



uMngeni Local Municipality  
(Registration number KZN 222)  
Annual Financial Statements  
for the year ended 30 June 2021

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## General Information

---

**Legal form of entity**

Local Municipality

**Nature of business and principal activities**

uMngeni Municipality is a local municipality with the primary function of providing basic services i.e. electricity, refuse, roads and stormwater facilities to the community with the municipality's jurisdiction

**Mayoral committee**

Mayor

Cllr S Sokhela

Councillors

Cllr NF Buthelezi - Deputy Mayor

Cllr CT Mthlane - Speaker

Cllr PA Passmoor

Cllr JA Mkhasebe

Cllr SK Pillay

Cllr SD Nkuna

Cllr JE Holmes

Cllr NN Mlotshwa

Cllr BA Zuma

Cllr FT Cele

Cllr CRW Millar

Cllr NJ Lewis

Cllr SM Ndlovu

Cllr SS Khumalo

Cllr GT Dlamini

Cllr SS Sibiyi

Cllr NE Ngcongco

Cllr QSB Buthelezi

Cllr HM Lake

Cllr T Sikhakhane

Cllr S Mnikathi

Cllr S Zondi

**Grading of local authority**

Three

**Chief Finance Officer (CFO)**

Mr M Hloba

**Accounting Officer**

Ms T Cibane

**Registered office**

Corner of Dicks and Somme Streets  
Howick  
3290

**Postal address**

P O Box 5  
Howick  
3290

**Bankers**

ABSA Bank

**Auditors**

Office of the Auditor General  
Registered Auditors

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Index**

---

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

	<b>Page</b>
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 13
Accounting Policies	14 - 53

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
SARS	South African Revenue Services
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
COVID-19	Corona Virus Disease
VAT	Value Added Tax

## **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### **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 judgements and estimates.

The Accounting Officer acknowledges that she is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the municipality 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 internally generated funds and 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.

The Accounting Officer also certifies that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the Annual Financial Statements below are within the upper limits of the framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act

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

---

**Acting Accounting Officer**  
**Mr M Hloba**

# **uMngeni Local Municipality**

(Registration number KZN 222)


Annual Financial Statements for the year ended 30 June 2021

---

## **1. Approval of Annual Financial Statements**

I am responsible for the preparation of these Annual Financial Statements, which are set on page 5 -108 in terms of Section 126 (1) of the Municipal Finance Management Act and which i have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors , loans made to Councillors , if any , and payments made to Council for the loss office, if any , as disclosed in note 33 of these Annual Financial Statements are within the Upper Limits of the framework envisaged in section 129 of the Constitution, read with the narration of Public Office Bearers Act and the Minister of Provincial and the Local Governments Determination in Accordance with this.



---

**Acting Accounting Officer**  
**Mr M Hloba**

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	22,484,328	32,099,030
Receivables from exchange transactions	12	13,584,865	23,057,342
Receivables from non-exchange transactions	10&13	37,008,101	74,339,331
VAT receivable	11	5,123,640	2,450,776
		<b>78,200,934</b>	<b>131,946,479</b>
<b>Non-Current Assets</b>			
Investment property	4	57,654,459	58,417,751
Property, plant and equipment	5	1,039,601,970	1,055,020,336
Heritage assets	7	5,398,314	5,398,314
Non-Current Receivables from exchange transactions	9	5,718,319	3,818,217
		<b>1,108,373,062</b>	<b>1,122,654,618</b>
Non-Current Assets		1,108,373,062	1,122,654,618
Current Assets		78,200,934	131,946,479
<b>Total Assets</b>		<b>1,186,573,996</b>	<b>1,254,601,097</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Annuity loans	16	2,786,868	3,940,192
Finance lease obligation	14	1,394,337	1,804,193
Payables from exchange transactions	18	67,096,331	79,775,223
Consumer deposits	19	4,762,774	4,634,120
Employee benefit obligation	8	2,342,000	1,600,000
Unspent conditional grants	15	2,016,061	15,419,483
		<b>80,398,371</b>	<b>107,173,211</b>
<b>Non-Current Liabilities</b>			
Annuity loans	16	9,661,843	13,395,489
Finance lease obligation	14	1,311,177	2,705,514
Employee benefit obligation	8	32,030,000	26,163,000
Provisions	17	62,587,004	56,227,195
		<b>105,590,024</b>	<b>98,491,198</b>
Non-Current Liabilities		105,590,024	98,491,198
Current Liabilities		80,398,371	107,173,211
<b>Total Liabilities</b>		<b>185,988,395</b>	<b>205,664,409</b>
Assets		1,186,573,996	1,254,601,097
Liabilities		(185,988,395)	(205,664,409)
<b>Net Assets</b>		<b>1,000,585,601</b>	<b>1,048,936,688</b>
Accumulated surplus		1,000,585,603	1,048,936,686
<b>Total Net Assets</b>		<b>1,000,585,603</b>	<b>1,048,936,686</b>

\* See Note 2 & 55

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Performance

Figures in Rand		2021	2020 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Sale of goods and rendering of services	21	3,647,264	2,908,692
Service charges	22	91,304,866	85,008,403
Rental of facilities and equipment	23	1,277,858	1,097,774
Interest received (trading)	24	2,403,368	1,902,299
Licences and permits	26	3,514,647	2,796,025
Operational revenue	30	347,868	301,901
Discount Received		1,180,239	-
Interest received - investment	31	1,715,464	2,649,715
Actuarial gains	34	-	5,853,000
<b>Total revenue from exchange transactions</b>		<b>105,391,574</b>	<b>102,517,809</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	32	219,869,420	204,867,536
Property rates - penalties imposed	32	11,974,995	8,095,873
Surcharges and Taxes	28	26,672	41,872
<b>Transfer revenue</b>			
Government grants & subsidies	35	131,140,055	105,577,169
Fines, Penalties and Forfeits	25	2,674,853	907,577
<b>Total revenue from non-exchange transactions</b>		<b>365,685,995</b>	<b>319,490,027</b>
		105,391,574	102,517,809
		365,685,995	319,490,027
<b>Total revenue</b>	20	<b>471,077,569</b>	<b>422,007,836</b>
<b>Expenditure</b>			
Employee related costs	37	(122,266,349)	(118,307,504)
Remuneration of councillors	38	(9,330,037)	(9,323,535)
Depreciation and amortisation	39	(56,928,008)	(56,275,810)
Write-off / Impairment of non-cash generating assets	40	136,317	(9,732,486)
Finance costs	42	(7,139,140)	(6,713,825)
Lease rentals on operating lease	27	(1,420,499)	(1,363,729)
Debt Impairment	43	(73,381,778)	(42,740,655)
Bulk purchases	44	(127,756,605)	(111,520,559)
Contracted services	45	(81,216,883)	(87,378,272)
Transfers and Subsidies	33	(572,950)	(485,500)
Actuarial losses	34	(3,613,000)	-
Materials and supplies	47	(1,688,279)	(1,848,484)
Operational expenditure	46	(35,174,552)	(30,247,269)
<b>Total expenditure</b>		<b>(520,351,763)</b>	<b>(475,937,628)</b>
		-	-
Total revenue		471,077,569	422,007,836
Total expenditure		(520,351,763)	(475,937,628)
Operating surplus/deficit		-	-
Deficit before taxation		(49,274,194)	(53,929,792)
Taxation		-	-
<b>Deficit for the year</b>		<b>(49,274,194)</b>	<b>(53,929,792)</b>

\* See Note 2 & 55

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Audited Opening balance as at 1 July 2019	1,276,163,631	1,276,163,631
Adjustments		
Correction of errors effected in 2019/20 restated AFS for prior financial year	(159,228,721)	(159,228,721)
Correction of errors effected in 2020/21 AFS for 2019/20 opening balance adjustments	(14,068,432)	(14,068,432)
<b>Balance at 01 July 2019 as restated*</b>	<b>1,102,866,478</b>	<b>1,102,866,478</b>
Changes in net assets		
Surplus for the year	(53,929,792)	(53,929,792)
Total changes	(53,929,792)	(53,929,792)
<b>Restated* Balance at 01 July 2020</b>	<b>1,048,936,688</b>	<b>1,048,936,688</b>
Changes in net assets		
Movement in Accumulated Surplus	934,442	934,442
Net income (losses) recognised directly in net assets	934,442	934,442
Surplus for the year	(49,274,194)	(49,274,194)
Write off of bank transfer differences	(11,333)	(11,333)
Total changes	(48,351,085)	(48,351,085)
<b>Balance at 30 June 2021</b>	<b>1,000,585,603</b>	<b>1,000,585,603</b>
Note(s)		

\* See Note 2 & 55



# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property rates and taxes		212,783,433	178,778,336
Services Charges: Electricity and Waste Management		99,176,964	74,831,316
Government Grants and Subsidies		121,268,919	115,461,000
Interest Received		1,715,464	2,649,715
Traffic Fines		94,633	267,000
Other receipts		9,429,270	6,959,718
Vat Refund		23,978,384	-
		<u>468,447,067</u>	<u>378,947,085</u>
<b>Payments</b>			
Employee costs		(117,421,554)	(112,531,877)
Suppliers		(296,583,816)	(198,380,753)
Finance costs		(7,139,140)	(6,713,825)
Remuneration of Councillors		(9,330,038)	(9,323,535)
		<u>(430,474,548)</u>	<u>(326,949,990)</u>
Total receipts		468,447,067	378,947,085
Total payments		(430,474,548)	(326,949,990)
<b>Net cash flows from operating activities</b>	50	<u><b>37,972,519</b></u>	<u><b>51,997,095</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	5	<u>(40,882,666)</u>	<u>(43,100,292)</u>
<b>Cash flows from financing activities</b>			
Repayment of annuity loans		(4,886,970)	(3,336,524)
Increase/ (Decrease) Consumer Deposit		(13,392)	2,759,432
Finance lease payments		<u>(1,804,193)</u>	<u>(1,475,859)</u>
<b>Net cash flows from financing activities</b>		<u><b>(6,704,555)</b></u>	<u><b>(2,052,951)</b></u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u><b>(9,614,702)</b></u>	<u><b>6,843,852</b></u>
Cash and cash equivalents at the beginning of the year		32,099,030	25,255,178
<b>Cash and cash equivalents at the end of the year</b>	3	<u><b>22,484,328</b></u>	<u><b>32,099,030</b></u>

\* See Note 2 & 55

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
--	-----------------	-------------	--------------	------------------------------------	--	-----------

Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges - Electricity	106,248,886	(3,402,314)	102,846,572	83,432,608	(19,413,964)	60.1
Service Charges - Refuse	7,208,125	947,199	8,155,324	7,872,257	(283,067)	
Rental of facilities and equipment	1,203,063	(173,810)	1,029,253	1,277,858	248,605	60.2
Licences and permits	5,082,401	(1,512,783)	3,569,618	3,514,647	(54,971)	60.4
Miscellaneous other revenue	7,238,511	(2,889,652)	4,348,859	4,021,804	(327,055)	60.5
Interest received - investment	2,199,979	(286,355)	1,913,624	2,895,702	982,078	60.6
<b>Total revenue from exchange transactions</b>	<b>129,180,965</b>	<b>(7,317,715)</b>	<b>121,863,250</b>	<b>103,014,876</b>	<b>(18,848,374)</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	216,690,009	-	216,690,009	219,869,420	3,179,411	
Property rates - penalties imposed	11,455,682	-	11,455,682	14,378,363	2,922,681	60.7

##### Transfer revenue

Government grants & subsidies	111,839,000	20,435,664	132,274,664	131,140,055	(1,134,609)	
Fines, Penalties and Forfeits	123,374	(6,654)	116,720	2,674,853	2,558,133	60.9

##### Total revenue from non-exchange transactions

<b>Total revenue from exchange transactions'</b>	<b>129,180,965</b>	<b>(7,317,715)</b>	<b>121,863,250</b>	<b>103,014,876</b>	<b>(18,848,374)</b>	
<b>'Total revenue from non-exchange transactions'</b>	<b>340,108,065</b>	<b>20,429,010</b>	<b>360,537,075</b>	<b>368,062,691</b>	<b>7,525,616</b>	
<b>Total revenue</b>	<b>469,289,030</b>	<b>13,111,295</b>	<b>482,400,325</b>	<b>471,077,567</b>	<b>(11,322,758)</b>	

#### Expenditure

Employee Related Costs	(134,398,948)	11,576,075	(122,822,873)	(122,266,349)	556,524	
Remuneration of councillors	(9,922,672)	190,861	(9,731,811)	(9,330,037)	401,774	
Depreciation and amortisation	(35,552,255)	(3,952,745)	(39,505,000)	(56,928,008)	(17,423,008)	60.10
Finance costs	(2,685,713)	(698,773)	(3,384,486)	(7,139,140)	(3,754,654)	60.11
Lease rentals on operating lease	(3,001,137)	-	(3,001,137)	(1,420,499)	1,580,638	60.12
Debt Impairment	(773,823)	(17,110,033)	(17,883,856)	(73,381,778)	(55,497,922)	60.13
Bulk purchases	(120,997,148)	(8,248,961)	(129,246,109)	(127,756,605)	1,489,504	
Contracted Services	(78,520,393)	5,496,217	(73,024,176)	(81,216,883)	(8,192,707)	
Transfers and Subsidies	(3,825,430)	3,213,870	(611,560)	(572,950)	38,610	
Other Materials	(1,176,910)	(596,162)	(1,773,072)	(1,688,279)	84,793	
Actuarial gains/losses	-	-	-	(3,613,000)	(3,613,000)	
General Expenses	(56,565,957)	5,649,548	(50,916,409)	(35,038,235)	15,878,174	
<b>Total expenditure</b>	<b>(447,420,386)</b>	<b>(4,480,103)</b>	<b>(451,900,489)</b>	<b>(520,351,763)</b>	<b>(68,451,274)</b>	

	21,868,644	8,631,192	30,499,836	(49,274,196)	(79,774,032)	
	-	-	-	-	-	
<b>Deficit before taxation</b>	<b>21,868,644</b>	<b>8,631,192</b>	<b>30,499,836</b>	<b>(49,274,196)</b>	<b>(79,774,032)</b>	

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### 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						
Surplus before taxation	21,868,644	8,631,192	30,499,836	(49,274,196)	(79,774,032)	
Taxation	-	-	-	-	-	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>21,868,644</b>	<b>8,631,192</b>	<b>30,499,836</b>	<b>(49,274,196)</b>	<b>(79,774,032)</b>	
<b>Reconciliation</b>						

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### 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						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Receivables from non-exchange transactions	66,975,010	(6,911,199)	60,063,811	49,557,952	(10,505,859)	60.14
VAT receivable	-	-	-	5,123,640	5,123,640	60.15
Consumer debtors	22,461,337	-	22,461,337	12,646,579	(9,814,758)	60.16
Cash and cash equivalents	21,085,260	(181,516)	20,903,744	22,484,328	1,580,584	
	<b>110,521,607</b>	<b>(7,092,715)</b>	<b>103,428,892</b>	<b>89,812,499</b>	<b>(13,616,393)</b>	
<b>Non-Current Assets</b>						
Investment property	13,183,073	(3,735,592)	9,447,481	57,654,459	48,206,978	60.17
Property, plant and equipment	1,308,671,740	21,379,516	1,330,051,256	1,039,601,970	(290,449,286)	
Intangible assets	92,548	(86,433)	6,115	-	(6,115)	
Heritage assets	5,392,616	-	5,392,616	5,398,314	5,698	
Non-Current Receivables from exchange transactions	3,646,369	-	3,646,369	5,718,319	2,071,950	
	<b>1,330,986,346</b>	<b>17,557,491</b>	<b>1,348,543,837</b>	<b>1,108,373,062</b>	<b>(240,170,775)</b>	
Non-Current Assets	110,521,607	(7,092,715)	103,428,892	89,812,499	(13,616,393)	
Current Assets	1,330,986,346	17,557,491	1,348,543,837	1,108,373,062	(240,170,775)	
<b>Total Assets</b>	<b>1,441,507,953</b>	<b>10,464,776</b>	<b>1,451,972,729</b>	<b>1,198,185,561</b>	<b>(253,787,168)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Annuity loans	2,822,261	-	2,822,261	4,181,204	1,358,943	
Payables from exchange transactions	22,795,623	(14,100,749)	8,694,874	63,940,511	55,245,637	60.20
Provisions	79,198,766	(8,570,000)	70,628,766	20,350,280	(50,278,486)	60.21
Consumer deposits	3,135,291	-	3,135,291	4,762,774	1,627,483	60.22
Employee benefit obligation	-	-	-	2,342,000	2,342,000	60.23
Unspent conditional grants	-	-	-	2,016,061	2,016,061	60.24
	<b>107,951,941</b>	<b>(22,670,749)</b>	<b>85,281,192</b>	<b>97,592,830</b>	<b>12,311,638</b>	
<b>Non-Current Liabilities</b>						
Annuity loans	15,072,983	-	15,072,983	(10,973,020)	(26,046,003)	60.25
Employee benefit obligation	-	-	-	32,030,000	32,030,000	60.27
Provisions	29,196,000	-	29,196,000	(88,257,195)	(117,453,195)	60.28
	<b>44,268,983</b>	<b>-</b>	<b>44,268,983</b>	<b>(67,200,215)</b>	<b>(111,469,198)</b>	
	107,951,941	(22,670,749)	85,281,192	97,592,830	12,311,638	
	44,268,983	-	44,268,983	(67,200,215)	(111,469,198)	
	-	-	-	-	-	
<b>Total Liabilities</b>	<b>152,220,924</b>	<b>(22,670,749)</b>	<b>129,550,175</b>	<b>30,392,615</b>	<b>(99,157,560)</b>	
Assets	1,441,507,953	10,464,776	1,451,972,729	1,198,185,561	(253,787,168)	
Liabilities	(152,220,924)	22,670,749	(129,550,175)	(30,392,615)	99,157,560	
<b>Net Assets</b>	<b>1,289,287,029</b>	<b>33,135,525</b>	<b>1,322,422,554</b>	<b>1,167,792,946</b>	<b>(154,629,608)</b>	

