Mtubatuba Local Municipality
(Registration number KZN 275)
Annual Financial Statements
for the year ended 30 June 2021

General Information

Legal form of entity	Municipality
Nature of business and principal activities	Operating as Local Municipality
Mayoral committee	
Executive Mayor	Cllr. VT Ncamphalala
Councillors	Cllr MA Gina - Deputy Mayor
	Cllr. DR Ntuli - Speaker
	Cllr. ZW Mhlongo - MPAC Chairperson
	Cllr. ZE Nyawo - Chief Whip
	Cllr. MQ Mkhwanazi
	Cllr. LM Mkhwanazi
	Cllr. MZ Zungu
	Cllr. PS Tembe
	Cllr. NG Khumalo
	Cllr. NJ Mlambo
	Cllr. JM Gumede
	Cllr. FN Mpanza
	Cllr. SJ Shezi
	Cllr. BP Mthiyane
	Cllr. SR Khumalo
	Cllr. MP Ndlovu
	Cllr. NE Zuma
	Cllr. VVB Madonsela
	Cllr. P Mkhwanazi
	Cllr. SN Sibiya
	Cllr. TW Thethwayo
	Cllr. BM Zulu
	Cllr. SJ Khoza
	Cllr. SM Khumalo
	Cllr. SM Gumede
	Cllr. PK Msweli
	Cllr. RBB Mkhwanazi
	Cllr. GBM Msane
	Cllr. M Mthethwa
	Cllr. AV Mabika
	Cllr. PV Ntshalintshali
	Cllr. JB Lembede
	Cllr. TP Zikhali
	Cllr. ZN Mthethwa
	Cllr. KN Mpontshana
	Cllr. MP Govender
	Cllr. SN Vilane
	Cllr. E Ntuli
Grading of local authority	Grade 3
Accounting Officer	Dr SR Ntuli
Chief Finance Officer (CFO)	Mr B Menyuka

General Information

Registered office	Lot 105 Inkosi Mtubatuba Road Mtubatuba 3935
Business address	Lot 105 Inkosi Mtubatuba Road Mtubatuba 3935
Postal address	P O Box 52 Mtubatuba 3935
Bankers	First National Bank 53093735184
Auditors	Auditor General of South Africa Registered Auditors
Attorneys	Ngubane & Associates Nxumalo & Partners Khathi & Mkhize Attorneys Garlicke & Bosfield Matthew Francis Attorneys Miya Incorporated Nompumelelo Hadebe Inc Lalpasard Incorporated Mdledle Incorporated
Contact Details	Tel: 035 550 0069 Fax: 035 550 0060

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The reports and statements set out below comprise the Annual Financial Statements presented to the provincial legislature:

COID	Compensation for Occupational Injuries and Diseases
AGSA	Auditor General of South Africa
DBSA	Development Bank of South Africa
SARS	South African Revenue Services
GRAP	Generally Recognised Accounting Practice
FMG	Financial Management Grant
INEP	Intergated National Electrification Program
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
UIF	Unemployment Insurance Fund
PAYE	Pay As You Earn

Accounting Officer's Responsibilities and Approval

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

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

The Annual Financial Statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

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

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

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

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

The Annual Financial Statements set out on page 8, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2021 and were signed on its behalf by:

Dr SR Ntuli
Municipal Manager

Accounting Officer's Report

The Accounting Officer submits his report for the year ended 30 June 2021.

1. Review of activities

Main business and operations

The municipality is engaged in operating as local municipality and operates principally in South Africa.

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

Net surplus of the municipality was R 46 189 456 (2020: surplus R 4 989 241)

2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus (deficit) of R 452 097 616 and that the municipality's total assets exceeds its liabilities by R 452 097 616.

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.

COVID 19 Considerations

In light of the unpredecented recent events brought by COVID 19, management deemed it fit to factor in the effect of the pandemic in its assessment of the Going concern.

Environmental Analysis

The COVID 19 pandemic has developed rapidly in 2020 with a significant number of cases. Measures taken by the government to contain the virus have affected economic activity. The municipality has taken a number of measures in line with government regulations to monitor and mitigate the effects of COVID 19 such as health measures for its members of staff (such as social distance and working from home) and securing the supply of materials that are essential to combating the virus.

Management has determined that there is no material uncertainty that cast doubt on the entity's ability to continue as a going concern. It expects that COVID 19 might have some impact though not significant. on the performance of revenue collections and service delivery.

3. Accounting Officer's interest in contracts

The Accounting Officer has no interest in the contracts awarded during the year under review.

4. Accounting policies

The Annual Financial Statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

5. Accounting Officer

The Accounting Officer of the municipality during the year and to the date of this report is as follows:

Name
Dr SR Ntuli

6. Corporate governance

General

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

Accounting Officer's Report

Executive Mayor and Municipal Manager

The roles of Executive Mayor and the Municipal Manager are separate, with responsibilities divided between them, so that no individual has unfettered powers of discretion.

7. Auditors

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

The Annual Financial Statements set out on page 6, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2021 and were signed on its behalf by:

Dr SR Ntuli
Municipal Manager

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	3	9 930 597	7 315 930
Receivables from non-exchange transactions	2	19 899 280	18 312 965
VAT receivable		1 554 940	-
Cash and cash equivalents	4	46 562 123	34 828 855
		77 946 940	**60 457 750**
Non-Current Assets			
Investment property	5	27 854 000	27 854 000
Property, plant and equipment	6	431 868 137	412 928 541
Intangible assets	7	893 399	1 048 865
Heritage assets	8	1 104 835	1 104 835
		461 720 371	**442 936 241**
Total Assets		**539 667 311**	**503 393 991**
Liabilities			
Current Liabilities			
Finance lease obligation	46	56 215	97 845
Payables from exchange transactions	9	35 544 617	39 053 173
VAT payable	10	-	656 483
Unspent conditional grants and receipts	11	16 089 127	20 934 708
Provisions	12	18 545 195	12 615 437
		70 235 154	**73 357 646**
Non-Current Liabilities			
Finance lease obligation	46	-	56 215
Employee benefit obligation	13	2 266 000	2 033 000
Provisions	12	15 068 541	23 231 697
		17 334 541	**25 320 912**
Total Liabilities		**87 569 695**	**98 678 558**
Net Assets		**452 097 616**	**404 715 433**
Accumulated surplus		452 097 616	404 715 432
Total Net Assets		**452 097 616**	**404 715 432**

* See Note 40

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	14	7 293 238	5 527 390
Rendering of services	15	647 872	476 551
Rental of facilities and equipment	16	211 050	466 042
Licences and permits	17	1 657 760	779 816
Other income	18	-	1 722
Interest received - investment	19	1 722 317	1 257 393
Total revenue from exchange transactions		**11 532 237**	**8 508 914**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	62 972 319	37 148 063
Revenue Foregone	47	(2 888 770)	(1 100 532)
Interest income	21	14 751 440	11 123 712
Transfer revenue			
Government grants & subsidies	22	265 920 049	211 050 758
Fines, Penalties and Forfeits	23	1 577 357	1 556 127
Total revenue from non-exchange transactions		**342 332 395**	**259 778 128**
Total revenue	15	**353 864 632**	**268 287 042**
Expenditure			
Employee related costs	24	(90 508 540)	(84 757 502)
Remuneration of councillors	25	(15 924 764)	(16 274 781)
Depreciation and amortisation	26	(28 739 785)	(31 185 200)
Finance costs	27	(2 218 611)	(2 258 166)
Lease rentals on operating lease	28	(2 771 339)	(1 265 432)
Debt Impairment	29	(46 402 664)	(48 484 973)
Contracted services	30	(77 980 801)	(48 325 582)
General Expenses	31	(42 257 697)	(27 175 831)
Total expenditure		**(306 804 201)**	**(259 727 467)**
Operating surplus	33	**47 060 431**	**8 559 575**
Actuarial gains/losses	13	110 128	-
Impairment loss	48	(981 103)	(2 047 849)
Loss on disposal of assets		-	(1 522 485)
		(870 975)	**(3 570 334)**
Surplus for the year		**46 189 456**	**4 989 241**

* See Note 40

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	419 644 393	419 644 393
Revaluation as previously reported	20 243 101	20 243 101
Prior year adjustments	(40 161 303)	(40 161 303)
Balance at 01 July 2019 as restated*	**399 726 191**	**399 726 191**
Changes in net assets		
Surplus for the year	4 989 241	4 989 241
Total changes	4 989 241	4 989 241
Restated* Balance at 01 July 2020	**404 715 432**	**404 715 432**
Changes in net assets		
Prior year adjustment - reversal of impairment	1 192 728	1 192 728
Net income (losses) recognised directly in net assets	1 192 728	1 192 728
Surplus for the year	46 189 456	46 189 456
Total recognised income and expenses for the year	47 382 184	47 382 184
Total changes	47 382 184	47 382 184
Balance at 30 June 2021	**452 097 616**	**452 097 616**

Note(s)

* See Note 40

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from taxes, levies and fines		33 191 748	34 719 000
Sale of goods and services		858 922	-
Grants		292 872 637	239 381 000
Interest income		1 722 317	1 254 598
		328 645 624	275 354 598
Payments			
Employee costs		(106 700 020)	(103 611 661)
Suppliers		(112 637 639)	(134 398 248)
		(219 337 659)	(238 009 909)
Net cash flows from operating activities	34	**109 307 965**	**37 344 689**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(97 374 498)	(49 756 736)
Purchase of other intangible assets	7	(200 199)	(7 200)
Net cash flows from investing activities		**(97 574 697)**	**(49 763 936)**
Net increase/(decrease) in cash and cash equivalents		**11 733 268**	**(12 419 247)**
Cash and cash equivalents at the beginning of the year		34 828 855	47 248 102
Cash and cash equivalents at the end of the year	4	**46 562 123**	**34 828 855**

