



uPHONGOLO Local Municipality
Annual Financial Statements
for the year ended 30 June 2024

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

General Information

Legal form of entity

Municipality in as per Section 1 of the Local Government: Municipal Structures Act read with section 155 (1) of the Constitution of the Republic of South Africa

Nature of business and principal activities

Provision of electricity and waste management and general services

Members of Council

Mayor

Cllr BJ Thwala

Speaker

Cllr KE Nxumalo

EXCO Member

Cllr BR Shongwe

EXCO Member

Cllr SR Mhlongo

EXCO Member

Cllr NP Van Zuydam

Chief Whip

Cllr BES Ntshangase

MPAC Chair

Cllr JB Ngema

Other Councillors

Cllr MB Mthembu

Cllr SA Xulu

Cllr MP Mafuleka

Cllr NP Mavuso

Cllr MG Ndlangamandla

Cllr CN Mavundla

Cllr ZS Khumalo

Cllr ZZ Buthelezi

Cllr TA Ntshangase

Cllr NG Ncube

Cllr CM Nxumalo-Sibiya

Cllr NT Gumbi

Cllr GL Sibiya

Cllr SV Dlamini-Nkambule

Cllr JW Buthelezi

Cllr FS Masango

Cllr NA Nkosi

Cllr ZB Motha

Cllr MT Msibi

Cllr VR Buthelezi

Cllr XH Dhlamini

Cllr LS Ntshangase

Grading of local authority

Grade 2

Municipal Manager

Mr MB Khali

Chief Finance Officer (CFO)

Mr KWG Ngcobo

Registered office

61 Martin Street

Pongola

3170

Postal address

PO Box 191

Pongola

3170

Bankers

First National Bank

Auditors

Auditor-General South Africa

Attorneys

Zuma & Partners Incorporated, Zondi & Associates Inc and Sengwayo Attorneys Incorporated

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

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

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Abbreviations used:

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
UIF	Unemployment Insurance Fund
WCA	Workmens Compensation Annuity
SDL	Skills Development Levy
UIFW	Unauthorized, Irregular, Fruitless and Wasteful

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

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.

I **MB Khali**, acknowledges that I am 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 me to meet these responsibilities, I have set 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.

I am 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.

I have reviewed the municipality's cash flow forecast for the year to 30 June 2025 and, in the light of this review and the current financial position, I am 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 its clients and 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 External Auditors are responsible for independently auditing and reporting on the municipality's annual financial statements. The annual financial statements will be examined by the municipality's external auditors.

I certify that the salaries, allowances and benefits of Councillors, as disclosed in note 29 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 4 to 77, were approved by the accounting officer on 30th of August 2024 and were signed on its behalf by:



Mr MB Khali
Municipal Manager

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Statement of Financial Position as at 30 June 2024

Figures in Rand	Note(s)	2024	2023 Restated*
Assets			
Current Assets			
Cash and cash equivalents	2	24 824 039	5 864 260
Receivables from exchange transactions	3	13 480 301	13 952 009
Statutory receivables from non-exchange transactions	4	8 934 817	16 607 899
VAT receivable	5	-	3 804 726
Other current assets	6	750 000	-
		47 989 157	40 228 894
Non-Current Assets			
Investment property	7	75 910 000	65 220 998
Property, plant and equipment	8	360 534 342	369 963 826
Heritage assets	9	70 945	70 945
Intangible assets	10	502 778	747 117
Other non-current assets	6	1 250 000	-
		438 268 065	436 002 886
Non-Current Assets		438 268 065	436 002 886
Current Assets		47 989 157	40 228 894
Total Assets		486 257 222	476 231 780
Liabilities			
Current Liabilities			
Consumer deposits	11	2 856 306	2 842 007
Trade and other payables from exchange transactions	12	37 158 511	32 320 319
Trade and other payables from non-exchange transactions	13	3 418	287 056
Provisions: current portion	14	2 126 935	1 685 218
Employee benefits obligation - current portion	15	289 109	265 262
Long service award - current portion	16	492 030	506 343
VAT payable	5	1 526 029	-
		44 452 338	37 906 205
Non-Current Liabilities			
Provisions: non-current portion	14	10 919 711	9 366 024
Employee benefit obligation: non-current portion	15	2 401 865	2 308 136
Long service award: non-current portion	16	6 444 914	5 430 577
Other financial liabilities	17	341 542	341 542
		20 108 032	17 446 279
Non-Current Liabilities		20 108 032	17 446 279
Current Liabilities		44 452 338	37 906 205
Total Liabilities		64 560 370	55 352 484
Net Assets		421 696 852	420 879 296
Accumulated surplus		421 696 852	420 879 296
Total Net Assets		421 696 852	420 879 296

* See Note 47

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Statement of Financial Performance

Figures in Rand	Note(s)	2024	2023 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	64 793 783	56 516 775
Agency services	19	1 134 948	948 852
Interest earned from receivables	20	946 050	828 482
Interest earned from call accounts	21	4 543 135	2 449 102
Licenses and permits	22	1 656 154	1 718 051
Rental of facilities and equipment	23	517 004	500 849
Operational revenue	24	9 038 040	5 387 349
Construction contracts revenue	25	43 076 657	52 749 029
Total revenue from exchange transactions		125 705 771	121 098 489
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	26	48 135 202	45 570 560
Transfer revenue			
Fines, Penalties and Forfeits	27	1 550 400	1 681 100
Government grants & subsidies	28	228 564 305	232 155 470
Total revenue from non-exchange transactions		278 249 907	279 407 130
Total revenue		403 955 678	400 505 619
Expenditure			
Employee related costs	29	(133 434 924)	(124 087 557)
Remuneration of councillors	30	(11 397 850)	(11 228 161)
Bulk purchases	31	(45 062 080)	(35 985 209)
Debt Impairment	32	(24 892 294)	(5 925 865)
Depreciation, amortisation and impairment	33	(24 994 438)	(25 770 480)
Finance costs	34	(2 366 883)	(1 903 663)
Debtors written off	35	(4 846 952)	(11 811 690)
Operational costs	36	(102 305 070)	(102 364 465)
Transfer of infrastructure asset	37	(21 166 354)	-
Construction contract expenditure	25	(43 076 658)	(52 749 028)
Total expenditure		(413 543 503)	(371 826 118)
Operational surplus/ (deficit)		(9 587 825)	28 679 201
Fair value adjustments	38	10 689 002	1 743 618
Actuarial losses	39	(777 050)	(3 804 909)
Gains (losses) on disposal of assets and liabilities		493 433	(350 698)
		10 405 385	(2 411 989)
Surplus for the year		817 560	26 267 512

* See Note 47

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	397 895 608	397 895 608
Adjustments		
Prior year adjustments 47	(3 282 439)	(3 282 439)
Balance at 01 July 2022	394 613 169	394 613 169
Surplus for the year	26 267 512	26 267 512
Total changes	26 267 512	26 267 512
Restated* Balance at 01 July 2023	420 879 296	420 879 296
Surplus for the year	817 560	817 560
Total changes	817 560	817 560
Balance at 30 June 2024	421 696 852	421 696 852

* See Note 47

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Cash Flow Statement

Figures in Rand	Note(s)	2024	2023 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		109 507 880	93 409 774
Grants		228 280 667	224 844 035
Interest income		4 543 135	2 449 102
Construction contract revenue		2 817 391	5 752 895
		345 149 073	326 455 806
Payments			
Employee costs		(131 712 166)	(124 907 935)
Suppliers		(144 597 696)	(150 028 213)
Finance costs		(13 832)	(97 199)
Remuneration of councillors		(11 397 850)	(11 228 161)
Construction contract expenditure		(2 817 391)	(5 752 895)
		(290 538 935)	(292 014 403)
Net cash flows from operating activities	40	54 610 138	34 441 403
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(36 878 581)	(37 754 577)
Proceeds from sale of property, plant and equipment	8	1 213 923	-
Net cash flows from investing activities		(35 664 658)	(37 754 577)
Cash flows from financing activities			
Movement in liability		14 299	(1 255 367)
Net increase/(decrease) in cash and cash equivalents		18 959 779	(4 568 516)
Cash and cash equivalents at the beginning of the year		5 864 260	10 432 776
Cash and cash equivalents at the end of the year	2	24 824 039	5 864 260

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

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
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	64 765 187	4 364 306	69 129 493	64 793 783	(4 335 710)	Ref to note 56
Agency services	1 421 824	-	1 421 824	1 134 948	(286 876)	
Interest earned from receivables	2 360 966	-	2 360 966	946 050	(1 414 916)	
Interest from call accounts	1 706 658	2 646 962	4 353 620	4 543 135	189 515	
Licences and permits	2 124 147	-	2 124 147	1 656 154	(467 993)	
Rental of facilities and equipment	694 947	-	694 947	517 004	(177 943)	
Operational revenue	1 738 980	2 331 526	4 070 506	9 038 040	4 967 534	
Construction contract revenue	15 600 000	(600 000)	15 000 000	43 076 657	28 076 657	
Total revenue from exchange transactions	90 412 709	8 742 794	99 155 503	125 705 771	26 550 268	

Revenue from non-exchange transactions

Taxation revenue

Property rates	45 253 910	-	45 253 910	48 135 202	2 881 292
Fines, Penalties and Forfeits	3 151 324	-	3 151 324	1 550 400	(1 600 924)

Transfer revenue

Government grants & subsidies	223 232 491	9 021 017	232 253 508	228 564 305	(3 689 203)
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Total revenue from non-exchange transactions	271 637 725	9 021 017	280 658 742	278 249 907	(2 408 835)
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Total revenue	362 050 434	17 763 811	379 814 245	403 955 678	24 141 433
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Expenditure

Employee related costs	(127 585 346)	(529 952)	(128 115 298)	(133 434 924)	(5 319 626)
Remuneration of councillors	(11 235 894)	(378 634)	(11 614 528)	(11 397 850)	216 678
Bulk purchases	(41 764 155)	-	(41 764 155)	(45 062 080)	(3 297 925)
Debt Impairment	(4 451 722)	(1 134 214)	(5 585 936)	(24 892 294)	(19 306 358)
Depreciation and amortisation	(24 790 862)	-	(24 790 862)	(24 994 438)	(203 576)
Finance costs	(1 554 671)	-	(1 554 671)	(2 366 883)	(812 212)
Debtors written-off	-	-	-	(4 846 952)	(4 846 952)
Operational expenditure	(71 297 464)	(26 006 203)	(97 303 667)	(102 305 070)	(5 001 403)
Transfer of infrastructure asset	-	-	-	(21 166 354)	(21 166 354)
Construction contract expenditure	(13 565 217)	521 739	(13 043 478)	(43 076 658)	(30 033 180)

Total expenditure	(296 245 331)	(27 527 264)	(323 772 595)	(413 543 503)	(89 770 908)
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Operating deficit	65 805 103	(9 763 453)	56 041 650	(9 587 825)	(65 629 475)
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Fair value adjustments	-	-	-	10 689 002	10 689 002
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Actuarial losses	-	-	-	(777 050)	(777 050)
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Gains (losses) on disposal of capital assets	-	-	-	493 433	493 433
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	-	-	-	10 405 385	10 405 385
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Surplus before taxation	65 805 103	(9 763 453)	56 041 650	817 560	(55 224 090)
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Surplus for the year	65 805 103	(9 763 453)	56 041 650	817 560	(55 224 090)
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uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

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
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Figures in Rand