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### 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						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	1,289,287,029	33,135,525	<b>1,322,422,554</b>	1,000,596,939	<b>(321,825,615)</b>	

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### 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

#### Cash Flow Statement

##### Cash flows from operating activities

##### Receipts

Property Rates	195,021,008	(6,500,700)	188,520,308	212,783,433	24,263,125
Service Charges	102,111,310	(4,915,428)	97,195,882	99,176,964	1,981,082
Transfers and Subsidies	90,074,616	8,634,388	98,709,004	99,505,369	796,365
Interest income	1,536,409	10,114,545	11,650,954	1,410,740	(10,240,214)
Other revenue	15,505,882	(5,247,937)	10,257,945	33,807,011	23,549,066
Transfers and Subsidies - Capital	21,763,550	-	21,763,550	21,763,550	-
	<b>426,012,775</b>	<b>2,084,868</b>	<b>428,097,643</b>	<b>468,447,067</b>	<b>40,349,424</b>

##### Payments

Employee costs	(134,398,948)	9,457,599	(124,941,349)	(117,421,554)	7,519,795
Suppliers	(247,201,759)	-	(247,201,759)	(300,895,392)	(53,693,633)
Finance costs	(2,685,713)	(698,773)	(3,384,486)	(2,281,957)	1,102,529
Remuneration of Councillors	(9,731,811)	-	(9,731,811)	(9,330,037)	401,774
Transfers and Grants	(376,560)	-	(376,560)	(572,950)	(196,390)
	<b>(394,394,791)</b>	<b>8,758,826</b>	<b>(385,635,965)</b>	<b>(430,501,890)</b>	<b>(44,865,925)</b>

Total receipts	426,012,775	2,084,868	428,097,643	468,447,067	40,349,424
Total payments	(394,394,791)	8,758,826	(385,635,965)	(430,501,890)	(44,865,925)
<b>Net cash flows from operating activities</b>	<b>31,617,984</b>	<b>10,843,694</b>	<b>42,461,678</b>	<b>37,945,177</b>	<b>(4,516,501)</b>

##### Cash flows from investing activities

Purchase of property, plant and equipment	(29,024,378)	(21,510,236)	(50,534,614)	(40,855,324)	9,679,290	0
---	--------------	--------------	--------------	--------------	-----------	---

##### Cash flows from financing activities

Increase / (decrease) in consumer deposits	(756,000)	756,000	-	-	-
Finance lease Payments	-	-	-	(1,804,193)	(1,804,193)
Remuneration of Councillors	-	-	-	(13,392)	(13,392)
Finance costs	(3,124,354)	-	(3,124,354)	(4,886,970)	(1,762,616)
<b>Net cash flows from financing activities</b>	<b>(3,124,354)</b>	<b>-</b>	<b>(3,124,354)</b>	<b>(6,704,555)</b>	<b>(3,580,201)</b>

Net increase/(decrease) in cash and cash equivalents	(530,748)	(10,666,542)	(11,197,290)	(9,614,702)	1,582,588
Cash and cash equivalents at the beginning of the year	19,253,535	12,847,499	32,101,034	32,099,030	(2,004)
<b>Cash and cash equivalents at the end of the year</b>	<b>18,722,787</b>	<b>2,180,957</b>	<b>20,903,744</b>	<b>22,484,328</b>	<b>1,580,584</b>

#### Reconciliation

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

Figures in Rand	Note(s)	2021	2020
-----------------	---------	------	------

### 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.

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, except for the changes set out in note Changes in accounting policy.

#### STANDARDS APPROVED AND EFFECTIVE FOR 2020/21 FINANCIAL YEAR

The following GRAP standards have been approved and effective to the municipality for the 2020/21 financial year:

- GRAP 1 Presentation of Financial Statements
- GRAP 2 Cash Flow Statements
- GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors
- GRAP 4 The Effects of Changes in Foreign Exchange Rates
- GRAP 5 Borrowing Costs
- GRAP 9 Revenue from Exchange Transactions
- GRAP 10 Financial Reporting in Hyperinflationary Economies
- GRAP 11 Construction Contracts
- GRAP 12 Inventories
- GRAP 13 Leases
- GRAP 14 Events After the Reporting Date
- GRAP 16 Investment Property
- GRAP 17 Property Plant and Equipment
- GRAP 18 Segment Reporting
- GRAP 19 Provisions, Contingent Liabilities and Contingent Assets
- GRAP 20 Related Party Disclosures
- GRAP 21 Impairment of Non -Cash Generating Assets
- GRAP 23 Revenue from Non- Exchange Transactions (Taxes and Transfers )
- GRAP 24 Presentation of Budget Information in Financial Statements
- GRAP 25 Employee Benefits
- GRAP 26 Impairment of Cash-Generating Assets
- GRAP 27 Agriculture
- GRAP 31 Intangible Assets
- GRAP 32 Service Concession Arrangements: Grantor
- GRAP 34 Separate Financial Statements
- GRAP 35 Consolidated Financial Statements
- GRAP 36 Investments in Associates and Joint Ventures
- GRAP 37 Joint Arrangements
- GRAP 38 Disclosure of Interests of Other Entities
- GRAP 100 Discounted Operations
- GRAP 103 Heritage Assets
- GRAP 104 Financial Instruments
- GRAP 105 Transfer of Functions Between Entities Under Common Control
- GRAP 106 Transfer of Functions Between Entities Not Under common Control
- GRAP 107 Mergers
- GRAP 108 Statutory Receivables
- GRAP 109 Accounting by Principals and Agents
- GRAP 110 Living and Non-Living resources

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### INTERPRETATIONS OF STANDARDS OF GRAP APPROVED AND EFFECTIVE FOR 2020/21 FINANCIAL YEAR

- IGRAP 1 Applying the Probability Test on Initial Recognition of Revenue
- IGRAP 2 Changes in Existing Decommissioning, Restoration and Similar Liabilities
- IGRAP 3 Determining whether an arrangement contains a lease
- IGRAP 4 Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
- IGRAP 5 Applying the restatement approach under the Standard of GRAP on financial reporting in hyperinflationary economies
- IGRAP 6 Loyalty Programmes
- IGRAP 7 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
- IGRAP 8 Agreements for the Construction of Assets from Exchange Transactions
- IGRAP 9 Distributions of Non-cash Assets to Owners
- IGRAP 10 Assets Received from Customers
- IGRAP 13 Operating Leases – Incentives
- IGRAP 14 Evaluating the Substance of Transactions Involving the Legal Form of a Lease
- IGRAP 15 Revenue – Barter Transactions Involving Advertising Services
- IGRAP 16 Intangible Assets – Website Costs
- IGRAP 17 Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset
- IGRAP 18 Recognition and Derecognition of Land
- IGRAP 19 Liabilities to Pay Levies
- IGRAP 20 Accounting for Adjustments to Revenue

### AUTHORITATIVE GUIDELINES APPROVED AND EFFECTIVE FOR 2020/21 FINANCIAL YEAR

Guideline on Accounting for Arrangements Undertaken in terms of the National Housing Programme

#### 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:



# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.4 Significant judgements and sources of estimation uncertainty (continued)**

#### **Receivables from exchange and non-exchange transactions**

The municipality assesses its trade and other 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 and other receivables is calculated on an individual and group portfolio basis, based on historical collection levels and other indicators present at the reporting date that correlate with relevant portfolio.

#### **Impairment testing**

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

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

#### **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 17 - Provisions.

#### **Useful lives of infrastructure and other assets**

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

#### **Post-retirement benefits**

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 8.

#### **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.

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.4 Significant judgements and sources of estimation uncertainty (continued)**

#### **Recognition and Derecognition of Land**

In some instances the entity is not the legal owner or the custodian of land appointed in terms of legislation, but assessed that it controls such land. Key judgements made and assumptions applied to conclude that it controls such land, are as follows:

- Whether the municipality can direct the use of the land's future economic benefits or service potential to provide services to beneficiaries
- Whether the municipality can exchange, dispose of, or transfer the land; and/or
- Whether the municipality can use the land in any other way to generate future economic benefits or service potential

Where the municipality uses the land to provide future economic benefits or service potential while another entity has the right to exchange, dispose of, or transfer the land, the municipality shall assess its ability to exercise the right to exchange, dispose of, or transfer the land to determine if it is able to direct or restrict or deny access to the land.

When a municipality directs the use of the land to provide services to beneficiaries, either itself or through directing another entity to provide specific services, the municipality will conclude that it has the right to direct access to land and to restrict or deny access of others to land.

In some instances the municipality is the legal owner, or the custodian of land appointed in terms of legislation, but concludes that it does not control such land. Key judgements made and assumptions applied to conclude that it does not control such land, are as follows:

- Whether another entity can direct the use of the land's future economic benefits or service potential to provide services to beneficiaries
- Whether another entity can exchange, dispose of, or transfer the land; and/or
- Whether another entity can use the land in any other way to generate future economic benefits or service potential

An entity may be granted a right to use the land for a period of time. Control of the land will be demonstrated if the entity has substantive rights to the land that enable it to direct access to the land, or to restrict or deny the access of others to land. For the entity to demonstrate control, the right of use needs to be for an unlimited period of time and the entity should have other substantive rights that enable it to direct access to the land, or to restrict or deny the access of others to the land.

In the absence of the municipality demonstrating that it has granted the right to direct access to and restrict or deny access of others to the land to another entity, the legal owner controls the land as it retains the right to direct access to land, and to restrict or deny the access of others to land.

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.4 Significant judgements and sources of estimation uncertainty (continued)**

#### **Accounting by principals and agent**

The municipality makes assessments on whether it is the principal or agent in principal-agent relationships. Significant judgements applied in determining whether the municipality is an agent are as follows:

- a) It does not have the power to determine the significant terms and conditions of the transaction.

For an municipality to be an agent, it must not have the power to determine the significant terms and conditions of the transactions with third parties. This means that it should not have the power to affect the result of the transaction. The result of a transaction is the economic benefits or service potential (or both) that arise from that transaction. The economic benefits or service potential can therefore be quantitative or qualitative.

The quantitative result of a transaction represents the monetary amount of a transaction and could include:

- The amount paid by the third party for a good or a service received, or the amount of any tax, levy or other charge paid
- The amount paid to the third party for goods and services procured, or benefits paid as part of a non-exchange transaction, e.g. a social benefit.

The qualitative result of a transaction could include:

- The quality of a particular good or service received by the third party.
- The administrative efficiency with which a specific transaction or activity should be performed.
- The volume of a good or service provided to the third party

The municipality does not have the power to determine the significant terms and conditions of transactions with third parties if it is not able to decide, for example, the following aspects, but not limited to:

- What goods and services should be provided to, or procured from, third parties; or what taxes, levies or other charges should be levied on, or payments made to, third parties.
- To whom goods and services should be provided, or from whom goods and services should be procured; or on whom taxes, levies or other charges should be levied, or to whom payments should be made. This does not require the identification of specific individual third parties, and could be groups of affected third parties.
- The price to be paid by third parties, or agree on the price to be paid to third parties; or the amount of tax, levies or other charges to be paid by, or the amount of payments to be made to, third parties.
- The quality of the goods and services provided to, or received from, third parties. This may be less relevant to transactions that relate to taxes, levies, charges received by, or payment by or to, third parties

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.4 Significant judgements and sources of estimation uncertainty (continued)**

b) It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit

The types of resources that result from transactions with third parties could vary depending on the activities that are to be undertaken in terms of the binding arrangement. The resources that could result from transactions with third parties include:

- Receipts related to specific goods and services provided, or taxes, levies and other charges.
- Disbursements for specific goods and services procured to enable the execution of the transactions with third parties. The goods and services procured could also result in inventory.

The municipality must not have the ability to use all, or substantially all, of the resources that result from the transactions with third parties. Where the municipality retains a portion of the revenue collected as a fee, e.g. a commission, or administration or transaction fee, for the service provided, this fee is usually nominal in relation to the total revenue collected, and as a result, the municipality would not have the ability to use all or substantially all of the resources that result from the transaction.

c) It is not exposed to variability in the results of the transaction:

A municipality is exposed to variability in the results of the transaction when it has exposure to both the positive and negative results associated with that transaction, and these exposures are not limited or fixed. There may be a number of factors that the municipality considers in determining whether it is exposed to the variability in the results of transactions. The municipality's exposure to the variability in the results of a transaction are usually limited if:

- Another party is responsible for fulfilling the rights and obligations established in the binding arrangement. For example, if the provision of a certain good or service is the responsibility of a specific type of entity in legislation, then it is likely that recipients of that good or service will look to that entity for delivery of those goods or services.
- The municipality has limited inventory risk, i.e. the risk of theft, obsolescence or other losses, as well as changes in value.
- The municipality receives a fixed fee or a fixed margin, e.g. commission, or administration or transaction fee, for carrying out the transactions.
- The municipality is not exposed to significant default risk, i.e. the risk of fees, taxes, levies or other charges not being paid by third parties.

### **Impairment of statutory receivables**

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

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

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

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.4 Significant judgements and sources of estimation uncertainty (continued)**

#### **Accounting for adjustments to revenue**

Determining whether an adjustment to revenue charged in terms of legislation or similar means is a correction of an error or a change in an accounting estimate requires the application of judgement by management. When adjustments to revenue already recognised arise from new information that becomes known to the municipality, the following considerations are applied to determine whether the adjustment to revenue already recognised is a correction of an error or a change in an accounting estimate:

(a) If information becomes known to the municipality, and the municipality could reasonably have been expected to know of the information and/or the information used was incorrect, the adjustment to revenue is likely to be a correction of an error.

(b) If information becomes known to the municipality, but the municipality could not reasonably have been expected to know of this information when the revenue was charged, the adjustment to revenue is likely to be a change in an accounting estimate.

#### **Accounting for adjustments to revenue that correct an error or prior period error**

Following the outcome of the determination processes noted above, and assessing whether this is new information that becomes known to the municipality, the municipality accounts for an adjustment to revenue already recognised, including interest and penalties, as the correction of an error or prior period error where the entity:

(a) has not followed a proper due process to promulgate the tariff, basis, percentage or formula to charge the revenue; and/or

(b) incorrectly applied the tariff, basis, percentage or formula in charging revenue.

Errors discovered within the reporting period which relates to that period are corrected before the annual financial statements are authorised for issue. The principles in GRAP 3 are applied to account for the adjustment to revenue already recognised as a result of the correction of a prior period error.

#### **Accounting for adjustments to revenue as a change in an accounting estimate**

Following the outcome of the determination processes noted above, and assessing whether this is new information that becomes known to the municipality, the municipality accounts for any adjustment to revenue already recognised, including interest and penalties, as a change in an accounting estimate if changes occur in the circumstances that led to the recognition of the revenue.

The principles in GRAP 3 are applied to account for a change in an accounting estimate.

### **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.

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.

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### 1.5 Investment property (continued)

#### 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	30 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.

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

- Land and/or buildings held for strategic purposes is property that, although not currently used as property, plant and equipment, is likely to be used in the production or supply of goods and services or for administrative purposes in future because of certain legislation, policies, decisions or plans adopted by an entity.
- For example, land held by a municipality which is currently vacant, but is adjacent to a growing suburban area. In terms of the municipality's spatial planning, this land could be used to develop housing, or it could be used to expand the current infrastructure network.

The nature OR type of properties classified as held for strategic purposes are as follows:

- Land that has been determined in terms of Council resolutions for future housing projects

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

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

### 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.

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Accounting Policies

#### 1.6 Property, plant and equipment (continued)

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, its deemed cost is the carrying amount of the asset(s) given up.

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight-line	Indefinite
Buildings	Straight-line	15 - 30 years
Landfill site	Straight-line	02 - 15 years
Plant and machinery	Straight-line	02 - 30 years
Furniture and fixtures	Straight-line	04 - 10 years
Motor vehicles	Straight-line	03 - 15 years
Office equipment	Straight-line	03 years
IT equipment	Straight-line	03 - 05 years
Infrastructure - roads and paving	Straight-line	05 - 80 years
Infrastructure - roads and stormwater	Straight-line	20 - 60 years
Infrastructure - electricity	Straight-line	15 - 50 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.

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.6 Property, plant and equipment (continued)**

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 5).

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

### **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.

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 Intangible assets**

An asset is identifiable if it either:

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

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



# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

### 1.8 Intangible assets (continued)

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	03 - 10 years

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

Intangible assets are derecognised:

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

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

### 1.9 Heritage assets

Assets are resources controlled by the 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.

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.9 Heritage assets (continued)**

Class of heritage assets means a grouping of heritage assets of a similar nature or function in the 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.

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

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 7).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 7).

### **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.

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.9 Heritage assets (continued)**

#### **Transfers**

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

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

#### **Derecognition**

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

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

### **1.10 Financial instruments**

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

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

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

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

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

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

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

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

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

A financial asset is:

- cash;
- a residual interest of another entity; or

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### 1.10 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### 1.10 Financial instruments (continued)

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

#### Classification

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

Class	Category
Call Deposits and Primary Bank Account	Financial asset measured at amortised cost
Cash on hand	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost

The 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
Annuity loans	Financial liability measured at amortised cost
Trade creditors	Financial liability measured at amortised cost
Payments received in advance	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Staff leave	Financial liability measured at amortised cost
Other creditors	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost

### 1.11 Statutory receivables

#### Identification

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

Carrying amount is the amount at which an asset is recognised in the statement of financial position.

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

#### Recognition

The municipality recognises statutory receivables as follows:

- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### 1.11 Statutory receivables (continued)

- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

#### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

#### Subsequent measurement

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

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

#### Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the interest rate of 1%.