* See Note 40

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	9 032 000	(230 000)	**8 802 000**	7 293 238	**(1 508 762)**	52
Rendering of services	-	-	**-**	647 872	**647 872**	52
Rental of facilities and equipment	676 000	(75 000)	**601 000**	211 050	**(389 950)**	52
Licences and permits	2 400 000	(900 000)	**1 500 000**	1 657 760	**157 760**	52
Other income	360 000	659 000	**1 019 000**	-	**(1 019 000)**	52
Interest received - investment	3 000 000	(1 500 000)	**1 500 000**	1 722 317	**222 317**	52
Total revenue from exchange transactions	**15 468 000**	**(2 046 000)**	**13 422 000**	**11 532 237**	**(1 889 763)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	34 673 000	24 474 000	**59 147 000**	62 972 319	**3 825 319**	52
Surcharges and Taxes	-	-	**-**	(2 888 770)	**(2 888 770)**	
Interest, Dividends and Rent on Land	10 554 000	5 146 000	**15 700 000**	14 751 440	**(948 560)**	52
Transfer revenue						
Government grants & subsidies	223 703 000	(554 000)	**223 149 000**	265 920 049	**42 771 049**	52
Fines, Penalties and Forfeits	3 023 000	(1 983 000)	**1 040 000**	1 577 357	**537 357**	52
Total revenue from non-exchange transactions	**271 953 000**	**27 083 000**	**299 036 000**	**342 332 395**	**43 296 395**	
Total revenue	**287 421 000**	**25 037 000**	**312 458 000**	**353 864 632**	**41 406 632**	
Expenditure						
Personnel	(98 888 000)	620 000	**(98 268 000)**	(90 508 540)	**7 759 460**	52
Remuneration of councillors	(16 030 000)	(786 000)	**(16 816 000)**	(15 924 764)	**891 236**	52
Depreciation and amortisation	(31 000 000)	(1 500 000)	**(32 500 000)**	(28 739 785)	**3 760 215**	52
Impairment loss/ Reversal of impairments	-	-	**-**	(981 103)	**(981 103)**	
Finance costs	(2 184 000)	-	**(2 184 000)**	(2 218 611)	**(34 611)**	52
Lease rentals on operating lease	-	-	**-**	(2 771 339)	**(2 771 339)**	52
Debt Impairment	(12 000 000)	-	**(12 000 000)**	(46 402 664)	**(34 402 664)**	52
Contracted Services	(67 444 000)	(39 449 000)	**(106 893 000)**	(77 980 801)	**28 912 199**	52
General Expenses	(68 928 000)	23 416 000	**(45 512 000)**	(42 257 697)	**3 254 303**	52
Total expenditure	**(296 474 000)**	**(17 699 000)**	**(314 173 000)**	**(307 785 304)**	**6 387 696**	
Operating surplus	**(9 053 000)**	**7 338 000**	**(1 715 000)**	**46 079 328**	**47 794 328**	
Actuarial gains/losses	-	-	**-**	110 128	**110 128**	52
Surplus for the year	**(9 053 000)**	**7 338 000**	**(1 715 000)**	**46 189 456**	**47 904 456**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(9 053 000)**	**7 338 000**	**(1 715 000)**	**46 189 456**	**47 904 456**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Receivables from exchange transactions	5 400 000	-	**5 400 000**	9 947 454	**4 547 454**	52
Receivables from non-exchange transactions	52 327 000	-	**52 327 000**	19 899 280	**(32 427 720)**	52
VAT receivable	-	-	**-**	1 056 468	**1 056 468**	
Cash and cash equivalents	44 878 000	(5 708 000)	**39 170 000**	46 562 123	**7 392 123**	52
	102 605 000	**(5 708 000)**	**96 897 000**	**77 465 325**	**(19 431 675)**	
Non-Current Assets						
Investment property	36 238 000	-	**36 238 000**	27 854 000	**(8 384 000)**	52
Property, plant and equipment	389 584 000	-	**389 584 000**	431 868 137	**42 284 137**	52
Intangible assets	120 000	-	**120 000**	893 399	**773 399**	52
Heritage assets	1 025 000	-	**1 025 000**	1 104 835	**79 835**	52
	426 967 000	**-**	**426 967 000**	**461 720 371**	**34 753 371**	
Total Assets	**529 572 000**	**(5 708 000)**	**523 864 000**	**539 185 696**	**15 321 696**	
Liabilities						
Current Liabilities						
Finance lease obligation	-	-	**-**	56 215	**56 215**	
Payables from exchange transactions	23 801 000	-	**23 801 000**	35 544 617	**11 743 617**	52
VAT payable	-	-	**-**	(1 554 940)	**(1 554 940)**	52
Unspent conditional grants and receipts	-	-	**-**	16 089 127	**16 089 127**	52
Provisions	2 184 000	-	**2 184 000**	18 545 195	**16 361 195**	52
	25 985 000	**-**	**25 985 000**	**68 680 214**	**42 695 214**	
Non-Current Liabilities						
Employee benefit obligation	-	-	**-**	2 266 000	**2 266 000**	52
Provisions	27 178 000	-	**27 178 000**	15 068 541	**(12 109 459)**	52
	27 178 000	**-**	**27 178 000**	**17 334 541**	**(9 843 459)**	
Total Liabilities	**53 163 000**	**-**	**53 163 000**	**86 014 755**	**32 851 755**	
Net Assets	**476 409 000**	**(5 708 000)**	**470 701 000**	**453 170 941**	**(17 530 059)**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	476 409 000	(5 708 000)	**470 701 000**	452 097 618	**(18 603 382)**	52

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables

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

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

Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Techniques, such as estimated discounted cash flows, are used to determine the fair value of the remaining financial instruments.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. When there is evidence that expected future economic benefits from an assets differs from previous assessment, the asset is impaired to its recoverable amoun. The recoverable amount is expected to be the higher of fair value less costs to sale and value in use. Estimates are used to calculate value in use and fair value less costs to sell.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

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 12 - Provisions.

Post-retirement benefits

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

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

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

Effective interest rate

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

Allowance for doubtful debts

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

Provision for landfill site

The entity has an obligation to rehabilitate it's landfill site in terms of it's licence stipulations. Provision is made for this obligation based on the size/extent of the land rehabilitated, the rehabilitation cost per square metre, the monitoring cost per square metre, and the rehabilitation period. Current costs are projected using the average rate of inflation over the remaining period until rehabilitation, and then discontinued to their present value to their present value to represent the time value of money.

Other

The municipality's other provisions consist of a provision for long service award. Provisions are measured as the value of the estimated future outflows required to settle the obligation. Additional disclosure of these estimates of provisions are included in note 14 - Provision

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

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.

Accounting Policies

1.4 Investment property (continued)

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

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

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.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

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

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

1.5 Property, plant and equipment

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight-line	Indefinite
Other assets	Straight-line	30 years
Specialised plant and equipment	Straight-line	10 - 15 years
Other items of plant and equipment	Straight-line	2 - 5 years
Furniture and office equipment	Straight-line	5 - 7 years
Transport assets	Straight-line	5 - 10 years
Road Infrastructure	Straight-line	15 - 50 years
Solid waste infrastructure	Straight-line	10 - 15 years
Storm water infrastructure	Straight-line	20 - 30 years
Cemetery	Straight-line	30 years
Community centres	Straight-line	30 years
Community halls	Straight-line	30 years
Creches	Straight-line	30 years
Libraries	Straight-line	30 years
Outdoor recreational facilities	Straight-line	20 years
Market stalls	Straight-line	30 years

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

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

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

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 6).

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

1.6 Site restoration and dismantling cost

The municipality has an obligation to restore landfill site asset. The cost of an item of landfill site asset 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 acquired or as a consequences 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/increase in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

Accounting Policies

1.7 Intangible assets (continued)

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

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

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

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

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

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

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

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

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

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

1.8 Heritage assets

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

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.

Accounting Policies

1.8 Heritage assets (continued)

Impairment

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

Derecognition

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

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

1.9 Financial instruments

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

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

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

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

Classification

The entity 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
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grant	Financial liability measured at amortised cost
VAT payable	Financial liability measured at amortised cost
Provisions	Financial liability measured at amortised cost
Finance Lease	Financial liability measured at amortised cost

1.10 Leases

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

Accounting Policies

1.10 Leases (continued)

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

Finance leases - lessee

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

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

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

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

Operating leases - lessee

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

1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

1.11 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

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

Composition of estimates of future cash flows

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

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

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

Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:
- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

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

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

Reversal of impairment loss

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

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

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

1.12 Impairment of non-cash-generating assets

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

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

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

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

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

A cash-generating unit is the smallest identifiable group of assets 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.

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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.

1.13 Employee benefits

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

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

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

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

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

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

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

Accounting Policies

1.13 Employee benefits (continued)

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

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

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

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

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

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.13 Employee benefits (continued)

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

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:
- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

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

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan’s benefit formula. However, if an employee’s service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:
- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:
- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

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

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

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

Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

1.14 Provisions and contingencies

A provision is a liability of uncertain timing or amount

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

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

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

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

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

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

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

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

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

1.14 Provisions and contingencies (continued)

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:
- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.11 and 1.12.

If the related asset is measured using the revaluation model:
- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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

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

1.15 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

Accounting Policies

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

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

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 .

1.16 Revenue from exchange transactions (continued)

Interest income

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

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

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

1.17 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange

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.

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

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.