Statement of Financial Position

Assets

Current Assets

Cash and cash equivalents	4 923 766	(1 471 926)	3 451 840	24 824 039	21 372 199	Ref to note 56
Receivables from exchange transactions	15 199 824	301 759	15 501 583	13 480 301	(2 021 282)	
Statutory receivables from non-exchange transactions	18 048 397	(1 134 214)	16 914 183	8 934 817	(7 979 366)	
VAT receivable/(payable)	3 522 133	3 884 684	7 406 817	-	(7 406 817)	
Other current assets	-	-	-	750 000	750 000	
	41 694 120	1 580 303	43 274 423	47 989 157	4 714 734	

Non-Current Assets

Investment property	65 234 055	-	65 234 055	75 910 000	10 675 945
Property, plant and equipment	400 132 027	(3 608 995)	396 523 032	360 534 342	(35 988 690)
Heritage assets	70 945	-	70 945	70 945	-
Intangible assets	1 472 293	-	1 472 293	502 778	(969 515)
Other current and non-current assets	-	-	-	1 250 000	1 250 000
	466 909 320	(3 608 995)	463 300 325	438 268 065	(25 032 260)

Total Assets	508 603 440	(2 028 692)	506 574 748	486 257 222	(20 317 526)
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Liabilities

Current Liabilities

Consumer deposits	2 988 200	-	2 988 200	2 856 306	(131 894)
Other financial liabilities	982 346	-	982 346	-	(982 346)
Trade and other payables from exchange transactions	16 165 275	6 059 995	22 225 270	37 158 511	14 933 241
Trade and other payables from non-exchange transactions	-	-	-	3 418	3 418
VAT payable	1 519 726	679 565	2 199 291	1 526 029	(673 262)
Provisions: current portion	304 065	-	304 065	2 126 935	1 822 870
Employee benefits obligation - current	-	-	-	289 109	289 109
Long service award - current portion	-	-	-	492 030	492 030
	21 959 612	6 739 560	28 699 172	44 452 338	15 753 166

Non-Current Liabilities

Provisions: non-current portion	9 143 552	-	9 143 552	10 919 711	1 776 159
Employee benefit obligation: non-current portion	2 201 846	-	2 201 846	2 401 865	200 019
Long service award	5 961 587	-	5 961 587	6 444 914	483 327
Other financial liabilities	346 051	-	346 051	341 542	(4 509)
	17 653 036	-	17 653 036	20 108 032	2 454 996

Total Liabilities	39 612 648	6 739 560	46 352 208	64 560 370	18 208 162
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Net Assets	468 990 792	(8 768 252)	460 222 540	421 696 852	(38 525 688)
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uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

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
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Figures in Rand

Accumulated surplus	468 990 792	(8 768 252)	460 222 540	421 696 852	(38 525 688)	
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uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

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
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Figures in Rand

Cash Flow Statement

Cash flows from operating activities

Receipts

Sale of goods and services	94 214 571	5 158 481	99 373 052	109 507 880	10 134 828	Ref to note 56
Grants	223 232 491	9 021 017	232 253 508	228 280 667	(3 972 841)	
Interest income	1 706 658	2 646 962	4 353 620	4 543 135	189 515	
Construction contract revenue	15 600 000	(600 000)	15 000 000	2 817 391	(12 182 609)	
	334 753 720	16 226 460	350 980 180	345 149 073	(5 831 107)	

Payments

Employee related costs	(128 596 374)	(505 014)	(129 101 388)	(131 712 166)	(2 610 778)
Suppliers	(128 432 853)	(24 577 312)	(153 010 165)	(144 597 696)	8 412 469
Finance costs	(241 837)	-	(241 837)	(13 832)	228 005
Construction contract expenditure	(13 565 217)	521 739	(13 043 478)	(2 817 391)	10 226 087
Remuneration of Councillors	(11 235 894)	(378 634)	(11 614 528)	(11 397 850)	216 678
	(282 072 175)	(24 939 221)	(307 011 396)	(290 538 935)	16 472 461

Net cash flows from operating activities	52 681 545	(8 712 761)	43 968 784	54 610 138	10 641 354
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Cash flows from investing activities

Purchase of property, plant and equipment	(49 592 600)	4 190 474	(45 402 126)	(36 878 581)	8 523 545
Proceeds from sale of property, plant and equipment	-	-	-	1 213 923	1 213 923

Net cash flows from investing activities	(49 592 600)	4 190 474	(45 402 126)	(35 664 658)	9 737 468
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Cash flows from financing activities

Movement in liabilities	(964 864)	-	(964 864)	14 299	979 163
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Net increase/(decrease) in cash and cash equivalents	2 124 081	(4 522 287)	(2 398 206)	18 959 779	21 357 985
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Cash and cash equivalents at the beginning of the year	2 799 685	3 050 307	5 849 992	5 864 260	14 268
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Cash and cash equivalents at the end of the year	4 923 766	(1 471 980)	3 451 786	24 824 039	21 372 253
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uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Significant Accounting Policies

Figures in Rand	Note(s)	2024	2023
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1. Significant accounting policies

The significant accounting policies applied in the preparation of these annual financial statements are set out below.

1.1 Basis of preparation

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.

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

The municipality changes an accounting policy only if the change:

- (a) Is required by a standard of GRAP or
- (b) Results in the financial statements providing reliable and more relevant information about the effects of transaction, other events or conditions on the performance or cash flow.

The following GRAP standards have been approved and effective to the municipality:

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 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 31 Intangible Assets
GRAP 34 Separate Financial Statement
GRAP 103 Heritage Assets
GRAP 104 Financial Instruments
GRAP 108 Statutory Receivables
GRAP 109 Accounting by Principals and Agents

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE.

The following GRAP standards have been issued but are not yet effective and have not been adopted early by the municipality:

GRAP 1 Presentation of Financial Statements - effective date not yet stated
GRAP 103 Heritage Assets - effective date not yet stated
GRAP 104 Financial Instruments (amendments) - effective date 1 April 2025

Impact on the municipality's financial statements once implemented:

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Significant Accounting Policies

1.1 Basis of preparation (continued)

Management has considered all of the foregoing GRAP standards issued but not yet effective and effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

These accounting policies are consistent with the previous period.

1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality and all values are rounded to the nearest rand.

1.3 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.

1.4 Significant judgements and sources of estimation uncertainty

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

Trade receivables

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

Depreciation/Amortization and Impairment testing

As described in the accounting policy disclosure relating to PPE and intangible assets with definite useful lives, the municipality depreciates/amortises the aforementioned assets over their estimated useful lives, taking into account the residual values of the assets at the end of their useful lives. The useful lives and residual values of the assets are based on industry knowledge.

The depreciation/amortization period and the depreciation/amortization method for intangibles assets are reviewed at each reporting date.

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 municipality assesses at each reporting dates whether there is any indications of impairment. If any such indications exists, the municipality conducts an impairment test.

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 14 - Provisions.

Useful lives and residual value of Property, Plant and Equipment (PPE) and Intangible assets

The municipality assesses at each reporting date whether there is any indication that the municipality expectations on 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.

Significant Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Employee 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 15.

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.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or services 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.

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.

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Significant Accounting Policies

1.6 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land		Indefinite
Landfill site	Straight-line	20-25 years
Buildings		
• Parkhomes	Straight-line	05-10 years
• Residential	Straight-line	10-33 years
• Ablutions	Straight-line	25-50 years
• Car ports	Straight-line	15-30 years
• Community halls	Straight-line	25-50 years
• Testing centre	Straight-line	25-50 years
• Libraries	Straight-line	25-50 years
• Sport fields	Straight-line	25-50 years
• Creches	Straight-line	24-50 years
• Store rooms	Straight-line	25-30 years
Electricity		
• Cables	Straight-line	25-45 years
• Panels	Straight-line	03-14 years
• Fencing	Straight-line	10-25 years
• High mast lights	Straight-line	15-25 years
• Overheads lines	Straight-line	20-30 years
• Meters	Straight-line	20-30 years
• Substation equipment indoors	Straight-line	30-40 years
• Substation equipment outdoors	Straight-line	20-30 years

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Significant Accounting Policies

1.6 Property, plant and equipment (continued)

• Switchgears	Straight-line	20-30 years
• Substation	Straight-line	20-30 years
• Transformers	Straight-line	25-50 years
Roads		
• Traffic calming	Straight-line	10-30 years
• Road barriers	Straight-line	10-30 years
• Kerb & channels	Straight-line	40-50 years
• Roads asphalt surfaces	Straight-line	30-50 years
• Roads asphalt surfaces	Straight-line	10-22 years
• Roads gravel surfaces	Straight-line	03-25 years
• Pedestrians footpaths	Straight-line	13-30 years
• Roads streetlights	Straight-line	25-40 years
• Traffic lights	Straight-line	15-20 years
• Traffic signs	Straight-line	05-15 years
• Culverts	Straight-line	25-40 years
• Drains concrete	Straight-line	25-50 years
• Roads	Straight-line	10-20 years
Furniture and fittings		
• Air conditioners	Straight-line	03-30 years
• Office equipment	Straight-line	05-30 years
• Other furniture	Straight-line	05-30 years
• Paintings, sculptures and ornaments	Straight-line	05-10 years
Transport assets		
• Motor vehicles	Straight-line	04-30 years
• Trailers & accessories	Straight-line	05-30 years
• Trucks	Straight-line	05-30 years
Other machinery and equipment		
• Audio visual equipment	Straight-line	05-30 years
• Domestic equipment	Straight-line	03-30 years
• Electric wire and power distribution	Straight-line	03-12 years
• Farm or agricultural equipment	Straight-line	05-33 years
• Gardening equipment	Straight-line	02-33 years
• Irrigation equipment	Straight-line	10-15 years
• Kitchen appliances	Straight-line	05-25 years
• Medical and allied equipment	Straight-line	05-25 years
• Photographic equipment	Straight-line	05-10 years
• Radio equipment	Straight-line	05-25 years
• Roads equipment	Straight-line	03-30 years
• Security equipment	Straight-line	05-30 years
• Survey equipment	Straight-line	03-12 years
• Telecommunication equipment	Straight-line	05-11 years
• Workshop equipment	Straight-line	05-30 years
Computer equipment		
• Computer hardware	Straight-line	04-25 years
• Computer network	Straight-line	05-10 years
Solid waste disposal		
• Bins containers	Straight-line	10-15 years

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

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

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

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Significant Accounting Policies

1.6 Property, plant and equipment (continued)

The municipality assesses at each reporting dates whether there are any indications of impairment. If any such indications exist, the municipality conducts an impairment test.

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.

1.7 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.8 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.

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.

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.

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Significant Accounting Policies

1.8 Intangible assets (continued)

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Licenses	Straight-line	02-30 years
Computer software	Straight-line	02-30 years

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.

The municipality assesses at each reporting dates whether there is any indications of impairment. If any such indications exists, the municipality conducts an impairment test.

1.9 Heritage assets

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.

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.

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Significant Accounting Policies

1.9 Heritage assets (continued)

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 municipality and a financial liability or a residual interest of another municipality.

A financial asset is:

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

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

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

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at cost
Statutory 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
Long-term loans	Financial liability measured at amortised cost
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at cost

Initial recognition

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

Initial measurement of financial assets and financial liabilities.

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

Subsequent measurement of financial assets and financial liabilities.

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

- Financial instruments at amortised cost

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Annual Financial Statements for the year ended 30 June 2024

Significant Accounting Policies

1.10 Financial instruments (continued)

- Financial instruments at cost

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost

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

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

Financial assets measured at cost

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

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

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

- derecognise the asset; and
- recognise separately any rights and obligations created or retained in the transfer.

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

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

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Significant Accounting Policies

1.10 Financial instruments (continued)

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

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

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

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

Financial liabilities

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

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

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

Presentation

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

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

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

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

1.11 Statutory receivables from non-exchange transactions

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.

uPHONGOLO Local Municipality

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Significant Accounting Policies

1.11 Statutory receivables from non-exchange transactions (continued)

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
- 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 nominal interest rate.

