259 624)	(4 160 427)
	(5 286 633)	(5 775 208)
Non-current liabilities	(4 321 874)	(4 783 798)
Current liabilities	(964 759)	(991 410)
	(5 286 633)	(5 775 208)

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

Opening balance	(5 775 208)	(6 067 063)
Actuarial gains	417 874	433 746
Net expense recognised in the statement of financial performance	(141 891)	(141 891)
	(5 499 225)	(5 775 208)

Net expense recognised in the statement of financial performance

Current service cost	(479 724)	(479 724)
Interest cost	(455 115)	(455 115)
Benefits paid	792 948	792 948
	(141 891)	(141 891)

Calculation of actuarial gains and losses

Actuarial (gains) losses – Long service awards	93 002	265 547
Actuarial (gains) losses – Post employment benefit plan	(510 876)	168 199
	(417 874)	433 746

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7. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	7.71 %	9.14 %
Health care cost inflation rate	5.77 %	6.70 %

Sensitivity Analysis for Post Employment benefit plan:

	1% decrease R's	30 June 2021 Valuation basis R's	1% increase R's
Medical inflation rate			
Employer's accrued liability	975,026	1,027,009	1,083,021
Employer's service cost	-	-	-
Employer's interest cost	68,409	72,274	76,439
Discount Rate			
Employer's accrued liability	1,089,773	1,027,009	970,613
Employer's service cost (year following)	-	40,410-	-
Employer's interest cost (year following)	67,244	72,274	76,591

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7. Employee benefit obligations (continued)

As per the table above, a 1% increase in the medical inflation rate results in a 2.30% increase in the accrued liability whilst a 1% decrease in the medical inflation rate will result in an 2.14% decrease in the accrued liability.

Inversely, a 1% increase in the discount rate results in a 5.13% decrease in the accrued liability whilst a 1% decrease in the discount rate will result in a 5.67% increase in the accrued liability.

PEMA Liability Reconciliation:

Opening Accrued Liability	1 614 781	1 888 833
-Current-service Cost	-	-
-Interest Cost	130 860	140 725
-Contributions (benefits paid)	(207 756)	(246 578)
Total Annual Expense	(76 896)	(105 853)
-Actuarial Loss / (Gain)	(510 876)	(168 199)
Closing Accrued Liability	1 027 009	1 614 781

LSA Liability Reconciliation:

Opening Accrued Liability	(4 160 427)	(4 178 230)
-Current-service Cost	(423 557)	(479 724)
-Interest Cost	(312 380)	(314 390)
-Contributions (benefits paid)	729 741	546 370
Total Annual Expense	6 196	(247 744)
-Actuarial Loss / (Gain)	(93 002)	265 547
Closing Accrued Liability	(4 259 625)	(4 160 427)

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7. Employee benefit obligations (continued)

Other disclosures

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

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

Summary of the accrued liabilities and the plan assets for the current period and the previous four periods.

	2021 R	2020 R	2019 R	2018 R	2017 R
Accrued liability	1 027 009	1 614 781	1 889 000	1 723 000	1 966 000
Surplus / (deficit)	(1 027 009)	(1 614 781)	(1 889 000)	(1 723 000)	(1 966 000)

Summary of the experience adjustments for the current period and the previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred.

	2021 R	2020 R	2019 R	2018 R	2017 R
Liabilities: (Gain) / Loss	(510 876)	(168 199)	67 000	(107 000)	(13 000)

LSA Disclosure: Summarises the accrued liabilities and the plan assets for the current period and the previous four periods.

	2021 R	2020 R	2019 R	2018 R	2017 R
Accrued liability	4 259 625	4 160 427	4 178 230	3 470 129	3 189 729
Surplus / (deficit)	(4 259 625)	(4 160 427)	(4 178 230)	(3 470 129)	(3 189 729)

Summary of the experience adjustments for the current and previous four periods. Experience adjustments are the effects of differences between the previous actuarial assumptions and what has actually occurred

	2021 R	2020 R	2019 R	2018 R	2017 R
Liabilities: (Gain) / Loss	93 002	(265 547)	198 652	86 028	39 677

8. Inventories

Consumable stores		2 226 026	891 590
Water for distribution		73 877	47 257
		2 299 903	938 847

Carrying value of inventories carried at the lower of cost and net realisable value

2 299 903

938 847

Inventories recognised as an expense during the year

1 210 524

1 561 367

Water for distribution

Water Inventory		73 877	47 257
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9. Receivables from exchange transactions		
Sundry debtors	608 089	609 378
Prepaid expenses	62 977	-
Consumer debtors - Electricity	467 908	311 532
Consumer debtors - Water	2 155 658	2 194 589
Consumer debtors - Sewerage	2 730 894	2 607 013
Consumer debtors - Refuse	2 951 506	2 734 556
Consumer debtors - Interest	2 393 720	2 044 230
Consumer debtors - Housing rental	147 063	311 920
Consumer debtors - Sundry	383 631	858 792
	11 901 446	11 672 010
Trade and other receivables pledged as security		
No consumer debtors were pledged as security.		
Fair value of trade and other receivables		
Trade and other receivables	11 901 446	11 672 010
10. Receivables from non-exchange transactions		
Fines	-	33 287
Consumer debtors - Rates	2 932 815	2 004 663
	2 932 815	2 037 950
Fair value of receivables from non-exchange transactions		
Other receivables from non-exchange transactions	2 966 102	2 037 950
11. VAT receivable		
VAT	45 719 253	36 446 436
12. Consumer debtors disclosure		
Gross balances		
Consumer debtors - Rates	48 643 903	42 176 750
Consumer debtors - Electricity	4 254 917	3 918 321
Consumer debtors - Water	71 079 942	62 776 411
Consumer debtors - Sewerage	76 026 457	66 987 437
Consumer debtors - Refuse	77 854 640	68 379 929
Consumer debtors - Interest	99 624 148	82 340 523
Consumer debtors - Rental	3 695 089	3 465 564
Consumer debtors - Sundry	2 237 191	3 141 128
	383 416 287	333 186 063

