Mtubatuba Local Municipality
(Registration number KZN 275)
Annual Financial Statements
for the year ended 30 June 2022

General Information

Legal form of entity	Local Municipality - Municipality in terms of section 1 of the LocalGovernment: Municipality Structures Act (Act 117 of 1998) read withsection 155 (1) of the Constitution of the republic of South Africa (Act108 of 1996)
	KZN 275
Legislation government the municipality's operations	Local Government: Municipal Finance Management Act (Act no.56 of 2003)
	Constitution of the Republic of south Africa (Act 108 of 1998)
	Municipal Property Rates Act (act of 6 2004)
	Division of Revenue Act (Act 1 of 2007)
	Local Government: Municipal Systems Act (Act 32 of 2000)
Nature of business and principal activities	Service Delivery - Municipality
Start date of current council	09 November 2021
Executive Mayor	Cllr. M Mthethwa
Deputy Mayor	Cllr. NA Mthethwa
Speaker	Cllr. SJ Shezi
Exco Members	Cllr. MA Gina
	Cllr. PPN Mbatha
	Cllr. RBB Mkhwanazi
	Cllr. LM Mkhwanzi
	Cllr. NPM Mlungwana
	Cllr. SN Nzuza
	Cllr. S Vilane
MPAC Chairperson	Cllr. ZF Cele
Chief Whip	Cllr. MP Ndlovu
Women's Caucus	Cllr. NM Mncube
Ordinary Councillors	Cllr. PF Gumede
	Cllr. SN Khumalo
	Cllr. GM Masango
	Cllr. IM Masondo
	Cllr. VR Mazibuko
	Cllr. B Mdluli
	Cllr. KD Mfeka
	Cllr. LS Mfekaye
	Cllr. S Mkhumbuzi
	Cllr. MQ Mkhwanzi
	Cllr. NJ Mlambo
	Cllr. L Mlondo
	Cllr. WM Mlungwana
	Cllr. JM Gumede
	Cllr. ME Mnyango
	Cllr. LS Msweli
	Cllr. BP Mthiyane
	Cllr. DN Nene
	Cllr. SB Ngubane
	Cllr. PV Ntshalintshali
	Cllr. TQ Ntuli

General Information

	Cllr. DR Ntuli
	Cllr. XL Qwabe
	Cllr. MB Shangase
	Cllr. TM Sibisi
	Cllr. LJ Zikhali
	Cllr. TP Zikhali
	Cllr. MM Zikhali
	Cllr. BM Zulu
	Cllr. NE Zuma
	Cllr. JM Zungu
	Cllr. MC Zungu
Out Going Councillors	
Executive Mayor	Cllr. VT Ncamphalala
Deputy Mayor	Cllr. MA Gina
MPAC Chairperson	Cllr. ZW Mhlongo
Chief Whip	Cllr. ZE Nyawo
	Cllr. NG Khumalo
	Cllr. SM Khumalo
	Cllr. SR Khumalo
	Cllr. JB Lembede
	Cllr. AV Mabika
	Cllr. VVB Madonsela
	Cllr. SM Gumede
	Cllr. P Mkhwanazi
	Cllr. FN Mpanza
	Cllr. KN Mpontshana
	Cllr. GBM Msane
	Cllr. PK Msweli
	Cllr. ZN Mthethwa
	Cllr. MP Govender
	Cllr. E Ntuli
	Cllr. SJ Khoza
	Cllr. SN Sibiya
	Cllr. PS Tembe
	Cllr. TW Thethwayo
	Cllr. SN Vilane
	Cllr. MZ Zungu
Grading of local authority	Grade 3
Acting Chief Finance Officer (CFO)	Mr S Cele (Start date : 30 March 2022)
Accounting Officer	Mr T.V. Xulu (Start date :11 April 2022)
Previous Accounting Officer	Dr Ntuli (End date : 26 December 2021)
Registered office	Lot 105 Inkosi Mtubatuba Road Mtubatuba 3935

General Information

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 South Africa Registered Auditors
Attorneys	Khathi & Mkhize Attorneys Nompumelelo Hadebe Inc SM Mbatha Inc Attorneys Zuma and Partners Inc Dludlu Attorneys Lalpasard Incorporated Mdledle Incorporated Miya Incorporated Attorneys Ntanzi Attorneys Nxumalo and Partners T.L Mbili Attorney Vumase SS Inc
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 Council:

COID	Compensation for Occupational Injuries and Diseases
AGSA	Auditor General of South Africa
GRAP	Generally Recognised Accounting Practice
SARS	South African Revenue Services
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 2023 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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 2022 and were signed on its behalf by:

Mr TV Xulu
Accounting Officer

Report of the Auditor General

To the Provincial Legislature of Mtubatuba Local Municipality

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	7	7 578 665	11 163 836
Receivables from non-exchange transactions	8	52 618 821	14 298 010
VAT receivable	10	966 929	1 689 790
Cash and cash equivalents	11	6 641 862	46 562 123
		67 806 277	**73 713 759**
Non-Current Assets			
Investment property	3	31 757 970	27 854 000
Property, plant and equipment	4	444 593 760	420 847 507
Intangible assets	5	542 306	893 398
Heritage assets	6	1 104 835	1 104 835
		477 998 871	**450 699 740**
Total Assets		**545 805 148**	**524 413 499**
Liabilities			
Current Liabilities			
Advances - Agency/principal relationship transactions	15	3 114 846	3 114 846
Finance lease obligation	13	-	56 215
Payables from exchange transactions	12	66 374 493	38 536 447
Unspent conditional grants and receipts	14	9 370 289	12 974 281
Provisions	16	3 752 803	18 545 195
		82 612 431	**73 226 984**
Non-Current Liabilities			
Employee benefit obligation	17	2 359 000	2 266 000
Provisions	16	32 225 411	15 068 541
		34 584 411	**17 334 541**
Total Liabilities		**117 196 842**	**90 561 525**
Net Assets		**428 608 306**	**433 851 974**
Accumulated surplus		428 608 306	433 851 974
Total Net Assets		**428 608 306**	**433 851 974**

* See Note 42 & 41

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	5 338 773	7 237 104
Rendering of services		470 145	652 054
Rental of facilities and equipment	19	192 584	211 050
Licences and permits	21	2 627 967	1 657 760
Recoveries		302 296	-
Interest received - investment	24	1 159 052	1 722 317
Total revenue from exchange transactions		**10 090 817**	**11 480 285**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	55 404 350	59 620 851
Interest income		20 342 413	14 384 012
Transfer revenue			
Government grants & subsidies	26	248 041 989	266 557 049
Public contributions and donations	27	55 343	-
Fines, Penalties and Forfeits	20	1 468 600	1 577 357
Total revenue from non-exchange transactions		**325 312 695**	**342 139 269**
Total revenue		**335 403 512**	**353 619 554**
Expenditure			
Employee related costs	28	(107 776 000)	(90 508 540)
Remuneration of councillors	29	(16 012 628)	(15 924 765)
Depreciation and amortisation	30	(29 078 453)	(28 093 853)
Finance costs	32	(1 655 181)	(2 218 611)
Lease rentals on operating lease	22	(2 382 279)	(2 771 339)
Debt Impairment	33	(9 479 605)	(46 402 664)
Contracted services	34	(111 573 279)	(79 385 329)
General Expenses	35	(62 506 283)	(41 950 729)
Total expenditure		**(340 463 708)**	**(307 255 830)**
Operating (deficit) surplus		**(5 060 196)**	**46 363 724**
Loss on disposal of assets and liabilities		(1 051 171)	-
Fair value adjustments	36	4 648 000	-
Actuarial gains/losses	17	-	110 128
Impairment loss	31	(3 780 301)	(981 103)
		(183 472)	**(870 975)**
(Deficit) surplus for the year		**(5 243 668)**	**45 492 749**

* See Note 42 & 41

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	405 908 158	405 908 158
Adjustments		
Correction of errors	(17 548 933)	(17 548 933)
Balance at 01 July 2020 as restated*	**388 359 225**	**388 359 225**
Changes in net assets		
Surplus for the year	45 492 749	45 492 749
Total changes	45 492 749	45 492 749
Restated* Balance at 01 July 2021	**433 851 974**	**433 851 974**
Changes in net assets		
Surplus for the year	(5 243 668)	(5 243 668)
Total changes	(5 243 668)	(5 243 668)
Balance at 30 June 2022	**428 608 306**	**428 608 306**