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

#### Other charges

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

#### Impairment losses

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

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

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

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

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

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

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.11 Statutory receivables (continued)**

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

#### **Derecognition**

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

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

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

### **1.12 Tax**

#### **Value Added Tax**

The Municipality is registered with SARS for VAT on a cash basis in accordance with section 15(2)(a) of the Value Added Tax Act no.81 of 1981.

### **1.13 Leases**

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

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

#### **Finance leases - lessee**

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

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

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

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

#### **Operating leases - 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.

### **1.14 Impairment of cash-generating assets**

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

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

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

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

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

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

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

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

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

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

Useful life is either:

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

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

- Cash-generating assets are assets used with the primary objective of generating a commercial return. Commercial return means that the municipality is anticipated to receive revenue from the asset and the positive cash flows are expected to be significantly higher than the cost of the asset.
- Non-cash-generating assets are assets other than cash-generating assets. An entity shall designate an asset as non-cash-generating when its primary objective is not to use the asset to generate a commercial return but to deliver services.
- All administrative assets, for example, vehicles, office equipment and furniture, plant and machinery, computer equipment and administrative land and buildings are held for the purpose of delivering services and therefore do not generate a commercial return.
- Roads and stormwater infrastructure assets do not generate any direct commercial return and is therefore categorised as non-cash generating assets, unless a specific asset has been identified where the municipality has constructed this asset for a primary objective of generating commercial return.
- When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality shall designate the asset as a non-cash-generating asset.

### 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 the 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.



# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.14 Impairment of cash-generating assets (continued)**

#### **Identification**

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

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

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

#### **Value in use**

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

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

#### **Basis for estimates of future cash flows**

In measuring value in use the municipality:

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

#### **Composition of estimates of future cash flows**

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

#### **Discount rate**

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

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.14 Impairment of cash-generating assets (continued)**

#### **Recognition and measurement (individual asset)**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### **Cash-generating units**

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

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

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

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

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

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

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

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

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

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

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.14 Impairment of cash-generating assets (continued)**

#### **Reversal of impairment loss**

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

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

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

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

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

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

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

#### **Redesignation**

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

### **1.15 Impairment of non-cash-generating assets**

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

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

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

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

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

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

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### 1.15 Impairment of non-cash-generating assets (continued)

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

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

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

Useful life is either:

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

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

- Cash-generating assets are assets used with the primary objective of generating a commercial return. Commercial return means that the municipality is anticipated to receive revenue from the asset and the positive cash flows are expected to be significantly higher than the cost of the asset.
- Non-cash-generating assets are assets other than cash-generating assets. An entity shall designate an asset as non-cash-generating when its primary objective is not to use the asset to generate a commercial return but to deliver services.
- All administrative assets, for example, vehicles, office equipment and furniture, plant and machinery, computer equipment and administrative land and buildings are held for the purpose of delivering services and therefore do not generate a commercial return.
- Roads and stormwater infrastructure assets do not generate any direct commercial return and is therefore categorised as non-cash generating assets, unless a specific asset has been identified where the municipality has constructed this asset for a primary objective of generating commercial return.
- When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality shall designate the asset as a non-cash-generating asset

### 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 the 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.

### Identification

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

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

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

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.15 Impairment of non-cash-generating assets (continued)**

#### **Value in use**

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

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

#### **Depreciated replacement cost approach**

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

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

#### **Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### **Reversal of an impairment loss**

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

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

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

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

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

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.15 Impairment of non-cash-generating assets (continued)**

#### **Redesignation**

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

### **1.16 Employee benefits**

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

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

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

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

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

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

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

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

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

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.16 Employee benefits (continued)**

#### **Short-term employee benefits**

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### **Post-employment benefits**

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

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

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

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

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

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

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

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

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.16 Employee benefits (continued)**

#### **Post-employment benefits: Defined contribution plans**

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

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

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

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



# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.16 Employee benefits (continued)**

#### **Post-employment benefits: Defined benefit plans**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### 1.16 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

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

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.16 Employee benefits (continued)**

#### **Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

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

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

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

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

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

#### **Other post retirement obligations**

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

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

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

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

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

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

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.16 Employee benefits (continued)**

#### **Termination benefits**

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

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

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

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

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

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

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

### **1.17 Provisions and contingencies**

Provisions are recognised when:

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

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

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

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

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

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

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

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

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

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

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.17 Provisions and contingencies (continued)**

A constructive obligation to restructure arises only when the municipality:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 53.

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

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

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

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

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

### **Decommissioning, restoration and similar liability**

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.14 and 1.15.

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

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

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.17 Provisions and contingencies (continued)**

#### **Levies**

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

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

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

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

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

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

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

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

### **1.18 Commitments**

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

### **1.19 Revenue from exchange transactions**

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

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

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

#### **Measurement**

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

The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the accounting policy on Statutory Receivables).

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.19 Revenue from exchange transactions (continued)**

#### **Sale of goods**

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

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

#### **Rendering of services**

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

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

#### **Interest, royalties and dividends**

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

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

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

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

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

### **1.20 Revenue from non-exchange transactions**

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the 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 arises 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.

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.20 Revenue from non-exchange transactions (continued)**

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, the municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

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

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

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

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

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

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

### **Recognition**

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

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

### **Measurement**

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

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

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

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



# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.20 Revenue from non-exchange transactions (continued)**

#### **Taxes**

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

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

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

#### **Transfers**

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

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

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

#### **Debt forgiveness and assumption of liabilities**

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

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

#### **Fines**

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

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

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

### **1.21 Investment income**

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

### **1.22 Borrowing costs**

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

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

### **1.23 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.

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.23 Accounting by principals and agents (continued)**

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

#### **Binding arrangement**

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

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

#### **Assessing which entity benefits from the transactions with third parties**

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

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

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

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that 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.

### **1.24 Comparative figures**

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

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.25 Unauthorised expenditure**

In accordance with Section 1 of the MFMA, unauthorised expenditure, in relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) of the MFMA, and includes:

- (a) overspending of the total amount appropriated in the municipality's approved budget;
- (b) overspending of the total amount appropriated for a vote in the approved budget;
- (c) expenditure from a vote unrelated to the department or functional area covered by the vote;
- (d) expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- (e) spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- (f) a grant by the municipality otherwise than in accordance with this Act.

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

### **1.26 Fruitless and wasteful expenditure**

In accordance with Section 1 of the MFMA, fruitless and wasteful expenditure is defined as expenditure that 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.

### **1.27 Irregular expenditure**

In accordance with Section 1 of the MFMA, irregular expenditure, in relation to a municipality, means:

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

In this context 'expenditure' refers to any use of municipal funds that is in contravention of the following legislation:

- (a) Municipal Finance Management Act, Act 56 of 2003, and its regulations;
- (b) Municipal Systems Act, Act 32 of 2000, and its regulations;
- (c) Public Office-Bearers Act, Act 20 of 1998, and its regulations; and
- (d) The municipality's supply chain management policy, and any by-laws giving effect to that policy

Irregular expenditure that was incurred and identified during the current financial and which was written off before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register, with the disclosure as such being made to the note in the annual financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which write-off is being awaited at year end must be recorded in the irregular expenditure register, with the disclosure as such being made to the note in the annual financial statements.

Irregular expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.28 Segment information**

A segment is an activity of a municipality:

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

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### 1.28 Segment information (continued)

- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

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

### Measurement

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

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

### 1.29 Budget information

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

General purpose financial reporting by the 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 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.

Comparative information is not required.

### 1.30 Related parties

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

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

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

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

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

# **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

---

### **1.30 Related parties (continued)**

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

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

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

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

### **1.31 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.

### **1.32 Expenditure**

Expenses are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets, other than those relating to distributions to owners.

In accordance with GRAP 1, when items of expenses are material, their nature and amount shall be disclosed separately.

The municipality has aligned the disclosure of expenses based on the National Treasury classifications, being:

#### **Bulk Purchases**

Bulk purchases of electricity from Eskom, including alternative service providers, where applicable, is disclosed separately on the annual financial statements.

#### **Contracted services**

Where service providers are appointed to render complete service to the municipality, irrespective of the procurement process, such expenditure is classified as contracted services. This includes consultants and professional services, contractors as well as outsourced services where a service provider is responsible for the delivery of a complete service to the municipality, such as a contractor appointed to render maintenance services for the municipality.

#### **Materials and supplies**

## **uMngeni Local Municipality**

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### **Accounting Policies**

---

#### **1.32 Expenditure (continued)**

Materials and supplies are items that have been by the municipality in the rendering of services, as well as items held for sale or distribution in the ordinary course of operations. This includes consumables, materials and supplies as well as land distributed in the delivery of services to the community.

##### **Operating expenditure**

An operating expense is a day-to-day expense such as sales and administration, research and development, accounting expenses, license fees, advertising, office expenses, utilities such as telephone, insurance, property management, travel and vehicle expenses. These are generally goods delivered to the municipality, as opposed to a complete service being rendered to the municipality.

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards and Interpretations:

- GRAP 18 - Segment Reporting
- iGRAP 20 - Accounting for adjustments for Revenue

#### GRAP 18 - Segment Reporting

During the year, the municipality implemented an accounting policy with respect to the treatment of Segment Reporting, in order to conform with the benchmark treatment in of GRAP18. This has resulted in additional disclosure to the financial statements, however, no changes is required on the Statement of Financial Performance, Financial Position and Cash Flow Statement.

#### iGRAP 20 - Accounting for adjustments to revenue

During the year, the municipality changed its accounting policy with respect to the treatment of change in estimates relating to revenue, in order to conform with the benchmark treatment in accordance with iGRAP 20.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2020 is as follows:

#### Statement of financial position

#### Statement of Financial Performance

### 3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	37	2,000
Bank balances	10,867,851	8,870,861
Short-term deposits	11,616,440	23,226,169
	<b>22,484,328</b>	<b>32,099,030</b>

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand				2021	2020	
<b>3. Cash and cash equivalents (continued)</b>						
<b>The municipality had the following bank accounts</b>						
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 - Primary account - 4063796636	10,024,659	8,487,427	13,048,927	10,867,851	8,870,861	13,247,823
FNB BANK - Call account - 62547030875	25,229	186,925	128,680	25,229	186,925	128,680
FNB BANK - Call account - 62821205425	1,289,673	1,014,808	-	1,289,673	1,014,807	-
FNB BANK - Fixed Deposit - 74372357316	237,466	230,103	215,813	237,466	230,103	215,813
FNB BANK - Security Deposit - 74547419339	2,255,409	2,156,744	1,999,240	2,255,409	2,156,744	1,999,240
ABSA BANK - Call account - 9312757198	759,705	2,699,876	470,310	759,705	2,699,876	470,310
ABSA BANK - Call account - 9244671585	2,202,860	5,209,756	2,342,481	2,202,860	5,209,756	2,342,481
ABSA BANK - Call account - 9154612908	63,408	7,183,726	220,352	63,408	7,183,726	220,352
ABSA BANK - Call account - 9312756980	273,565	687,697	1,689,224	273,565	687,697	1,689,224
INVESTEC BANK - Call account - 1100503504500	1,645,243	1,116,654	347,766	1,645,243	1,116,654	347,766
INVESTEC BANK - Call account - 1100503504450	-	-	2,060,856	-	-	2,060,856
ABSA BANK - Fixed Deposit - 2074952988	203,287	195,797	184,329	203,287	195,796	184,329
RNB BANK - Security Deposit - RU500475658	2,660,596	2,544,085	2,346,305	2,660,596	2,544,085	2,346,305
ABSA BANK - Traffic - 9264784869	401,589	383,432	198,896	-	-	-
Cash on hand	37	2,000	2,000	-	2,000	2,000
<b>Total</b>	<b>22,042,726</b>	<b>32,099,030</b>	<b>25,255,179</b>	<b>22,484,292</b>	<b>32,099,030</b>	<b>25,255,179</b>

The municipality has two bank accounts being FNB account number 74547419339 and Rand Merchant Bank account RU500475658, which are held as security deposits for the Development Bank of South Africa loans in place.



# uMngeni Local Municipality

(Registration number KZN 222)  
Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Investment property

	2021		2020	
	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation
				Accumulated depreciation and impairment
				Carrying value
Investment property	60,642,840	(2,988,381)	57,654,459	60,642,840
				(2,225,089)
				58,417,751

### Reconciliation of investment property - 2021

	Opening balance	Impairments	Depreciation	Total
Investment property	58,417,751	(448,953)	(314,339)	57,654,459

### Reconciliation of investment property - 2020

	Opening balance	Depreciation	Total
Investment property	58,732,091	(314,340)	58,417,751

### Investment property in the process of being constructed or developed

No investment property is currently in the process of being constructed or developed.

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.

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>4. Investment property (continued)</b>		
<b>Amounts recognised in surplus or deficit</b>		
Rental revenue from Investment property	1,209,118	957,049
<b>From Investment property that generated rental revenue</b>		
Direct operating expenses (excluding repairs and maintenance)	2,299,805	93,500
Repairs and maintenance	165,288	286,129
	<b>2,465,093</b>	<b>379,629</b>

# uMngeni Local Municipality

(Registration number KZN 222)  
Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 5. 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	187,208,498			185,329,045
Buildings	330,071,271	(546,120)	186,662,378	305,509,611
Landfill site	69,027,008	(102,998,322)	227,072,949	67,983,008
Machinery and equipment	9,160,216	(19,456,136)	49,570,872	8,305,156
Furniture and office equipment	5,691,619	(6,935,249)	2,224,967	5,494,211
Motor vehicles	6,782,569	(4,464,187)	1,227,432	8,495,634
Computer equipment	5,948,010	(1,850,531)	4,932,038	4,766,127
Electricity infrastructure	120,957,030	(3,793,792)	2,154,218	119,833,298
Roads and stormwater infrastructure	709,944,480	(41,875,831)	79,081,199	700,160,206
<b>Total</b>	<b>1,444,790,701</b>	<b>(405,188,731)</b>	<b>1,039,601,970</b>	<b>1,405,876,296</b>

# uMngeni Local Municipality

(Registration number KZN 222)  
Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 5. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Depreciation	Impairment loss	Total
Land	185,329,045	1,879,453	-	(546,120)	186,662,378
Buildings	216,569,999	24,561,660	(13,414,840)	(643,870)	227,072,949
Landfill Site	51,849,444	1,044,001	(4,825,199)	1,502,626	49,570,872
Machinery and equipment	2,326,546	855,061	(956,640)	-	2,224,967
Furniture and office equipment	1,638,490	197,408	(608,466)	-	1,227,432
Motor vehicles	6,232,512	465,001	(1,765,475)	-	4,932,038
Computer equipment	1,799,239	1,181,883	(826,904)	-	2,154,218
Electricity infrastructure	81,775,177	913,926	(3,607,904)	-	79,081,199
Roads and stormwater infrastructure	507,499,884	9,784,273	(30,608,240)	-	486,675,917
	<b>1,055,020,336</b>	<b>40,882,666</b>	<b>(56,613,668)</b>	<b>312,636</b>	<b>1,039,601,970</b>

# uMngeni Local Municipality

(Registration number KZN 222)  
Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 5. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Depreciation	Impairment loss	Total
Land	185,329,045	-	-	-	185,329,045
Buildings	215,497,601	19,112,973	(13,169,108)	(4,871,467)	216,569,999
Landfill Site	59,643,999	-	(4,956,374)	(2,838,181)	51,849,444
Machinery and equipment	3,171,005	153,963	(956,488)	(41,934)	2,326,546
Furniture and office equipment	2,198,876	59,845	(616,908)	(3,323)	1,638,490
Motor vehicles	5,783,890	2,378,686	(1,928,735)	(1,329)	6,232,512
Computer equipment	2,277,151	234,347	(700,279)	(11,980)	1,799,239
Electricity infrastructure	84,794,961	554,058	(3,564,788)	(9,054)	81,775,177
Roads and stormwater infrastructure	531,605,655	7,918,236	(30,068,790)	(1,955,217)	507,499,884
	<b>1,090,302,183</b>	<b>30,412,108</b>	<b>(55,961,470)</b>	<b>(9,732,485)</b>	<b>1,055,020,336</b>

#### Pledged as security

No assets have been pledged as security.

#### Other information

Property, plant and equipment that was not used for any period of time during the reporting period that significantly impacted the delivery of goods and services of the entity (Carrying amount)

Roads and stormwater infrastructure

- 1

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

#### 5. Property, plant and equipment (continued)

##### Reconciliation of Work-in-Progress 2021

	Included within Buildings	Included within Roads and Stormwater	Included within Electrical	Total
Opening balance	14,713,290	26,954,813	574,894	42,242,997
Additions/capital expenditure	24,561,662	9,784,274	-	34,345,936
Transferred to completed items	(9,092,579)	(7,136,898)	-	(16,229,477)
	<b>30,182,373</b>	<b>29,602,189</b>	<b>574,894</b>	<b>60,359,456</b>

##### Reconciliation of Work-in-Progress 2020

	Included within Buildings	Included within Roads and Stormwater	Included within Electrical	Total
Opening balance	75,837,133	27,782,200	574,894	104,194,227
Additions/capital expenditure	19,061,163	7,918,236	-	26,979,399
Transferred to completed items	(80,185,006)	(8,745,623)	-	(88,930,629)
	<b>14,713,290</b>	<b>26,954,813</b>	<b>574,894</b>	<b>42,242,997</b>

##### 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

Employee related costs	-	1
Contracted services	-	1
Materials and supplies	-	1
General expenses	-	1
	<b>-</b>	<b>4</b>

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

#### 5. Property, plant and equipment (continued)

##### Maintenance of property, plant and equipment

##### Maintenance of property, plant and equipment by condition - 2021

	Preventative Maintenance Total	Corrective Maintenance Planned	Total	Total
Buildings	-	2,527,119	2,527,119	2,527,119
Motor vehicles	-	4,542,605	4,542,605	4,542,605
Electrical	-	6,283,871	6,283,871	6,283,871
Roads and Stormwater	-	5,427,932	5,427,932	5,427,932
Other Equipment	-	3,655,511	3,655,511	3,655,511
	-	<b>22,437,038</b>	<b>22,437,038</b>	<b>22,437,038</b>

##### Maintenance of property, plant and equipment by condition - 2020

	Preventative Maintenance Total	Corrective Maintenance Planned	Total	Total
Buildings	-	1,760,329	1,760,329	1,760,329
Motor vehicles	-	3,679,534	3,679,534	3,679,534
Electrical	-	5,012,579	5,012,579	5,012,579
Roads and Stormwater	-	10,912,925	10,912,925	10,912,925
Other Equipment	-	19,870	19,870	19,870
	-	<b>21,385,237</b>	<b>21,385,237</b>	<b>21,385,237</b>

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.