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12. Consumer debtors disclosure (continued)		
Less: Allowance for impairment		
Consumer debtors - Rates	(45 711 088)	(40 172 087)
Consumer debtors - Electricity	(3 787 009)	(3 606 789)
Consumer debtors - Water	(68 924 284)	(60 581 822)
Consumer debtors - Sewerage	(73 295 563)	(64 380 424)
Consumer debtors - Refuse	(74 903 134)	(65 645 373)
Consumer debtors - Interest	(97 230 428)	(80 296 293)
Consumer debtors - Rental	(3 548 026)	(3 153 644)
Consumer debtors - Sundry	(1 853 560)	(2 282 336)
	(369 253 092)	(320 118 768)
Net balance		
Consumer debtors - Rates	2 932 815	2 004 663
Consumer debtors - Electricity	467 908	311 532
Consumer debtors - Water	2 155 658	2 194 589
Consumer debtors - Sewerage	2 730 894	2 607 013
Consumer debtors - Refuse	2 951 506	2 734 556
Consumer debtors - Interest	2 393 720	2 044 230
Consumer debtors - Rental	147 063	311 920
Consumer debtors - Sundry	383 631	858 792
	14 163 195	13 067 295
Included in above is receivables from exchange transactions		
Electricity	467 908	311 532
Water	2 155 658	2 194 589
Sewerage	2 730 894	2 607 013
Refuse	2 951 506	2 734 556
Interest	2 393 720	2 044 230
Sundry debtors	383 631	858 792
Housing rental	147 063	311 920
	11 230 380	11 062 632
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	2 932 815	2 004 663
	14 163 195	13 067 295
Rates		
Current (0 -30 days)	633 028	2 141 942
31 - 60 days	678 564	661 984
61 - 90 days	617 859	623 698
91 - 120 days	603 795	594 992
121 - 365+ days	46 110 657	38 154 134
Provision	(45 711 088)	(40 172 087)
	2 932 815	2 004 663

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12. Consumer debtors disclosure (continued)		
Electricity		
Current (0 -30 days)	(405 112)	(346 145)
31 - 60 days	135 240	18 441
61 - 90 days	11 003	64 174
91 - 120 days	69 376	8 067
121 - 365+ days	4 444 411	4 173 784
Provision	(3 787 010)	(3 606 789)
	467 908	311 532
Water		
Current (0 -30 days)	551 051	919 697
31 - 60 days	1 178 314	867 009
61 - 90 days	975 507	1 268 485
91 - 120 days	760 194	1 070 755
121 - 365+ days	67 614 876	58 650 464
Provision	(68 924 284)	(60 581 821)
	2 155 658	2 194 589
Sewerage		
Current (0 -30 days)	1 052 085	1 020 395
31 - 60 days	1 103 358	1 065 905
61 - 90 days	1 066 728	1 105 784
91 - 120 days	1 086 515	1 006 397
121 - 365+ days	71 717 771	62 788 956
Provision	(73 295 563)	(64 380 424)
	2 730 894	2 607 013
Refuse		
Current (0 -30 days)	1 067 405	1 035 502
31 - 60 days	1 087 334	1 048 333
61 - 90 days	1 053 329	1 080 032
91 - 120 days	1 073 546	1 003 329
121 - 365+ days	73 573 026	64 212 734
Provision	(74 903 134)	(65 645 374)
	2 951 506	2 734 556
Interest		
Current (0 -30 days)	1 517 276	1 078 697
31 - 60 days	1 615 711	1 918 519
61 - 90 days	1 599 287	1 933 733
91 - 120 days	1 625 044	1 854 677
121 - 365+ days	93 266 830	75 554 897
Provision	(97 230 428)	(80 296 293)
	2 393 720	2 044 230

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12. Consumer debtors disclosure (continued)		
Housing rental		
Current (0 -30 days)	30 517	46 604
31 - 60 days	29 833	26 854
61 - 90 days	26 987	26 589
91 - 120 days	25 654	24 393
121 - 365+ days	3 582 099	3 341 123
Provision	(3 548 027)	(3 153 643)
	147 063	311 920
Sundry		
Current (0 -30 days)	11 575	2 478 100
31 - 60 days	9 047	6 973
61 - 90 days	5 374	4 688
91 - 120 days	4 620	4 620
121 - 365+ days	2 206 575	646 746
Provision	(1 853 560)	(2 282 335)
	383 631	858 792
Reconciliation of allowance for impairment		
Balance at beginning of the year	(320 118 768)	(249 498 152)
Contributions to allowance	(45 513 807)	(65 749 778)
Provision to contribution VAT receivable	(3 620 517)	(4 870 838)
	(369 253 092)	(320 118 768)
13. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	7 066	7 066
Bank balances	543 869	20 768
Short-term deposits	3 726 100	58 493
	4 277 035	86 327
Credit quality of cash at bank and short term deposits, excluding cash on hand		
The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:		
Credit rating		
Baa3	4 269 970	79 262

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13. Cash and cash equivalents (continued)

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
ABSA Bank - Current Account - 2260940190	377 268	20 764	377 268	377 268	20 764	337 729
ABSA - Grants Call Account - 9211177843	1 171 632	51 966	3 136 197	1 171 632	51 966	3 136 197
ABSA Bank - Call Account - 9211176952	78 933	1 009	151 672	78 933	1 009	151 672
First National Bank - 7 Day - 74347566926	4 481	4 481	4 481	4 481	4 481	4 481
First National Bank - Interest Plus - 62322122574	166 600	4	38 069	166 600	4	38 069
ABSA Bank - Call Account - 2077706148	320 716	1 038	1 006	320 716	1 038	1 006
ABSA Bank - Fixed Deposit - 2079725700	2 150 340	-	-	2 150 340	-	-
Total	4 269 970	79 262	3 708 693	4 269 970	79 262	3 669 154

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Regional Bulk Infrastructure Grant	3 726 100	-
Water Services Infrastructure Grant	-	18 660
	3 726 100	18 660

Movement during the year

Balance at the beginning of the year	18 660	-
Additions during the year	73 485 000	61 499 801
Income recognition during the year	(69 777 560)	(61 481 141)
	3 726 100	18 660

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

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

See note 27 for reconciliation of grants from National/Provincial Government.