Recognition

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

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

Measurement

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

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

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

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

1.17 Revenue from non-exchange transactions (continued)

Fines

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

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

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

Gifts and donations, including goods in-kind

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

1.18 Investment income

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

1.19 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.

1.20 Comparative figures

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

1.21 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.22 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 a revenue in the statement of financial performance.

Accounting Policies

1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

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

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

Irregular 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 liabilty 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 therefore 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.

1.24 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

1.25 Budget information

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

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

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

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

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

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

1.26 Related parties

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

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

Accounting Policies

1.26 Related parties (continued)

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

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

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

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

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

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

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

1.27 Events after reporting date

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

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

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

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

1.28 Retention

Retentions are amounts of progress billings that are not paid until the satisfaction of conditions specified in the contract for the payment of such amounts or until defects have been rectified. Progress billings are amount of contract cost billed for work performed on a contract whether or not they have been paid. The municipality recognises Retention on accrual basis on presentation of the Progress Certificate by the municipal Engineers. The retentions are recognised and presented as current liability. The retained amounts are included on the Work in Progress account balance. Any increase in retention amount is accounted as addition on Retention account balance. Any release of retention amount is deducted on the retention account balance.

Accounting Policies

1.29 Value Added tax

In line with GRAP 1, the municipality recognises all its financial transactions on accrual basis. Consequently VAT implications resulting from each transaction is accounted for, on the financial records. on recognition of each financial transaction. However the municipality has registered with SARS, for Value Added Tax purposes on the payment basis. Which means that VAT is declared or claimed to/from SARS when payment has been made in respect of VAT input and when the funds have been received in respect of VAT output. The difference resulting from timing difference is recognised as an Asset or Liability depending on the net balance.

1.30 Offsetting

Assets, liabilities, revenue and expenses have not been offset when offsetting is required or permitted by a Standard of GRAP.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

2. Receivables from non-exchange transactions

Fines	13 351 667	11 783 717
Property Rates	162 216 876	118 188 308
Provision for debt impairment - Rates	(142 317 596)	(99 875 343)
Provision for debt impairment	(13 351 667)	(11 783 717)
	19 899 280	**18 312 965**

Statutory receivables general information

Transaction(s) arising from statute

Included in receivables from non-exchange transaction is statutory receivables.

Statutory receivables past due but not impaired

Statutory receivables which are less than 2 months past due are not considered to be impaired. At 30 June 2021 , R9 225 770 (2020: R9 399 419) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	5 088 287	6 037 832
2 months past due	4 137 482	3 361 587

Statutory receivables impaired

As of 30 June 2021, Statutory receivables of R175 568 543 (2020: R129 972 025) were provided for.

The amount of the provision was R155 669 263 as of 30 June 2021 (2020: R111 659 060).

The ageing of these loans is as follows:

3 to 6 months	9 028 120	5 609 478
Over 6 months	158 537 537	114 963 128

Reconciliation of provision for impairment for statutory receivables

Opening balance	111 659 060	69 891 771
Provision for impairment	44 010 203	41 767 289
	155 669 263	**111 659 060**

Statutory receivables general information

Statutory debtors disclosed above are accounted for in accordance with GRAP 108 requirements. Below is a detailed description of all municipal statutory debtors:

Property rates are governed by The Local Government: Municipal Property Rates Act 6 of 2004. Property rates values are calculated based on market value of properties as per applicable valuation roll. Provision for bad debts on statutory debtors is determined risk profile of each customer and default rate per risk profile as determined by the municipality. The main trigger for impairment loss on statutory debtors is late payment or non-payment of accounts by customers. Simple interest rate is charged on property rates at 18% per annum.

Traffic fines are governed by Administrative Adjudication of Road Traffic Offences Act No 46 of 1998 (AARTO) and National Road Traffic Act, No. 93 of 1996 of South Africa. Traffic fines charged are determined by The National Road Traffic Offence Charge Book. Due to high rate of default payments of traffic fines, the municipality provides for bad debts at rate of 100% of the outstanding balance. No interest is charged for traffic fines statutory receivables.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

3. Receivables from exchange transactions

Trade debtors	26 018 690	21 217 551
Provision for doubtful debts	(16 088 093)	(13 901 621)
	9 930 597	**7 315 930**

4. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	13 389	6 163
Bank balances	3 911 037	2 097 966
Short-term deposits	42 637 697	32 724 726
	46 562 123	**34 828 855**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
First National Bank - Primary 53093735184	3 911 037	2 097 966	42 911 473	3 911 037	2 097 966	42 911 473
First National Bank - Eskom 71044025057	191 600	191 600	191 600	191 600	191 600	191 600
First National Bank - Money Market 62424097831	1 586 803	1 556 717	1 491 851	1 586 803	1 556 717	1 491 851
First National Bank - Call Account 62424098376	329 087	3 837 743	2 104 885	329 087	3 837 743	2 104 885
First National Bank - Money Market 6242094986	4 937 087	1 864 466	37 160	4 937 087	1 864 466	37 160
First National Bank - 62848428117	70 660	12 327 934	-	70 660	12 327 934	-
First National Bank - Small Town Rehabilitation 62848429511	9 101 469	7 062 138	-	9 101 469	7 062 138	-
First National Bank - INEP 62848428480	424 944	3 111 684	-	424 944	3 111 684	-
First National Bank - Traffic fines 62451696995	20 194 733	2 626 141	202 247	20 194 733	2 626 141	202 247
First National Bank - Petty Cash 62393938249	13 389	6 163	35 941	13 389	6 163	35 941
Nedbank Limited Investment	151 227	146 303	138 261	151 227	146 303	138 261
Cash on hand	-	-	-	-	-	10 815
First National Bank - Cashback 62869585128	5 650 087	-	-	5 650 087	-	-
Cashiers collection	-	-	-	-	-	123 869
Total	**46 562 123**	**34 828 855**	**47 113 418**	**46 562 123**	**34 828 855**	**47 248 102**

Notes to the Annual Financial Statements

Figures in Rand

5. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	27 854 000	-	27 854 000	27 854 000	-	27 854 000

Reconciliation of investment property - 2021

	Opening balance	Total
Investment property	27 854 000	27 854 000

Reconciliation of investment property - 2020

	Opening balance	Prior period adjustment	Change of class	Total
Investment property	32 082 000	(21 319 000)	17 091 000	27 854 000

Pledged as security

There are no Investment properties pledged as security.

The investment property is made up of land. A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand

6. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	59 586 000	-	59 586 000	51 336 000	-	51 336 000
Plant and machinery	10 074 936	(5 559 266)	4 515 670	8 563 747	(4 622 492)	3 941 255
Furniture and fixtures	8 828 853	(4 428 527)	4 400 326	5 861 596	(3 427 395)	2 434 201
Motor vehicles	9 663 507	(5 009 955)	4 653 552	9 663 507	(4 165 084)	5 498 423
IT equipment	4 308 827	(2 073 302)	2 235 525	3 268 032	(1 334 831)	1 933 201
Road Infrastructure Assets	204 265 089	(120 413 126)	83 851 963	187 378 163	(108 299 551)	79 078 612
Other property, plant and equipment	13 805 534	-	13 805 534	2 013 485	-	2 013 485
Work in Progress - Road Infrastructure Assets	1 541 872	-	1 541 872	196 600	-	196 600
Other assets	56 680 113	(9 262 231)	47 417 882	28 636 487	(7 333 575)	21 302 912
Infrastructure - Electrical	8 658 514	(3 990 741)	4 667 773	8 658 514	(3 554 860)	5 103 654
Leased assets	170 907	(48 424)	122 483	170 907	(14 242)	156 665
Community	171 665 739	(44 379 077)	127 286 662	169 060 308	(38 256 788)	130 803 520
Work in Progress - Other assets	834 676	-	834 676	24 589 580	-	24 589 580
Infrastructure - Solid waste	30 860 995	(19 014 819)	11 846 176	33 240 860	(18 402 918)	14 837 942
Infrastructure - Storm water	114 935 901	(49 833 858)	65 102 043	114 935 901	(45 233 410)	69 702 491
Total	**695 881 463**	**(264 013 326)**	**431 868 137**	**647 573 687**	**(234 645 146)**	**412 928 541**

Notes to the Annual Financial Statements

Figures in Rand

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Transfers in	Transfers out	Depreciation	Impairment loss	Revaluation Surplus (Deficit)	Total
Land	51 336 000	8 250 000	-	-	-	-	-	59 586 000
Plant and machinery	3 941 255	1 511 189	-	-	(898 452)	(38 322)	-	4 515 670
Furniture and fixtures	2 434 201	2 967 258	-	-	(982 179)	(18 954)	-	4 400 326
Motor vehicles	5 498 423	-	-	-	(844 871)	-	-	4 653 552
IT equipment	1 933 201	1 040 795	-	-	(658 389)	(80 082)	-	2 235 525
Infrastructure - roads	79 078 612	16 886 926	-	-	(11 969 648)	(143 927)	-	83 851 963
Work in Progress - Community assets	2 013 485	-	14 397 480	(2 605 431)	-	-	-	13 805 534
Work in Progress - Road Infrastructure	196 600	-	17 840 602	(16 495 330)	-	-	-	1 541 872
Other property, plant and equipment	21 302 912	28 043 626	-	-	(1 729 735)	(198 921)	-	47 417 882
Infrastructure - electrical	5 103 654	-	-	-	(432 926)	(2 955)	-	4 667 773
Leased assets	156 665	-	-	-	(34 182)	-	-	122 483
Community assets	130 803 520	2 605 431	-	-	(5 640 479)	(481 810)	-	127 286 662
Work in progress - Other assets	24 589 580	-	3 831 191	(27 586 095)	-	-	-	834 676
Infrastructure - Solid waste	14 837 942	-	-	-	(611 901)	-	(2 379 865)	11 846 176
Infrastructure - Storm water	69 702 491	-	-	-	(4 600 448)	-	-	65 102 043
	412 928 541	**61 305 225**	**36 069 273**	**(46 686 856)**	**(28 403 210)**	**(964 971)**	**(2 379 865)**	**431 868 137**