##### Land appointed in terms of legislation which entity controls without legal ownership or custodianship

Carrying value of land included in the carrying value of Property, plant and equipment	-	1
--	---	---

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand

#### 6. Intangible assets

##### Reconciliation of intangible assets - 2021

##### Reconciliation of intangible assets - 2020

Computer software

Opening balance	Other changes, movements	Total
118,962	(118,962)	-

##### Intangible assets in the process of being constructed or developed

There are no intangible assets that is in the process of being constructed or developed.



# uMngeni Local Municipality

(Registration number KZN 222)  
Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 7. Heritage assets

	2021		2020	
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation
Historical monuments	4,848,314	-	4,848,314	4,848,314
Area of land historical value	490,000	-	490,000	490,000
Art collections, antiquities and exhibits	60,000	-	60,000	60,000
<b>Total</b>	<b>5,398,314</b>	<b>-</b>	<b>5,398,314</b>	<b>5,398,314</b>

### Reconciliation of heritage assets 2021

	Opening balance	Total
Historical monuments	4,848,314	4,848,314
Area of land historical value	490,000	490,000
Art collections, antiquities and exhibits	60,000	60,000
	<b>5,398,314</b>	<b>5,398,314</b>

### Reconciliation of heritage assets 2020

	Opening balance	Total
Historical monuments	4,848,314	4,848,314
Area of land historical value	490,000	490,000
Art collections, antiquities and exhibits	60,000	60,000
	<b>5,398,314</b>	<b>5,398,314</b>

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

#### 7. Heritage assets (continued)

##### Expenditure incurred to repair and maintain heritage assets

##### Expenditure incurred to repair and maintain heritage assets included in Statement of Financial Performance

Contracted services	-	1
Sale of goods/Inventory	-	1
General expenses	-	1
	-	3

#### 8. Employee benefit obligations

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

##### Carrying value

Present value of the defined benefit obligation - medical aid	(26,843,000)	(21,537,000)
Present value of the defined benefit obligation - long service awards	(7,529,000)	(6,226,000)
	<b>(34,372,000)</b>	<b>(27,763,000)</b>
Non-current liabilities	(32,030,000)	(26,163,000)
Current liabilities	(2,342,000)	(1,600,000)
	<b>(34,372,000)</b>	<b>(27,763,000)</b>

##### Post Retirement Medical Aid Obligation

The fair value of plan assets includes:

Post Employment Health Care Benefit Liability	26,843,000	21,537,000
Less: Transfer to Current Provisions	(1,297,000)	(1,212,000)
	<b>25,546,000</b>	<b>20,325,000</b>

The Municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the Municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the Municipality is liable for a certain portion of the medical aid membership fee.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2020 by Zaqen Actuaries Pty Ltd, trading as ZAQ Consultants and Actuaries, a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

##### The Post Employment Health Care Benefit Plan is a defined benefit plan, of which the members are made up as follows:

In-service members	174	177
Continuation members	31	30
	<b>205</b>	<b>207</b>

The liability in respect of past service has been estimated to be as:

In-service members	15,405,000	11,256,000
Continuation members	11,438,000	10,281,000
	<b>26,843,000</b>	<b>21,537,000</b>

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>8. Employee benefit obligations (continued)</b>		
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	680,000	906,000
Interest cost	2,602,000	2,429,000
Actuarial (gains) losses	3,296,000	(5,215,000)
	<b>6,578,000</b>	<b>(1,880,000)</b>

The movement in the defined benefit obligation over the year is as follows:

Opening balance	21,537,000	24,587,000
Current service cost	680,000	906,000
Interest cost	2,602,000	2,429,000
Recognised actuarial (gain)/loss	3,296,000	(5,215,000)
Benefits paid	(1,272,000)	(1,170,000)
	<b>26,843,000</b>	<b>21,537,000</b>

The future service cost for the ensuing year is estimated to be xxx whereas the interest-cost for the next year is estimated to be R xxxx. (2020: R 680,000 and R2,602,000 respectively).

### Key assumptions used

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rates used	8.94 %	8.94 %
Expected rate of return on assets	8.05 %	8.05 %
Expected increase in salaries	0.82 %	0.82 %
Expected pension increases	7.05 %	7.05 %
Healthcare cost inflation rate	1.00 %	1.00 %

### Other assumptions

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

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	1	1
Effect on defined benefit obligation	1	1

The history of experienced adjustments are as follows:

	2021 R	2020 R	2019 R	2018 R	2017 R
Defined benefit obligation	26,843,000	21,537,000	24,587,000	1	1

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

#### 8. Employee benefit obligations (continued)

##### Long Service Awards

The fair value of long service awards is represented below:

Provision for long service awards	7,529,000	6,226,000
Less: Transfer of current provisions	(1,045,000)	(388,000)
	<b>6,484,000</b>	<b>5,838,000</b>

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2021 may become entitled to in future, based on an actuarial valuation performed at that date.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2021 by Zaqen Actuaries Pty Ltd, trading as ZAQ Consultants, a member of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. No other long service benefits are provided by the municipality.

The Long Service Awards plans are defined benefit plans. As at year end, 247 employees were eligible for Long Service Awards. (2020: 247 employees)

The future service cost for the ensuing year is estimated to be R xxx whereas the interest-cost for the next year is estimated to be R xxx (2020: R 489,000 and R 759,000 respectively).

The amount recognised in the Statement of Financial Performance is as follows:

Current service cost	489,000	500,000
Interest cost	759,000	621,000
Actuarial (gain)/loss recognised	317,000	(638,000)
	<b>1,565,000</b>	<b>483,000</b>

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

#### 8. Employee benefit obligations (continued)

The movement in the defined benefit obligation in the Statement of Financial Position is as follows:

Opening Balance	6,226,000	6,272,000
Current service cost	489,000	500,000
Interest cost	759,000	621,000
Benefits paid	(262,000)	(529,000)
Actuarial (gain)/loss recognised	317,000	(638,000)
	<b>7,529,000</b>	<b>6,226,000</b>

The principal assumptions used for the purposes of the actuarial valuations

Discount rate	9	8.94 %
Expected rate of salary increase	6	6.25 %

The effect of a 1% movement in the assumed rate of salary inflation is as:

Effect on the aggregate of the current service and interest cost	1	1
Effect on the defined benefit obligation	1	1

The history of experience adjustments on long service awards as follows:

	2021	2020	2019	2018	2017
Long service awards obligation	7,529,000	6,226,000	6,272,000	1	1

#### 9. Non-Current Receivables from exchange transactions

Electricity Deposit to Eskom	5,718,319	3,818,217
------------------------------	-----------	-----------

#### 10. Receivables from non-exchange transactions

Consumer debtors - Rates	36,165,494	73,502,602
Consumer debtors - Other (Specified)	842,607	836,729
	<b>37,008,101</b>	<b>74,339,331</b>

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>10. Receivables from non-exchange transactions (continued)</b>		
<b>Statutory receivables included in receivables from non-exchange transactions above are as follows:</b>		
Fines	-	14,316,623
Property rates - Vacant Land	-	7,452,007
Property rates - Other Properties	-	2,164,006
Property rates - Public Service Infrastructure	-	496,505
Property rates - State owned properties	-	1,734,341
Property rates - Rural Residential	-	12,050,435
Property rates - Rural Commercial	-	6,434,925
Property rates - Rural Agricultural	-	6,783,773
Property rates - Business and Commercial	-	8,768,046
Property rates - Industrial	-	7,283,985
Property rates - Residential	-	97,405,582
	-	<b>164,890,228</b>
<b>Financial asset receivables included in receivables from non-exchange transactions above</b>	<b>37,008,101</b>	<b>(90,550,897)</b>
<b>Total receivables from non-exchange transactions</b>	<b>37,008,101</b>	<b>74,339,331</b>
<b>11. VAT receivable</b>		
VAT	5,123,640	2,450,776
<b>12. Current receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	29,892,865	25,349,171
Accrued Income	192,406	100,756
Refuse	8,143,692	7,060,686
Business service levies	784,236	784,236
Sundry debtors	923,959	1,467,260
Housing rental	2,616,893	1,295,169
Prepayments	-	1,727,855
	<b>42,554,051</b>	<b>37,785,133</b>
<b>Less: Allowance for impairment</b>		
Electricity	(19,717,791)	(9,284,899)
Refuse	(6,117,163)	(3,328,239)
Sundry debtors	(1,139,460)	(1,197,845)
Housing rental	(1,994,772)	(916,808)
	<b>(28,969,186)</b>	<b>(14,727,791)</b>
<b>Net balance</b>		
Electricity	10,175,074	16,064,272
Sewerage	192,406	100,756
Refuse	2,026,529	3,732,447
Business service levies	784,236	784,236
Sundry debtors	(215,501)	269,415
Housing rental	622,121	378,361
Prepayment	-	1,727,855
	<b>13,584,865</b>	<b>23,057,342</b>

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>12. Current receivables from exchange transactions (continued)</b>		
<b>Electricity</b>		
Current (0 -30 days)	6,302,099	6,220,937
31 - 60 days	1,659,443	2,359,151
61 - 90 days	879,296	755,921
91 - 120 days	592,668	546,331
121 - 365 days	428,720	369,270
> 365 days	20,030,634	15,097,561
	<b>29,892,860</b>	<b>25,349,171</b>
<b>Refuse</b>		
Current (0 -30 days)	639,518	622,513
31 - 60 days	296,763	302,480
61 - 90 days	198,679	224,217
91 - 120 days	178,270	196,202
121 - 365 days	170,809	183,123
> 365 days	6,659,652	5,532,152
	<b>8,143,691</b>	<b>7,060,687</b>
<b>Sundry debtors</b>		
Current (0 -30 days)	48,978	55,647
31 - 60 days	18,539	37,193
61 - 90 days	12,938	44,743
91 - 120 days	4,835	33,495
121 - 365 days	7,303	31,324
> 365 days	764,503	1,257,670
	<b>857,096</b>	<b>1,460,072</b>
<b>Housing rental</b>		
Current (0 -30 days)	117,265	47,742
31 - 60 days	65,248	38,072
61 - 90 days	59,971	34,158
91 - 120 days	60,678	28,606
121 - 365 days	129,339	26,577
> 365 days	2,184,392	1,120,012
	<b>2,616,893</b>	<b>1,295,167</b>
<b>Prepayments</b>		
91 - 120 days	-	1,727,855
<b>Summary of debtors by customer classification</b>		
<b>13. Receivables from non-exchange transactions</b>		
<b>Gross balances</b>		
Traffic Fines	16,853,750	14,316,623
Consumer debtors - Property rates	169,803,810	150,573,436
	<b>186,657,560</b>	<b>164,890,059</b>
<b>Less: Allowance for impairment</b>		
Traffic Fines	(16,011,143)	(13,479,894)
Consumer debtors - Property rates	(133,638,316)	(77,070,834)
	<b>(149,649,459)</b>	<b>(90,550,728)</b>

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

#### 13. Receivables from non-exchange transactions (continued)

##### Net balance

Traffic Fines	842,607	836,729
Consumer debtors - Property rates	36,165,494	73,502,602
	<b>37,008,101</b>	<b>74,339,331</b>

##### Statutory receivables included in receivables from non-exchange transactions are as follows, on a gross basis:

Traffic Fines	16,853,750	14,316,623
Property rates - Vacant Land	6,944,369	7,452,007
Property rates - Other properties	2,065,092	2,164,006
Property rates - Public Service Infrastructure	669,846	496,505
Property rates - State Owned Properties	1,947,659	1,734,341
Property rates - Rural Residential	13,334,434	12,050,435
Property rates - Rural Commercial	8,537,597	6,434,925
Property rates - Rural Agricultural	7,073,230	6,783,773
Property rates - Business and Commercial	12,046,052	8,768,046
Property rates - Industrial	9,535,706	7,283,985
Property rates - Residential	107,649,992	97,405,582
	<b>186,657,727</b>	<b>164,890,228</b>

##### Statutory receivables that are past due and impaired included in receivables from non-exchange transactions are as follows:

Traffic Fines	(16,011,143)	(13,479,894)
Property rates - Vacant Land	(4,829,518)	(3,704,651)
Property rates - Other properties	-	(1,137)
Property rates - Public Service Infrastructure	(1,412,294)	(482,938)
Property rates - State Owned Properties	(1,733,953)	(1,166,959)
Property rates - Rural Residential	(7,465,550)	(3,788,909)
Property rates - Rural Commercial	(7,150,868)	(3,202,480)
Property rates - Rural Agricultural	(4,191,715)	(3,933,389)
Property rates - Business and Commercial	(5,784,623)	(2,017,073)
Property rates - Industrial	(8,424,915)	(3,511,577)
Property rates - Residential	(92,644,881)	(55,261,720)
	<b>(149,649,460)</b>	<b>(90,550,727)</b>

##### Statutory receivables included in receivables from non-exchange transactions above are as follows, net of impairment:

Traffic Fines	842,607	836,729
Property rates - Vacant Land	2,114,851	3,747,355
Property rates - Other properties	-	2,162,869
Property rates - Public Service Infrastructure	19,405	13,567
Property rates - State Owned Properties	524,032	567,383
Property rates - Rural Residential	5,107,031	8,261,526
Property rates - Rural Commercial	1,386,729	3,232,445
Property rates - Rural Agricultural	2,881,516	2,850,383
Property rates - Business and Commercial	8,326,522	6,750,974
Property rates - Industrial	1,110,791	3,772,408
Property rates - Residential	14,694,617	42,143,861
	<b>37,008,101</b>	<b>74,339,500</b>



# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>13. Receivables from non-exchange transactions (continued)</b>		
<b>Statutory receivables that are past due but are not impaired and included in receivables from non-exchange transactions:</b>		
Property rates - Vacant Land	5,647,947	5,951,694
Property rates - Other properties	2,282,164	2,151,079
Property rates - Public Service Infrastructure	669,845	480,172
Property rates - State Owned Properties	1,729,273	1,549,902
Property rates - Rural Residential	9,363,877	7,902,131
Property rates - Rural Commercial	7,496,063	5,277,120
Property rates - Rural Agricultural	5,296,289	5,120,212
Property rates - Business and Commercial	8,019,453	5,055,810
Property rates - Industrial	8,251,426	5,932,994
Property rates - Residential	93,138,950	82,740,704
	<b>141,895,287</b>	<b>122,161,818</b>
<b>Property Rates</b>		
Current (0 -30 days)	16,474,680	16,289,909
31 - 60 days	7,202,206	7,555,168
61 - 90 days	4,237,121	4,566,708
91 - 120 days	3,836,583	3,954,718
121 - 365 days	3,725,626	3,533,041
> 365 days	134,327,762	114,674,060
	<b>169,803,978</b>	<b>150,573,604</b>
<b>Electricity</b>		
Current (0 -30 days)	6,302,100	6,220,937
31 - 60 days	1,659,444	2,359,151
61 - 90 days	879,297	755,922
91 - 120 days	592,669	546,331
121 - 365 days	428,721	369,270
> 365 days	20,030,635	15,097,561
	<b>29,892,866</b>	<b>25,349,172</b>
<b>Refuse</b>		
Current (0 -30 days)	639,519	622,513
31 - 60 days	296,761	302,480
61 - 90 days	198,679	224,217
91 - 120 days	178,271	196,202
121 - 365 days	170,809	183,123
> 365 days	6,659,653	5,532,152
	<b>8,143,692</b>	<b>7,060,687</b>
<b>Sundries</b>		
Current (0 -30 days)	48,978	55,647
31 - 60 days	18,539	37,193
61 - 90 days	12,938	44,743
91 - 120 days	4,835	33,495
121 - 365 days	7,303	31,324
> 365 days	831,361	1,257,670
	<b>923,954</b>	<b>1,460,072</b>

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>13. Receivables from non-exchange transactions (continued)</b>		
<b>Housing rental</b>		
Current (0 -30 days)	117,265	47,742
31 - 60 days	65,248	38,072
61 - 90 days	59,971	34,158
91 - 120 days	60,678	28,606
121 - 365 days	129,339	26,577
> 365 days	2,184,392	1,120,012
	<b>2,616,893</b>	<b>1,295,167</b>

### Statutory receivables general information

#### Transaction(s) arising from statute

Traffic fines are issued to offenders in terms of the Criminal Procedures Act, hence this is therefore recognised as a statutory receivable.

Property rates is levied in terms of the Municipal Property Rates Act, hence this is therefore recognised as a statutory receivable.

#### Determination of transaction amount

The traffic fines receivable is calculated by determining the value of the fine to be paid on initial recognition, and accounting for subsequent measurement by taking into account reductions and discounts made to the value of the fine payable in terms of the court of law. No interest is charged on outstanding fines, and any additional penalties applied by the court is paid by the offender to the court directly, and is therefore not considered to be revenue for the municipality.

The property rates receivable is calculated by applying the Council approved rates and charges against the valuation of individual properties within the municipality jurisdiction. Council approved rebates and exemptions are further applied to reduce the receivable.

#### Interest or other charges levied/charged

No interest or penalties is levied on traffic fines receivables, in accordance with the Criminal Procedures Act.

Interest is applied on outstanding property rates debt, at an interest rate of 1% per month.