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15. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Additions	Effect of change in discount rate	Total
Environmental rehabilitation	36 996 618	837 954	1 983 018	39 817 590

Reconciliation of provisions - 2020

	Opening Balance	Additions	Effect of change in discount rate	Total
Environmental rehabilitation	34 319 157	837 954	1 839 507	36 996 618
Non-current liabilities			37 834 571	35 157 111
Current liabilities			1 983 019	1 839 507
			39 817 590	36 996 618

Rehabilitation provision

There are four existing waste disposal sites, two in the town of Vrede, one in Memel and one in Warden. The Memel and Warden sites have to be closed due to them being unsuitable sites for waste disposal. A provision has been recognised to account for the closure cost estimate for the sites in question.

Landfill closure and rehabilitation

Landfill operations continue until all the available permitted land space has been filled. Once this happens, the site will be closed and capped with a layer of impermeable clay and a layer of the top soil. Grass and other suitable vegetation types are planted to stabilize the soil and improve the appearance. Environmental monitoring continues for a period of up to 30 years after the closure of the site. No appointment for the closure of the sites has been made, and therefore only rough estimates have been made.

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16. Payables from exchange transactions		
13th cheque accrual	2 232 179	1 978 718
Accrued leave pay	5 678 339	5 088 617
Accrued salary expense	3 101 175	5 328 337
Debtors in credit	3 484 463	3 246 033
Payments received in advance - sale of stands	1 676 097	-
Payments received in advanced - prepaid electricity	88 472	77 038
Retentions	6 499 372	3 049 672
Trade payables	310 803 660	275 132 922
Unallocated receipts and deposits	27 910 094	28 702 978
	361 473 851	322 604 315
Fair value of trade and other payables		
Trade payables	361 473 850	322 604 315
17. Consumer deposits		
Rates, water, refuse, electricity and rental	225 323	222 384

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Figures in Rand	2021	2020
18. Revenue		
Eskom rebate on interest received	-	1 787 795
Fines, Penalties and Forfeits	54 715	88 187
Government grants & subsidies	182 295 660	139 349 141
Interest received - investment	16 199 141	17 047 187
Other income related to municipal services	1 474 690	591 895
Property rates	12 883 815	14 689 581
Public contributions and donations	32 014	11 676
Rental of facilities and equipment	480 614	442 331
Service charges	46 846 422	47 697 834
	260 267 071	221 705 627

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

Eskom rebate on interest received	-	1 787 795
Interest received - investment	16 199 141	17 047 187
Other income - (rollup)	1 474 690	591 895
Rental of facilities and equipment	480 614	442 331
Service charges	46 846 422	47 697 834
	65 000 867	67 567 042

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

Taxation revenue		
Property rates	12 883 815	14 689 581
Transfer revenue		
Government grants & subsidies	182 295 660	139 349 141
Public contributions and donations	32 014	11 676
Fines	54 715	88 187
	195 266 204	154 138 585

Basis on which fair value of inflowing resources was measured

Transfers

Fines

Fines issued in terms of the Criminal Procedures Act are usually issued by way of notice to offenders, and can (a) indicate the value of the fine to be paid, and that certain reductions could be made to the value of the fine payable and how, or the circumstances under which, such reductions can be applied, or (b) indicate that the offender must appear in Court on a specified date (in these instances, the value of the fine may or may not be indicated but this is often only determined after a separate legal process). In 2012, the ASB revised IGRAP 1 Applying the Probability Test on the Initial Recognition of Revenue to include revenue from non-exchange transactions. This amendment is applicable to municipalities from 1 July 2013. IGRAP 1 indicates that entities should not consider the probability of non-payment on the initial recognition of revenue. This should be considered as a subsequent event when assessing impairment.

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Figures in Rand	2021	2020
19. Service charges		
Sale of electricity	15 319 974	15 018 240
Sale of water	10 261 319	12 352 404
Sewerage and sanitation charges	10 665 514	10 275 650
Refuse removal	10 599 615	10 051 540
	46 846 422	47 697 834
20. Rental of facilities and equipment		
Premises		
Own Premises	480 614	442 331
21. Traffic fines		
Traffic Fines	54 715	88 187
22. Interest from non-exchange receivables		
Interest charged on non exchange transactions	3 130 558	3 309 872
23. Other revenue		
Eskom Rebate	-	1 787 795
Other income - (rollup)	1 474 690	591 895
	1 474 690	2 379 690
24. Other income		
Building Fees	37 118	14 529
Cemetery Fees	234 917	162 572
Clearance certificate	30 614	32 820
Collecting Fees	162 897	184 813
Connection Fees	36 544	11 110
Sale of stands	808 696	92 696
Tender deposits	163 904	93 355
	1 474 690	591 895
25. Interest received		
Interest revenue		
Bank	1 065 792	671 647
Interest charged on exchange transactions	15 133 349	16 375 540
	16 199 141	17 047 187

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Figures in Rand	2021	2020
26. Property rates		
Rates received		
Property rates	12 883 815	14 689 581
Valuations		
Residential	1 228 974 354	1 228 974 354
Commercial	149 513 820	149 513 820
State	73 100 494	73 100 494
Municipal	5 633 000	5 633 000
Small holdings and farms	6 194 281 806	6 194 281 806
Institutional and Other	115 529 000	115 529 000
	7 767 032 474	7 767 032 474

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2014. MEC Cogta has granted permission for extension of the validity of the valuation roll until 30 June 2021. The newly compiled valuation roll will come in to effect from 01 July 2021. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

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Notes to the Annual Financial Statements

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	2021	2020
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27. Government grants and subsidies

Operating grants

Equitable share	93 458 000	75 451 000
Local Government Financial Management Grant (FMG)	3 000 000	2 880 000
Expanded Public Works Programme Integrated Grant (EPWP)	-	1 000 000
COGTA - Split meter grant	1 540 100	2 000 000
Municipal Disaster relief grant	1 500 000	417 000
	99 498 100	81 748 000

Capital grants

Municipal Infrastructure Grant	20 676 000	21 048 000
Regional Bulk Infrastructure Grant (Direct)	24 982 900	14 411 801
Dept of Water & Sanitation (DWA & RBIG)	21 118 660	16 981 340
Integrated National Electrification Programme (5B)	16 020 000	5 160 000
	82 797 560	57 601 141
	182 295 660	139 349 141

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	93 458 000	63 898 141
Unconditional grants received	92 595 774	75 451 000
	186 053 774	139 349 141

Equitable Share

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

Municipal Infrastructure Grant

Current-year receipts	20 676 000	21 048 000
Conditions met - transferred to revenue	(20 676 000)	(21 048 000)
	-	-

Conditions still to be met - remain liabilities (see note 14).