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.

uPHONGOLO Local Municipality

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Significant Accounting Policies

1.11 Statutory receivables from non-exchange transactions (continued)

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, an 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.

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 entity 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

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

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 - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

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1.13 Leases (continued)

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.

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.

Operating leases - lessor

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

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

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

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

Operating leases - lessee

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

1.14 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

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Significant Accounting Policies

1.14 Construction contracts and receivables (continued)

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

The municipality recognise the revenue for construction contract as and when the conditions as per the memorandum of agreement has been met.

1.15 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents comprise bank balances, cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which are available on demand.

Some equity investments are included in cash equivalents when they are, in substance, cash equivalents.

1.16 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.

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 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.

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Significant Accounting Policies

1.16 Impairment of cash-generating assets (continued)

Designation

Assets are designated as non-cash-generating or cash-generating based on the municipality's objective of using the asset. An asset can either be used with the objective of generating a commercial return or delivering 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 commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

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

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

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

1.17 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Assessing which entity benefits from the transactions with third parties

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

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

Significant Accounting Policies

1.17 Accounting by principals and agents (continued)

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

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

Recognition

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

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

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

1.18 Employee benefits

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

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

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

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

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

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

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

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

A constructive obligation is an obligation that derives from an 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.

Short-term employee benefits (Employees and Councillors)

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 services.

Short-term employee benefits include items such as:

- wages, salaries and social 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;

Significant Accounting Policies

1.18 Employee benefits (continued)

- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

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

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

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

Post-employment benefits

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

Post-employment benefit plans are formal or informal arrangements under which an 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.

Defined contribution plans

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

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

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

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

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

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Significant Accounting Policies

1.18 Employee benefits (continued)

- 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.

Retirement Funds

The municipality contributes towards retirement benefits of its employees to the following funds:

The Natal Joint Municipal Pension Fund;
Government Employees Pension Fund;
Municipal Gratuity Fund;
Municipal Employee Pension Fund;
Super Annuation Fund; and
KwaZulu Natal Retirement Fund.

Post employment medical care benefit.

The municipality provides post-retirement medical care benefits by subsidising the medical aid contributions to retired employees and their legitimate spouses. The entitlement of post-medical benefits is based on employees remaining in service up to the retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over the period of employment. Post employment medical care benefits are accounted for in accordance to GRAP 25.

1.19 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.

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.

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.

A constructive obligation to restructure arises only when an entity:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44.

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Significant Accounting Policies

1.20 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.

1.21 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

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Significant Accounting Policies

1.21 Revenue from exchange transactions (continued)

Interest, royalties and dividends

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

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

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

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

1.22 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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Significant Accounting Policies

1.22 Revenue from non-exchange transactions (continued)

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.

Property rates

The municipality recognises property rates in terms of the Municipal Property Rates Act and the municipal rates policy.

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met. The taxable event for property tax is the passing of the date on which the tax is levied.

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.

Government grants

Grants and donations received, or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is no corresponding liability in respect of the related conditions. Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, the liability is transferred to revenue as and when the conditions attached to the grant are met.

Unconditional grants are recognised as revenue in full when the asset is recognised, at an amount equal to their fair value of the asset received.

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.

1.23 Investment income

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

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1.24 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.

1.25 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted for, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003).

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

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

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

1.27 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the statement of financial performance.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned before year end and/or before the finalisation of financial statements must also be recognised appropriately recognised in the irregular expenditure register. In such an instance, no further actions also required with the exception of updating the note to the financial statement.

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

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

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law.

Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.28 Segment information

A segment is an activity of an entity:

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

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1.28 Segment information (continued)

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.

Identification of segment

The municipality is organised and reports to management on the basis of three major functional areas: Finance & Admin, Community & Public Safety and Planning & Development. The segments were organised around the type of goods and services delivered. Management uses these same segments for determining strategic objectives. Supporting services segment was aggregated for reporting purposes.

The identification of these segments is consistent with the functional classification of local government activities which considers the nature of the services, the beneficiaries of such services and the fees charged for the services rendered.

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.

Separate financial and other relevant information on geographical areas in which the municipality operates is not available. The necessary information is not available and the cost to develop it would be excessive.

Aggregated segments

Support services segment was aggregated as a practical limit has been reached beyond which segment information becomes too detailed. Management is of the view that such additional detailed segments are not useful and relevant.

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:

Finance & administration	Provision of support services
Community & public safety	Provision of community facilities, refuse removal & protection services
Planning & development	Economic and infrastructure development

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.

Information about geographical areas

The municipality's operations are in the KwaZulu-Natal Province.

Separate financial and other relevant information on geographical areas in which the municipality operates is not available. The cost to develop the necessary information would be excessive.

1.29 Budget information

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

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Significant Accounting Policies

1.29 Budget information (continued)

The approved budget covers the fiscal period from 2023/07/01 to 2024/06/30.

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.

Reasons were provided for variance more than 5%, as these were considered material.

1.30 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities under the control of Council are considered to be related parties.

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.

Only transactions with related parties that are not at arm's length or not in the ordinary course of business are disclosed.

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 Value Added Tax

Recognition of asset and liability

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

1.33 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.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Significant Accounting Policies

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

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

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

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

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

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

Useful life is either:

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

Designation

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

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

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

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

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.

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.

Significant Accounting Policies

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

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.

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.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
2. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	1 717	1 717
Bank balances	1 008 600	3 527 774
Short-term deposits	23 813 722	2 334 769
	24 824 039	5 864 260

The municipality had the following bank accounts

Account number	Bank statement balances		Cash book balances	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
FNB - 62027530858 - Primary account	1 008 602	3 527 774	1 008 602	3 527 774
FNB - 62375342377 - Call account	-	2 100 586	-	2 100 586
FNB - 62377992104 - Call account	-	11 716	-	11 716
FNB - 62389585286 - Call account	9 071	895	9 071	895
FNB - 62389586507 - Call account	20	8 223	20	8 223
FNB - 62404561377 - Call account	-	132 505	-	132 505
FNB - 62404287345 - Call account	3 578 977	-	3 578 977	-
FNB - 62658357001 - Call account	4 428	5 374	4 428	5 374
FNB - 62305239718 - Call account	117 057	4 753	117 057	4 753
FNB - 74275780911 - Call account	27 502	55 247	27 502	55 247
FNB - 62230436405 - Call account	20 069 340	22	20 069 340	22
FNB - 62596797559 - Call account	7 052	1 183	7 052	1 183
FNB - 62253771896 - Call account	-	-	-	-
Cash on hand	-	-	1 716	1 716
Receipt recognised but not yet reflecting on the B/S	-	-	274	14 266
Total	24 822 049	5 848 278	24 824 039	5 864 260

Restricted cash balances

Government grants & subsidies	3 418	287 056
This funds are restricted for utilisation on Sub Rank. Refer to note 12.		

3. Receivables from exchange transactions

Gross balances

Electricity	17 388 083	15 087 051
Refuse	131 607 722	124 455 433
Other	4 696 861	4 168 182
	153 692 666	143 710 666

Less: Allowance for impairment

Electricity	(7 056 593)	(6 641 437)
Refuse	(129 527 786)	(120 457 861)
Other	(3 627 986)	(2 659 359)
	(140 212 365)	(129 758 657)

Net balance

Electricity	10 331 490	8 445 614
Refuse	2 079 936	3 997 572
Other	1 068 875	1 508 823
	13 480 301	13 952 009

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
3. Receivables from exchange transactions (continued)		
Electricity		
Current (0 -30 days)	8 602 151	9 344 378
31 - 60 days	2 204 046	306 987
61 - 90 days	669 990	267 330
91 - 120 days	468 438	223 523
121 - 365 days	5 443 459	4 944 833
	17 388 084	15 087 051
Refuse		
Current (0 -30 days)	1 014 931	2 955 620
31 - 60 days	1 068 428	1 242 925
61 - 90 days	997 220	1 238 790
91 - 120 days	983 677	1 228 038
121 - 365 days	127 543 466	117 790 060
	131 607 722	124 455 433
Other		
Current (0 -30 days)	55 731	30 383
31 - 60 days	(42 816)	525 715
61 - 90 days	(271 444)	106 928
91 - 120 days	123 409	67 054
121 - 365 days	4 831 981	3 438 102
	4 696 861	4 168 182
Reconciliation of allowance for impairment		
Balance at beginning of the year	(129 758 657)	(138 241 447)
Contributions to allowance	(10 453 708)	8 482 790
	(140 212 365)	(129 758 657)
Consumer debtors past due but not impaired		
Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2024, R2 662 929 (2023: R3 198 485) were past due but not impaired.		
The ageing of amounts past due but not impaired is as follows:		
Electricity	1 441 309	1 205 121
Refuse	1 095 602	646 301
Other	126 018	1 347 063
4. Statutory receivables from non-exchange transactions		
Fines	14 695 458	13 794 181
Property rates	156 053 906	150 189 679
Impairment-Property Rates	(148 547 194)	(135 171 852)
Impairment-Traffic Fines	(13 267 353)	(12 204 109)
	8 934 817	16 607 899

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
4. Statutory receivables from non-exchange transactions (continued)		
Property rates: Ageing		
Current (0-30 days)	3 850 993	9 180 408
31-60 days	3 026 273	2 502 910
61-90 days	2 344 337	2 352 304
91-120 days	2 053 017	2 341 174
121 + days	144 779 285	133 812 883
	156 053 905	150 189 679
Traffic fines: Ageing		
Current (0-30 days)	144 700	699 750
31-60 days	105 700	-
61-90 days	82 100	-
91-120 days	158 400	-
121+ days	14 204 558	13 094 431
	14 695 458	13 794 181

Statutory receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2024, R7 887 540 (2023: R7 118 834) were past due but not impaired.

The total amounts past due but not impaired is as follows:

Property rates	7 887 540	7 118 834
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Reconciliation of provision for impairment of statutory receivables from non-exchange transactions

Opening balance	(147 375 961)	(132 967 306)
Current year contribution to allowance	(14 438 586)	(14 408 655)
	(161 814 547)	(147 375 961)

Statutory receivables general information

Transaction(s) arising from statute

Traffic fines

The two types of traffic fines that are issued are:

- 1) Traffic fines issued in terms of the Administrative Adjudication of Road Traffic Offences Act (AARTO Act).
- 2) Traffic fines issued in terms of the Criminal Procedures Act.

Property rates

The Municipal Property Rates Act No. 06 of 2004 governs property rates billed. The Act regulates, the power of the municipality to impose rates on properties; to exclude certain properties from rating in the national interest; to make provisions for the municipality to implement a transparent and fair system of exemptions, reductions and rebates through the municipalities rating policy, making provisions for fair and equitable valuation methods of properties; to make provisions for objections and appeals.

Determination of transaction amount

Traffic fines

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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4. Statutory receivables from non-exchange transactions (continued)

Traffic fines are issued in terms of the AARTO Act by way of notices to offenders which specify the value of the fine that must be paid, along with any discount that can be applied if the fine is paid within a specific period of time.

Traffic fines issued in terms of the Criminal Procedures Act are usually issued by way of notice to offenders, and can:

(a) indicate the value of the fine to be paid, and that certain reductions could be made to the value of the fine payable and how, or the circumstances under which, such reductions can be applied, or

(b) indicate that the offender must appear in Court on a specified date (in these instances, the value of the fine may or may not be indicated but this is often only determined after a separate legal process).

Property rates

Property rates are levied in terms of the municipality's property rates policy, which is aligned to the Municipal Property Rates Act No. 6 of 2004.