#### Basis used to assess and test whether a statutory receivable is impaired

The following accounts are specifically excluded from the assessment for impairment:

Receivable accounts with credit balances at reporting date. Receivables accounts where total balance at a reporting date is zero. Receivables accounts where the municipality is the owner, as this is raised on the debtor system and rebated accordingly.

Any one of the following events is considered to provide objective evidence that a receivable account or group of receivable accounts could be impaired:

A debtor that has been placed under or applied for liquidation or sequestration, Accounts handed over to debt collectors and / or power attorney, All accounts indicated as inactive accounts on the system, when accounts have been formally presented to the CFO for consideration for write off and all accounts with balances outstanding for longer than ninety(90) days as these accounts are considered to be past due.

#### Discount rate applied to the estimated future cash flows

Due to interest being applied on property rates, the time value of money has been considered, and therefore no discounting of debtors has been effected on future cash flows.

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>14. Finance lease obligation</b>		
<b>Minimum lease payments due</b>		
- within one year	1,510,886	2,046,641
- in second to fifth year inclusive	1,389,341	2,878,933
- later than five years	(194,694)	(415,867)
<b>Present value of minimum lease payments</b>	<b>2,705,533</b>	<b>4,509,707</b>
Non-current liabilities	1,311,177	2,705,514
Current liabilities	1,394,337	1,804,193
	<b>2,705,514</b>	<b>4,509,707</b>

It is the municipality policy to lease certain motor vehicles and equipment under finance leases.

The average lease term was 4-5 years

Interest rates of 8.5% (2020: 8.5%) linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

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

## 15. Unspent conditional grants

**Unspent conditional grants and receipts comprises of:**

<b>Unspent conditional grants and receipts</b>		
Financial Management Grant	-	329,672
Housing Grant	1,191,837	609,204
Integrated National Electrification Programme	-	2,170,560
Municipal Infrastructure Grant	-	11,413,887
Nodal Plan and Land Scheme Grant	104,051	104,051
Provincial - Cedara College / Khanya Village Road	414,219	414,219
MAP Synergistic Partnership	159,796	231,732
Massification Grant	135,116	135,116
Sports and Recreation Maintenance Grant	11,042	11,042
	<b>2,016,061</b>	<b>15,419,483</b>

## Movement during the year

Balance at the beginning of the year	15,419,483	6,076,235
Receipts during the year	117,736,633	115,461,000
Income recognition during the year	(131,140,054)	(106,117,751)
	<b>2,016,062</b>	<b>15,419,484</b>

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 for reconciliation of grants from National/Provincial Government.

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

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>16. Annuity loans</b>		
<b>At amortised cost</b>		
Other financial liability 1	12,448,711	17,335,681
Terms and conditions		
<b>Non-current liabilities</b>		
At amortised cost	9,661,843	13,395,489
<b>Current liabilities</b>		
At amortised cost	2,786,868	3,940,192

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

#### 17. Provisions

##### Reconciliation of provisions - 2021

	Opening Balance	Increase / (decrease) in estimate change in discount factor	Interest Cost	Total
Environmental rehabilitation	56,227,195	1,502,626	4,857,183	62,587,004

##### Reconciliation of provisions - 2020

	Opening Balance	Increase in change in estimate and discount rate	Interest Cost	Total
Environmental rehabilitation	54,366,363	(2,838,180)	4,699,012	56,227,195

In terms of the licensing of the landfill refuse sites, the municipality will incur the following licensing and rehabilitation costs to restore the site at the end of its useful life, estimated to be in 2032 (Curries Post landfill) and 2023 (Hilton landfill) respectively. Provision has been made for the net present value of this cost. The payment dates for the total closure and rehabilitation are uncertain. The calculation for the rehabilitation of the landfill site provision was compiled by an independent qualified engineer (Geoff Purnell Waste management Specialist) in order to determine the present value to rehabilitate the landfill site at the end of its useful life. Provision is made in terms of the municipality's licensing stipulations for the rehabilitation of landfill sites. The total obligation at year end can be attributed to the following

There is no expected reimbursement (from the manufacturer) in respect of this provision.

Location	Site Extent M2	Estimated Rehabilitation date	Estimated Post Closure Monitoring date	Cost of Rehabilitation 2019-2020	Movement during the year	Cost of Rehabilitation 2020-2021
Curries Post Landfill-Site	23,167	2,032	2,062	44,455,143	6,039,898	50,495,041
Hilton Landfill-Sites	295	2,023	2,053	11,738,186	200,063	11,938,249
	<u>23,462</u>	<u>4,055</u>	<u>4,115</u>	<u>56,193,329</u>	<u>6,239,961</u>	<u>62,433,290</u>
	<b>23,462</b>	<b>4,055</b>	<b>4,115</b>	<b>56,193,329</b>	<b>6,239,961</b>	<b>62,433,290</b>

the principal assumptions used for the purposes of the actuarial valuations were as follows: A retrospective calculation of time value for money, based on the government bond rate for the of the past 5 years was applied from 2016-2017 up to the current year using the longest term available on retail bond fixed term. 2016-2017 Rate 8.25%; 2017-2018 Rate 8.5%; 2018-2019 Rate 8.5%; 2019-2020 Rate 8.5%; 2020-2021 Rate 8.25%.

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>18. Payables from exchange transactions</b>		
Accruals	17,660,997	32,839,781
Payments received in advance	22,492,057	21,643,486
Leave accruals	11,648,470	10,638,704
Retention	5,461,411	3,608,378
Accrued expense - DBSA accrued interest	330,471	387,837
Operating lease payables (if immaterial)	-	14,853
Provision - Salary	-	659,215
Unclaimed deposits	9,479,042	9,982,950
Salary creditors	23,883	19
	<b>67,096,331</b>	<b>79,775,223</b>
<b>19. Consumer deposits</b>		
Electricity	2,675,569	2,536,866
Housing rental	2,087,205	2,097,254
	<b>4,762,774</b>	<b>4,634,120</b>
<b>20. Revenue</b>		
Sale of goods	3,647,264	2,908,692
Service charges	91,304,866	85,008,403
Rental of facilities and equipment	1,277,858	1,097,774
Interest received (trading)	2,403,368	1,902,299
Licences and permits	3,514,647	2,796,025
Miscellaneous other revenue	347,868	301,901
Fees earned	1,180,239	-
Interest received - investment	1,715,464	2,649,715
Property rates	219,869,420	204,867,536
Property rates - penalties imposed	11,974,995	8,095,873
Surcharges and Taxes	26,672	41,872
Government grants & subsidies	131,140,055	105,577,169
Fines, Penalties and Forfeits	2,674,853	907,577
	<b>471,077,569</b>	<b>416,154,836</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Sale of goods	3,647,264	2,908,692
Service charges	91,304,866	85,008,403
Rental of facilities and equipment	1,277,858	1,097,774
Interest received (trading)	2,403,368	1,902,299
Licences and permits	3,514,647	2,796,025
Miscellaneous other revenue	347,868	301,901
Fees earned	1,180,239	-
Interest received - investment	1,715,464	2,649,715
	<b>105,391,574</b>	<b>96,664,809</b>

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>20. Revenue (continued)</b>		
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	219,869,420	204,867,536
Property rates - penalties imposed	11,974,995	8,095,873
Surcharges and Taxes	26,672	41,872
<b>Transfer revenue</b>		
Government grants & subsidies	131,140,055	105,577,169
Fines, Penalties and Forfeits	2,674,853	907,577
	<b>365,685,995</b>	<b>319,490,027</b>
<b>21. Sale of goods and rendering of services</b>		
Building plan fees	1,953,338	1,881,069
Tender documents	120,279	97,092
Parking fees	-	18,710
Clearance certificates	702,020	483,236
Entrance fees	388	830
Application fees	2,073	901
Cemetery and burial fees	157,785	216,375
Photocopies and faxes	6,196	7,878
Domestic services	-	9,900
Town planning and servitudes	705,185	192,701
	<b>3,647,264</b>	<b>2,908,692</b>
<b>22. Service charges</b>		
Sale of electricity	83,432,608	77,410,804
Refuse removal	7,872,258	7,597,599
	<b>91,304,866</b>	<b>85,008,403</b>
<p>The Estimated Distribution Loss R 19 685 013 ( 2020: R 83 049 702) is noted . There were 79 710 467 electricity kilowatts issued , but 91 568 908 killatts purchased resulting in a loss of 11 858 441 @ 1,66 c/R that makes an amount of R 19 685 013 (13%) loss.</p> <p>The Municipality is applying its credit control and Debt collection policy in an effort to reduce losses, however the lossess are of a technical nature and illegal connections. The municipality is busy investing strategies to further reduce the issues.</p>		
<b>23. Rental of facilities and equipment</b>		
<b>Facilities and equipment</b>		
Rental of facilities	1,277,858	1,097,774
Premises	-	-
Garages and parking	-	-
Facilities and equipment	<b>1,277,858</b>	<b>1,097,774</b>
<b>24. Interest Recived</b>		
<b>Heading</b>		
Interest	<b>2,403,368</b>	<b>1,902,299</b>

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>25. Fines, Penalties and Forfeits</b>		
Overdue Books Fines	1,443	3,577
Municipal Traffic Fines	2,673,410	904,000
	<b>2,674,853</b>	<b>907,577</b>
<b>26. Licences and permits (exchange)</b>		
Learners Certificates	1,321,712	1,119,785
Market Porters	13,376	6,818
Taxi rank permits	26,609	34,174
Drivers Licence Application/Duplicate Drivers Licences	2,152,950	1,635,248
	<b>3,514,647</b>	<b>2,796,025</b>
<b>27. Lease rentals on operating lease</b>		
<b>Motor vehicles</b>		
Contractual amounts	238,857	274,450
<b>Equipment</b>		
Contractual amounts	904,906	818,788
<b>Lease rentals on operating lease - Other</b>		
Contractual amounts	276,736	270,491
	<b>1,420,499</b>	<b>1,363,729</b>
<b>28. Surcharges and Taxes</b>		
Surcharges	26,672	41,872
<b>29. Interest, dividends and Rent on Land</b>		
<b>30. Operational revenue</b>		
Administration handling fees	110,230	55,964
Fees earned	1,180,239	-
Commission received	1,563	11,527
Incidental cash surpluses	5,681	545
Skills development levy refund	118,953	189,795
Insurance refund	111,441	44,070
	<b>1,528,107</b>	<b>301,901</b>
<b>31. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	1,715,464	2,649,715
	<b>1,715,464</b>	<b>2,649,715</b>



## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>32. Property rates</b>		
<b>Rates received</b>		
Residential	131,870,564	123,221,501
Commercial	33,109,973	30,307,772
State	3,309,397	3,214,476
Small holdings and farms	39,682,886	36,902,775
Industrial	8,311,526	7,626,756
Public benefit organisations	476,843	413,263
Public service infrastructure	286,749	292,019
Other properties	2,821,482	2,888,974
	<u>219,869,420</u>	<u>204,867,536</u>
Property rates - penalties imposed	11,974,995	8,095,873
	<u><b>231,844,415</b></u>	<u><b>212,963,409</b></u>

The amount of revenue forgone / rebates for property rates is R157 618 002 (2019/2020: R 148 031 130 )

#### Valuations

Residential	17,030,470,500	16,801,799,500
Commercial	3,194,734,500	3,102,821,000
State	283,006,000	283,006,000
Municipal	293,915,325	283,935,325
Education	2,246,928,000	2,246,928,000
Place of worship	235,414,000	235,414,000
Agriculture	3,923,466,000	3,911,199,000
Private open space	26,944,000	26,944,000
	<u><b>27,234,878,325</b></u>	<u><b>26,892,046,825</b></u>

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The current general valuation roll has expired however the municipality requested an extension through the MEC for COGTA and it was granted. Rates are levied on an annual basis with the final date for payment being 30 June 2020 interest at 1% per annum (2020: 1%) and a collection fee of 10% (2020: 10%), is levied on rates outstanding seven months after the due date each financial year

The new general valuation roll will be implemented on the 01 July 2022.

#### 33. Grants and subsidies paid

##### Other subsidies

Indigent relief	-	19,000
Grant in Aid	212,950	106,500
SPCA	360,000	360,000
	<u><b>572,950</b></u>	<u><b>485,500</b></u>
Grants paid to ME's	-	-
Other subsidies	572,950	485,500

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>34. Actuarial Loss</b>		
<b>Loss on Medical Services</b>		
Actuarial Loss for Medical Aid Benefit	3,296,000	-
Actuarial Loss for Long Service Award	317,000	-
	<b>3,613,000</b>	<b>-</b>

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>35. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	85,401,000	67,048,000
Expanded Public Works Programme Grant	1,000,000	1,000,000
Nodal Plan and Land Scheme Grant	-	1,125,023
Integrated National Electrification Grant	7,170,560	3,829,440
Library staffing costs	4,071,000	3,942,000
Finance Management Grant	2,029,672	1,440,328
Museum Grant	213,000	202,000
Disaster Management Grant - Covid 19	-	1,460,000
Sport and Recreation Maintenance Grant	-	27,438
MAP Synergistic Partnership	71,936	18,613
	<b>99,957,168</b>	<b>80,092,842</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant	31,182,887	25,484,327
	<b>99,957,168</b>	<b>80,092,842</b>
	<b>31,182,887</b>	<b>25,484,327</b>
	<b>131,140,055</b>	<b>105,577,169</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Conditional grants received	45,758,611	38,510,556
Unconditional grants received	85,401,000	67,048,000
	<b>131,159,611</b>	<b>105,558,556</b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
The additional funding for Covid-19 allocation received through equitable share for 2020: R12 045 000 was fully spent.		
<b>Disaster Management Grant</b>		
Current-year receipts	-	1,460,000
Conditions met - transferred to revenue	-	(1,460,000)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
<b>Expanded Public Works Program</b>		
Current-year receipts	1,000,000	1,000,000
Conditions met - transferred to revenue	(1,000,000)	(1,000,000)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
<b>Finance Management Grant</b>		
Balance unspent at beginning of year	329,672	-
Current-year receipts	1,700,000	1,770,000

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>35. Government grants and subsidies (continued)</b>		
Conditions met - transferred to revenue	(2,029,672)	(1,440,328)
	-	<b>329,672</b>
Conditions still to be met - remain liabilities (see note 15).		
<b>Housing Grant</b>		
Balance unspent at beginning of year	609,204	1,149,787
Current-year receipts	242,000	-
Other	340,633	(540,583)
	<b>1,191,837</b>	<b>609,204</b>
Conditions still to be met - remain liabilities (see note 15).		
The municipality is an implementing agent for this grant, hence revenue is not recognised to the Statement of Financial Performance in terms of GRAP 109, and is accounted as a liability.		
<b>Integrated National Electricity Programme Grant</b>		
Balance unspent at beginning of year	2,170,560	-
Current-year receipts	5,000,000	6,000,000
Conditions met - transferred to revenue	(7,170,560)	(3,829,440)
	-	<b>2,170,560</b>
Conditions still to be met - remain liabilities (see note 15).		
<b>Museum Grant</b>		
Current-year receipts	213,000	202,000
Conditions met - transferred to revenue	(213,000)	(202,000)
	-	-
Conditions still to be met - remain liabilities (see note 15).		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	11,413,887	2,859,214
Current-year receipts	22,628,000	34,039,000
Conditions met - transferred to revenue	(31,182,887)	(25,484,327)
Other	(2,859,000)	-
	-	<b>11,413,887</b>
Conditions still to be met - remain liabilities (see note 15).		
<b>Massification Grant</b>		
Balance unspent at beginning of year	135,116	135,116
Conditions still to be met - remain liabilities (see note 15).		
<b>MAP Synergistic Partnership (Traditional Council)</b>		
Balance unspent at beginning of year	231,732	250,345

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>35. Government grants and subsidies (continued)</b>		
Conditions met - transferred to revenue	(71,936)	(18,613)
	<b>159,796</b>	<b>231,732</b>
Conditions still to be met - remain liabilities (see note 15).		
<b>Provincial Library</b>		
Current-year receipts	4,071,000	3,942,000
Conditions met - transferred to revenue	(4,071,000)	(3,942,000)
	<b>-</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 15).		
<b>Sports and Recreation Grant</b>		
Balance unspent at beginning of year	11,042	38,480
Conditions met - transferred to revenue	-	(27,438)
	<b>11,042</b>	<b>11,042</b>
Conditions still to be met - remain liabilities (see note 15).		
<b>Provincial - Cedara College / Khanya Village Road</b>		
Balance unspent at beginning of year	414,219	414,219
Conditions still to be met - remain liabilities (see note 15).		