Financial Management Grant

Current-year receipts	3 000 000	2 880 000
Conditions met - transferred to revenue	(3 000 000)	(2 880 000)
	-	-

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Figures in Rand	2021	2020
27. Government grants and subsidies (continued)		
Regional Bulk Infrastructure Grant (Direct)		
Current-year receipts	28 709 000	14 411 801
Conditions met - transferred to revenue	(24 982 900)	(14 411 801)
	3 726 100	-
Dept of Water & Sanitation (DWA & RBIG)		
Balance unspent at beginning of year	18 660	-
Current-year receipts	21 100 000	17 000 000
Conditions met - transferred to revenue	(21 118 660)	(16 981 340)
	-	18 660
Expanded Public Works Programme Integrated Grant (EPWP)		
Current-year receipts	-	1 000 000
Conditions met - transferred to revenue	-	(1 000 000)
	-	-
Integrated National Electrification Programme (5B)		
Current-year receipts	16 020 000	5 160 000
Conditions met - transferred to revenue	(16 020 000)	(5 160 000)
	-	-
Conditions still to be met - remain liabilities (see note 14).		
28. Public contributions and donations		
Other Public contribution	32 014	11 676

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Notes to the Annual Financial Statements

Figures in Rand	2021	2020
29. Employee related costs		
13th Cheques	3 603 871	3 217 208
Acting allowances	1 526 356	1 361 721
Basic	49 751 066	47 703 311
Car allowance	3 101 796	2 741 409
Defined contribution plans	7 327 028	6 710 825
Employee benefit obligation	(70 700)	244 665
Leave pay provision charge	1 664 002	(76 866)
Long-service awards	349 500	361 218
Long-term benefits - incentive scheme	161 435	-
Medical aid - company contributions	2 872 347	2 484 751
Occupational allowance	21 257	21 257
Other payroll levies	34 858	39 787
Overtime payments	6 037 589	4 964 679
SDL	503 981	465 857
Standby Allowance	410 473	434 904
UIF	467 604	452 457
	77 762 463	71 127 183
Remuneration of Municipal Manager - NF Malatjie		
Annual Remuneration	673 493	665 861
Car Allowance	443 473	438 440
Contributions to UIF, Medical and Pension Funds	158 249	156 568
Backpay	-	14 380
	1 275 215	1 275 249
Remuneration of Chief Financial Officer - NF Ralabanya		
Annual Remuneration	778 314	769 494
Car Allowance	260 082	257 130
Contributions to UIF, Medical and Pension Funds	10 152	10 123
Backpay	-	11 807
	1 048 548	1 048 554
Remuneration of Director Corporate Services - NS Kobeli		
Annual Remuneration	518 895	769 494
Car Allowance	173 388	257 130
Leave payout	99 689	-
Contributions to UIF, Medical and Pension Funds	7 473	11 092
Backpay	-	11 807
	799 445	1 049 523
Remuneration of Director of Technical Services - ML Mokoena		
Annual Remuneration	674 281	666 642
Car Allowance	364 114	359 982
Contributions to UIF, Medical and Pension Funds	10 180	10 743
Backpay	-	11 807
	1 048 575	1 049 174

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30. Remuneration of councillors		
Executive Major	913 928	908 780
Speaker	735 397	735 121
Councillors	4 252 373	4 223 855
Ward Committees	473 403	482 780
	6 375 101	6 350 536
31. Depreciation and amortisation		
Property, plant and equipment	31 539 084	30 312 768
Investment property	341 144	341 820
	31 880 228	30 654 588
32. Impairment of assets		
Impairments		
Property, plant and equipment	4 882 648	31 998
An 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.		
Infrastructure assets - GRAP 26.(23) states: In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:		
(g):Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.		
Due to significant budget constraints, the municipality could not maintain the maintenance plan as required for the infrastructure assets. This lead to the value in use being lower than the economic value of the assets. Assets were therefore impaired to a condition grade lower based on physical assessment of these assets.		
Land - IGRAP 18 indicates that land is recognised based on control. Control of land is evidenced by the following criteria:		
(a) legal ownership; and/or		
(b) the right to direct access to land, and to restrict or deny the access of others to land. During the prior year it was identified that control over land has been lost. The most significant part of this was rural development for housing. As the land was not yet transferred to the legal new owners name, the land was impaired.		
Reversal of impairments		
Property, plant and equipment	(5 755 647)	(316 929)
Repairs and additions to the network assets resulted in previous conditions of assets to improve, thus a reversal of impairments.		
Total impairment losses/(recognised) reversed	(872 999)	(284 931)
33. Finance costs		
Creditors	11 168 893	7 952 389
Interest Cost - Landfill site provision	1 983 019	1 839 507
	13 151 912	9 791 896
34. Debt impairment		
Traffic fines impairment	33 287	-
Contributions to debt impairment provision	45 513 807	65 749 778
	45 547 094	65 749 778