Notes to the Annual Financial Statements

Figures in Rand

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Prior period adjustments	Transfers in	Transfers out	Change of class	Depreciation	Impairment loss	Revaluation Surplus/ (Deficit)	Total
Land	68 218 000	-	-	209 000	-	-	(17 091 000)	-	-	-	51 336 000
Plant and machinery	4 802 175	20 491	(234 734)	184 073	-	-	-	(830 750)	-	-	3 941 255
Furniture and office equipment	3 221 133	180 382	(576 113)	297 575	-	-	-	(688 776)	-	-	2 434 201
Motor vehicles	6 481 033	-	-	179 467	-	-	-	(1 033 044)	(129 033)	-	5 498 423
IT equipment	1 553 056	879 482	(626 753)	468 225	-	-	-	(340 809)	-	-	1 933 201
Intrastructure - Roads	84 473 851	19 103 804	-	(12 561 983)	-	-	-	(11 937 060)	-	-	79 078 612
Work in Progress - Community assets	17 130 520	-	-	-	19 409 014	(34 526 049)	-	-	-	-	2 013 485
Work in Progress - roads	1 236 756	-	-	196 600	17 677 047	(18 913 803)	-	-	-	-	196 600
Other property, plant and equipment	21 398 428	-	(37 877)	858 402	-	-	-	(916 041)	-	-	21 302 912
Infrastructure - Electrical	5 646 576	-	-	(128 462)	-	-	-	(414 460)	-	-	5 103 654
Leased asset	170 907	-	-	-	-	-	-	(14 242)	-	-	156 665
Community assets	106 049 995	34 526 048	-	(2 164 683)	-	-	(35 650)	(5 653 733)	(1 918 457)	-	130 803 520
Work in progress - other assets	17 202 346	-	-	-	7 387 234	-	-	-	-	-	24 589 580
Infrastructure - Solid waste	4 101 390	-	-	(5 377 844)	-	-	35 650	(4 164 355)	-	20 243 101	14 837 942
Infrastructure - Storm water	74 302 939	-	-	-	-	-	-	(4 600 448)	-	-	69 702 491
	415 989 105	**54 710 207**	**(1 475 477)**	**(17 839 630)**	**44 473 295**	**(53 439 852)**	**(17 091 000)**	**(30 593 718)**	**(2 047 490)**	**20 243 101**	**412 928 541**

Pledged as security

There is no Property Plant and Equipment pledged as security.

Depreciation rates

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

6. Property, plant and equipment (continued)

Change in estimates

Asset class		
Plant and machinery	24 858	-
Furniture and fixtures	4 477	-
Community	573 381	-
	602 716	**-**

The municipality performed conditional assessment of municipal assets during the financial year under review. Estimated useful life of property plant and equipment items has been revised to match with the expected futer economic benefits as per conditional assessment results. The effect of this revision has decreased the depreciation charges for the current year by R602 716 . The change in estimates has been applied prospectively.

Reconciliation of Work-in-Progress 2021

	Road Infrastructure	Community Asset	Other Asset	Total
Opening balance	196 591	2 013 484	24 589 580	26 799 655
Additions/capital expenditure	17 840 602	14 397 479	3 831 191	36 069 272
Transferred to completed items	(16 495 331)	(2 605 431)	(27 586 095)	(46 686 857)
	1 541 862	**13 805 532**	**834 676**	**16 182 070**

Reconciliation of Work-in-Progress 2020

	Road Infrastructure	Community Asset	Other Asset	Total
Opening balance	1 433 356	17 130 520	17 202 346	35 766 222
Additions/capital expenditure	17 677 039	19 409 013	7 387 234	44 473 286
Transferred to completed items	(18 913 804)	(34 526 049)	-	(53 439 853)
	196 591	**2 013 484**	**24 589 580**	**26 799 655**

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		
Contracted services	11 748 215	16 145 639
General expenses - Repairs and maintanance	398 411	-
	12 146 626	**16 145 639**

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

Notes to the Annual Financial Statements

Figures in Rand

7. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	2 677 408	(1 784 009)	893 399	2 477 209	(1 428 344)	1 048 865

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Amortisation	Impairment loss	Total
Computer software, other	1 048 865	200 199	(339 535)	(16 130)	893 399

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Prior period adjustments	Disposals	Amortisation	Total
Computer software, other	1 293 425	7 200	387 088	(47 008)	(591 840)	1 048 865

Pledged as security

No intangible asset had been pledged as security.

8. Heritage assets

	2021			2020		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Statue	1 020 835	-	1 020 835	1 020 835	-	1 020 835
Mayoral chain	84 000	-	84 000	84 000	-	84 000
Total	**1 104 835**	**-**	**1 104 835**	**1 104 835**	**-**	**1 104 835**

Reconciliation of heritage assets 2021

	Opening balance	Total
Statue	1 020 835	1 020 835
Mayoral chain	84 000	84 000
	1 104 835	**1 104 835**

Reconciliation of heritage assets 2020

	Opening balance	Total
Statue	1 020 835	1 020 835
Mayoral chain	84 000	84 000
	1 104 835	**1 104 835**

Restrictions on heritage assets

There are no restrictions on any class of heritage assets held by the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

8. Heritage assets (continued)

Pledged as security

No asset had been pledged as security.

9. Payables from exchange transactions

Trade payables	7 850 715	4 718 716
Hall hire deposits	663 271	137 799
Unallocated deposits	1 577 540	1 790 843
Accrued expenses	14 931 142	14 489 138
Retentions	3 438 482	4 210 465
Accrued leave	6 226 381	6 851 992
Payroll Accruals	(1 146 229)	5 063 333
Accrued bonus	2 003 315	1 790 887
	35 544 617	**39 053 173**

10. VAT payable

Tax refunds payables	-	656 483

11. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Emergency Housing Project	1 882 469	3 091 105
COVID - 19 Grant	-	881 827
Intergated Electrification Programme	-	2 905 495
Housing Grant	1 232 377	1 232 377
Wall to wall grant	-	577 500
Tourisim Grant	9 988 608	12 246 404
Refurbishment of Khula Recycling Centre	375 000	-
EDTEA	1 750 000	-
Sport Grant	860 673	-
	16 089 127	**20 934 708**

Movement during the year

Balance at the beginning of the year	20 934 708	47 212 684
Additions during the year	82 283 742	75 080 000
Income recognition during the year	(84 038 218)	(101 357 976)
Withheld from Equitable Share	(3 091 105)	-
	16 089 127	**20 934 708**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

12. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Total
Long service awards - short term	242 352	199 722	-	442 074
Environmental rehabilitation - short term	12 373 085	5 730 036	-	18 103 121
Environmental rehabilitation - long term	20 821 775	-	(8 109 901)	12 711 874
Long service award - long term	2 409 922	214 863	(268 118)	2 356 667
	35 847 134	**6 144 621**	**(8 378 019)**	**33 613 736**

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Total
Long service awards - short term	191 493	50 859	-	242 352
Environmental rehabilitation short term	13 121 672	(748 587)	-	12 373 085
Environmental rehabilitation - Long term	17 886 243	2 935 532	-	20 821 775
Long service award - long term	2 360 084	298 211	(248 373)	2 409 922
	33 559 492	**2 536 015**	**(248 373)**	**35 847 134**

	2021	2020
Non-current liabilities	15 068 541	23 231 697
Current liabilities	18 545 195	12 615 437
	33 613 736	**35 847 134**

12. Provisions (continued)

Environmental rehabilitation provision

The Municipality operates two landfill sites.

The Nordale landfill site is located on Plot 105, ST Lucia Road, Mtubatuba. It occcupies an area of approximately 32 000m2 and is located within the Mtubatuba Local Municipality which is part of uMkhanyakude District Municipality. The landfill is approximately 1.5km west of the Mtubatuba CBD and direct access to the site can be granted from the R618 Main to Eagle Drive. The site centre co-ordinates are -28.412018 South, 32.214252 East.

The St Lucia landfill is located at Erf 321, Mtubatuba, KwaZulu Natal, The landfill occupies an area of approximately 19 000m2 and is located within the Mtubatuba Local Municipality which is part of the uMkhanyakude District Municipality. The landfill is set within the boundary of the iSimangaliso World Heritage Park. The site centre co-ordinates are -28.364778 south, 32.415026 east.

The Municipality was issued with a waste management licence for the operation with intention of closure, decommissioning and rehabilitation of Mtubatuba waste disposal site i.e Nordale landfill site on 25 January 2016 for a period of 5 years. On 21 January 2021, the license was renewed and extended for a period of three years. The provision for rehabilitation of landfill site relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the futer obligation, discounted at 10%

Long Service Awards Provision

In line with the guidelines of the Bargaining Council, the municipality remunarates its employees for the long services rendered to the municipality. The estimate of the present obligation are determined through the use of the Actuarial expertise. Such estimates are reviewed annually at the end of the financial year. The finance cost and actuarial gains or losses are recognised directly in the statement of financial performance.

The municipality offers bonuses for evey 5 years of the completed services from 10 to 45 years. Long services accumulated leave must be taken within one year of receiving such leave or wholly or partially cashed. In most cases employees choose to exercise the option to wholly convert their accumulated leave bonus into cash.

The amount of any expected reimbursement stating the amount of any asset that has been recognised for that expected reimbursement.