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 36. Additional Note

### 37. Employee related costs

Basic	68,319,497	66,354,628
Bonus - 13th Cheque	5,698,586	4,971,473
Medical aid - company contributions	7,162,341	5,647,926
Unemployment Insurance Fund	528,163	541,535
Workmans Compensation Fund	689,265	721,563
Leave pay provision charge	3,559,614	7,080,737
Defined benefit contributions - medical	-	(9,502)
Pension fund contributions	16,826,623	12,588,089
Overtime payments	6,172,657	8,000,197
Defined benefit contributions - Long-service awards	324,907	525,726
Acting allowances	90,014	304,472
Car allowance	4,784,092	4,531,767
Housing benefits and allowances	394,339	380,228
Bargaining Council Levies	37,698	35,390
Cellphone allowance	310,634	303,535
Standby allowance	669,071	392,088
	<b>115,567,501</b>	<b>112,369,852</b>

### Remuneration of Municipal Manager

Annual Remuneration	1,386,637	1,386,637
Cellphone allowance	24,000	24,000
	<b>1,410,637</b>	<b>1,410,637</b>

### Remuneration of Chief Financial Officer

Annual Remuneration	391,321	385,587
Car Allowance	130,440	259,625
Cellphone allowance	10,500	9,098
Leave encashment	-	37,423
	<b>532,261</b>	<b>691,733</b>

### Remuneration of General Manager: Corporate Services

Annual Remuneration	980,967	986,658
Car Allowance	227,961	222,269
Cellphone allowance	18,000	18,000
	<b>1,226,928</b>	<b>1,226,927</b>

### Remuneration of Former General Manager: Planning Services

Annual Remuneration	124,768	684,074
Car Allowance	-	107,180
Cellphone allowance	-	9,000
Leave encashment	29,807	45,107
	<b>154,575</b>	<b>845,361</b>

### Remuneration of General Manager: Community Services

Annual Remuneration	800,057	986,658
Car Allowance	225,424	222,269

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>37. Employee related costs (continued)</b>		
Leave encashment	-	45,108
Cellphone allowance	18,000	18,000
	<b>1,043,481</b>	<b>1,272,035</b>
<b>Remuneration of Acting Chief Financial Officer</b>		
Annual Remuneration	297,755	212,721
Car Allowance	99,252	68,218
Leave Encashment	39,234	-
Cellphone allowance	6,986	4,500
	<b>443,227</b>	<b>285,439</b>
<b>Remuneration of General Manager: Planning and Development</b>		
Annual Remuneration	710,969	186,518
Car Allowance	236,990	72,920
Cellphone allowance	18,000	4,500
Leave encashment	-	41,119
	<b>965,959</b>	<b>305,057</b>
<b>Remuneration of General Manager - Technical Services</b>		
Annual Remuneration	391,321	-
Car Allowance	130,440	-
Cellphone Allowance	10,500	-
	<b>532,261</b>	<b>-</b>
<b>Remuneration of Acting General Manager - Technical Services</b>		
Annual Remuneration	271,566	-
Car Allowance	90,522	-
Cellphone Allowance	6,986	-
Leave Encashment	20,447	-
	<b>389,521</b>	<b>-</b>
<b>38. Remuneration of councillors</b>		
Mayor	934,650	934,650
Deputy Mayor	759,478	759,478
Speaker	462,950	760,877
Councillors	7,172,959	6,868,530
	<b>9,330,037</b>	<b>9,323,535</b>
<b>In-kind benefits</b>		

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

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

The Mayor and the Deputy Mayor each have the use of separate Council owned vehicles for official duties.

The Mayor has three full-time bodyguards. The Deputy Mayor and speaker have two full-time bodyguards.

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

#### 38. Remuneration of councillors (continued)

##### Additional information

The salaries, allowance and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.

#### 39. Depreciation and amortisation

Property, plant and equipment	56,613,668	55,961,470
Investment property	314,340	314,340
	<b>56,928,008</b>	<b>56,275,810</b>

#### 40. Impairment of cash

#### 41. Impairment of assets

##### Impairments

Property, plant and equipment	(136,317)	9,732,486
Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]		
	(136,317)	9,732,486
	-	-

[Disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information has otherwise been disclosed:]

The main classes of assets affected by impairment losses are:

The main classes of assets affected by reversals of impairment losses are:

The main events and circumstances that led to the recognition of these impairment losses are as follows:

The main events and circumstances that led to the reversals of these impairment losses are as follows:

#### 42. Finance costs

Landfill Sites Interest Cost	4,857,183	4,699,012
Non-current borrowings	1,613,308	2,010,010
Trade and other payables	668,649	4,803
	<b>7,139,140</b>	<b>6,713,825</b>

Capitalisation rates used during the period were -% on specific borrowings for capital projects and -% being the weighted average cost of funds borrowed generally by the municipality.

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R - (2020: R -).



# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>43. Debt impairment</b>		
Contributions to debt impairment provision	73,381,778	42,740,655
<b>Reconciliation of Debt Impairment</b>		
Traffic Fines	2,572,900	761,243
Electricity	10,432,893	2,110,437
Rates	56,567,482	38,156,947
Refuse	2,788,924	930,156
Sundry debtors	(58,384)	531,839
Rent	1,077,964	250,033
	<b>73,381,779</b>	<b>42,740,655</b>
<b>44. Bulk purchases</b>		
Electricity - Eskom	127,756,605	111,520,559
<b>Electricity losses</b>		
<b>45. Contracted services</b>		
<b>Outsourced Services</b>		
Administrative and Support Staff	4,650,373	6,034,179
Animal Care	181,913	115,763
Business and Advisory	2,272,964	2,554,298
IT Expenses	4,651,728	3,627,492
Cleaning Services	1,567,431	-
Clearing and Grass Cutting Services	1,799,453	205,550
Fire Services	145,366	233,372
Hygiene Services	194,573	1,450,851
Hire Charges	2,831,661	3,257,466
Postage and Courier	1,931,068	1,595,395
Connection/Dis-connection	6,235,626	3,453,735
Refuse Removal	-	3,612,000
Security Services	16,676,266	16,582,986
<b>Consultants and Professional Services</b>		
Business and Advisory	6,130,292	2,016,885
Infrastructure and Planning	8,565,888	12,223,171
Laboratory Services	-	130,550
Legal Cost	5,440,876	3,394,074
<b>Contractors</b>		
Catering Services	127,500	122,400
Employee Wellness	-	5,871
Maintenance of Buildings and Facilities	2,527,120	1,663,743
Maintenance of Equipment	20,659	12,055
Maintenance of Unspecified Assets	14,376,564	24,538,568
Pest Control and Fumigation	110,911	-
Prepaid Electricity Vendors	778,651	431,568
Transportation	-	116,300
Presented previously	-	-
Outsourced Services	43,138,422	42,723,087
Consultants and Professional Services	20,137,056	17,764,680
Contractors	17,941,405	26,890,505
	<b>81,216,883</b>	<b>87,378,272</b>

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>46. General expenses</b>		
Advertising	630,255	742,719
Salga Bargaining Council	1,381,110	1,305,110
Auditors remuneration	2,483,035	2,438,974
Bank charges	921,121	1,031,716
Commission paid	8,753	300,840
Discount allowed	1,036,025	-
Insurance and vehicle tracking	1,331,151	1,449,550
Conferences and seminars	77,804	455,043
Signage expenses	65,120	38,000
Skills development levies	870,498	821,879
Fuel and oil	3,196,254	3,156,852
Printing and stationery	16,002	21,920
Protective clothing	1,106,073	517,864
Subscriptions and membership fees	576,750	287,089
Telephone and fax	968,171	1,000,620
Travel - local	110,482	605,318
Electricity and water utilities	14,596,009	11,062,726
Indigent relief	2,986,943	2,078,614
Motor vehicle licences and registrations	138,935	106,639
Ward committees	1,584,287	1,567,613
Bursaries and learnerships	1,089,774	1,258,183
	<b>35,174,552</b>	<b>30,247,269</b>
<b>47. Materials and supplies</b>		
Consumable stores	1,109,607	1,250,412
Materials and supplies	578,672	598,072
	<b>1,688,279</b>	<b>1,848,484</b>
	1,688,279	1,848,484
	-	-
	-	-
<b>48. Auditors' remuneration</b>		
Fees	2,483,035	2,438,974
<b>49. Operating deficit</b>		
Operating deficit for the year is stated after accounting for the following:		
<b>Operating lease charges</b>		
Motor vehicles		
• Contractual amounts	238,857	274,450
Equipment		
• Contractual amounts	904,906	818,788
Lease rentals on operating lease - Other		
• Contractual amounts	276,736	270,491
	<b>1,420,499</b>	<b>1,363,729</b>
Impairment on property, plant and equipment	(136,317)	9,732,486
Depreciation on property, plant and equipment	56,613,668	55,961,470
Depreciation on investment property	314,340	314,340
Employee costs	131,596,386	127,631,039

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>50. Cash generated from operations</b>		
Deficit	(49,274,194)	(53,929,792)
<b>Adjustments for:</b>		
Depreciation and amortisation	56,928,008	56,275,810
Provision for landfill site	(1,502,623)	-
Provision for Landfill Site	2,281,957	-
Traffic Fines	(2,578,777)	-
Income Accrued	(304,724)	-
Interest Accrued	(191,101)	-
Deemed Interest	(1,166,925)	-
Accruals	14,873,051	-
Impairment	(136,317)	9,732,486
Debt impairment	3,490,301	42,740,655
Actuarial Loss	3,613,000	(5,853,000)
Movements in provisions	6,359,809	13,555,012
Movement in tax receivable and payable	-	7,080,737
Annual charge for deferred tax	-	2,909,728
<b>Changes in working capital:</b>		
Non-Current Receivables from exchange transactions	(1,900,102)	(171,849)
Receivables from Non Exchange Transaction	9,485,800	(33,899,881)
Other receivables from non-exchange transactions	37,331,230	3,584,834
Statutory receivables	(34,008)	-
Accrual	(17,155,688)	-
Payables from exchange transactions	(12,678,892)	711,543
VAT	(2,672,864)	(82,436)
Unspent conditional grants	(13,403,422)	9,343,248
Employee Obligations	6,609,000	-
	<b>37,972,519</b>	<b>51,997,095</b>

## 51. Financial instruments disclosure

### Categories of financial instruments

#### 2021

#### Financial assets

	At amortised cost	Total
Cash and Cash Equivalents	22,484,328	22,484,328
Trade Receivables from Exchange Transactions	13,584,865	13,584,865
Trade Receivables from Non-Exchange Transactions	37,008,101	37,008,101
Vat Receivables	5,123,640	5,123,640
	<b>78,200,934</b>	<b>78,200,934</b>

#### Financial liabilities

	At amortised cost	Total
Finance Lease Liability	2,705,514	2,705,514
Annuity Loans	12,448,711	12,448,711
Unspent Grants	2,016,062	2,016,062
Trade and Other Payables	66,760,759	66,760,759
Consumer Deposits	4,762,774	4,762,774
	<b>88,693,820</b>	<b>88,693,820</b>

#### 2020

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand

2021

2020

#### 51. Financial instruments disclosure (continued)

##### Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	23,057,342	23,057,342
Receivables from non-exchange transactions	74,339,500	74,339,500
Cash and cash equivalents	32,099,000	32,099,000
VAT Receivable	2,450,776	2,450,776
	<b>131,946,618</b>	<b>131,946,618</b>

##### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	79,473,656	79,473,656
Unspent conditional grants	15,419,483	15,419,483
Annuity loans	17,335,681	17,335,681
Consumer deposits	2,473,970	2,473,970
Finance lease liability	4,509,707	4,509,707
	<b>119,212,497</b>	<b>119,212,497</b>

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>52. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	5,690,845	34,463,754
<b>Total capital commitments</b>		
Already contracted for but not provided for	5,690,845	34,463,754
<b>Authorised operational expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Contracted services	5,391,324	26,255,937
<b>Total operational commitments</b>		
Already contracted for but not provided for	5,391,324	26,255,937
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	5,690,845	34,463,754
Authorised operational expenditure	5,391,324	26,255,937
	<b>11,082,169</b>	<b>60,719,691</b>

This committed expenditure relates to capital and operational expenditure and will be financed by available bank facilities, retained surpluses and existing cash resources.

#### Operating leases - as lessee (expense)

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases are negotiated for an average term of seven years and rentals are fixed for an average of three years. No contingent rent is payable.

#### 53. Contingent Liabilities

Illegal Occupants	-	300,000
Plant Health Product	-	100,000
Contempt Order Application	-	300,000
Labour Disputes	-	200,000
Services Charges Claim	-	483,000
Revocation of Bylaws	-	850,000
Illegal Construction and Structure	-	260,000
Eviction Matter	760,000	-
Planning Matters	170,000	-
Other Matters	1,709,195	-
Pothole Claims	3,415,137	3,402,534
	<b>6,054,332</b>	<b>5,895,534</b>

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand

2021

2020

#### 54. Related parties

# uMngeni Local Municipality

(Registration number KZN 222)  
Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 54. Related parties (continued)

#### Remuneration of management

##### Management class: Councillors

2021

Name	Basic salary	Travel allowance	Cellphone allowance	Re-imbursive travel	Total
Mayoral Committee	2,839,899	946,641	307,200	5,501	4,099,241
Councillors	3,394,416	1,131,481	710,400	-	5,236,297
	<b>6,234,315</b>	<b>2,078,122</b>	<b>1,017,600</b>	<b>5,501</b>	<b>9,335,538</b>

2020

Name	Basic salary	Travel allowance	Cellphone allowance	Re-imbursive travel	Total
Mayoral committee members	2,782,217	944,654	307,200	53,142	4,087,213
Councillors	3,394,441	1,131,481	710,400	-	5,236,322
	<b>6,176,658</b>	<b>2,076,135</b>	<b>1,017,600</b>	<b>53,142</b>	<b>9,323,535</b>

Re-imbursive travel is paid based on the kilometers travelled for work purposes, and is therefore not considered to be employee costs. Re-imbursive travel is therefore disclosed as operational expenditure in the Statement of Financial Performance.

##### Management class: Executive management

2021

Name	Basic salary	Cellphone allowance	Travel allowance	Reimbursive travel	Leave Encashment	Total
Municipal Manager	1,386,637	24,000	-	5,952	-	1,416,589

## uMngeni Local Municipality

(Registration number KZN 222)  
Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand

#### 54. Related parties (continued)

Chief Financial Officer	391,321	10,500	130,440	-	-	532,261
GM: Community Services	800,057	18,000	225,424	10,877	-	1,054,358
GM: Planning	710,969	18,000	236,990	-	-	965,959
GM: Corporate	1,037,956	18,000	170,971	69,783	-	1,296,710
Acting Chief Financial Officer	297,755	6,986	99,252	-	39,234	443,227
Former GM: Planning	124,767	-	-	-	29,807	154,574
GM: Technical	391,231	10,500	130,440	-	-	532,171
Acting Technical GM Manager	271,566	6,986	90,522	-	20,447	389,521
	<b>5,412,259</b>	<b>112,972</b>	<b>1,084,039</b>	<b>86,612</b>	<b>89,488</b>	<b>6,785,370</b>

#### 2020

Name	Basic salary	Cellphone allowance	Travel allowance	Re-imbursive travel	Total
Municipal Manager	1,352,016	24,000	-	91,310	1,467,326
Chief Financial Officer	423,011	9,000	259,625	-	691,636
GM: Community Services	1,031,766	18,000	222,269	4,070	1,276,105
GM: Planning	729,180	18,000	107,181	-	854,361
GM: Corporate	986,658	18,000	222,269	104,836	1,331,763
Acting Chief Financial Officer	212,722	4,500	68,218	-	285,440
Acting GM: Planning	227,637	4,500	72,920	-	305,057
	<b>4,962,990</b>	<b>96,000</b>	<b>952,482</b>	<b>200,216</b>	<b>6,211,688</b>

Re-imbursive travel is paid based on the kilometers travelled for work purposes, and is therefore not considered to be employee costs. Re-imbursive travel is therefore disclosed as operational expenditure in the Statement of Financial Performance."



# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

### 55. Prior Period Adjustments

### Statement of Financial Position

	Audited	Prior year adjustments	Reclassifying adjustments	Restated
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	32,099,030	-	-	32,099,030
Receivables from exchange transactions	24,308,403	(1,251,061)	-	23,057,342
Receivables from non-exchange transactions	74,339,499	(168)	-	74,339,331
VAT receivable	2,450,776	-	-	2,450,776
	<b>133,197,708</b>	<b>(1,251,229)</b>	<b>-</b>	<b>131,946,479</b>
<b>Non-Current Assets</b>				
Investment property	48,243,894	(44,346,982)	54,520,840	58,417,752
Property, plant and equipment	1,136,543,277	(27,002,100)	(54,520,840)	1,055,020,337
Intangible assets	7,865	(7,865)	-	-
Heritage assets	5,505,911	(107,597)	-	5,398,314
Non-Current Receivables from exchange transactions	3,818,217	-	-	3,818,217
	<b>1,194,119,164</b>	<b>(71,464,544)</b>	<b>-</b>	<b>1,122,654,620</b>
Non-Current Assets	1,194,119,164	(71,464,544)	-	1,122,654,620
Current Assets	133,197,708	(1,251,229)	-	131,946,479
Non-current assets held for sale (and) (assets of disposal groups)	-	-	-	-
<b>Total Assets</b>	<b>1,327,316,872</b>	<b>(72,715,773)</b>	<b>-</b>	<b>1,254,601,099</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Consumer deposits	2,473,970	-	2,291,563	4,634,120
Employee benefit obligation	1,600,000	-	-	1,600,000
Annuity loans	3,940,192	-	-	3,940,192
Payables from exchange transactions	79,863,116	(484,566)	(2,291,563)	79,775,223
Unspent conditional grants	15,419,484	-	-	15,419,483
Finance lease obligation	1,804,193	-	-	1,804,193
	<b>105,100,955</b>	<b>(484,566)</b>	<b>-</b>	<b>107,173,211</b>
<b>Non-Current Liabilities</b>				
Annuity loans	13,395,489	-	-	13,395,489
Employee benefit obligation	26,163,000	-	-	26,163,000
Provisions	43,468,583	11,764,607	-	55,233,190
Finance lease obligation	2,705,514	-	-	2,705,514
	<b>85,732,586</b>	<b>11,764,607</b>	<b>-</b>	<b>97,497,193</b>
Non-Current Liabilities	85,732,586	11,764,607	-	97,497,193
Current Liabilities	105,100,955	(484,566)	-	107,173,211
Liabilities of disposal groups	-	-	-	-
<b>Total Liabilities</b>	<b>190,833,541</b>	<b>11,280,041</b>	<b>-</b>	<b>204,670,404</b>

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

---

#### 55. Prior Period Adjustments (continued)

Assets	1,327,316,872	(72,715,773)	-	1,254,601,099
Liabilities	(190,833,541)	(11,280,041)	-	(204,670,404)
<b>Net Assets</b>	<b>1,136,483,331</b>	<b>(83,995,814)</b>	<b>-</b>	<b>1,049,930,695</b>

#### **Net Assets**

Accumulated surplus	1,135,844,021	(86,907,335)	-	1,048,936,686
---------------------	---------------	--------------	---	---------------

#### 55.1. Cash and cash equivalents

Balance previously reported	204,372,080
Prior period adjustment	251,967
Reclassifying adjustment	(172,525,017)
	<b>32,099,030</b>

Interest on investments was recognised incorrectly in the prior financial year.