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Figures in Rand	2021	2020
35. Bulk purchases		
Electricity - Eskom	22 831 686	20 321 609
Water	8 563 739	19 824 165
	31 395 425	40 145 774
36. General expenses		
Accounting fees	8 780 527	5 612 245
Advertising	287 119	132 648
Auditors remuneration	5 292 162	1 646 809
Bank charges	400 924	362 100
Chemicals	1 186 694	1 931 328
Commission paid	755 958	-
Bursaries	2 252 432	873 476
Conferences and seminars	36 025	41 628
Consulting and professional fees	434 783	-
Consumables	1 210 524	1 899 119
Entertainment	37 250	245 355
Fines and penalties	271 519	524 662
Fuel and oil	1 762 641	1 328 240
Rental of equipment	5 318 607	3 338 844
Insurance	603 344	590 578
Medical expenses	36 906	-
Legal fees	1 531 137	2 218 548
Postage and courier	658 792	265 470
Printing and stationery	495 399	678 498
Protective clothing	204 600	178 169
Repairs and maintenance	9 078 585	13 239 809
Software license fees	3 591 687	2 157 579
Subscriptions and membership fees	927 385	831 676
Telephone and fax	2 775 382	2 291 554
Valuation roll	1 119 006	59 851
Training	276 394	33 898
Travel and accommodation	1 236 827	2 399 165
Vehicle licensing	128 020	52 804
	50 690 629	42 934 053

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Figures in Rand	2021	2020
37. Operating surplus (deficit)		
Operating surplus (deficit) for the year is stated after accounting for the following:		
(Gain)/loss on sale of property, plant and equipment	(78 110)	1 091
Impairment on property, plant and equipment	4 882 648	31 998
Reversal of impairment on property, plant and equipment	5 755 647	316 929
Depreciation on property, plant and equipment	31 539 084	30 312 768
Depreciation on investment property	341 144	341 820
Employee costs	84 137 564	77 477 719
38. Cash generated from operations		
Surplus/(deficit)	7 807 541	(41 018 541)
Adjustments for:		
Depreciation and amortisation	31 880 228	30 654 588
Gain (loss) on sale of assets and liabilities	78 110	(1 091)
Impairment reversals	(872 999)	(284 931)
Debt impairment	45 547 094	65 749 778
Movements in retirement benefit assets and liabilities	(488 575)	(291 855)
Movements in provisions	2 820 972	2 677 461
Changes in working capital:		
Inventories	(1 361 056)	170 885
Receivables from exchange transactions	(229 436)	12 881 144
Consumer debtors	(45 547 094)	(65 749 778)
Other receivables from non-exchange transactions	(894 865)	906 344
Payables from exchange transactions	38 869 537	37 797 263
VAT	(9 272 817)	(7 137 780)
Unspent conditional grants and receipts	3 707 440	18 660
Consumer deposits	2 939	(12 085)
	72 047 019	36 360 062

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39. Financial instruments disclosure

Categories of financial instruments

2020

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	405 035	-	405 035
Trade and other receivables from exchange transactions	-	11 901 446	11 901 446
Other receivables from non-exchange transactions	-	2 932 815	2 932 815
Cash and cash equivalents	-	4 277 035	4 277 035
	405 035	19 111 296	19 516 331

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	361 473 851	361 473 851
Consumer deposits	225 323	225 323
	361 699 174	361 699 174

2020

Financial assets

	At fair value	At amortised cost	Total
Other financial assets	416 358	-	416 358
Trade and other receivables from exchange transactions	-	11 672 010	11 672 010
Other receivables from non-exchange transactions	-	2 037 950	2 037 950
Cash and cash equivalents	-	86 327	86 327
	416 358	13 796 287	14 212 645

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	322 604 315	322 604 315
Consumer deposits	222 384	222 384
	322 826 699	322 826 699

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40. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	52 524 853	42 065 170
Total capital commitments		
Already contracted for but not provided for	52 524 853	42 065 170
Total commitments		
Total commitments		
Authorised capital expenditure	52 524 853	42 065 170

This committed expenditure relates to property, plant and equipment and will be financed by available conditional grants, retained surpluses, existing cash resources, funds internally generated, etc. This commitments are also presented inclusive of VAT.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	2 415 176	136 797
- in second to fifth year inclusive	2 454 784	-
	4 869 960	136 797

Operating lease payments represent rentals payable by the municipality for certain of its office printers, internet and telephones. Leases are negotiated for an average term of three years.

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41. Contingencies

The following cases have been reported but not yet confirmed for 30 June 2021.

Matter	Phumelela Local Municipality Legal Representative	Nature Of Claim	Contingent Liability Amount	Estimated Costs
Khato project management // Phumelela Local Municipality - case no 164-8/2020 Freestate High Court	Internal	Contractual Liability	R 2 500 000.00	R 500 000.00
TOTAL			R 2 500 000.00	R 500 000.00

The following cases have been reported but not yet confirmed for 30 June 2020

Matter	Phumelela Local Municipality Legal Representative	Nature Of Claim	Contingent Liability Amount	Estimated Costs
WGP Wessels Phumelela Local Municipality Freestate	Ponoane Attorneys	Delictual Claim	R 1 399 637.68	R 0.00
Thabo Khati SALGBC	Ngwane Attorneys	Labour Dispute	R 1 000 000.00	R 250 000.00
Khato project management // Phumelela Local Municipality - case no 164-8/2020 Freestate High Court	Internal	Contractual Liability	R 2 503 137.75	R 0.00
VIP (PTY) LTD Phumelela Local Municipality Freestate	Ponoane Attorneys	Contractual Liability	R 500 000.00	R 0.00
Raubex CC Phumelela Local Municipality Freestate	Ponoane Attorneys	Contractual Liability	R 900 000.00	R 180 000.00
Pretorius and Bosman & Others	Lawrence Melato Attorneys	Labour Dispute	R 300 000.00	R 75 000.00
TOTAL			R 6 602 775.43	R 505 000.00

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42. Related parties

Relationships

Accounting Officer
Chief Financial Officer
Director Corporate Services
Director Technical Services
Members of key management

NF Malatjie
F Ralabanya
NS Kobeli
ML Mokoena
Mayor - Cllr. T.J Motaung
Speaker - Cllr. STR Zwane
Cllr. TI Radebe
Cllr. BV Khumalo
Cllr. KA Sibeko
Cllr. ZA Tshabalala
Cllr. MM Mashinini
Cllr. MS Ntsele
Cllr. NJ Mokoena
Cllr. SDA Wessels
Cllr. SE Tshabalala
Cllr. SJM Mofokeng
Cllr. SOA Mokoena
Cllr. TM Tshabalala
Cllr. VP Kibido