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

	2021	2020
Opening balance	2 652 274	2 551 577
Service Costs	299 698	280 636
Actuarial (gains) losses	(110 128)	(135 952)
Finance costs	225 015	204 386
Benefits paid	(268 118)	(248 373)
	2 798 741	**2 652 274**

Net expense recognised in the statement of financial performance

	2021	2020
Service cost	299 698	280 636
Interest cost	225 015	204 386
Actuarial (gains) losses	(110 128)	(135 952)
	414 585	**349 070**

Key assumptions used

Assumptions used at the reporting date:

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

12. Provisions (continued)

Discount rates used	8,81 %	8,89 %
Consumer Price Inflation	5,08 %	3,77 %
Expected increase in salaries	6,08 %	4,77 %

GRAP 25 determines the determination of the investment return assumption to be used as the rate that can be determined by reference to markets yields. (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated terms of the oblligation.

The methodollogy of setting the financial assumption has been updated to be more duration specific. At previous valuation report, 30 June 2020 the duration of liabilities was 6.48 years. At this the discount rate determioned by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2021 is 8.81% per annum, and the yield on inflation linked bonds of similar terms was about 3.07% per annum. This implies an underlying expectation of inflation of 5.08%per annum ([1 + 8.81% - 0.5%]/[1+ 3.07%] - 1)

We have assumed that salary inflation would exceed general inflation by 1.00% per annum , i.e 6.08% per annum.

However, it is relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values. The assumed net discount factor of 2.57% per annum ([1 + 8.81%]/ [1 + 6.08%]-1

Demographic and decrement assumptions

The demographic and decrement assumption were consistent in the previous and current valuation period and are as follow::

	2021	2020
Nominal retirement age (years)*	65	65
Average retirement age (years)*	63	63

13. Employee benefit obligations

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

Carrying value		
Present value of the defined benefit obligation-partly or wholly funded	(2 266 000)	(2 033 000)

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

Opening balance	2 033 000	2 264 000
Net expense recognised in the statement of financial performance	233 000	(231 000)
	2 266 000	**2 033 000**

Net expense recognised in the statement of financial performance

Interest cost	198 000	200 000
Actuarial (gains) losses	213 000	(275 000)
Medical aid contributions	(178 000)	(156 000)
	233 000	**(231 000)**

Figures in Rand	2021	2020

13. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9,52 %	10,18 %
Consumer Price Inflation	5,54 %	4,97 %
Health Care Cost Inflation	7,04 %	6,47 %
Net discount rate	2,32 %	3,48 %

Other assumptions

Profile of active employees

Effect on the aggregate of the service cost and interest cost	-	-
Age<64	-	-
Age 60 - 64	-	1
Age 65-69	2	1
Age 70-74	2	2
Age 75-79	1	1
Total	5	5

Valuation method

In accordance with the requirements of GRAP 25, the Projected Unit Credit Method has been applied to determine the liabilities. The projected liability is based on actuarial assumptions about the future. These assumptions are set to be realistic and individually justifiable. However, the actual experience of the beneficiaries of Mtubatuba Municipality will vary from these assumptions. These variations emerge at each valuation as actuarial gains or losses. The approach taken in this valuation has been made with reference to the guidelines issued by the Actuarial Society of South Africa (ASSA), in particular, the Advisory Practice Note 207 as issued by ASSA, and is consistent with the requirements of GRAP 25.52

14. Service charges

Solid waste	7 293 238	5 527 390

15. Revenue

Rendering of services	647 872	476 551
Service charges	7 293 238	5 527 390
Rental of facilities and equipment	211 050	466 042
Licences and permits	1 657 760	779 816
Other income	-	1 722
Interest received - investment	1 722 317	1 257 393
Property rates	62 972 319	37 148 063
Income Foregone (Rebates)	(2 888 770)	(1 100 532)
Interest, Dividends and Rent on Land	14 751 440	11 123 712
Government grants & subsidies	265 920 049	211 050 758
Fines, Penalties and Forfeits	1 577 357	1 556 127
	353 864 632	**268 287 042**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

15. Revenue (continued)

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	7 293 238	5 527 390
Rendering of services	647 872	476 551
Rental of facilities and equipment	211 050	466 042
Licences and permits	1 657 760	779 816
Other income	-	1 722
Interest received - investment	1 722 317	1 257 393
	11 532 237	**8 508 914**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	62 972 319	37 148 063
Surcharges and Taxes	(2 888 770)	(1 100 532)
Interest, Dividends and Rent on Land	14 751 440	11 123 712
Transfer revenue		
Government grants & subsidies	265 920 049	211 050 758
Fines, Penalties and Forfeits	1 577 357	1 556 127
	342 332 395	**259 778 128**

16. Rental of facilities and equipment

Premises		
Premises	211 050	466 042

17. Licences and permits (exchange)

Licences and permits	1 657 760	779 816

18. Other revenue

Other income	-	1 722

19. Investment revenue

Interest revenue		
Bank	1 718 967	1 254 598
Interest charged on other receivables	3 350	2 795
	1 722 317	**1 257 393**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

20. Property rates

Rates

Residential	41 425 229	29 646 455
State	14 871 240	5 930 921
Municipal	149 783	(20 494)
Small holdings and farms	6 526 067	1 591 181
	62 972 319	**37 148 063**

Valuations

Residential	2 329 734 400	1 846 074 046
State	2 286 543 000	1 092 440 000
Municipal	101 541 000	8 344 000
Small holdings and farms	3 082 922 000	815 320 000
	7 800 740 400	**3 762 178 046**

General valuations on land and buildings are performed every 5 years in terms of the Municipal Property Rates Act. The last general valuation came into effect on 1 July 2020.

The supplementary valuation roll was performed on annual basis to take into account building additions, changes, subdivisions and consolidations.

Property rates are levied on a monthly basis.

21. Interest income

Interest - Receivables	14 751 440	11 123 712

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

22. Government grants and subsidies

Operating grants		
Equitable Share	213 266 495	164 301 000
Library provincial support grant/libraries and archives	3 741 000	3 708 678
COVID 19 Grant	881 827	459 173
Expanded Public Works Program	1 945 000	2 148 000
Tourisim Grant	-	1 753 596
Financial Management Grant	1 900 000	1 970 000
Wall to Wall Grant	577 500	129 375
Caretaker Grant	450 000	-
Municipal Infrastructure Operating Grant	1 327 593	-
Emergency Housing	3 091 105	-
	227 180 520	**174 469 822**

Capital grants		
Infrastructure Sports Facility Grant	4 889 326	4 830 936
Municipal Infrastructure Grant	29 842 407	31 750 000
Tourisim Information Centre	2 257 796	-
EDTEA	1 750 000	-
	38 739 529	**36 580 936**
	265 920 049	**211 050 758**

Equitable Share

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

Municipal Emergency Housing

Balance unspent at beginning of year	3 091 105	41 822 209
Current-year receipts	29 771 742	-
Conditions met - transferred to revenue	(27 889 273)	(38 731 104)
Withheld from Equitable share	(3 091 105)	-
	1 882 469	**3 091 105**

Conditions still to be met - remain liabilities (see note 11).

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	31 750 000
Current-year receipts	29 842 407	-
Conditions met - transferred to revenue	(29 842 407)	(31 750 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 11).

This grant is used to construct roads and buildings infrastructure as part of upgrading of informal settlement areas.

Municipal Infrastructure Operating Grant

Current-year receipts	1 327 593	-
Conditions met transferred to revenue	(1 327 593)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 11).

22. Government grants and subsidies (continued)

The grant received from the Department of Sport and Recreation is used to develop sporting codes within the district. The grant is spent in accordance with the approved business plan.

Community Library Services Grant

Balance unspent at beginning of year	-	87 678
Current-year receipts	422 000	3 621 000
Conditions met transferred to revenue (Approved rollover - operational)	-	(87 678)
Conditions met transferred to revenue	(422 000)	(3 621 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 11).

Used to address the Constitutional mandate whereby public libraries are an exclusive provincial competency. The funding is for the provision of library services.

Finance Management Grant

Current-year receipts	1 900 000	1 970 000
Conditions met - transferred to revenue	(1 900 000)	(1 970 000)
	-	**-**

Conditions still to be met - remain liabilities (see note 11).

FMG is used to implement financial management reforms required by the MFMA.

Care Taker Grant

Current-year receipts	450 000	-
Conditions met - transferred to revenue	(450 000)	-
	-	**-**

Conditions still to be met - remain liabilities (see note 11).

COVID-19 Grant

Balance unspent at beginning of year	881 827	-
Current-year receipts	-	1 341 000
Conditions met - transferred to revenue	(881 827)	(459 173)
	-	**881 827**

Conditions still to be met - remain liabilities (see note 11).

National government has made available more than R5 billion in support to municipalities to assist them in responding to the COVID-19 pandemic in the 2019/20 municipal financial year. This support is assisting municipalities to provide additional access to basic services for vulnerable communities during the lockdown and to sanitize public transport facilities as the economy undergoes a phased re-opening.

Integrated National Electrical Programme

Balance unspent at beginning of year	2 905 495	17 000 000
Current-year receipts	7 000 000	-
Conditions met - transferred to revenue	(7 000 000)	(14 094 505)
Transferred to Equitable Share	(2 905 495)	-

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

22. Government grants and subsidies (continued)

	-	**2 905 495**

Conditions still to be met - remain liabilities (see note 11).

INEP is used to address the electrification backlog of all existing and planned residential dwellings (including upgrading informal settlements, new, and normalisation of existing dwellings) and the installation of relevant bulk infrastructure.

Housing Grant

Balance unspent at beginning of year	1 232 377	1 232 377

Conditions still to be met - remain liabilities (see note 11).