The amount of rates levied by the municipality on properties, is the amount in the Rand

a) On the market value of the property;

b) In the case of public service infrastructure, on the market value of the public service infrastructure less 30% of that value as contemplated in section 17(1)(a) of the Municipal Property Rates Act of 2004 or on such a lower percentage as the minister determines in terms of section 17(4) of the Municipal Property Rates Act of 2004;

c) In the case of property to which section 17(1) (h), of the Municipal Property Rates Act of 2004, applies on the market value of the property less the amount stated in that section, or on such amount as the Minister may determine

Refer to Note 26 for rate randage.

5. VAT receivable/(payable)

VAT Receivable	-	3 804 726
VAT Payable	(1 526 029)	-
	(1 526 029)	3 804 726

The municipality accounts for VAT on the accrual basis. The municipality is liable to account for VAT at the standard rate of 15% in terms of Section 7(1)(a) of the VAT Act in respect of goods or services, except where supplies are specifically zero rates in terms of Section 11, exempted in terms of Section 12 of the VAT Act. The municipality accounts for VAT on monthly basis.

6. Other current and non-current assets

Other current and non-current assets

Current portion of the fruitless and wasteful expenditure recovery	750 000	-
Non-current portion of the fruitless and wasteful expenditure recovery	1 250 000	-
	2 000 000	-

The fruitless and wasteful expenditure of R3 343 140.48 relating to payments made to TJM Consulting was investigated by MPAC through municipal attorneys and reached a settlement agreement of recovering R2 000 000 payables to municipality until 01 February 2027.

uPHONGOLO Local Municipality
Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand

7. Investment property

	2024			2023		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Vacant land	75 910 000	-	75 910 000	65 220 998	-	65 220 998

Reconciliation of investment property - 2024

	Opening balance	Fair value adjustments	Total
Vacant land	65 220 998	10 689 002	75 910 000

Reconciliation of investment property - 2023

	Opening balance	Fair value adjustments	Total
Vacant land	63 477 380	1 743 618	65 220 998

Pledged as security

No investment property were pledged as security.

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

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand

2024

2023

7. Investment property (continued)

Details of valuation

The effective date of the valuations was Friday, 30 June 2024. The valuations were performed by an independent valuer, Candice Cooper, of BPG Mass Appraisals (Pty) Ltd. BPG Mass Appraisals (Pty) Ltd are not connected to the municipality and have recent experience in location and category of the investment property being fair valued.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

uPHONGOLO Local Municipality
Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment

	2024			2023		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	71 359 065	-	71 359 065	71 359 065	-	71 359 065
Buildings	200 738 323	(46 162 056)	154 576 267	173 917 532	(40 958 460)	132 959 072
Infrastructure	235 146 202	(127 749 215)	107 396 987	249 873 981	(113 587 740)	136 286 241
Solid Waste Infrastructure	9 125 406	(4 685 461)	4 439 945	8 796 528	(4 118 437)	4 678 091
Other Property, Plant and Equipment	54 404 933	(31 642 855)	22 762 078	56 073 027	(31 391 670)	24 681 357
Total	570 773 929	(210 239 587)	360 534 342	560 020 133	(190 056 307)	369 963 826

uPHONGOLO Local Municipality
Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)
Reconciliation of property, plant and equipment - 2024

	Opening balance	Additions	Disposals	Project handed over	Change in estimates	Depreciation	Impairment loss	Total
Land	71 359 065	-	-	-	-	-	-	71 359 065
Buildings	132 959 072	26 820 791	-	-	-	(3 993 150)	(1 210 446)	154 576 267
Infrastructure	136 286 241	6 594 316	(52 480)	(21 166 354)	-	(14 160 787)	(103 949)	107 396 987
Solid Waste Infrastructure	4 678 091	-	-	-	328 879	(567 025)	-	4 439 945
Other Property, Plant and Equipment	24 681 357	3 463 474	(625 517)	-	-	(4 757 236)	-	22 762 078
	369 963 826	36 878 581	(677 997)	(21 166 354)	328 879	(23 478 198)	(1 314 395)	360 534 342

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Change in estimates	Depreciation	Impairment loss	Total
Land	71 359 065	-	-	-	-	-	71 359 065
Buildings	118 347 424	20 064 660	(117 953)	-	(4 163 032)	(1 172 027)	132 959 072
Infrastructure	137 580 709	13 140 009	-	-	(14 215 163)	(219 314)	136 286 241
Solid Waste Infrastructure	5 942 402	866 932	-	(1 615 471)	(515 772)	-	4 678 091
Other Property, Plant and Equipment	26 179 217	3 682 976	(232 745)	-	(4 495 513)	(452 578)	24 681 357
	359 408 817	37 754 577	(350 698)	(1 615 471)	(23 389 480)	(1 843 919)	369 963 826

Reconciliation of Work-in-Progress 2024

	Included within Infrastructure	Included within Community	Total
Opening balance	36 387 491	42 261 178	78 648 669
Additions/capital expenditure	6 594 317	26 820 795	33 415 112
Capitalised	(15 968 213)	(787 030)	(16 755 243)
Transferred to DoT	(21 166 354)	-	(21 166 354)
	5 847 241	68 294 943	74 142 184

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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8. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2023

	Included within Infrastructure	Included within Community	Total
Opening balance	23 152 551	22 314 471	45 467 022
Additions/capital expenditure	13 234 940	20 064 660	33 299 600
Asset disposal	-	(117 953)	(117 953)
	36 387 491	42 261 178	78 648 669

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

Municipal buildings	992 091	722 047
Infrastructure maintenance	13 928 027	10 272 495
Fleet & other assets	7 278 555	2 039 877
	22 198 673	13 034 419

Projects taking longer to complete:

1. Construction of Emkhiwaneni sportfield ward 09 - carrying value (R6 3328 113)

The project was halted and referred to the municipal attorneys for investigation which resulted in an impairment of R3 942 910. It was suspected that the actual work done and the cumulative expenditure did not correlate.

2. Emgome (Emdonini) community hall ward 9 - carrying value (R91 892)

The project was halted and impaired by an amount of R265 674 to take into account the deterioration on the structure. The service provider could not finish the project.

3. Ncotshane stormwater project 3 channel located in Mlenje Street - carrying value (R300 229)

4. Ncotshane stormwater project 4 stormwater outlet rehabilitation - carrying value (R104 025)

5. Ncotshane stormwater project 6 cutt-off channel - carrying value (R714 033)

6. Ncotshane stormwater project 1C upgrade main underground system - carrying value (R411 394)

7. Pongola municipal workshop (Technical) full view fencing - carrying value (R145 185)

8. Fencing of Ncotshane cemetery - carrying value (R154 289)

9. Fencing of Pongola cemetery - carrying value (R110 327)

10. Paving zcc to simunye roads

11. Sports field kwathengizwe in ward 9

12. Feasibility studies

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.

uPHONGOLO Local Municipality
Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand

9. Heritage assets

	2024				2023			
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Carrying value
Work of arts	23 996	-	23 996	23 996	-	23 996	23 996	23 996
Other Heritage Assets	46 949	-	46 949	46 949	-	46 949	46 949	46 949
Total	70 945	-	70 945	70 945	-	70 945	70 945	70 945

Reconciliation of heritage assets 2024

	Opening balance	Total
Work of arts	23 996	23 996
Other Heritage Assets	46 949	46 949
	70 945	70 945

Reconciliation of heritage assets 2023

	Opening balance	Total
Work of arts	23 996	23 996
Other Heritage Assets	46 949	46 949
	70 945	70 945

Pledged as security

No heritage assets pledged as security.

uPHONGOLO Local Municipality
Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand

10. Intangible assets

	2024			2023		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 524 048	(2 021 270)	502 778	2 958 065	(2 210 948)	747 117

Reconciliation of intangible assets - 2024

	Opening balance	Disposals	Amortisation	Total
Computer software	747 117	(42 493)	(201 846)	502 778

Reconciliation of intangible assets - 2023

	Opening balance	Amortisation	Total
Computer software	1 284 222	(537 105)	747 117

Pledged as security

No intangible assets pledged as security.

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

11. Consumer deposits

Electricity	2 856 306	2 842 007
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uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
12. Trade and other payables from exchange transactions		
Trade payables	10 954 860	5 402 242
Retentions	10 791 114	9 192 471
Staff leave accrual	8 842 287	7 310 438
Payroll deductions	344 317	3 742 417
Bonus	3 975 773	3 488 937
Debtors with credit balance	2 250 160	3 183 814
	37 158 511	32 320 319

13. Trade and other payables from non-exchange transactions

Trade and other payables from non-exchange transactions comprises of:

Unspent conditional grants and receipts

Sport Development Grant	-	8 130
Sub Rank Facility Grant	3 417	3 417
Integrated Spatial Economic Development Grant	-	275 508
	3 418	287 056

14. Provisions

Reconciliation of provisions: 2024

	Opening Balance	Additions	Change in provision	Current year interest	Other change in provision	Total
Non current: Environmental rehabilitation	9 366 024	-	328 879	1 352 703	(127 895)	10 919 711
Current: Environmental rehabilitation	1 352 703	-	-	-	127 895	1 480 598
Current: Bonuses	332 515	313 822	-	-	-	646 337
	11 051 242	313 822	328 879	1 352 703	-	13 046 646

Reconciliation of provisions: 2023

	Opening Balance	Additions	Change in provision	Current year interest	Other change in provision	Total
Non current: Environmental rehabilitation	9 879 576	-	(1 615 471)	1 227 311	(125 392)	9 366 024
Current: Environmental rehabilitation	1 227 311	-	-	-	125 392	1 352 703
Current: Bonuses	177 724	154 791	-	-	-	332 515
	11 284 611	154 791	(1 615 471)	1 227 311	-	11 051 242

Non-current liabilities	10 919 711	9 366 024
Current liabilities	2 126 935	1 685 218
	13 046 646	11 051 242

Bonus provision: The bonus provision is to provide for performance bonuses of the section 55 & 56 employees. Performance bonuses are paid one year in arrears as the assessment of eligible employee takes place after year end.

Rehabilitation of landfill Site: The rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal at the time of closure. The value of the provision is based on the present value of the expected future costs to rehabilitate the site.

Rehabilitation costs were calculated based on the following assumptions:

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14. Provisions (continued)		
Assumptions		
Consumer price inflation (CPI)	6.51	7.39 %
Discount rate	11.94 %	12.62 %
Net discount rate	5.10 %	4.87 %
	-	-

The landfill site is 5 hectares and area expected to be rehabilitated is 3 hectares. The estimated closure date is 15 September 2034. The municipality has an obligation to rehabilitate the landfill site at the end of the usage period of 10 years. The value of the provision is created for the rehabilitation of the current operation site at the future estimated time for closure. The value of the provision is based on the expected future cost to rehabilitate the discount back to the reporting date at the cost of capital, which is 5.10%. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purpose. The municipality estimates the useful life and makes assumption as to the useful life of the assets, which influence the provision for future costs.

15. Employee benefit obligations

Defined benefit plans - General information

Medical Benefits

An actuarial valuation has been performed by One Pangaea & Solutions to ascertain the municipality's liability in respect of the benefits to eligible beneficiaries who were employed by the municipality on the old conditions of service and have already retired.

The actuarial valuation is performed every year.