Related party transactions

Purchases from (sales to) related parties

X Zwane T/A Fish and Chips

1 827

-

Remuneration of management

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42. Related parties (continued)

Management class: Senior management

2021

Name	Basic salary	Allowances	Contributions to UIF, Medical and Pension Funds	Termination benefits	Total
Municipal Manager - NF Malatjie	673 493	443 473	158 249	-	1 275 215
Chief Financial Officer - NF Ralebenya	778 314	260 082	10 152	-	1 048 548
Director Corporate Services - NS Kobeli	518 895	173 388	7 473	99 689	799 445
Director Technical Services - ML Mokoena	674 281	364 114	10 180	-	1 048 575
	2 644 983	1 241 057	186 054	99 689	4 171 783

2020

Name	Basic salary	Allowances	Contributions to UIF, Medical and Pension Funds	Total
Municipal Manager - NF Malatjie	680 241	438 440	156 568	1 275 249
Chief Financial Officer - NF Ralebenya	781 301	257 130	10 123	1 048 554
Director Corporate Services - NS Kobeli	781 301	257 130	11 092	1 049 523
Director Technical Services - ML Mokoena	678 449	359 982	10 743	1 049 174
	2 921 292	1 312 682	188 526	4 422 500

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42. Related parties (continued)

Management class: Councillors

2021

Name	Basic Salary	Contributions to Medical and Pension Funds	Travel Allowance	Cellphone Allowance	Reimbursement	Total
Executive Mayor - Cllr. T.J Motaung	645 644	7 037	215 215	40 800	5 232	913 928
Speaker - Cllr. TR Zwane	688 688	5 909	-	40 800	-	735 397
Cllr. TI Radebe	204 323	2 327	68 107	40 800	-	315 557
Cllr. BV Khumalo	204 323	2 327	68 107	40 800	-	315 557
Cllr. KA Sibeko	204 323	2 476	68 107	40 800	14 938	330 644
Cllr. MB Mhlambi	27 652	-	9 217	5 522	-	42 391
Cllr. MM Mashinini	204 323	2 327	68 107	40 800	-	315 557
Cllr. NS Ntsele	204 323	2 358	68 107	40 800	3 117	318 705
Cllr. NJ Mokoena	204 323	2 327	68 107	40 800	-	315 557
Cllr. DA Wessels	270 145	3 022	90 048	40 800	-	404 015
Cllr. SE Tshabalala	270 145	3 022	90 048	40 800	-	404 015
Cllr. JM Mofokeng	204 323	2 327	68 107	40 800	-	315 557
Cllr. OA Mokoena	204 323	2 327	68 107	40 800	-	315 557
Cllr. TM Tshabalala	204 323	2 348	68 107	40 800	2 092	317 670
Cllr. VP Kibido	204 323	2 478	68 107	40 800	15 111	330 819
Cllr. ZA Tshabalala	181 620	1 952	-	27 200	-	210 772
Ward committees	473 403	-	-	-	-	473 403
	4 600 527	44 564	1 085 598	603 922	40 490	6 375 101

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42. Related parties (continued)

2020

Name	Basic Salary	Contributions to Medical and Pension Funds	Travel Allowance	Cellphone Allowance	Total
Executive Mayor - Cllr. TJ Motaung	645 644	7 121	215 215	40 800	908 780
Speaker - Cllr, TR Zwane	661 096	5 633	27 592	40 800	735 121
Cllr. TI Radebe	170 269	-	56 756	34 800	261 825
Cllr. BV Khumalo	204 323	2 251	68 107	40 800	315 481
Cllr. KA Sibeko	204 323	2 406	68 107	40 800	315 636
Cllr. MB Mhlambi	204 323	2 244	68 107	40 800	315 474
Cllr. MM Mashinini	204 323	2 244	68 107	40 800	315 474
Cllr. NS Ntsele	204 323	2 244	68 107	40 800	315 474
Cllr. NJ Mokoena	204 323	2 244	68 107	40 800	315 474
Cllr. DA Wessels	270 145	2 921	90 048	40 800	403 914
Cllr. SE Tshabalala	270 145	2 912	90 048	40 800	403 905
Cllr. JM Mofokeng	204 323	2 249	68 107	40 800	315 479
Cllr. OA Mokoena	204 323	2 244	68 107	40 800	315 474
Cllr. TM Tshabalala	204 323	2 244	68 107	40 800	315 474
Cllr. VP Kibido	204 323	2 342	68 107	40 800	315 572
Ward Committees	476 200	5 779	-	-	481 979
	4 536 729	47 078	1 160 729	606 000	6 350 536

43. Prior-year adjustments

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

Statement of financial position

2020

	Note	As previously reported	Correction of error	Restated
Payables from exchange transactions	16	(329 809 789)	7 205 475	(322 604 314)
Property, plant and equipment	4	703 725 800	7 538 137	711 263 937
Provisions	15	(46 092 643)	9 096 025	(36 996 618)
Vat receivable	11	36 610 319	(163 883)	36 446 436
Accumulated surplus		(387 008 711)	(23 675 754)	(410 684 465)
		(22 575 024)	-	(22 575 024)

2020

	Note	As previously reported	Correction of error	Restated
Commitments		22 059 655	20 005 515	42 065 170
Material losses		22 631 682	(10 565 787)	12 065 895
Irregular expenditure		205 835 217	(1 391 830)	204 443 387
		250 526 554	8 047 898	258 574 452

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43. Prior-year adjustments (continued)

Statement of financial performance

2020

	Note	As previously reported	Correction of error	Restated
Finance charges	33	10 894 381	(1 102 485)	9 791 896
Depreciation, amortisation and impairments	4	29 738 327	916 261	30 654 588
Bulk purchases	35	43 721 546	(3 575 772)	40 145 774
General expenditure	36	45 574 899	(2 640 845)	42 934 054
Interest from exchange transactions	25	20 357 059	(3 309 872)	17 047 187
Interest from non exchange transactions	22	-	3 309 872	3 309 872
Surplus for the year		150 286 212	(6 402 841)	143 883 371