Wall to wall grant

Balance unspent at beginning of year	577 500	706 875
Conditions met - transferred to revenue	(577 500)	(129 375)
	-	**577 500**

Conditions still to be met - remain liabilities (see note 11).

Tourism Grant

Balance unspent at beginning of year	12 246 404	14 000 000
Conditions met - transferred to revenue	(2 257 796)	(1 753 596)
	9 988 608	**12 246 404**

Conditions still to be met - remain liabilities (see note 11).

Public Works EPWP Grant

Current-year receipts	1 945 000	2 148 000
Conditions met - transferred to revenue	(1 945 000)	(2 148 000)
	-	-

Conditions still to be met - remain liabilities (see note 11).

EPWP is used to expand work creation effort through the use of labour intensive delivery methods in identified focus areas. The current year receipt was used to fund expenditure during the current year and thus accordingly recognised as revenue..

Refurbishment of Khula Recycling Center

Current-year receipts	375 000	-

Conditions still to be met - remain liabilities (see note 11).

Provide explanations of conditions still to be met and other relevant information.

EDTEA (Operational)

Current-year receipts	1 750 000	-
Conditions met - transferred to revenue	(1 750 000)	-
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

22. Government grants and subsidies (continued)

EDTEA

Current-year receipts	1 750 000	-

Infrastructure sport and recreation

Balance unspent at beginning of year	-	1 580 936
Current-year receipts	5 750 000	3 250 000
Conditions met - transferred to revenue (Approved rollover - capital)	-	(1 580 936)
Conditions met - transferred to revenue (current year allocation capital)	(4 889 327)	(3 250 000)
	860 673	**-**

23. Fines, Penalties and Forfeits

Municipal Traffic Fines	1 577 357	1 556 127

Figures in Rand	2021	2020

24. Employee related costs

Basic	55 237 328	52 937 077
Bonus	3 650 808	3 683 279
Medical aid - company contributions	5 527 919	4 370 972
UIF	439 184	418 247
SDL	1 432 657	850 437
Leave pay provision charge	478 040	(1 816 862)
Pension contributions	8 475 166	9 406 508
Travel, motor car, accommodation, subsistence and other allowances	9 351 070	8 175 964
Overtime payments	1 793 640	3 297 819
Long-service awards	961 061	1 300 217
Acting allowances	108 534	-
Housing benefits and allowances	1 057 784	434 005
Standby allowance	1 842 517	1 525 602
Cellphone allowance	129 126	151 004
Other payroll levies	23 707	23 233
	90 508 541	**84 757 502**

Remuneration of municipal manager

Annual Remuneration	593 129	580 964
Car Allowance	298 964	267 943
Contributions to UIF, Medical and Pension Funds	2 543	1 636
Cellphone allowance	25 200	14 700
Housing allowance	298 964	267 943
	1 218 800	**1 133 186**

Remuneration of chief finance officer

Annual Remuneration	539 552	373 214
Car Allowance	146 133	124 405
Cellphone allowance	12 738	14 700
Contributions to UIF, Medical and Pension Funds	21 783	104 164
Housing allowance	88 007	51 487
	808 213	**667 970**

Remuneration of Director Community Services

Annual Remuneration	174 946	542 595
Car Allowance	65 959	191 080
Cellphone allowance	8 795	25 477
Contributions to UIF, Medical and Pension Funds	24 166	65 478
Housing allowance	88 007	-
	361 873	**824 630**

Remuneration of Director Technical Services

Annual Remuneration	678 262	700 378
Car Allowance	136 802	122 800
Cellphone allowance	25 200	21 000
Contributions to UIF, Medical and Pension Funds	1 813	1 785
	842 077	**845 963**

Remuneration of Director Planning

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

24. Employee related costs (continued)

Annual Remuneration	489 038	507 782
Car Allowance	187 740	181 290
Cellphone allowance	25 200	21 000
Contributions to UIF, Medical and Pension Funds	46 870	55 969
Housing allowance	93 228	90 025
	842 076	**856 066**

Remunaration of Director Corporate Services

Annual Remuneration	597 713	683 614
Car Allowance	244 757	197 084
Cellphone allowance	53 540	18 477
Contributions to UIF, Medical and Pension Funds	77 231	44 897
Housing allowance	22 948	62 188
	996 189	**1 006 260**

25. Remuneration of councillors

Executive Mayor	780 092	932 961
Deputy Mayor	543 741	425 955
Speaker	629 024	778 440
Councillors	13 971 906	14 137 425
	15 924 763	**16 274 781**

In-kind benefits

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

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

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

26. Depreciation and amortisation

Property, plant and equipment	28 400 250	30 593 359
Intangible assets	339 535	591 841
	28 739 785	**31 185 200**

27. Finance costs

Finance leases	2 218 611	2 258 166

28. Lease rentals on operating lease

Equipment		
Contractual amounts	2 771 339	1 265 432

29. Debt impairment

Debt impairment	46 402 664	48 484 973

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

30. Contracted services

Outsourced Services		
Administrative and Support Staff	-	32 985
Catering Services	-	35 070
Professional Staff	49 900	112 500
Refuse Removal	3 664 900	6 111 409
Security Services	10 276 926	10 475 356
Transport Services	-	197 000
Consultants and Professional Services		
Business and Advisory	31 507 476	4 158 170
Infrastructure and Planning	337 500	612 500
Legal Cost	15 168 567	8 852 595
Contractors		
Building	1 620 552	1 419 319
Employee Wellness	900 662	322 775
Maintenance of Buildings and Facilities	1 204 463	8 410 385
Maintenance of Unspecified Assets	10 543 752	6 457 058
Stream Cleaning and Ditching	2 699 360	601 790
Traffic and Street Lights	6 743	516 595
Transportation	-	10 075
	77 980 801	**48 325 582**

31. General expenses

Advertising	2 947 490	2 282 731
Auditors remuneration	2 308 509	1 872 801
Bank charges	848 508	309 501
Computer expenses	(178 020)	(59 340)
Consumables	14 312 352	2 564 356
Entertainment	176 710	1 130 100
Insurance	406 625	703 228
IT expenses	246 923	1 881 695
Fuel and oil	344 645	1 740 606
Printing and stationery	2 774 228	2 435 565
Repairs and maintenance	398 411	-
Subscriptions and membership fees	2 343 603	222 675
Telephone and fax	2 270 260	2 314 164
Transport and freight	172 365	521 795
Training	1 527 889	-
Other expenses	4 822 432	6 649 540
Utilities - Other	1 212 784	372 618
Uniforms	1 475 070	998 068
Travel - local	911 394	1 228 580
Interest	2 935 519	7 148
	42 257 697	**27 175 831**

32. Auditors' remuneration

Fees	2 308 509	1 872 801

33. Operating surplus

Operating surplus for the year is stated after accounting for the following:

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

33. Operating surplus (continued)

Operating lease charges		
Equipment		
• Contractual amounts	2 771 339	1 265 432

Impairment on property, plant and equipment	981 103	2 047 849
Gain on sale of non-current assets held for sale and net assets of disposal groups	-	1 522 485
Amortisation on intangible assets	339 535	591 841
Depreciation on property, plant and equipment	28 400 250	30 593 359
Employee costs	106 433 304	101 032 283

34. Cash generated from operations

Surplus	46 189 456	4 989 241
Adjustments for:		
Depreciation and amortisation	28 739 785	31 185 200
Gain on sale of assets and liabilities	-	1 522 485
Finance costs	2 180 919	2 241 309
Emergency Grant - Withheld	4 739 812	-
Impairment deficit	981 103	2 047 849
Debt impairment	46 402 664	48 484 973
Movements in retirement benefit assets and liabilities	233 000	(231 000)
Movements in provisions	(2 233 398)	4 903 212
Actuarial gain	(110 128)	(132 952)
Other non-cash items:re-alloc of unspent to Equitable share	(2 905 495)	-
Other non-cash items	(143 211)	(42 483)
Changes in working capital:		
Receivables from exchange transactions	(2 614 667)	(3 428 773)
Other receivables from non-exchange transactions	(1 586 315)	(18 544 758)
Payables from exchange transactions	(3 508 556)	(11 940 339)
VAT	(2 211 423)	2 568 700
Unspent conditional grants and receipts	(4 845 581)	(26 277 975)
	109 307 965	**37 344 689**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

35. Commitments

Authorised capital expenditure

Contracted and approved		
• Property, plant and equipment	50 315 544	11 490 084
Total capital commitments		
Contracted and approved	50 315 544	11 490 084

Authorised operational expenditure

Approved and contracted for		
• Operating commitment	45 340 846	-
Total operational commitments		
Already contracted and provided for	45 340 846	-

Total commitments

Total commitments		
Authorised capital expenditure	50 315 544	11 490 084
Authorised operational expenditure	45 340 846	-
	95 656 390	**11 490 084**

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, etc.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	1 518 518	1 518 518
- in second to fifth year inclusive	253 087	1 771 605
	1 771 605	**3 290 123**

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

36. Unauthorised expenditure

Opening balance as previously reported	52 602 726	60 940 824
Opening balance as restated	**52 602 726**	**60 940 824**
Add: Expenditure identified - current	34 402 664	52 602 726
Less expenditure written off	-	(60 940 824)
Closing balance	**87 005 390**	**52 602 726**

Analysed as follows: non-cash

Employee related cost	-	293 650
Depreciation and amortisation	-	3 236 006
Finance charges	-	6 037 064
Loss on disposal of property, plant and equipment	-	1 522 485
Provision of impairment	34 402 664	40 248 089
	34 402 664	**51 337 294**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

36. Unauthorised expenditure (continued)

Analysed as follows: cash

Lease rentals	-	1 265 432

Recoverability of unuathorised expenditure

The unauthorised expenditure is mainly due to the non cash items of depreciation, debt impairment, interest cost on environmental rehabilitation costs.