#### 55.2 Operating lease asset

Balance previously reported	-
-----------------------------	---

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

#### 55. Prior Period Adjustments (continued)

##### 55.3 Property, plant and equipment

Assets were identified during the 2019/2020 asset verification process which were previously included in the fixed register and the audit process. These assets were therefore recognised in the fixed register at fair value, as supporting documents.	-	-
Balance Previously reported	-	1,136,543,277
Prior year adjustments	-	(27,002,100)
Reclassification	-	(54,520,840)
	-	<u>1,055,020,337</u>

##### Land

Land Newly found in asset register for 2018/2019 recognised fair-valued to address the finding raised.	-
Reclassification from Land to Investment property is as a result of the verification conducted.	-
Decognition of land not municipal land as a result of the verification conducted.	-
July 2019 - Audited Opening Balances	159,296,943
Land Fair Values adjustment	74,773,310
Reclassification from Land to Investment Property	(54,520,840)
Derecognition of Land	(499,868)
Newly identified taken into the register upon Verification	6,279,500
<b>Restated Opening Balance 1 July 2019</b>	<b><u>185,329,045</u></b>

##### Adjustments for movements 2018/2019

No adjustments on the movements of Land	-
Total Restatements	185,329,045
<b>Total Restatements 1 July 2019</b>	<b><u>185,329,045</u></b>

##### 1 July 2020

1 July 2020 - Audited Opening Balance	185,715,655
2018/2019 Adjustments already disclosed	(386,611)
Adjustments for Movements 2019/2020	-
No adjustments on the movements on land	-
<b>Total Restatements 1 July 2020</b>	<b><u>185,329,044</u></b>

##### Adjustments for Movements 2019/2020

No adjustments on the movement of Land	-
Total Restatements 1 July 2020	185,329,044
	<b><u>185,329,044</u></b>

##### Buildings

Buildings newly identified taken into the register upon Verification conducted in 2020/2021 and Buildings not Municipal Buildings derecognised.	-
Depreciation adjustments and impairment adjustments were based on the change above and reviews of the population conducted.	-
1 July 2019 - Audited opening balance	103,432,153
Reclassification of WIP to PPE for alignment / mapping	75,837,133
Newly identified taken into the register upon verification	41,869,712

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

---

#### 55. Prior Period Adjustments (continued)

Derecognition of Buildings	(11,332)
Adjustments for Movements 2018/2019	-
Depreciation adjustment	(5,636,117)
<b>Restated Opening Balance 1 July 2019</b>	<b>215,491,549</b>

1 July 2020 - Audited opening Balances	234,228,770
Adjustment accounted for in 2018/2019	112,065,447
Journal already accounted for as 17/18 adjustments	(50,806,473)
WIP & Leased assets allocation for alignment purposes in AFS disclosure	(75,837,133)
Adjustments for Movements 2019/2020	-
Depreciation adjustment	(3,124,423)
Impairment Adjustment	43,811
<b>Total Restatements 1 July 2019</b>	<b>216,569,999</b>

#### Landfill Site

Landfill Site cost adjustment based on the provision adjustments made and recognition of land in the correct period. Landfill Site newly identified taken into the register upon due to the Land that was previously impaired and impairment was reversed. Depreciation adjustments and impairment were based on the changes above and review of the population conducted.

1 July 2019 - Audited opening Balances	13,326,707
Cost adjustment for Landfill site	33,547,808
Newly identified taken into the register upon verification	9,866,141
Derecognition of Landfill site	(1,833,131)
Depreciation reversal of landfill site	9,326,000
Adjustments for movements 2018/2019	-
Depreciation adjustment	(3,873,400)
Impairment adjustment	(716,126)
	<b>59,643,999</b>

1 July 2020 - Audited Opening Balance	10,822,585
Adjustments already accounted 2018/2019	46,317,292
Journals already accounted for as 2017/2018 adjustments	(14,969,509)
Adjustments for Movements 2019/20	-
Depreciation adjustment	(665,627)
Impairment adjustment	10,344,704
<b>Total Restatements 1 July 2020</b>	<b>51,849,445</b>

#### Machinery and Equipment

1 July 2019 - Audited Opening Balances	2,175,735
Reclassification of Lease Equipment to Machinery and Equipment	65,598
Newly identified taken into the register upon verification	86,206
Depreciation adjustment for movable assets	1,031,790
Adjustment for Movements 2018/2019	-
Additions adjustment	15,640
Depreciation adjustment	(133,344)
Disposal adjustment	(94,181)
	-
<b>Total Restatements 1 July 2019</b>	<b>3,147,444</b>

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

---

#### 55. Prior Period Adjustments (continued)

1 July 2020 - Audited Opening Balances	1,857,505
Adjustments already accounted for 2018/2019	995,270
Journals already accounted for as 17/18	(75,412)
WIP & leased assets allocation for alignment purposes in AFS disclosure	(65,599)
Adjustments for Movements 2019/2020	-
Depreciation adjustment	(385,300)
Impairment adjustment	83
<b>Total Restatements 1 July 2020</b>	<b>2,326,547</b>

#### Furniture and Fittings

Furniture and Fittings derecognised due to duplications identified and assets not meeting the definition of assets initially disclosed after the verification conducted 2020/2021.

Depreciation adjustments and impairment adjustments were based on the changes above and reviews of the population conducted.

1 July 2019 - Audited Opening Balances	1,637,000
Movables assets derecognised	(74,051)
Depreciation adjustment for movable assets	727,678
Adjustments for Movements 2018/19	-
Additions adjustment	7,080
Depreciation adjustment	(86,108)
Disposal adjustment	(45,500)
<b>Total Restatements 1 July 2019</b>	<b>2,166,099</b>

1 July 2020 - Audited opening balance	1,333,427
Adjustments already accounted 2018/19	561,576
WIP & leased assets allocation for alignment purposes in AFS Disclosure	(65,617)
Adjustment for movements	-
<b>Total Restatements 1 July 2019</b>	<b>1,829,386</b>

#### Motor Vehicles

Reclassification for WIP assets conducted for disclosure purposes. Depreciation adjustments and adjustments were based on the changes above and reviews of the population conducted.

1 July 2019 - Audited opening balances	1,716,141
Reclassification of Motor Vehicle (Leased) to Owned Vehicles	3,402,424
Depreciation adjustment for movable assets	994,493
Adjustment for Movement 2018/19	-
Depreciation adjustment	(220,404)
Disposal adjustment	(105,335)
<b>Total Restatements</b>	<b>5,787,319</b>

1 July 2020 Opening Balance	6,007,153
Adjustments already accounted 2018/2019	4,067,749
WIP & Leased assets allocation for alignment purposes in AFS Disclosure	3,375
WIP & Leased assets allocation for alignment purposes in AFS	(3,402,423)
Adjustments for Movements 2019/20	-
Depreciation adjustments	(443,342)

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

#### 55. Prior Period Adjustments (continued)

<b>Total Restatements 1 July 2020</b>	<b>6,232,512</b>
---------------------------------------	------------------

#### Motor Vehicles Leased

Reclassification for leased assets conducted for leased assets conducted for mapping and disclosure purposes.

1 July 2019 - Audited opening balance	3,402,424
Reclassification of Motor Vehicles (Leased) to Owned Motor vehicle	(3,402,424)

<b>Total Restatements 1 July</b>	<b>-</b>
----------------------------------	----------

#### Computer Equipment

Computer Equipment newly identified are assets found on the floor and depreciated asset duplicated upon verification conducted 2020/2021. Depreciation adjustments, impairments & disposal adjustments were based on the changes above and reviews of the population conducted.

1 July 2019 - Audited opening Balance	1,692,586
Movable assets derecognised	(26,715)
Newly identified taken into the register upon verification	64,443
Depreciation adjustment	756,632
Adjustments for movements 2018/19	-
Additions adjustments	(22,720)
Depreciations adjustments	(78,564)
Disposal adjustment	(116,890)
	<b>2,268,772</b>

#### 1 July 2020 - Audited opening balances

Adjustments already accounted 2018/2019	1,479,524
Journals already accounted for as 17/18 adjustments	584,566
WIP & Leased assets allocation for alignment purposes	(109,197)
Adjustments for movements 2019/20	-
Depreciation adjustment	(155,979)
Impairment adjustment	325
	<b>1,799,239</b>

1 July 2020 - Audited opening Balance	-	197,044,123
Adjustments already accounted for 2018/2019	-	(32,185,082)
Journals already accounted for as 17/18 adjustments	-	(86,514,324)
	-	(44,995)
Adjustments for Movements 2019/2020	-	3,475,454
<b>Total Restatements 1 July 2020</b>	<b>-</b>	<b>81,775,176</b>

#### Roads and Stormwater network

Reclassification for WIP assets conducted for disclosure purposes. Roads and Stormwater newly identified assets were found on floor and derecognition of one road (not municipal road) and street lighting not part of the road network upon verification conducted in 2020/2021.

Depreciation, transfers to PPE adjustments and impairment adjustments were based on the changes and reviews of the population conducted.	-	-
1 July 2019 - Audited opening Balance	-	782,063,318
Reclassification of WIP to PPE alignment / mapping	-	27,855,613

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

#### 55. Prior Period Adjustments (continued)

Roads fair valued	-	(361,384,189)
Newly identified assets taken into the register upon verification	-	40,840,425
Derecognition of Street lights	-	(226,209)
Derecognition of road internal roads not Municipal roads	-	(1,087,458)
Depreciation adjustment for roads	-	33,577,750
Adjustments for Movements in 2018/2019	-	-
Additions adjustment	-	14,868,594
Transfers adjustment	-	73,414
Depreciation adjustment	-	(4,969,224)
Impairment adjustment	-	(6,379)
	-	<b>531,605,655</b>
1 July 2020 - Audited opening balance	-	498,054,535
Adjustments already accounted for as 2018/19 adjustments	-	(250,457,663)
Journals already accounted for as 17/18 adjustments	-	288,442,633
Wip & Leased assets allocation for alignment	-	(27,845,613)
Adjustments for Movements 2019/2020	-	-
Depreciation adjustment	-	(690,240)
Impairment adjustment	-	(3,768)
	-	<b>507,499,884</b>

#### 55.4 Intangible assets

Leased software was incorrectly capitalised to the asset register in the previous financial years. The leased software was therefore identified and derecognised accordingly.

#### 55.5 Investment property

Investment property was transferred from Property plant and equipment in 2019-2020 register, the transfer made in 2018-2019 was reversed, a recalculation of depreciation was performed with the adjustments in 2018-2019 posted as prior year error and 2019-2020 adjustment posted to the movements of the year in terms of the definition in accordance with GRAP.

#### 55.6 Heritage assets

##### Heritage Assets

Balance previously reported	-	5,505,911
Prior year adjustments	-	(107,597)
	-	<b>5,398,314</b>

Heritage Assets overstatement correction.

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

---

#### 55. Prior Period Adjustments (continued)

##### 55.7 Payables from exchange transactions

Balance previously reported	57,869,667
Reclassifying adjustments	(2,291,658)
Prior year adjustments	(606,129)
Other	24,803,343
	<b>79,775,223</b>

The municipality reclassified a control account for over and unders on banking from payable from exchange transactions to receivables from exchange transactions, due to the account being a debit balance. Additionally, consumer deposits has been reclassified from trade and other payables to be reported separately on the Statement of Financial Performance, to improve presentation to the users.

The municipality has lost the court case through bargaining council in 2018 and resulted in the municipality incurring cost. The incumbent had been awarded reinstatement and back pay in December 2018 .

##### 55.8 Provisions

Balance previously reported	-	43,468,583
Prior Year adjustments	-	11,764,607
	-	<b>55,233,190</b>

The provision is an adjustment relating to the correction of the financial year , the provision was recognised previously.

##### 55.9 Consumer deposits

Balance previously reported	2,342,557
Reclassification adjustment	2,291,563
	<b>4,634,120</b>

Consumer deposits were previously classified under payables from exchange transactions. In order to improve the presentation of the financial statements and alignment to the National Treasury mSCOA reporting, consumer deposits has been reclassified to appear directly on the Statement of Financial Performance.

##### 55.10 Employee benefit obligation

Balance previously reported	1,418,380
Reclassification adjustment	64,962
Other	116,658
	<b>1,600,000</b>

The current and non-current portion of the employee benefit obligation was reclassified in accordance with the actuarial valuation report.

##### 55.11 Annuity loans

Balance previously reported	19,481,801
Reclassification adjustment	(64,962)
	<b>19,416,839</b>

The current and non-current portion of the employee benefit obligation was reclassified in accordance with the actuarial valuation report.



## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

---

#### 55. Prior Period Adjustments (continued)

##### 55.12 Accumulated surplus

Audited Opening Balance 1 July 2019	1,276,163,631
Correction of errors effected in 2019/2020	(159,228,721)
Correction of errors effected in 2020/2021 for 2019/2020	(14,068,432)
Restated Deficit	(53,929,792)
	<b>1,048,936,686</b>

The recognition of fair value of newly identified assets were accounted for against accumulated surplus, including land identified during the audit process. Adjustments were further made to cash and bank for the correction of interest received in the prior year, as well as the adjustment to traffic fines.

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

### 55. Prior Period Adjustments (continued)

### Statement of Financial Performance

	Audited	Prior year adjustments	Reclassifying adjustments	Restated
<b>Revenue</b>				
<b>Revenue from exchange transactions</b>				
Service charges	82,892,162	-	2,116,241	85,008,403
Sale of goods and rendering of services	-	-	2,908,692	2,908,692
Other income /Operational Revenue	3,403,861	-	(3,101,960)	301,901
Service Charges- Penalties	1,902,299	-	-	1,902,299
Rental of facilities and equipment	957,049	-	140,725	1,097,774
Agency services	-	(1,701,157)	1,701,157	-
Licences and permits	2,789,207	-	6,818	2,796,025
Commission Received	55,964	-	(55,964)	-
Actuarial gains	5,853,000	-	-	5,853,000
Investment revenue	2,649,715	-	-	2,649,715
<b>Total revenue from exchange transactions</b>	<b>100,503,257</b>	<b>(1,701,157)</b>	<b>3,715,709</b>	<b>102,517,809</b>
<b>Revenue from non-exchange transactions</b>				
<b>Taxation revenue</b>				
Property rates	204,894,736	-	-	204,867,536
Property rates - penalties and interest	8,095,873	-	-	8,095,873
<b>Transfer revenue</b>				
Government grants & subsidies	105,558,556	-	18,613	105,577,169
Fines, Penalties and Forfeits	904,000	-	3,577	907,577
Surcharges and Taxes	-	-	41,872	41,872
<b>Total revenue from non-exchange transactions</b>	<b>319,453,165</b>	<b>-</b>	<b>64,062</b>	<b>319,490,027</b>
	100,503,257	(1,701,157)	3,715,709	102,517,809
	319,453,165	-	64,062	319,490,027
<b>Total revenue</b>	<b>419,956,422</b>	<b>(1,701,157)</b>	<b>3,779,771</b>	<b>422,007,836</b>
<b>Expenditure</b>				
Employee related costs	(118,903,224)	(436,918)	-	(118,307,504)
Remuneration of councillors	(9,323,535)	-	-	(9,323,535)
Depreciation and amortisation	(80,505,792)	(4,694,174)	(19,535,809)	(56,275,809)
Impairment of cash and non-cash generating assets	-	(9,803,303)	19,535,809	(9,732,486)
Finance costs	(2,014,813)	4,699,012	-	(6,713,825)
Debt impairment	(42,740,655)	-	-	(42,740,655)
Lease rentals on operating lease	-	-	(1,363,729)	(1,363,729)
Collection Cost	(1,721,408)	-	1,721,408	-
Bulk purchases	(111,520,559)	-	-	(111,520,559)
Contracted services	(36,814,035)	-	(50,564,237)	(87,378,272)
Transfers and subsidies	(360,000)	-	(125,500)	(485,500)
Materials and Suppliers	-	-	(1,848,484)	(1,848,484)
Operational expenditure	(83,120,890)	-	52,873,621	(30,247,269)
<b>Total expenditure</b>	<b>(487,024,911)</b>	<b>(18,759,571)</b>	<b>(3,106,373)</b>	<b>(475,937,627)</b>
	-	-	-	-
Total revenue	419,956,422	(1,701,157)	3,779,77	422,007,836
Total expenditure	(487,024,911)	(18,759,571)	(3,106,373)	(475,937,627)

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

#### 55. Prior Period Adjustments (continued)

<b>Operating surplus (deficit)</b>	<b>(67,068,489)</b>	<b>(20,460,728)</b>	<b>673,398</b>	<b>(53,929,791)</b>
Surplus (deficit) before taxation	(67,068,489)	(20,460,728)	673,398	(53,929,791)
Taxation	-	-	-	-
<b>Surplus (deficit) for the year</b>	<b>(67,068,489)</b>	<b>(20,460,728)</b>	<b>673,398</b>	<b>(53,929,791)</b>

#### 55.13 Sales of goods

Balance previously reported	2,251,981
Reclassifying adjustments	(2,251,981)
	-

The municipality disclosed sale of goods and rendering of services separately in the prior financial year. In order to ensure alignment to the mSCOA chart, sale of goods and rendering of services were combined.

#### 55.14 Operational revenue

Balance previously reported	3,403,861
Reclassifying adjustments	(3,101,960)
	<b>301,901</b>

The municipality disclosed sale of goods and rendering of services separately in the prior financial year. In order to ensure alignment to the mSCOA chart, sale of goods and rendering of services were combined. Operational revenue was previously included in the rendering of services. This has been reclassified to operational revenue as this relates to Skills Development levy refund, commissions and re-imbursements.