Cash flow statement

2020

	Note	As previously reported	Correction of error	Restated
Cash flow from operating activities				
Finance cost		(10 894 381)	6 162 124	(4 732 257)
Interest income		20 427 447	(19 755 800)	671 647
		-	-	-
Service charges		444 874	19 919 680	20 364 554
Suppliers		(41 547 413)	(5 891 170)	(47 438 583)
		(31 569 473)	434 834	(31 134 639)
Cash flow from investing activities				
Additions to property plant and equipment		(40 547 512)	(434 864)	(40 982 376)

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43. Prior-year adjustments (continued)

Errors

The following prior period errors adjustments occurred:

1. Correction of creditors understated in the previous year, this was corrected as follows:

General expenses	-R514,092.14
VAT receivable	-R103,419.43
Trade payables	R617,511.57

2. During the financial year the municipality conducted a full road condition assessment. It was identified that when the takeon of assets were accounted, not all foundation layers was added to the register. The effect of the error is as follows:

Property, plant and equipment	R 648,869.63
Accumulated surplus	-R 680,456.42
Depreciation, amortisation and impairment	R 31,586.79

3. Retention's on projects was identified to be misstated. The effect is as follows:

Payables from exchange transactions	R 3,090,280.16
Property plant and equipment	-R 470,992.34
VAT receivable	-R 70,648.85
Accumulated surplus	-R 2,548,638.97

4. An additional invoice was received from DWA in the 2020 financial year, therefore the creditor was corrected and the effect was as follows:

Payables from exchange transactions	-R 5,269,794.13
Bulk purchases	R 5,269,794.13

5. Eskom transferred an outstanding account to the correct department which was not due by the municipality, therefore the creditor was corrected and the effect was as follows:

Payables from exchange transactions	R 8 845,565.53
Bulk Purchases	-R 8 845,565.63

6. During the year the landfill site provision and asset was reformed and errors were identified and corrected. The effect was as follows:

Accumelated surplus	-R14,043,815.13
Provisions	R9,096,025.36
Property plant and equipment	R7,292,234.97
General expenses	-R2,126,750.00
Depreciation, amortisation and impairment	R884,793.98
Finance cost	-R1,102,485.18

7. Correction of depreciation in the prior year:

Property plant and equipment	R119.44
Depreciation	-R119.44

8. An additional accrual was identified. The effect was as follows:

Trade payables	-R502,979.41
Trade payables (Retentions)	R424,889.81
Property plant and equipment	R67,904.10
Vat receivable	R10,185.60

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43. Prior-year adjustments (continued)

9. Interest have been classified under the nature of the transaction. The effect was as follows:

Interest from exchange transactions	-R3,309,872.00
Interest from non exchange transactions	R3,309,872.00

10. The cashflow was reperformed and GRAP 02 was correctly applied. The effect was as follows:

Finance cost	R6,162,124.00
Interest income	-R19,755,800.00
Service charges	R19,919,680.00
Suppliers	-R5,891,170.00
Additions to property plant and equipment	-R434,864.00

44. 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, but the exposure is limited to the the municipality's management thereof. Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes. Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, an independent body that monitors the effectiveness of the internal audit function.

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44. Risk management (continued)

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.

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality managing of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met. The tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	361 473 851	-	-	-

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	322 604 315	-	-	-

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents 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.

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

Financial instrument	2021	2020
Receivables from non-exchange transactions	11 901 446	11 672 010
Receivables from exchange transactions	2 932 815	2 037 950
Bank balances	4 277 035	86 327
Other financial assets	405 035	416 358

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44. Risk management (continued)

Market risk

Interest rate risk

As the municipality has no significant interest-bearing assets, the municipality's income received on interest on investments are dependent of changes in prime interest rates. Interest rate risk is deferred that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result in prime interest changes.

To decrease interest rate risk exposure, investments is mostly done on a on a term not longer than six months. The current Interest rate shown below is the average interest earned during the year under review on call investment deposits and cash in current banking institutions.

Cash flow interest rate risk 2021

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Cash in current banking institutions	- %	543 869	-	-	-	-
Call Investment deposits	3.00 %	3 726 100	-	-	-	-

Cash flow interest rate risk 2020

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Cash in current banking institutions	- %	20 764	-	-	-	-
Call investment deposits	3.00 %	58 498	-	-	-	-

Price risk

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.

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45. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 418 492 005 and that the municipality's total assets exceed its liabilities by R 418 492 005. The current liabilities of R 368,373,051 (2020: R 325,676,276) exceeded its current assets by R 301,242,599 (2020: R 274,494,706).

In addition, the municipality owed Eskom R147,497,312 (2020: R139,225,406) and the water board R 125,682,386 (2020: R107,138,388) as at 30 June 2021.

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

The municipality is experiencing some financial difficulties, indicators are as follows:

1. Suppliers are not paid within the legislative 30 days;
2. Employee benefit obligations are unfunded; refer note 7
3. High levels of distribution losses; refer note 49
4. Slow collection and low recoverability of outstanding consumer accounts; and
5. Unfavourable financial ratios.

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

These events and conditions indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern,

46. Unauthorised expenditure

Opening balance as previously reported	742 288 445	633 917 296
Opening balance as restated	742 288 445	633 917 296
Add: Expenditure identified - current	95 611 689	108 371 149
Closing balance	837 900 134	742 288 445

The municipality has started the process to investigate unauthorised expenditure identified. The process followed is in terms of the guideline issued by National Treasury.