2024	Opening balance	Service cost	Interest cost	Movement in benefit payments	Actuarial (gain)/loss over the financial year	Total
Non-current portion	2 308 136	-	288 743	(303 844)	108 830	2 401 865
Current portion	265 262	-	-	23 847	-	289 109
	2 573 398	-	288 743	(279 997)	108 830	2 690 974
2023	Opening balance	Service cost	Interest cost	Movement in benefit payments	Actuarial (gain)/loss over the financial year	Total
Non-current portion	3 196 154	-	338 639	(548 770)	(677 887)	2 308 136
Current portion	-	-	-	265 262	-	265 262
	3 196 154	-	338 639	(283 508)	(677 887)	2 573 398
Carrying value						
Opening balance					(2 573 398)	(3 196 154)
Interest costs					(288 743)	(338 639)
Benefits paid					279 997	262 744
Actuarial (gain)/loss					(108 830)	698 651
					(2 690 974)	(2 573 398)

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Figures in Rand	2024	2023
15. Employee benefit obligations (continued)		
Net expense recognised in the statement of financial performance		
Interest cost	(288 743)	(338 639)
Actuarial (gain)/loss	(108 830)	698 651
	(397 573)	360 012

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	11.20 %	11.83 %
Health care cost inflation	7.33 %	8.08 %
Change in the mortality assumption	7.26 %	7.13 %
Consumer price inflation	5.83 %	6.58 %
Net discount rate	3.61 %	3.47 %
1% increase discount rate in employer's accrued liability	2 506 417	2 391 841
1% increase in the discount rate	6.86 %	7.06 %
1% decrease discount rate in employer's accrued liability	2 901 884	2 781 565
1% decrease in the discount rate	7.84 %	6.59 %
1% increase medical inflation rate in employer's accrued liability	2 922 413	2 800 869
1% decrease in the medical inflation rate	8.60 %	7.80 %
1% decrease medical inflation rate in employer's accrued liability	2 486 086	2 372 692
1% increase in the medical inflation rate	7.61 %	8.84 %

Amounts for the current and previous four years are as follows:	2024	2023	2022	2021	2020
Present value of funded obligations	2 690 974	2 573 398	3 196 154	2 090 106	1 972 225
	2 690 974	2 573 398	3 196 154	2 090 106	1 972 225

Benefits

The municipality has been unsuccessful in obtaining the necessary information to support proper defined plan accounting due to restrictions imposed by the multi employer plan. As a result of the restrictions, some of the entities defined benefit plans have not been treated as defined contribution plans as defined by GRAP 25, but are rather accounted for as defined contributions plans. This is in line with the GRAP 25 exemption which states that where information required for proper defined benefit plan accounting is not available in respect of multi employer state plans, these should be accounted for as defined contributions plan.

Pension benefits

The municipality's personnel are members of one of the pension funds listed below:

-KwaZulu Natal Joint Municipal Pension Fund.

-KwaZulu Retirement Fund

-Municipal Gratuity Fund

-Municipal Employees Pension Fund

-Government Employees Pension Fund

-Super Annuation Fund

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2024

2023

15. Employee benefit obligations (continued)

As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual municipalities cannot be determined. Furthermore, disclosure of further details such as actuarial assumptions cannot be attributed to any specific municipality and is of no relevance to users of the municipality's financial statements. As the required disclosure information cannot be obtained, the funds are all treated as defined contribution plans, an independent valuer carries out a statutory valuation of the NJMPF on a triennial basis and interim valuation on an annual basis.

Super Annuation fund : The interim valuation carried out on the Super Annuation Fund as at March 2016 reflected the following:

-The memorandum account in respect of the pensioners was fully funded.

-The ability in respect of active members was 100% funded.

Retirement and Provident Fund: The latest statutory valuation on the Retirement/Provident Fund (defined contribution) as at 30 June 2024 revealed the following: The memorandum account in respect of the pensioners was fully funded.

The ability in respect of active members was 100% funded.

16. Long service award

Employee who achieve 05 years' service has a choice of 05 days paid leave (once off) or encashment of leave.

Employee who achieve 10 years' service has a choice of 10 days paid leave (once off) or encashment of leave.

Employee who achieve 15 years' service has a choice of 20 days paid leave (once off) or encashment of leave.

Employee who achieve 20 years' service has a choice of 30 days paid leave (once off) or encashment of leave.

Employee who achieve 25 years' service has a choice of 30 days paid leave (once off) or encashment of leave.

Employee who achieve 30 years' service has a choice of 30 days paid leave (once off) or encashment of leave.

Employee who achieve 35 years' service has a choice of 30 days paid leave (once off) or encashment of leave.

Employee who achieve 40 years' service has a choice of 30 days paid leave (once off) or encashment of leave.

Employee who achieve 45 years' service has a choice of 30 days paid leave (once off) or encashment of leave.

The above-mentioned leave is granted in addition to the annual leave entitlement and maximum accumulated granted in terms of the National Conditions of Service. The leave may be taken, converted to cash fully or partially or accumulated. The leave is only applicable to those employees who have achieved the stated years of service after the effective date of these conditions.

The provision is an estimate of the long service award based on the monthly salaries rate at 30 June 2024. It has been assumed that the staff turnover rate will be insignificant based on historical data.

The valuation of the liability was performed in line with GRAP 25: Employee benefits, by One Pangea Expertise and Solutions as at 30 June 2024.

The actuarial valuation is performed every year.

2024	Opening balance	Service cost	Interest cost	Benefit payment	Actuarial (gain)/ loss	Total
Non-current portion	5 430 577	595 728	711 605	(961 216)	668 220	6 444 914
Current portion	506 343	-	-	(14 313)	-	492 030
	5 936 920	595 728	711 605	(975 529)	668 220	6 936 944

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Figures in Rand	2024	2023				
16. Long service award (continued)						
2023	Opening balance	Service cost	Interest cost	Benefit payment	Actuarial (gain)/ loss	Total
Non-current portion	1 969 502	158 270	240 514	(1 441 269)	4 503 560	5 430 577
Current portion	-	-	-	506 343	-	506 343
	1 969 502	158 270	240 514	(934 926)	4 503 560	5 936 920
Changes in the present value of the long-service obligation are as follows:						
Opening balance					(5 936 920)	(1 969 502)
Service cost					(595 728)	(158 270)
Interest cost					(711 605)	(240 514)
Benefit payment					975 529	934 926
Actuarial (gain)/ loss					(668 220)	(4 503 560)
					(6 936 944)	(5 936 920)
Net expense recognised in the statement of financial performance						
Service cost					(595 728)	(158 270)
Interest cost					(711 605)	(240 514)
Actuarial (gain)/ loss					(668 220)	(4 503 560)
					(1 975 553)	(4 902 344)
Principal actuarial assumption used						
Discount rate					10.66 %	12.52 %
Salary inflation rate					6.50 %	8.14 %
Net discount rate					3.91 %	4.05 %
1% increase discount rate on employer's accrued liability					6 532 415	5 584 815
1% increase in the salary increase rate					7 404 040	6 343 822
1% decrease discount rate in employer's accrued liability					7 389 915	6 330 883
1% decrease in the salary increase rate					6 513 751	5 568 132
17. Other financial liabilities						
Other financial liabilities					341 542	341 542
Non-current liabilities						
Designated at fair value					341 542	341 542
18. Service charges						
Service charges - Electricity					53 395 362	45 695 926
Service charges - Waste Management					11 398 421	10 820 849
					64 793 783	56 516 775
19. Agency services						
NPA Motor fees					1 134 948	948 852

The municipality is the party to a principal-agent arrangement.

Department of Transport

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Figures in Rand	2024	2023
19. Agency services (continued)		
The agreement requires the municipality to perform all the testing functions on behalf of the department which consist of driving licence test center functions. The municipality is an agent to the agreement as they are responsible for performing testing functions (testing functions, learners, vehicle registration, etc) on behalf of the Department. Thus a principal agent arrangement exist. The municipality is the agent in term of GRAP 109.		
The municipality is an agent		
The aggregate amount of revenue recognised as a result of functions performed is R1 134 948 (2023: R948 852).		
Department of Tourism		
The municipality was required to upgrade the Koppie-Allen Guesthouse used for booking by tourist visiting uPhongolo territory. This grant is accounted for in terms of GRAP 109, therefore the expenditure and revenue is not recognised in the books of the municipality.		
Koppie-Allen guesthouse funding		
Balance unspent at the beginning of the year	-	675 836
Conditions met	-	(675 836)
	-	-
20. Interest earned from receivables		
Interest earned from receivables	946 050	828 482
21. Interest earned from call accounts		
Interest earned from call accounts		
Primary bank account	111 124	303 712
Short-term investments and call accounts	4 432 011	2 145 390
	4 543 135	2 449 102
22. Licences and permits		
Licences and permits	1 656 154	1 718 051
23. Rental of facilities and equipment		
Rental of facilities	517 004	500 849
24. Operational revenue		
Electricity connection and reconnections fees	108 402	161 581
Tender document fees	19 346	13 869
Certificate clearance and validation	27 340	1 878
Dumping fees	16 961	18 744
Other Revenue	4 088 700	2 632 744
CETA Refunds	671 245	424 816
KZN Transport Refunds	2 106 046	1 133 717
Cleanest town award	-	1 000 000
Fruitless and wasteful expenditure recovered	2 000 000	-
	9 038 040	5 387 349

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Figures in Rand	2024	2023
25. Construction contract		
Construction contract revenue		
Integrated national electrification programme	2 817 391	4 112 855
Human Settlement Grant	40 259 266	48 636 173
	43 076 657	52 749 028
Construction contract expenditure		
Integrated national electrification programme	2 817 391	4 112 855
Human Settlement Grant	40 259 266	48 636 174
	43 076 657	52 749 029

Construction contract narrations

Integrated National Electrification Programme Grant

The purpose of the grant is to address the electrification backlog of permanently occupied dwellings and the installation of bulk infrastructure in order to improve quality of supply. Some conditions of this grant were not met, hence funds were withheld by funder due to slow spending on agreed projects as at the 30th of June 2024. This grant is accounted for in terms of GRAP 11. The transactions for this grant are disclosed exclusive of VAT as per National Treasury guidelines.

Balance unspent at the beginning of the year	-	449 783
Current-year allocation	15 000 000	8 200 000
Conditions met - transferred to revenue	(3 240 000)	(4 729 783)
Funds withheld by funder	(11 760 000)	(3 920 000)
	-	-

Human Settlement Grant

This grant relates to the implementation and provision of housing projects to the needy communities. There were no conditions to be met as there were no funds received in the current year. This grant is accounted for in terms of GRAP 11. The housing projects payment were paid directly to the implementing agent. No funds were received or paid by the municipality.

Balance unspent at the beginning of the year	-	759 111
Current-year receipts	-	880 930
Conditions met - transferred to revenue	-	(1 640 041)
	-	-

26. Property rates

Rates received

Residential	13 081 945	12 242 162
Commercial	15 139 452	15 048 123
Public benefits organisations	624 841	593 427
Agricultural property	6 744 643	6 420 324
Vacant land	779 117	872 506
Public services purposes	12 455 184	11 757 220
Public services infrastructure	191 439	181 815
Property reduction rebate	(881 419)	(1 545 017)
	48 135 202	45 570 560

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Figures in Rand	2024	2023
26. Property rates (continued)		
Property rates randages		
Residential Property	0.01893700	0.01798381
Business and Commercial Property	0.02367119	0.02247976
Industrial property	0.02367119	0.02247976
Vacant Land	0.02367119	0.02247976
Agricultural Property	0.00473424	0.00449595
Mining Property	0.02367119	0.02247976
Unauthorized Development	0.05681086	0.05395143
Public Service Infrastructure	0.00473424	0.00449595
Public Benefit Organisation	0.00473424	0.00449595
Public Service Purpose	0.02367119	0.02247976

Valuations

Residential	841 028 000	832 973 000
Commercial	649 809 000	647 999 000
Public benefits organisations	572 759 800	574 259 800
Small holdings and farms	1 430 049 000	1 433 699 000
Other	229 162 000	229 625 000
Public services purposes	42 175 500	42 175 500
	3 764 983 300	3 760 731 300

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2024. Rebates of R60 000.00 are granted to residential and 30% to public services infrastructure. Rates are levied on a monthly basis on property owners.