37. Fruitless and wasteful expenditure

Opening balance as previously reported	1 364 474	797 781
Opening balance as restated	**1 364 474**	**797 781**
Add: Expenditure identified - current	2 968 670	1 424 636
Less: Amount written off - current	-	(60 162)
Less: Amount written off - prior period	-	(797 781)
Closing balance	**4 333 144**	**1 364 474**

Notes to the Annual Financial Statements

Figures in Rand

37. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings		
Interest on late payments		26 222	35 518
Penalties - SARS		2 856 798	1 389 118
COIDA		85 650	-
		2 968 670	**1 424 636**

38. Irregular expenditure

Opening balance as previously reported	106 940 666	173 166 838
Opening balance as restated	**106 940 666**	**173 166 838**
Add: Irregular Expenditure - current	125 151 565	159 165 390
Less: Amount written off - current	-	(75 342 880)
Less: Amount written off - prior period	-	(150 048 682)
Closing balance	**232 092 231**	**106 940 666**

39. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	-	52 995
Current year subscription / fee	2 652 732	2 152 572
Amount paid - current year	(2 652 732)	(2 205 567)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

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

PAYE and UIF

Opening balance	8 535 836	2 637 747
Current year subscription / fee	14 655 011	12 768 772
Amount paid - current year	(20 714 377)	(6 870 683)
	2 476 470	**8 535 836**

Pension and Medical Aid Deductions

Opening balance	3 458 123	2 787 528
Current year subscription / fee	22 725 282	17 053 821
Amount paid - current year	(26 183 405)	(16 383 226)
	-	**3 458 123**

VAT

VAT payable	(1 554 940)	656 483

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

Councillors' arrear consumer accounts

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

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor MM Davies	2 508	32 690	35 198
Councillor JM Gumede	2 360	39 633	41 993
Councillor MP Govender	1 922	6 502	8 424
Councillor MC Zungu	1 383	3 219	4 602
Councillor JB Lembede	4 609	91 416	96 025
Councillor RBB Mkhwanazi	3 610	44 889	48 499
Councillor VT Ncamphalala	2 150	13 285	15 435
Councillor SM Khumalo	924	321	1 245
Councillor NE Zuma	630	-	630
	20 096	**231 955**	**252 051**

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor MM Davies	3 002	21 523	24 525
Councillor JM Gumede	2 251	29 625	31 876
Councillor JB Lembede	3 795	85 961	89 756
Councillor VT Ncamphalala	2 487	4 331	6 818
Councillor MP Govender	1 900	9 733	11 633
Councillor RBB Mkhwanazi	2 557	42 667	45 224
Councillor MC Zungu	3 240	76 038	79 278
	19 232	**269 878**	**289 110**

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

40. Prior-year adjustments

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

Statement of financial position

2020

	Note	As previously reported	Correction of error	Restated
Receivables from exchange transactions		14 370 139	(7 054 209)	7 315 930
Receivables from non-exchange transactions		12 148 455	6 164 510	18 312 965
Investment property		32 082 000	(4 228 000)	27 854 000
Property plant and equipment		447 891 708	(34 963 167)	412 928 541
Intangible assets		661 777	387 088	1 048 865
Payables from exchange assets		(41 181 517)	2 128 344	(39 053 173)
VAT payable		(585 589)	(70 894)	(656 483)
Unspent conditional grants and receipts		(20 934 688)	(20)	(20 934 708)
Provisions - Short term		(13 447 506)	832 069	(12 615 437)
Provisions - Long term		(25 015 198)	1 783 501	(23 231 697)
Finance lease		-	154 060	154 060
Accumulated surplus		(439 890 286)	35 174 853	(404 715 433)
		(33 900 705)	**308 135**	**(33 592 570)**

Statement of financial performance

2020

	Note	As previously reported	Correction of error	Restated
Service charges		5 598 509	(71 119)	5 527 390
Property rates		36 343 886	(296 354)	36 047 532
Interest and Rent on Land		11 467 103	(343 391)	11 123 712
Employee related costs		(87 373 073)	2 615 571	(84 757 502)
Debt Impairment		(51 521 262)	3 036 289	(48 484 973)
Depreciation		(33 236 006)	2 957	(33 233 049)
Finance Cost		(2 241 309)	(16 857)	(2 258 166)
Contracted services		(48 174 383)	(151 199)	(48 325 582)
General expenditure		(27 386 364)	210 533	(27 175 831)
Surplus for the year		**(196 522 899)**	**4 986 430**	**(191 536 469)**

Cash flow statement

2020

	Note	As previously reported	Correction of error	Restated
Sale of goods and services				
Grants		184 772 782	54 608 218	239 381 000
Employee costs		(103 647 853)	36 192	(103 611 661)
Suppliers		(81 525 607)	(52 872 641)	(134 398 248)
Purchase of Property, plant and equipment		(45 743 653)	(4 013 083)	(49 756 736)
		(46 144 331)	**(2 241 314)**	**(48 385 645)**

Errors

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

40. Prior-year adjustments (continued)

Error1
During the prior year, there were properties listed under the name of the municipality that were billed.The adjustment was made to receivables, revenue and accumulated surplus to reverse all the billings in the mentioned account.
Error 2
During the prior years, there were properties listed under municipal property that no longer meets the definition and recognition criteria of an asset. The assets were derecognised which resulted in the decrease in investment property and increase in accumulated surplus
Error 3 - The adjustment to PPE comprises of the reclassification from Land to Investment property and the surplus as result of change in classification from cost to fair value. There was also an adjustment due to reclassification from Investment to Land (both on cost model).The total adjustment of R17 091 000.The second adjustment was the result of reversal of disposals. The total adjustment for the second adjustment is R17 839 631.
Error 4
The adjustment in payables is due to correction of prior year accruals and retention that was understated in the prior year.The correction of these transactions also affected VAT Payable.
Error 5
The restatement the provision is due to the correction of the acturial report for prior year

41. Risk management

Financial risk management

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

Liquidity risk

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

The following liabilities were due within 1 month:

Financial instrument	2021	2020
Payables from exchange	35 544 617	39 259 574
Unspent Conditional Grant	16 089 127	20 934 708
VAT Payable	-	682 119
Provisions	18 545 195	12 615 437
Finance lease	56 215	97 845

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.

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

Financial instrument	2021	2020
Receivables from exchange transactions	9 930 597	7 315 930
Receivables from non exhange transactions	19 899 280	18 312 965
Cash and Cash equivalents	46 562 123	34 828 855
VAT receivable	1 554 940	-

Market risk

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

41. Risk management (continued)

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.

42. Consumer debtors

Gross balances		
Rates	162 216 878	118 188 308
Fines	13 351 667	11 783 717
Trade debtors	26 018 690	21 217 551
	201 587 235	**151 189 576**
Less: Allowance for impairment		
Rates	(142 317 596)	(99 875 343)
Fines	(13 351 667)	(11 783 717)
Trade debtors	(16 088 093)	(13 901 621)
	(171 757 356)	**(125 560 681)**
Net balance		
Rates	19 899 280	18 312 965
Trade Debtors	9 930 597	7 315 930
	29 829 877	**25 628 895**
Gross balances		
Included in above is receivables from exchange transactions		
Trade debtors	9 930 597	7 315 930
Included in above is receivables from non-exchange transactions (taxes and transfers)		
Rates	19 899 280	18 312 965
Net balance	**29 829 877**	**25 628 895**
Rates		
Current (0 -30 days)	5 088 287	6 037 832
31 - 60 days	4 137 482	3 361 587
61 - 90 days	4 493 519	2 784 666
91 - 120 days	4 534 601	2 824 812
> 120 days	143 962 987	103 179 411
	162 216 876	**118 188 308**
Trade debtors		
Current (0 -30 days)	589 749	375 660
31 - 60 days	446 035	354 652
61 - 90 days	420 291	338 315
91 - 120 days	425 503	329 582
> 120 days	24 137 112	19 819 342
	26 018 690	**21 217 551**

42. Consumer debtors (continued)

Statutory receivables general information

Transaction(s) arising from statute

[State how the transaction arises, with specific reference to applicable legislation, supporting regulations, or similar means]

43. Contingencies

KZN BLACK HAWK SECURITY vs MTUBATUBA MUNICIPALITY

The dispute is over the cancellation of the security contract.

On or about September 2017 the Municipality terminated the services of the said service provider due to failure to comply with the terms of the contract.

Plaintiff have served summons and the Municipality has filed and served notice intention to Defend and the Plea and the Municipality has filed and served notice intention to Defend and the Plea and has also filed a counter claim.

MR THOKOZANI NDLAZI vs MINISTER OF POLICE AND MTUBATUBA MUNICIPALITY

Claim for damages based on unlawful arrest detention, unlawful assault and humiliation.

Based on the plaintiff he was approached by members of Mtubatuba metropolitan police who were in a marked petrol m/v % one of the police offices shot at him narrowly missing him the said officers accused him of driving stolen m/v and they assaulted him there after he was arrested and when he appeared at court the matter was struck out of roll.

Municipality waiting for the matter to be set down for hearing for the special pleas and for the matter to be dismissed and still waiting for the trial date to be allocated for hearing.

MANDLAKAYISE ZUNGU (1st Application) and NKOSI MLAMBO (2nd Response)

The dispute is over the decision taken on the 30th of September by Municipal Council.