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47. Fruitless and wasteful expenditure		
Opening balance as previously reported	29 377 747	19 134 990
Opening balance as restated	29 377 747	19 134 990
Add: Expenditure identified - current	11 168 708	10 242 757
Closing balance	40 546 455	29 377 747

Expenditure identified in the current year include those listed below:

Summary of fruitless and wasteful

Eskom - Interest	1 738 318	9 501 804
Telkom - Interest	-	57 370
Auditor General - Interest	345 039	152 052
SARS - Interest & Penalties	270 749	530 872
DWS - Interest	8 814 602	-
Ben Hur	-	659
	11 168 708	10 242 757

The municipality has started the process to investigate fruitless and wasteful expenditure identified.

The process followed is in terms of the guideline issued by National Treasury.

There is currently a dispute between Phumelela local municipality and Department of Water and Sanitation regarding the outstanding amount owed.

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48. Irregular expenditure

Opening balance as previously reported	204 443 387	191 241 574
Opening balance as restated	204 443 387	191 241 574
Add: Irregular Expenditure - current	8 471 110	13 201 813
Closing balance	212 914 497	204 443 387

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

Summary of irregular expenditure

Competitive bidding not invited	8 391 471	12 259 745
Three written quotations not invited	79 639	942 068
	8 471 110	13 201 813

Cases under investigation

The municipality has started the process to investigate irregular expenditure identified. The process followed is in terms of the guideline issued by National Treasury. Irregular expenditure are also presented exclusive of VAT.

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	816 683	-
2019/2020 subscription / fee	-	821 683
2020/2021 subscription / fee	880 504	-
Amount paid - current year	(832 420)	(5 000)
	864 767	816 683

Material losses

Electricity Distribution loss	3 257 975	2 353 045
Water Distribution loss	6 730 725	9 712 850
	9 988 700	12 065 895

Electricity losses occur due to inter alia, the tampering of meters, faulty meters and illegal electricity connections. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters are replaced as soon as they are reported.

Water losses occur due to inter alia leakages, the tampering of meters, the incorrect ratios used on bulk meters, faulty meters and illegal water connections. The municipality is currently busy with an audit of bulk meters to find faulty meters and repair them. The problem with tampered meters and illegal connections is an ongoing process, with regular action being taken against defaulters. Faulty meters and leakages are replaced/repared as soon as they are reported.

Audit fees

Opening balance	2 354 943	2 816 560
Current year audit / fee	6 481 033	2 050 059
Amount paid - current year	(938 810)	(2 511 676)
	7 897 166	2 354 943

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49. Additional disclosure in terms of Municipal Finance Management Act (continued)		
PAYE and UIF		
Current year deduction	9 686 387	9 692 456
Amount paid - current year	(8 956 205)	(7 665 585)
	730 182	2 026 871
Pension and Medical Aid Deductions		
Current year deduction	12 804 009	14 742 575
Amount paid - current year	(11 584 298)	(12 687 522)
	1 219 711	2 055 053
VAT		
VAT receivable	45 719 253	36 446 436

VAT output payables and VAT input receivables are shown in note 11.

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

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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 R	Outstanding more than 90 days R	Total R
TJ Motaung	2 695	4 762	7 457
VP Kibido	377	-	377
MJ Zwane	1 292	105	1 397
MM Mashinini	823	4 024	4 847
Tshabalala Z A	2 430	37 251	39 681
	7 617	46 142	53 759

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TJ Motaung	2 259	410	2 669
SE Tshabalala	1 096	579	1 675
VP Kibido	7 814	2 175	9 989
MM Mashinini	1 617	1 261	2 878
	12 786	4 425	17 211

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

30 June 2021	Highest outstanding amount	Aging (in days)
TJ Motaung	4 762	360
TSHABALALA ZA	37 251	360
MM Mashinini	4 024	360
MJ Zwane	105	150
	46 142	1 230

30 June 2020	Highest outstanding amount	Aging (in days)
TJ Motaung	410	90
VP Kibido	2 175	150
SE Tshabalala	579	120
MM Mashinini	1 261	360
	4 425	720

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49. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Supply chain management regulations		
In terms of section 36 of the Municipal Supply Chain Management Regulations the following deviations are listed below.		
Incident		
Ngongo Construction	19 230	-
Thabizdo Projects	30 032	-
Crossmoor Transport	1 656 000	-
VKB - Repairs of firefighter pumps	-	22 722
Blue seal - Sewer spillage at Vrede waste treatment works	-	278 882
ASG GEO Installation of boreholes	1 689 139	2 850 867
Payday	428 303	-
KM & FM TRADING	150 233	-
Kyanye Transport	54 000	-
	4 026 937	3 152 471

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 annual financial statements.

51. Segment information

General information

Identification of segments

The municipality does not have any separate identifiable segments, as the whole of the municipality is operated and reported as one. The entity operates within Phumelela local municipality which consists of the following three towns: Vrede Memel and Warden. Please refer to the statement of financial performance mentioned above for revenue from exchange and non exchange transactions and total expenditure. Refer to the statement of financial position for non current assets.

52. Accounting by principals and agents

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

Municipality as the principal

Distribution of electricity

The municipality entered into an agreement with Eskom to provide the hosting, vending, data management and supplementary support services to the municipality. Eskom distributes the prepaid electricity (by the way of vendors) to third parties and pays a portion of the revenue received over to the municipality. Eskom distributes the conventional electricity to third parties and pays a portion of the revenue received over to the municipality.

No assets of the municipality are under the custodianship of Eskom.

Fee paid

Commission paid	339 712	350 555
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52. Accounting by principals and agents (continued)

Termination of the agreement

Early termination of the agreement by the municipality, will result in the municipality immediately through and agreed arrangement refunding Eskom the outstanding balance of the capital for the installed meters and services rendered within the remaining agreement period. Should the parties fail to agree on the repayment arrangement by the municipality then the municipality should continue to refund eskom the outstanding balance of the capital for the installed meters rendered by monthly equal instalments until the installed meters are fully repaid or for the remaining agreed period, whichever is the earlier.

No assets of the municipality are being kept as security by eskom.

In the event of early termination by either party.

The municipality will from the date of termination, source its own vendors or enter into separate agreements with the existing eskom vendors for the continued vending of electricity to the municipal customers.

The municipality will change the supply group code on the meters to ensure that the revenue would be directed to its own bank account.