Supplementary valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

27. Fines, Penalties and Forfeits

Traffic Fines	1 550 400	1 681 100
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28. Government grants & subsidies

Operating grants

Equitable share	182 291 000	169 597 000
Expanded Public Works Programme Grant	2 169 000	2 978 000
Financial Management Grant	3 000 000	3 000 000
Provincialisation of Libraries Grant	1 964 000	1 964 000
Community Libraries Services Grant	508 000	508 000
Municipal Infrastructure Grant	1 547 700	1 594 450
Integrated Spatial Development Economic Plan	275 508	727 600
Municipal Emergency Housing Grant	-	15 500 000
	191 755 208	195 869 050

Capital grants

Municipal Infrastructure Grant	29 406 300	30 294 550
Sport Development Grant	7 402 797	5 991 870
	36 809 097	36 286 420
	228 564 305	232 155 470

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Figures in Rand	2024	2023
28. Government grants & subsidies (continued)		
Equitable Share		
Current-year receipts	182 291 000	169 597 000
Conditions met - transferred to revenue	(182 291 000)	(169 597 000)
	-	-

No conditions had to be met for this grant in the financial year.

Expanded Public Works Programme Grant

Current-year receipts	2 169 000	2 978 000
Conditions met - transferred to revenue	(2 169 000)	(2 978 000)
	-	-

The Expanded Public Works Programme is a special performance based incentive provided to municipalities that contribute to the employment creation efforts of the EPWP through the employment of previously unemployed people. The conditions of this grant have been met. No funds were withheld or surrendered as at the 30th of June 2024.

Financial Management Grant

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

The purpose of this grant is to promote and support reforms in financial management by building capacity to implement the Municipal Finance Management Act. The conditions of this grant have been met. No funds were withheld or surrendered as at the 30th of June 2024.

Provincialisation of Libraries Grant

Current-year receipts	1 964 000	1 964 000
Conditions met - transferred to revenue	(1 964 000)	(1 964 000)
	-	-

The purpose of this grant is to subsidise operational costs associated with libraries. The conditions of this grant have been met. No funds were withheld or surrendered as at the 30th of June 2024.

Community Libraries Services Grant

Current-year receipts	508 000	508 000
Conditions met - transferred to revenue	(508 000)	(508 000)
	-	-

This grant is used to pay salaries for Cyber Cadets and subsidise operational costs associated with libraries. The conditions of this grant have been met. No funds were withheld or surrendered as at the 30th of June 2024.

Municipal Infrastructure Grant

Current-year receipts	1 658 650	1 594 450
Conditions met - transferred to revenue	(1 658 650)	(1 594 450)
	-	-

This grant is used to pay salaries for PMU staff and subsidise operational costs associated with PMU support. The conditions of this grant have been met. No funds were withheld or surrendered as at the 30th of June 2024.

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Figures in Rand	2024	2023
28. Government grants & subsidies (continued)		
Integrated Spatial Development Economic Plan		
Balance unspent at beginning of year	275 508	1 003 108
Conditions met - transferred to revenue	(275 508)	(727 600)
	-	275 508

The purpose of this grant is to develop an Integrated Spatial Development Plan for the municipality. The conditions of this grant have been met. No funds were withheld or surrendered as at the 30th of June 2024.

Municipal Emergency Housing Grant

Current-year receipts	-	15 500 000
Conditions met - transferred to revenue	-	(15 500 000)
	-	-

The purpose of this grant is provide emergency housing to the community of uPhongolo. No conditions were met in the current year as no funds were received.

Municipal Infrastructure Grant

Current-year receipts	29 295 350	30 294 550
Conditions met - transferred to revenue	(29 295 350)	(30 294 550)
	-	-

This grant is used to construct basic municipal infrastructure to provide basic services for the benefit of the community within the municipal boundaries. The conditions of this grant have been met. No funds were withheld or surrendered as at the 30th of June 2024.

Sport Development Grant

Balance unspent at beginning of year	8 130	6 000 000
Current-year receipts	7 394 667	-
Conditions met - transferred to revenue	(7 402 797)	(5 991 870)
	-	8 130

The grant intends to promote and develop the sport and recreational activities in the municipality. The conditions of this grant have been met. No funds were withheld or surrendered as at the 30th of June 2024.

Sub-Rank Facility Grant

Balance unspent at beginning of year	3 417	3 417
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The purpose of this grant is to construct the Sub-Rank Facility in Pongola Town. The conditions of this grant were not met (refer to note 13). No Funds were withheld or surrendered as at 30th of June 2024.

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29. Employee related costs		
Basic Salaries and wages	89 740 452	83 895 209
Once-off allowance	168 958	77 333
Performance and other bonus	6 460 731	5 829 182
Medical aid	4 446 141	3 848 736
UIF	661 902	662 497
WCA	-	1 029 311
SDL	1 098 972	1 049 481
Standby allowance	1 181 583	1 222 718
Leave provision	3 142 030	2 638 146
Shift allowance	185 511	92 799
Remote allowance	195 727	152 629
Pension and provident fund	12 342 869	10 215 542
Car allowances	8 808 597	7 441 891
Overtime	2 157 593	3 397 651
Long-service awards	595 728	158 270
Acting allowances	632 482	888 176
Cellphone allowance	1 510 240	1 385 199
Housing benefits	63 985	62 730
Industrial Council	41 423	40 057
	133 434 924	124 087 557

Remuneration of Municipal Manager: MB Khali

Annual remuneration	1 108 994	1 061 252
Allowances	385 160	394 478
Leave payout	-	85 219
Contributions to UIF, medical, pension fund & SDL	16 347	15 523
One off Gratuity	20 340	-
	1 530 841	1 556 472

Remuneration of former Municipal Manager: WM Nxumalo

Annual remuneration	-	11 596
Allowances	-	15 255
Leave payout	-	249 757
Contributions to UIF, medical, pension fund & SDL	-	2 813
	-	279 421

Remuneration of Chief Financial Officer: KWG Ngcobo

Annual remuneration	897 657	715 835
Allowances	376 706	312 633
Contributions to UIF, medical, pension fund & SDL	11 436	9 123
One off Gratuity	10 170	-
	1 295 969	1 037 591

Remuneration of former Chief Financial Officer: JV Nkosi

Annual remuneration	-	10 698
Allowances	-	15 255
Leave payout	-	255 311
Contributions to UIF, medical and pension fund	-	2 813
	-	284 077

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Figures in Rand	2024	2023
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29. Employee related costs (continued)

Remuneration of former acting Chief Financial Officer: SF Mkhize

Acting allowance	-	15 403
Other allowances	-	28 800
	-	44 203

Remuneration of former Director Planning and Economic Development: MVM Mbatha

Annual remuneration	615 618	868 523
Allowances	251 825	390 796
Contributions to UIF, medical and pension fund	10 402	11 464
Leave days payouts	227 885	-
One off Gratuity	20 340	-
	1 126 070	1 270 783

Mr. MVM Mbatha resigned as the Director Planning & Economic Development on the 01st of March 2024 as he was appointed as the Director Technical Services on the same date.

Remuneration of former Director Community Services: BA Mkhonza

Annual remuneration	-	488 178
Allowances	-	39 275
Leave payout	-	95 284
Contributions to UIF, medical and pension fund	-	5 923
	-	628 660

Remuneration of former Acting Director Corporate Services: SSP Xaba

Annual remuneration	-	24 264
Allowances	-	27 168
	-	51 432

Remuneration of Director Corporate Services: SSP Xaba

Annual remuneration	892 142	243 384
Allowances	376 486	106 295
Contributions to UIF, medical and pension fund	12 176	3 351
One off Gratuity	5 817	-
	1 286 621	353 030

Remuneration of Director Community Service: BCX Dladla

Annual remuneration	892 142	243 384
Allowances	376 486	106 295
Contributions to UIF, medical and pension funds	12 146	3 329
One off Gratuity	5 817	-
	1 286 591	353 008

Remuneration of former Director Technical Services: M Buthelezi

Annual remuneration	39 345	209 978
Allowances	14 400	91 706
Contributions to UIF, medical and pension fund	947	2 909

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Figures in Rand	2024	2023
29. Employee related costs (continued)		
Leave days payouts	34 942	-
One off Gratuity	4 773	-
	94 407	304 593

Remuneration of former Acting Director Technical Services: GM Simelane

Acting allowance	-	24 264
Other allowance	-	32 353
	-	56 617

Remuneration of Director Technical Services: Mr. MVM Mbatha

Annual Remuneration	294 924	-
Other Allowance	125 397	-
Contribution to SDL	3 797	-
	424 118	-

Mr. Mbatha was appointed as Director Technical Services from the 01st of March 2024.

30. Remuneration of councillors

2024	Basic Salary	Other benefits	
Mayor	414 995	26 450	441 445
Deputy Mayor	752 871	57 385	810 256
Speaker	317 958	159 870	477 828
Chief Whip	298 092	152 996	451 088
MPAC Chair	383 820	53 694	437 514
Executive Committee	993 640	359 822	1 353 462
Other Councillor's	5 551 295	1 874 962	7 426 257
	8 712 671	2 685 179	11 397 850

2023	Basic Salary	Other benefits	
Mayor	915 386	53 789	969 175
Deputy Mayor	528 999	49 926	578 925
Speaker	310 367	148 888	459 255
Chief Whip	282 081	142 382	424 463
MPAC Chair	325 571	111 838	437 409
Executive Committee	908 320	317 532	1 225 852
Other Councillors	5 458 367	1 674 716	7 133 083
	8 729 091	2 499 071	11 228 162

In-kind benefits

Municipality has 29 Councillors, both Mayor and Deputy Mayor are full-time Councillors. The Speaker and the Executive Committee Members are part-time. Each is provided with an office and secretarial support at the cost of the Council. The Mayor resigned on the of December 2023, since then the Deputy Mayor has been Acting on Mayor's position.

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

The Mayor, Deputy Mayor and Speaker each have full-time contracted bodyguards.