#### 55.15 Irregular Expenditure

Balance previously reported in 2019/2020	29,737,698
Adjustments	17,331,786
	<b>47,069,484</b>

The Municipality had understated the figure for Irregular Expenditure by R 17,331,786 in the 2019/2020 AFS, this has been properly adjusted in the disclosure note 57.

#### 55.16 Licences and permits

Balance previously reported	2,789,207
Reclassifying adjustment	6,818
Total	(2,796,025)
	-

Commission received on agency services were reclassified from licences and permits to agency services.

#### 55.17 Depreciation and amortisation

<b>Heading</b>		
Balance previously reported	-	80,505,792
Prior year adjustments	-	(4,694,174)
Reclassification adjustment	-	(19,535,809)
	-	<b>56,275,809</b>

Depreciation adjustments relates to identification of newly identified assets and restatements due to review of useful lives.

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

---

#### 55. Prior Period Adjustments (continued)

##### 55.18 Impairment of non cash generating assets

Balance previously reported	-	-
Prior year adjustment	-	(2,540,717)
Reclassification adjustment	-	19,535,809
	<u>-</u>	<u>16,995,092</u>

The Municipality realigned the disclosure of impairment loss from the below surplus/deficit in line with Grap 1.

##### 55.19 Contracted services

Balance previously reported	(73,453,097)
Prior year adjustment	6,738,931
Other 2	(20,664,106)
	<u>(87,378,272)</u>

Expenditure on INEP grant was recognised in the prior year, however the contract meets the definition of a principal agent relationship, where the municipality is the agent. The amount was therefore derecognised and reallocated directly to the liability in accordance with the accounting treatment for agent transactions in terms of GRAP 109

##### 55.20 Grants and subsidies paid

Balance previously reported	-
Other 1	-
	<u>-</u>

##### 55.21 Write-off of assets

###### Write-off of assets

Prior Year Adjustments	-	(30,422,205)
------------------------	---	--------------

The derecognition of assets was per the asset registers to movable assets, Land and Buildings, Landfill site, Electrical Infrastructure, Roads and Storm water network and intangible assets.

##### 55.22 General Expenses

Balance previously reported	(52,598,527)
Reclassification adjustment	-
Prior period adjustment	(1,757)
	<u>22,353,015</u>
	<u>(30,247,269)</u>

Bank charges were incorrectly recognised in the prior financial year..

##### 55.23 Loss on disposal of assets

Balance previously reported	-
-----------------------------	---

##### 55.24 Surplus on distribution of non-cash assets to owners

Balance previously reported	-
-----------------------------	---

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

### 56. Risk management

#### Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

The municipality's activities do not expose it to financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

#### Liquidity risk

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

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

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

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

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings - DBSA	2,407,103	-	7,585,209	-
Trade and other payables	66,760,759	-	-	-
Finance lease obligation	1,394,337	1,311,177	-	-
Provision for Landfill site rehabilitation	-	-	63,503,138	-
Leave accrual	11,648,470	-	-	-
Employee benefit obligation	2,342,000	32,030,000	-	-
At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings - DBSA	2,606,859	8,960,069	3,487,770	-
Borrowings - ABSA	1,333,333	1,333,333	-	-
Trade and other payables	79,473,656	-	-	-
Finance lease obligation	1,804,193	2,705,514	-	-
Provision for Landfill site rehabilitation	-	-	57,143,329	-
Leave accrual	10,638,704	-	-	-
Employee benefit obligation	1,600,000	26,163,000	-	-

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

### 56. Risk management (continued)

#### Credit risk

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

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

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

Financial instrument	2021	2020
Receivables from exchange transactions	13,584,865	23,057,342
Receivables from non-exchange transactions	37,008,101	74,339,331
Cash and cash equivalents	22,484,328	32,099,030

### 57. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of R 1,000,585,603 and that the municipality's total liabilities exceed its assets by R 1,000,585,603.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the sound financial management will remain in force for so long as it takes to maintain the solvency of the municipality.

During the financial year ending 30 June 2021, the world continued to experience a pandemic disease called Covid-19 of which the municipality had to comply with the disaster management preventive measures and procedures as addressed by the President of the Republic of South Africa throughout the year.

When determining going concern, the wide-ranging effects of the virus and the restrictions imposed were taken into account including the possible impact on service delivery, purchasing of goods and services required to enable service delivery. The working capital cycle impact which may severely affect the entity's ability to settle its debts as they become due as well as default on payments on loans and facilities has been further considered.

The revenue collection on fines, penalties, service charges, licenses and permits are a few of the income streams which were affected due to the pandemic. The pandemic has affected all customers of the municipality and there is uncertainty on whether the customers will be able to settle their accounts on time. The effects of the pandemic were factored in the calculations of provision for bad debts as required by GRAP 104, taking into account the impact on the collection levels of outstanding debtors for the year under review.

Management has further considered the impact, should the rate of Covid-19 infections increase in the near future. In response to this, the government of South Africa has increased funding support in terms of grants and equitable share which will be used by the municipality to overcome the negative impact of Covid-19 on the municipal operations. The additional allocations will therefore assist the municipality in maintaining cashflow levels to fund service delivery in future.

Management has further redirected funds to meet service delivery requirements and implemented measures to control expenditure to ensure that there is adequate funds to fund additional operations as the need arises.

Based on the above, the financial statements have been prepared on a going concern as sufficient measures are in place to curb the impact of the pandemic.

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

### 58. Events after the reporting date

During the month of July 2021, an unrest resulting in riots and looting of several businesses and properties within the municipality's jurisdiction occurred. This has resulted in major financial losses to affected businesses and residents of the area, which may result in the reduction of income received by the municipality in the future. The municipality is still in the process of assessing the level of impact on these businesses and residents, and therefore an estimation cannot be finalised at this stage.

The riots further resulted in damage to municipal infrastructure and properties as follows:

- 

### 59. Unauthorised expenditure

Opening balance as previously reported	182,602,407	58,073,097
<b>Opening balance as restated</b>	<b>182,602,407</b>	<b>58,073,097</b>
Add: Expenditure identified - current	86,057,073	124,529,310
<b>Closing balance</b>	<b>268,659,480</b>	<b>182,602,407</b>

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

Non-cash	74,023,004	109,001,435
Cash	12,034,069	15,527,875
	<b>86,057,073</b>	<b>124,529,310</b>

#### Analysed as follows: non-cash

Employee related cost (Actuarial Loss)	901,302	-
Depreciation and amortisation	28,759,876	67,001,280
Debt impairment	45,263,127	42,000,155
Assets impairment	2,236,459	-
	<b>77,160,764</b>	<b>109,001,435</b>

#### Analysed as follows: cash

Bulk purchases	-	3,333,330
Contracted services	-	5,467,915
Property, plant and equipment	-	6,726,631
	<b>-</b>	<b>15,527,876</b>

### 60. Fruitless and wasteful expenditure

Opening balance as previously reported	3,938,488	3,668,899
<b>Opening balance as restated</b>	<b>3,938,488</b>	<b>3,668,899</b>
Add: Expenditure identified - current	-	269,589
<b>Closing balance</b>	<b>3,938,488</b>	<b>3,938,488</b>

# uMngeni Local Municipality

(Registration number KZN 222)  
Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021 2020

### 60. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

	Description		
Finance Costs	Interest on late payment - electricity	-	1,372
Finance costs	Interest on late payment for telephones	-	261
Expenditure 4	Interest on water account	-	3,170
Expenditure 5	Spoiled material on site during construction due to nature (Midlands Phase 5)	-	269,589
		-	<b>274,392</b>

### 61. Irregular expenditure

Opening balance as previously reported

**Opening balance as restated**

Add: Irregular Expenditure - current

Add: Irregular Expenditure - prior period

Irregular Prior year not condoned identified during audit

**Closing balance**

47,069,484	29,498,151
<b>47,069,484</b>	<b>29,498,151</b>
4,634,047	132,993
-	14,595,011
-	2,843,329
<b>51,703,531</b>	<b>47,069,484</b>



# uMngeni Local Municipality

(Registration number KZN 222)  
Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021 2020

### 61. Irregular expenditure (continued)

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

Winning Supplier not selected	188,420	-
Deviations not approved	167,170	-
Motivations for deviations were not reasonable and justifiable	55,600	-
Motivations for deviations were not reasonable and justifiable	175,000	-
Motivations for deviation were not reasonable and justifiable	83,870	-
Non-compliance with Regulation 32	3,963,987	-
Local Content threshold not advertised	-	132,993
	<b>4,634,047</b>	<b>132,993</b>

### 62. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net deficit per the statement of financial performance	(49,274,194)	(53,929,792)
--	--------------	--------------

### 63. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Current year subscription / fee	1,381,110	1,305,110
Amount paid - current year	(1,381,110)	(1,305,110)
	-	-

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>63. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
<b>Audit fees</b>		
Opening balance	2,438,974	1,889,002
Current year subscription / fee	2,315,160	2,438,974
Amount paid - current year	(2,008,136)	(2,438,974)
Amount paid - previous years	(2,438,974)	(1,889,002)
	<b>307,024</b>	<b>-</b>
<b>PAYE and UIF</b>		
Current year subscription / fee	18,228,040	17,351,557
Amount paid - current year	(18,228,040)	(17,351,557)
	<b>-</b>	<b>-</b>
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	18,074,022	18,159,760
Amount paid - current year	(18,074,022)	(18,159,760)
	<b>-</b>	<b>-</b>
<b>VAT</b>		
VAT receivable	5,123,640	2,450,776
All VAT returns have been submitted by the due date throughout the year.		
<b>Councillors' arrear consumer accounts</b>		
There were no Councillors that had arrear accounts outstanding for more than 90 days at 30 June 2021:		
<b>Supply chain management regulations</b>		
<b>Incident</b>		
36 (1)(a)(i) in an emergency	2,482,837	12,611,744
36 (1) (a)(ii) available from a single provider only	1,112,301	153,979
36 (1)(v) impractical or impossible to follow the official procurement processes	781,079	-
	<b>4,376,217</b>	<b>12,765,723</b>
<b>64. Deviation from supply chain management regulations</b>		
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 and includes a note to the annual financial statements.		
<b>Incident</b>		
36 (1)(a)(i) in an emergency	2,482,837	12,611,744
36 (1) (a)(ii) available from a single provider only	1,112,301	153,979
36 (1)(v) impractical or impossible to follow the official procurement processes	781,079	-
	<b>4,376,217</b>	<b>12,765,723</b>

### 65. Budget differences

#### Material differences between budget and actual amounts

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

### 65. Budget differences (continued)

The excess of actual expenditure over the final budget of 10 %

60.1 Service Charges - The main reason for the variance is the Electricity theft and illegal connection .

60.2 Rental of Facilities and Equipment - There has been a demand for this item after the Covid 19 restriction were eased.

60.3 Interest Received Trading - this is due to the increase on the receivables from exchange transaction outstanding debtors.

60.4 Licences and Permits - There was a high demand for these services under Level 3 Covid 19 Restriction after the country was declared in a state of Disaster.

60.5 Other Revenue - this is the undercollection on the GIS Shared Services.

60.6 Interest on Investments - the Municipality spent all of its Conditional Grants but still have some funds invested upto June 2021 hence there is interest that has been accumulated.

60.7 Property Rates Penalties - this is due to non-payment by ratepayers so the Municipality had no option but to implement what is contained in the Municipal Rates Policy.

60.8 Licences and Permits (Non-exchange) - the undercollection is because the Municipality has been greatly affected by the Covid 19 Cases.

60.9 Fines, Penalties and Forfeits -the Municipality procured tools of trade that has yielded a positive outcome.

60.10 Depreciation and Amortisation - this is a non-cash item

60.11 Finance Costs - the reason for the saving is because the Municipality early settled its Absa Loan at 30 June 2021. Additional text

60.12 Rentals on Operating Lease - The Municipality will reduce the budget for this item in the next financial year

60.13 Debt Impairment - this is a result of increase in trade and other receivables

60.14 Contracted Services - the Municipality reclassified the IT Expenses, Postage and Hire Charges to Contracted Services

60.15 Actuarial gains / losses - in the 2019/2020 financial year the Municipality had a actuarial gain , in the 2020/2021 it budgeted for a gain but actually received a loss.

60.16 General Expenses - the variance is as a result of the above-mentioned reclassification to Contracted Services.

60.17 Property, plant and Equipment - the Municipality corrected prior period errors on its PPE.

### 66. Segment information

#### General information

#### Identification of segments

In accordance with GRAP 18, Segment Reporting, a segment as an activity of the municipality that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity); whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and for which separate financial information is available. The municipality has identified various activities within the municipality that meets the definition of a segment.

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

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

#### 66. Segment information (continued)

##### Aggregated segments

The municipality operates throughout the Umngeni jurisdiction. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout the municipality jurisdiction were sufficiently similar to warrant aggregation..

##### Types of goods and/or services by segment

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

Reportable segment	Goods and/or services
Segment 1	Community Facilities
Segment 2	Disaster Management
Segment 3	Economic Development, Planning and Tourism
Segment 4	Electricity
Segment 5	Public Safety
Segment 6	Refuse Removal, Street Cleaning and EPWP
Segment 7	Roads and Stormwater
*	*
*	*
*	*

# uMngeni Local Municipality

(Registration number KZN 222)  
Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 66. Segment information (continued)

#### Segment surplus or deficit, assets and liabilities

2021

	Segment 1 - Community Facilities	Segment 2 - Disaster Management	Segment 3 - Economic Development, Planning and Tourism	Segment 4 - Electricity	Segment 5 - Public Safety	Segment 6 - Refuse Removal, Street Cleaning and EPWP	Segment 7 - Roads and Stormwater	Segment 8	Total
<b>Revenue</b>									
Revenue from non-exchange transactions	4,285,443	3,045,000	26,673	17,440,400	3,995,122	9,069,160	35,482,887	-	73,344,685
Revenue from exchange transactions	241,332	-	2,673,973	83,432,608	2,179,559	7,872,258	-	-	96,399,730
<b>Total segment revenue</b>	<b>4,526,775</b>	<b>3,045,000</b>	<b>2,700,646</b>	<b>100,873,008</b>	<b>6,174,681</b>	<b>16,941,418</b>	<b>35,482,887</b>	<b>-</b>	<b>169,744,415</b>
Revenue from non-exchange transactions									293,663,022
Revenue from exchange transactions									7,670,083
<b>Total revenue reconciling items</b>									<b>301,333,105</b>
<b>Entity's revenue</b>									<b>471,077,520</b>
<b>Expenditure</b>									
Bulk Purchases	-	-	-	(127,756,605)	-	-	-	-	(127,756,605)
Contracted services	(2,152,884)	(1,567,431)	(626,300)	(17,947,380)	(242,602)	(7,843,936)	(6,747,482)	-	(37,128,015)
Employee Costs	(15,257,531)	-	(10,190,552)	-	(9,888,146)	(12,303,673)	(7,314,173)	-	(54,954,075)
Finance Costs	-	-	-	-	-	(4,857,183)	(1,613,308)	-	(6,470,491)
Inventory consumed	(222,471)	(364,560)	(4,398)	-	-	(252,040)	(81,584)	-	(925,053)
Operational cost	(1,372,192)	(483,822)	(495,064)	(9,924,455)	(755,452)	(3,403,930)	(604,674)	-	(17,039,589)
Transfers and subsidies	(212,950)	-	(360,000)	(250,119)	-	-	-	-	(823,069)
Impairment loss	-	-	-	(10,432,893)	(2,572,899)	(2,788,924)	-	-	(15,794,716)
<b>Total segment expenditure</b>	<b>(19,218,028)</b>	<b>(2,415,813)</b>	<b>(11,676,314)</b>	<b>(166,311,452)</b>	<b>(13,459,099)</b>	<b>(31,449,686)</b>	<b>(16,361,221)</b>	<b>-</b>	<b>(260,891,613)</b>
<b>Total segmental surplus/(deficit)</b>									<b>(91,147,200)</b>

# uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

	Segment 1 - Community Facilities	Segment 2 - Disaster Management	Segment 3 - Economic Development, Planning and Tourism	Segment 4 - Electricity	Segment 5 - Public Safety	Segment 6 - Refuse Removal, Street Cleaning and EPWP	Segment 7 - Roads and Stormwater	Segment 8	Total
<b>66. Segment information (continued)</b>									
Contracted services									(34,674,411)
Depreciation and amortisation									(65,954,745)
Employee costs									(70,236,003)
Finance costs									(668,649)
Inventory consumed									(763,225)
Operating leases									(1,420,500)
Operational Cost									(28,015,913)
Remuneration of councillors									(9,330,037)
Impairment loss									(59,875,165)
Total revenue reconciling items									301,333,105
<b>Entity's surplus (deficit) for the period</b>									<b>(60,752,742)</b>
<b>Assets</b>									
Work in Progress	24,561,660	-	-	913,928	-	-	9,784,274	-	35,259,862
General Plant - Acquisitions	-	-	-	-	-	1,509,000	-	-	1,509,000
Other	1,879,453	-	-	-	-	-	-	-	1,879,453
<b>Total segment assets</b>	<b>26,441,113</b>	<b>-</b>	<b>-</b>	<b>913,928</b>	<b>-</b>	<b>1,509,000</b>	<b>9,784,274</b>	<b>2,207,005</b>	<b>40,855,320</b>
<b>Total assets as per Statement of financial Position</b>									<b>40,855,320</b>

### Information about geographical areas

The municipality's operations are with in Umgeni District in the Kwazulu Natal Province .

## uMngeni Local Municipality

(Registration number KZN 222)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

#### 66. Segment information (continued)

The municipality currently does not have revenue and assets allocated on a regional level and is still in the process of implementing systems to address this. The costs incurred to unbundle by regional level at this stage is considered excessive, and therefore has not been disclosed in the annual financial statements.