Application seek an Order suspending the decesion of the Municipal Council to appoint Hon. Cllr V.T. Ncamphalala, Cllr Gina and Cllr D.R Ntuli and interdicting first & sisteenth respondents from acting upon the decision pending the final determination of the review application (to set aside the appointment of the above Cllrs)

On the 19 November 2020 the court made the following Order in respect of part A of the application - That the Notice of Motion is refused with cost consequent upon the respondent employment of two Council including Senior Council - In respect of Part B of the application - The 1st to 7th respondents shall deliver the record relating to the appointment of the 3rd to 5th respondent by 11 December 2020.

The applicants shall deliver their supplementart affidavit by 15 of January 2021

Contingent assets

Notes to the Annual Financial Statements

43. Contingencies (continued)

INGUMANGALISO GENERAL TRADING (PTY) LTD - MTMC031/2016 CLOSE PROTECTION SERVICE TO THE SPEAKER

Investigation report into the allegations of irregularities, fraud and corruption in the procurement of close protection, service for the speaker, and councillor PM Mkhwanazi conducted in terms of section 32 and 62 of the Local Government: Municipal Finance the Local Government : MFMA 56 of 2003, as amended. Contractor overcharged the municipality R32 500.00 instead of R10 879.68 per month.

Demand of R3 291 000 has been sent. No response to the demand. Summons have been prepared and served to the defendants.

INGUMANGALISO GENERAL TRADING (PTY) LTD - MTU28/2016/2017 SUPPLY AND DELIVERY OF REFUSE BAGS FOR A PERIOD 3 YEARS

Investigation report into the allegation of irregularities, Fraud and corruption in the procurement and awarding of the municipal bid for supply and delivery of plastic bags conducted in terms of section 32 and 62 of the Local Government: MFMA 56 of 2003 as amended . Tender defective and irregular, Failure to declare interest.

Demand of R385 000.00 has been sent. No response to the demand. Summons have been prepared and served to the defendants.

INGUMANGALISO GENERAL TRADING (PTY) LTD - MTU021/2017/18 PROVISION OF CLEANING SERVICE A NORDALE TOWNSHIP

Investigation report into allegations opf irregularities, fraud and corruption in procurement and awarding of tender for provision of cleaning service 32 and 62 of the Local Government: MFMA 56 of 2003 as amended. Irregular and invalid appointment, Adjudication process biased and Awarded company did not submit some returnable document, all officials concerned behave improperly and Municipal Manager failed to exercise his fiducial responsibilities.

Demand of R1 294 000. 00 has been sent. No response to the demand. Summons have been prepared and served to defendants.

LINDOKUHLE ENGINEERING - PLUMBING, MECHANICAL, ELECTRICAL REPAIRS AND MAINTANANCE SERVICES OF WATER & SEWERAGE

Independent review report on the forensic investigation report into alleged irregular expenditure dated 27 June 2019 involving Lindokuhle Engineering (Pty) Ltd. Irregular appointments, Findings misleading to municipality - recommendations to write-off and/or condone the irregular expenditure. 98% of payments made to iLungelolami instead of Lindokuhle as a client.

Demand of R15 801 719.86 has been sent. No response to the demand. Summons have been prepared and served to defendants.

INVESTIGATION IRREGULAR EXPENDITURE THAT RESULTED IN APPOINTMENT OF 7 ENTITIES IN RE: PROCUREMENT OF WATER SERVICES.

The municipality appointed seven companies for procurement pf water supply. The project was stooped in January 2017.

DM ICT (PTY) LTD - SUPPLY AND DELIVERY OF THE ICT SUPPORT

Forensic investigation in respect of tender MTU01/2017/2018 awarded to DM ICT (PTY) Ltd - 17 June 202. Irregular appointment. There is currently a pending court case handle by Mpumelelo Radebe attorneys.
Financial Prejudice R4 553 061.00

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

44. 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.

The following deviations occurred during the year

Emergency	-	373 440
Sole service provider	87 192	79 029
Recommendations by other organs of state	-	1 927 745
Threat to councillors - trusted service provider	-	9 959 034
Transferred to Irregular expenditure	-	(12 144 471)
Less duplicated transaction	-	(21 048)
Other - service	27 220	-
	114 412	**173 729**

Competitive bidding not invited Non compliance with SCM Procurement Regulations	

45. New standards and interpretations

45.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	**Effective date: Years beginning on or after**	**Expected impact:**
• GRAP 34: Separate Financial Statements	01 April 2020	
• GRAP 35: Consolidated Financial Statements	01 April 2020	
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	
• GRAP 37: Joint Arrangements	01 April 2020	
• GRAP 38: Disclosure of Interest in Other Entities	01 April 2020	
• IGRAP 20 Accounting for Adjustment to Revenue	01 April 2020	

Figures in Rand	2021	2020

46. Finance lease obligation

Minimum lease payments due		
- within one year	59 340	118 680
- in second to fifth year inclusive	-	59 340
	59 340	178 020
less: future finance charges	(3 125)	(23 960)
Present value of minimum lease payments	**56 215**	**154 060**

Present value of minimum lease payments due		
- within one year	56 215	97 845
- in second to fifth year inclusive	-	56 215
	56 215	**154 060**

Non-current liabilities	-	56 215
Current liabilities	56 215	97 845
	56 215	**154 060**

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The average lease term was 2 years and the average effective borrowing rate was 18% (2020: 18%).

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

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

47. Revenue Foregone (Rebates)

Rebates	(2 888 770)	(1 100 532)

48. Impairment of assets

Impairments		
Property, plant and equipment	981 103	2 047 849

49. Related parties

Relationships	
Management	Refer to note for Management remuneration 24
Joint ventures	Refer to note for Councillors remuneration 25

Key management information

Class	**Number**
Mayor	1
Councillors	38
Municipal Managers	1
Administrator	1
MEC for Department of COGTA	1
Provincial Department of COGTA	1
	43

Notes to the Annual Financial Statements

50. 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.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the municipality will continue to get funds through government grants and cashflows from services rendered.

COVID 19 Consideration.

During the financial year ending 30 June 2021, the world continued to experience the Covid-19 pandemic of which Mtubatuba Local Municipality had to comply with disaster management preventive measures and procedures as addressed by the President of the Repiblic of South Africa on the 25th of March 2020. This result to the closure of the municipality for a prescribed period and only essential service providers were working.

The wide-ranging effects of the virus and restrictions imposed were taken into account including the possible impact on non-service delivery, purchasing of goods and services required to enable service delivery. The working capital cycle impact which may severerly affect the entity's ability to settle its deby as they become due as well as default on payments on loans and facilities was also considered.

Management has determined that there is no material uncertainty that casts doubt on the entity's ability to continue as a going concern. It expects that COVID 19 might have some impact, though not significant, on the performance of revenue collections and service delivery.

51. Events after the reporting date

Disclose for each material category of non-adjusting events after the reporting date:

- The unrest that took place in July resulted in damages to disaster offices at KwaMsane which included the building and contents.

52. Budget differences

Material differences between budget and actual amounts

Explainations of identified material differences are as follows:

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

52. Budget differences (continued)

Revenue from exchange transaction

(a) Service charges - This is because of the implementation of the new general valuation roll during the 2020/21 financial year.

(b) Rental of facilities and equipment - This is due to the covid-19 regulations which restricted other activities from taking place, e.g. Large gathering like weddings. This resulted in low rental income.

(c) Licences and permits - This is because the municipality has completed the traffic management centre which has generated slightly higher revenue than the budget.

(d) Interest received - investment -This is because of cash that was kept under investment which generated much interest when compared to the budget.

Revenue from non- exchange transactions

(e) Property rates - This is because of the implementation of the new general valuation roll during the 2020/21 financial year.

(f) Interest, Dividends and Rent on Land - This is because of the implementation of the new general valuation roll during the 2020/21 financial year.

(g) Government grants and subsidies - This is because of principal agent grant which are not reflecting under Item revenue but are appearing under item liability. This is INEP and Emergency housing

(h) Fines, Penalties and Forfeits - This was under provided for at the budgeting stage because of uncertainty in this line item.

Expenditure

(i) Personnel - This is because of cost savings in budgeted vacant post and other items where the expenditure was closely monitored like travelling claims, overtime etc

(j) Remunaration of councillors - This is because of the councillors who were deceased, terminated during the year

(k) Depreciation and amortisation - This was because of unbudgeted impairment loss on assets.

(l) Finance cost - This is because of the revaluation surplus on landfill site .

(m) Lease rentals on operating lease - Budgeted under General Expenditure.

(n) Contracted services - Repairs and maintainance sitting on this line item while budgeted under general expenditure.

(o) General expenditure - Other items on this line items were budgeted under contracted services.

Notes to the Annual Financial Statements

Figures in Rand	2021	2020

53. Accounting by principals and agents

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

Details of the arrangments are as follows:Details of the arrangments are as follows:

The municipality receives a grant from National Treasury for the Intergrated National Electrification Programme which it implements on behalf of ESKOM. The Municipality appoints the contractors to implement the electrification projects. The assets constructed belongs to ESKOM. The municipality does not retain ownership not control of the asset being constructed.

The Municipality also receives a grant for Emergency Housing Project which it implements on behalf of Department of Human Settlements.

The Municipality is hence deemed to be in a principal agent relationship . The unspent Transfers from National Treasury at year end are reported in the statement of Financial Position as Unspent grant.

There is no revenue generated by the municipality in this arrangement.

Financial Implications

An amount of R29 771 742 was transferred to the Municipality for Municipal Emergency Housing during the year. Out of this amount, a total of R27 889 273 was utilised for the project expenses leaving an amount of R4 973 574 as unspent.

An amount of R7 000 000 was transferred to the Municipality for Intergrated National Electrification Programme during the year. A total of R7 000 000 was utilised for the project leaving no unspent amount at year end.

Entity as principal

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

Fee paid

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