uPHONGOLO Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2024	2023
31. Bulk purchases		
Electricity - Eskom	45 062 080	35 985 209
Electricity losses		
Units purchased	25 318 008	23 333 619
Units sold	(18 280 352)	(18 333 544)
Total loss	7 037 656	5 000 075
Electricity losses in Rands comprises of:		
Electricity losses	12 308 915	7 686 015
Percentage Loss:		
Electricity losses	28 %	21 %
The municipality purchased 25 318 008 units(2023: 23 333 619 units) from Eskom and unit sold was 18 280 352 (2023: 18 333 544) to customers. This represents a loss of 7 037 656 units (2023: 5 000 075) which equates to R12 308 915 (2023: R7 686 015) and translates to a percentage of 28% (2023: 21%) electricity losses as a result of technical losses and illegal connections		
32. Debt impairment		
Contributions to debt impairment provision	24 892 294	5 925 865
33. Depreciation, amortisation and impairment		
Depreciation	23 478 198	23 389 481
Impairment	1 314 395	1 843 919
Amortisation	201 845	537 105
	24 994 438	25 770 505
34. Finance costs		
Penalties on late payment	13 832	97 199
Landfill - capitalised	1 352 703	1 227 311
Actuarial interest cost	1 000 348	579 153
	2 366 883	1 903 663
35. Debtors written-off		
Debtors written-off	4 846 952	11 811 690
The municipality developed and approved the indigent register. Above-mentioned debtors were written-off after being assessed as indigent household and some were provided with an amnesty programme.		
36. Operational costs		
Advertising	285 319	484 788
Auditors remuneration	2 134 896	2 068 872
Bank charges	91 716	187 331
Consulting and professional fees	1 469 521	406 962
Entertainment	12 307	578 912
EPWP & Town Beautification	195 660	209 469

uPHONGOLO Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2024	2023
36. Operational costs (continued)		
Insurance	1 141 286	999 770
IT Audit	128 800	492 800
License fees	2 510 229	2 189 943
Fuel and oil	4 312 067	6 090 927
Printing and stationery	860 338	890 032
Public participation	3 828 674	1 399 064
Repairs and maintenance	22 198 672	13 034 420
Research and development costs	1 879 205	1 403 926
Contracted services	29 986 972	29 312 722
Subscriptions and membership fees	1 217 090	1 328 626
Telephone and fax	2 754 851	955 017
Training	1 550 505	2 243 256
Travel - local	7 176 785	3 945 861
Refuse	659 078	1 204 567
Ward Committee stipend	2 641 500	2 622 000
Other expenses	15 269 599	30 315 200
	102 305 070	102 364 465
37. Transfer of infrastructure asset		
Transfer of infrastructure asset		
Belgrade Bus Route	21 166 354	-
<p>On the 04th of March 2021 the municipality entered into agreement with the KZN Department of Transport to upgrade the Belgrade Bus Route for the benefit of the community and as per community demand. The municipality was responsible for the costs incurred, the required upgrade of D1844 from its intersection with District Road D1867 at KM 0+000 to KM 2+000 upgrade has been completed and transferred to the KZN Department of Transport.</p>		
38. Fair value adjustments		
Investment property (Fair value model)	10 689 002	1 743 618
39. Actuarial losses		
Gains/ (losses) from a change in fair value from employee benefit obligations	(108 830)	698 651
Losses from a change in fair value from long service awards	(668 220)	(4 503 560)
	(777 050)	(3 804 909)
40. Cash generated from operations		
Surplus	817 560	26 267 512
Adjustments for:		
Depreciation and amortisation	24 994 438	25 770 480
Fair value adjustments	(10 689 002)	(1 743 618)
(Gain)/ loss on sale of capital assets	(493 433)	350 698
Actuarial interest cost	1 000 348	579 153
Actuarial losses	777 050	3 804 909
Finance cost capitalised	1 352 703	(1 227 311)
Transfer of infrastructure assets	21 166 354	-
Other non-cash items	-	(108 217)
Change in estimates	-	(1 615 471)
Changes in working capital:		
Net receivables from exchange transactions	471 708	(187 035)
Net receivables from non-exchange transactions	7 673 082	(391 082)
Unspent conditional grant	(283 638)	(8 604 199)
Trade payables from exchange transactions	4 838 192	(9 398 458)
Net VAT payable/ (receivables)	5 330 752	(2 167 251)

uPHONGOLO Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2024	2023
40. Cash generated from operations (continued)		
Movements in LSA	(379 801)	3 967 418
Movement in environmental rehabilitation	-	(388 160)
Movement in bonuses	313 822	154 791
Movement in PEMA	(279 997)	(622 756)
Movement in other assets	(2 000 000)	-
	54 610 138	34 441 403

41. Operating lease commitments

Present value of minimum lease payments due

- within one year	3 434 904	3 567 907
- in second to fifth year inclusive	287 300	3 424 879
	3 722 204	6 992 786

42. Auditors' remuneration

Fees	2 134 896	2 068 872
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43. Commitments

2023/2024	Community Assets	Infrastructure Assets	Machinery & Other Assets	Total
Commitments for the acquisition of property, plant and equipment	-	-	7 945 140	7 945 140
Commitments to construct or develop property, plant and equipment	18 242 927	7 656 983		25 899 910
	18 242 927	7 656 983	7 945 140	33 845 050
2022/2023	Community Assets	Infrastructure Assets	Machinery & Other Assets	Total
Acquisition of property, plant and equipment	-	-	185 100	185 100
Construction or development of property, plant and equipment	13 493 015	7 976 943	-	21 469 958
	13 493 015	7 976 943	185 100	21 655 058

This committed expenditure relates to property, plant and equipment and will be financed by available retained surpluses, existing cash resources, funds internally generated and grants transfers etc.

Commitments are disclosed exclusive of VAT.

44. Contingencies

Contingent liabilities

Bongani Sielency Qwabe suing the municipality	100 000	87 830
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Contingent assets

Elam investments-payment made for accommodation during SALGA games	-	164 840
Sehla JV/ Litigation recovery	4 513 647	4 513 647
	4 513 647	4 678 487

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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45. Related parties

Relationships

Councillors

Senior Managers

Refer to Remuneration of Councillors note 29

Refer to Employee Related Costs note 28

There were no related party transactions that were not at arms length during the financial period.

46. Change in estimate

Property, plant and equipment

During the current financial year, the municipality performed the conditional assessments on assets and valuation on landfill site. With assets that were nearing their useful lives or that had impairment indicators, the remaining useful life was adjusted to take into account the current situation. The result of adjustment in change in expected depreciation. In the current year, the depreciation increase/ decreased by R793 791 and in future years the depreciation will increase/ decrease by the same amount.

The result of adjustment was as result of a change in expected rehabilitation costs. In the current year, the provision for landfill site decreased by R328 879 and it is impracticable to estimate the future implication of this change in estimate.

47. Prior-year adjustments

Presented below are those items that have been affected by prior-year adjustments:

Statement of financial position

2023

	As previously reported	Correction of error	Restated
Accumulated surplus on 01st of July 2022	397 895 608	(3 282 439)	394 613 169
Property, plant and equipment	373 463 252	(3 499 427)	369 963 825
Trade and other payables from exchange transactions	32 139 272	181 047	32 320 319

The adjustment on accumulated surplus relates to the depreciation on landfill site asset not accounted for in the previous years and unrecognised liability for Dumazulu which subsequently increased the trade and other payables from exchange transaction.

Statement of financial performance

2023

	As previously reported	Correction of error	Restated
Construction contracts revenue	5 752 895	46 996 133	52 749 028
Depreciation, amortisation and impairment	25 372 447	398 033	25 770 480
Construction contract expenditure	5 752 895	46 996 133	52 749 028

Construction contract revenue adjustment was due to housing projects payments made directly by department of human settlement to implementing agents not recognised in the municipal revenue and expenditure.

Depreciation, amortisation and impairment adjustment was due to depreciation of landfill site asset not recognised.

Cash flow statement

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023	
47. Prior-year adjustments (continued)			
2023			
	As previously reported	Reclassification	Restated
Cash flow from operating activities			
Grants	230 596 930	(5 752 895)	224 844 035
Suppliers	(155 781 108)	5 752 895	(150 028 213)
Construction contracts revenue	-	5 752 895	5 752 895
Construction contracts expenditure	-	(5 752 895)	(5 752 895)

The above adjustments in cashflow statement relates to construction contracts receipts and payments made that were classified under grants and payments.

Other notes disclosure

	As previously reported	Correction of error	Restated
Commitments	61 312 703	(39 657 645)	21 655 058
Unauthorised expenditure	32 450 790	46 996 133	79 446 923
Pension and Medical Aid Deductions	2 068 227	(670 065)	1 398 162

Commitments adjustment of was due to INEP projects accounted as per GRAP 11 while previously accounted by GRAP 17.

Unauthorised expenditure adjustment of was due to housing projects payments made by department of human settlement directly to implementing agents not considered in the municipal budget.

Pension and medical aid deduction adjustment was due to non-recognition of medical aid payment made in June.

48. Risk management

Financial risk management

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

Liquidity risk

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

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.

uPHONGOLO Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2024	2023
48. Risk management (continued)		
Consumer deposits	2 856 306	2 842 007
Trade payables from exchange transactions	37 158 511	32 320 319
	40 014 817	35 162 326

The municipality objective when managing its capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the municipality consist of debt, which includes borrowings (excluding derivative financial liabilities) disclosed in note 13 and 16, cash and cash equivalents in note 10 and equity as disclosed in statement of financial position. There are no externally imposed capital requirements. There have been no changes on what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements for the previous year.

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	2024	2023
Cash and cash equivalents	24 824 039	5 864 260
Receivables from exchange transactions	13 480 301	13 952 009
Statutory receivables from non-exchange transactions	8 934 817	16 607 899

Market risk

Interest rate risk

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

49. Going concern

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

In assessing the going concern, management noted some regression on ratios. However, the management is comfortable with the municipality's ability to continue operating as a going concern.

The following measures are being implemented by management to improve the municipality's cash flow going forward:

- Implementation of cost cutting measures
- Strict monitoring of the credit control and debt collection policy

Although there are some negative financial indicators, the municipality continues to adopt the going concern assumption as it is management's view that the municipality will continue to operate in its present form for the foreseeable future .

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
50. Events after the reporting date		
Some of the UIFW expenditure as per below notes was written-off by Council on the 30th of August 2024.		
The fruitless and wasteful expenditure of R3 343 140.48 relating to payments made to TJM Consulting reached a settlement agreement of recovering R2 000 000.00, and R1 343 140.48 was written-off by Council on the 07th of November 2024.		
51. Unauthorised expenditure		
Opening balance as previously reported	79 446 923	77 328 898
Employee related costs	5 319 626	1 890 497
Remuneration of Councillors	-	424 884
Bulk purchases	3 297 925	738 222
Debt impairment	19 306 358	-
Depreciation and amortisation	203 576	-
Finance cost	812 212	427 242
Debtors written-off	4 846 952	11 811 690
Operational expenditure	5 001 403	7 469 611
Transfer of infrastructure asset	21 166 354	-
Construction contract expenditure	30 033 180	52 749 028
Actuarial losses	777 050	3 585 051
Loss on disposal of capital assets	-	350 698
Less: Amount written-off by Council	(32 450 790)	(77 328 898)
Closing balance	137 760 769	79 446 923

The above unauthorised expenditure within the votes was as a result of year-end accounting transactions exceeding the allocated budget. This unauthorised expenditure will be tabled in the adjustment budget when the annual report is tabled in accordance with Section 23(6) of the budget and reporting regulations.

uPHONGOLO Local Municipality
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Notes to the Annual Financial Statements

Figures in Rand	2024	2023
52. Fruitless and wasteful expenditure		
Opening balance as previously reported	7 957 779	8 483 565
Add: Current year	13 832	100 593
Less: Recoverable amount	(2 000 000)	-
Less: Amount written-off by Council	(1 443 697)	(626 379)
Closing balance	4 527 914	7 957 779

The fruitless and wasteful expenditure incurred during the current year has been presented to the Council. Investigation was conducted for prior years fruitless and wasteful expenditure, some were written-off as irrecoverable while some are under the process of recovering.

Fruitless and wasteful expenditure relates to interest, penalties on late payments and invalid payments made.

Details of fruitless and wasteful expenditure

	Disciplinary steps taken/criminal proceedings	
	Reported to Council	
Interest on late payments	13 832	30 543
SARS penalty on incorrect refunds	-	70 050
	13 832	100 593

53. Irregular expenditure

Opening balance as previously reported	15 199 051	68 461 705
SCM processes not followed	220 545	732 248
Less: Amount written-off by Council	(660 008)	(53 994 902)
Closing balance	14 759 588	15 199 051

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

	Disciplinary steps taken/criminal proceedings	
SCM processes not followed	220 545	732 248

The figures reported above are inclusive of VAT. Investigation is being conducted for the current and prior years irregular expenditure.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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54. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	1 333 626	-
Current year subscription / fee	-	1 338 626
Amount paid - current year	-	(5 000)
	1 333 626	1 333 626

Audit fees

Opening balance	-	-
Current year subscription / fee	2 134 896	2 379 976
Amount paid - current year	(2 134 896)	(2 379 976)
	-	-

PAYE and UIF

Opening balance	1 497 083	1 391 383
Current year subscription / fee	21 611 725	20 462 410
Amount paid - current year	(23 220 708)	(20 356 710)
	(111 900)	1 497 083

Pension and Medical Aid Deductions

Opening balance	1 398 162	1 710 594
Current year subscription / fee	27 089 181	22 712 045
Amount paid - current year	(28 439 615)	(23 024 477)
	47 728	1 398 162

VAT

VAT receivable/ (payables)	(1 526 029)	3 804 726
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VAT output payables and VAT input receivables are shown in note .

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

Councillors' arrear consumer accounts

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

30 June 2024	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr SR Mhlongo	15 451	218 591	234 042
Cllr CN Nxumalo-Sibiya	1 956	58 264	60 220
Cllr BES Ntshangase	895	32 602	33 497
Cllr CN Mavundla	2 259	1 027	3 286
Cllr JB Ngema	671	8 690	9 361
Cllr MP Mafuleka	1 601	58 820	60 421
Cllr KE Nxumalo	631	-	631
	23 464	377 994	401 458

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Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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54. Additional disclosure in terms of Municipal Finance Management Act (continued)

30 June 2023	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr SR Mhlongo	14 780	202 904	217 684
Cllr CN Nxumalo-Sibiya	1 717	67 167	68 884
Cllr BES Ntshangase	638	30 174	30 812
Cllr CN Mavundla	1 933	13 258	15 191
Cllr JB Ngema	638	24 038	24 676
Cllr MP Mafuleka	395	13 180	13 575
Cllr KE Nxumalo	599	-	599
	20 700	350 721	371 421

55. Deviation from supply chain management regulations

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

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

Section 36 Deviations

SCM Regulation36(1)(a)(i)-Emergency	1 293 268	1 021 655
SCM Regulation36(1)(a)(ii)-Single provider only	196 932	332 084
SCM Regulation36(1)(a)(v)-Impractical to follow the procurement processes	2 317 574	600 324
	3 807 774	1 954 063

56. Budget differences

Material differences between budget and actual amounts

Reason were provided for variance more than 5%, as these were considered material.

Statement of Financial Performance:

Revenue

Service charges: The budget was based on the mid-year assessment which indicated an increase in services charges as at December 2023 which then resulted in the budgeted amount being overstated

Agency fees: The decrease is due to lower demand.

Interest earned from receivables: Collection rate increased and incentives that were provided.

Licenses and permits: The decrease is due to lower demand.

Rental of facilities and equipments: The budget was based on the Mid-year assessment which indicated an increase in rental of facilities as at December 2023 which then resulted in the budgeted amount being overstated.

Operational revenue: The increase is due to LG SETA grant inkind.

Contruction contract: Some of the funds gazetted were held by the funder.

Property rates: The budget was based on the Mid-year assessment, and the impact of the supplymentary valuation roll which was still being objected by residents which then resulted in the budgeted amount being understated.

Fines, penalties and forfeits: The decrease is due improvement on compliance with road regulations.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand	2024	2023
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56. Budget differences (continued)

Expenditure

Bulk purchases: The budget considered the impact of loadshedding, which was then stopped resulting in more cost being incurred due to demand.

Debt impairment: The impairment of traffic fines increased as a result of fines withdrawals and SOR.

Finance costs: The amount includes interest costs from actuarial valuation and interest from landfill site provision.

Debtors written-off: The budget was understated, as there were incentives that were provided during the financial year.

Transfer of infrastructure asset: The transfer of asset to the department, budget was not budgeted for.

Construction contract expenditure: Some funds gazetted were held by the funder.

Fair value adjustment: The fair value adjustment was not budgeted for.

Actuarial losses: The actuarial losses were not budgeted for.

Gains on disposal of capital assets: The gains on disposal of capital assets were not budgeted for.

Statement of Financial Position

Assets

Cash and cash equivalents: This was due to the increase on interest from call accounts and improvement in debt collection.

Receivable from exchange: Less payments were received than anticipated.

VAT receivable/(payable): The budget did not consider the output VAT from construction contract.

Other current assets: The other current assets were not budgeted for.

Investment property: The fair value adjustment was not budgeted for.

Property, plant, and equipment: The transfer of asset to the department, budget was not budgeted for.

Intangible assets: The budget was overstated.

Other non-current assets: The other non-current assets were not budgeted for.

Liabilities

Payables from exchange transaction: Some invoices were submitted late.

Long service awards (current): The budget was understated.

Employee benefits obligation (current): The budget was understated.

Provision (non-current): The budget was understated.

Statement of cash flows

Sale of goods and services: This was to the implementation of the revenue enhancement strategy.

Grants: This was because the INEP grant was withheld.

Interest income: This was a result of change in investment strategy and improvement on debt collection rate.

Cash and cash equivalents: This was due to the increase on interest from call accounts and improvement in debt collection.

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57. Segment information

2024

	Finance & Admin	Community & Public Safety	Planning & Development	Total
Revenue				
Revenue from exchange transactions	-	11 398 421	53 395 362	64 793 783
Service charges	-	1 134 948	-	1 134 948
Agency services	946 050	-	-	946 050
Interest earned from receivables	4 543 135	-	-	4 543 135
Interest earned from call accounts	32 199	1 623 955	-	1 656 154
Licences and permits	517 004	-	-	517 004
Rental of facilities and equipments	8 884 865	-	153 174	9 038 039
Operational revenue	-	40 259 266	2 817 391	43 076 657
Construction contract	-	-	-	-
Revenue from non-exchange transactions	48 135 200	-	-	48 135 200
Property rates	-	-	-	-
Fines, penalties and forfeits	-	1 550 400	-	1 550 400
Grants and subsidies	110 691 811	47 239 502	70 632 992	228 564 305
Fair value adjustment	10 689 002	-	-	10 689 002
Gain on disposal of capital assets	493 433	-	-	493 433
Total segment revenue	184 932 699	103 206 492	126 998 919	415 138 110

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Figures in Rand

Assets					
Current assets	-	-	-	-	-
Cash and cash equivalents	24 824 039	-	-	-	24 824 039
Receivables from exchange transactions	1 068 875	2 079 936	10 331 491	-	13 480 302
Statutory receivables from non-exchange transactions	7 506 712	1 428 105	-	-	8 934 817
Other current asset	750 000	-	-	-	750 000
Non-current assets	-	-	-	-	-
Investment property	75 910 000	-	-	-	75 910 000
Property, plant and equipments	30 172 326	129 265 598	201 096 418	-	360 534 342
Heritage assets	70 945	-	-	-	70 945
Intangible assets	502 778	-	-	-	502 778
Other non-current assets	1 250 000	-	-	-	1 250 000
Total assets	142 055 675	132 773 639	211 427 909	486 257 223	
Additions to non-current assets					36 878 581
Total additions					36 878 581

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Figures in Rand

	Finance & Admin	Community & Public Safety	Planning & Development	Total
57. Segment information (continued)				
Liabilities				
Current liabilities				
Consumer deposits	696 105	-	2 160 200	2 856 305
Trade and other payables from exchange transactions	26 367 397	-	10 791 114	37 158 511
Trade and other payables from non-exchange transactions	3 324	-	95	3 419
Provision: current portion	646 337	1 480 598	-	2 126 935
Employee benefits obligation: current	289 109	-	-	289 109
Long service award: current	492 030	-	-	492 030
VAT payable	1 526 029	-	-	1 526 029
Non current liabilities	-	-	-	-
Provision: non-current portion	-	10 919 711	-	10 919 711
Employee benefits obligations: non-current	2 401 865	-	-	2 401 865
Long service awards: non-current	6 444 914	-	-	6 444 914
Other financial liabilities	341 542	-	-	341 542
Total segment liabilities	39 208 652	12 400 309	12 951 409	64 560 370

2023

	Finance & Admin	Community & Public Safety	Planning & Development	Total
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uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand

57. Segment information (continued)

Revenue						
Revenue from exchange transactions	-	-	-	-	-	-
Service charges	-	-	10 820 849	45 695 926	56 516 775	-
Agency services	-	948 852	-	-	948 852	-
Interest earned from receivables	828 482	-	-	-	828 482	-
Interest earned from call accounts	2 449 102	-	-	-	2 449 102	-
Licences and permits	-	-	1 718 051	-	1 718 051	-
Rental of facilities and equipment	-	-	500 849	-	500 849	-
Operational revenue	4 204 855	-	998 859	183 635	5 387 349	-
Construction contracts	-	-	48 636 174	5 752 895	54 389 069	-
Fair value adjustments	1 743 618	-	-	-	1 743 618	-
Revenue from non-exchange transactions	-	-	-	-	-	-
Government grants & subsidies	103 903 065	-	59 790 563	68 461 842	232 155 470	-
Property rates	45 570 560	-	-	-	45 570 560	-
Fines, penalties & forfeits	-	-	1 681 100	-	1 681 100	-
Total segment revenue	158 699 682	125 095 297	120 094 298	403 889 277	403 889 277	403 889 277
Municipality's revenue						

Expenditure

Employee related costs	51 348 469	50 603 621	22 135 467	124 087 557	
Remuneration of councillors	11 228 161	-	-	11 228 161	
Depreciation, amortisation and impairment	4 545 722	3 639 174	17 585 584	25 770 480	
Finance costs	676 352	1 227 311	-	1 903 663	
Debt Impairments	2 919 821	2 864 032	142 012	5 925 865	
Debt written-off	-	11 811 690	-	11 811 690	
Bulk purchases	-	-	35 985 209	35 985 209	
Operational Cost	58 125 599	21 453 287	22 785 579	102 364 465	
Contruction contract expenditure	-	48 636 174	5 752 895	54 389 069	
Actuarial losses	3 804 909	-	-	3 804 909	
Loss on disposal of capital assets	350 698	-	-	350 698	
Total segment expenditure	132 999 731	140 235 289	104 386 746	377 621 766	
Total segmental surplus/(deficit)				26 267 511	

uPHONGOLO Local Municipality
Annual Financial Statements for the year ended 30 June 2024

Notes to the Annual Financial Statements

Figures in Rand

	Finance & Admin	Community & Public Safety	Planning & Development	Total
57. Segment information (continued)				
Assets				
Current assets	-	-	-	-
Cash and cash equivalents	5 864 260	-	-	5 864 260
Receivables from exchange transactions	1 508 823	3 997 572	8 445 614	13 952 009
Statutory receivables from non-exchange transactions	15 017 827	1 590 072	-	16 607 899
VAT Receivable (Payable)	3 804 726	-	-	3 804 726
Non-current assets	-	-	-	-
Investment property	65 220 998	-	-	65 220 998
Property, plant & equipment	66 282 518	105 082 910	198 598 398	369 963 826
Heritage assets	70 945	-	-	70 945
Intangible assets	747 117	-	-	747 117
Total segment assets	158 517 214	110 670 554	207 044 012	476 231 780
Additions to non-current assets				37 754 576
Total additions				37 754 576
Liabilities				
Current liabilities	-	-	-	-
Consumer deposits	2 842 007	-	-	2 842 007
Payables from exchange transactions	23 127 848	-	9 192 471	32 320 319
Payables from non-exchange transactions	-	-	287 056	287 056
Provisions: current	332 515	1 352 703	-	1 685 218
Employee benefits obligation - current portion	265 262	-	-	265 262
Long service award- current portion	506 343	-	-	506 343
Non-Current Liabilities	-	-	-	-
Provisions: non-current portion	-	9 366 024	-	9 366 024
Employee benefit obligation: non-current portion	2 308 136	-	-	2 308 136
Long-service award: non-current portion	5 430 577	-	-	5 430 577
Other financial liabilities	341 542	-	-	341 542
Total segment liabilities	35 154 230	10 718 727	9 479 527	55 352 484