Note 41

* See Note 42 & 41

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from taxes, levies and fines		34 822 900	34 050 670
Sale of goods and services		423 143	858 922
Grants		250 378 000	292 872 637
Interest income		1 159 052	1 722 317
		286 783 095	329 504 546
Payments			
Employee costs		(123 719 280)	(106 700 020)
Suppliers		(146 985 984)	(111 667 407)
		(270 705 264)	(218 367 427)
Net cash flows from operating activities	37	**16 077 831**	**111 137 119**
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(57 134 976)	(97 995 016)
Proceeds from sale of property, plant and equipment	4	449 099	-
Proceeds from sale of investment property	3	744 000	-
Purchase of other intangible assets	5	-	(200 199)
Net cash flows from investing activities		**(55 941 877)**	**(98 195 215)**
Cash flows from financing activities			
Repayment of other financial liabilities		(56 215)	(1 208 636)
Net cash flows from financing activities		**(56 215)**	**(1 208 636)**
Net increase/(decrease) in cash and cash equivalents		**(39 920 261)**	**11 733 268**
Cash and cash equivalents at the beginning of the year		46 562 123	34 828 855
Cash and cash equivalents at the end of the year	11	**6 641 862**	**46 562 123**

The accounting policies on pages 14 to 38 and the notes on pages 39 to 76 form an integral part of the annual financial statements.

* See Note 42 & 41

Mtubatuba Local Municipality
(Registration number KZN 275)
Annual Financial Statements for the year ended 30 June 2022

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	9 393 590	(3 788 676)	**5 604 914**	5 338 773	**(266 141)**	
Rendering of services	227 000	256 445	**483 445**	470 145	**(13 300)**	Note 50
Rental of facilities and equipment	650 000	(387 262)	**262 738**	192 584	**(70 154)**	Note 50
Licences and permits	2 400 000	-	**2 400 000**	2 627 967	**227 967**	Note 50
Recoveries	-	-	**-**	302 296	**302 296**	Note 50
Interest received - investment	3 000 000	(1 500 000)	**1 500 000**	1 159 052	**(340 948)**	Note 50
Gains on disposal of assets	12 995 000	-	**12 995 000**	-	**(12 995 000)**	Note 50
Total revenue from exchange transactions	**28 665 590**	**(5 419 493)**	**23 246 097**	**10 090 817**	**(13 155 280)**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	61 512 890	4 070 442	**65 583 332**	55 404 350	**(10 178 982)**	Note 50
Interest earned - outstanding debtors	10 976 501	11 197 055	**22 173 556**	20 342 413	**(1 831 143)**	
Transfer revenue						
Government grants & subsidies	230 729 000	19 750 000	**250 479 000**	248 041 989	**(2 437 011)**	Note 50
Public contributions and donations	-	-	**-**	55 343	**55 343**	Note 50
Fines, Penalties and Forfeits	3 017 732	(1 500 000)	**1 517 732**	1 468 600	**(49 132)**	
Total revenue from non-exchange transactions	**306 236 123**	**33 517 497**	**339 753 620**	**325 312 695**	**(14 440 925)**	
Total revenue	**334 901 713**	**28 098 004**	**362 999 717**	**335 403 512**	**(27 596 205)**	
Expenditure						
Employee related costs	(104 163 693)	2 083 274	**(102 080 419)**	(107 776 000)	**(5 695 581)**	Note 50
Remuneration of councillors	(17 992 382)	(719 695)	**(18 712 077)**	(16 012 628)	**2 699 449**	Note 50
Depreciation and amortisation	(32 500 000)	2 500 000	**(30 000 000)**	(29 078 453)	**921 547**	
Impairment loss/ Reversal of impairments	-	-	**-**	(3 780 301)	**(3 780 301)**	
Finance costs	(1 927 439)	-	**(1 927 439)**	(1 655 181)	**272 258**	Note 50
Lease rentals on operating lease	-	-	**-**	(2 382 279)	**(2 382 279)**	Note 50
Debt Impairment	(12 000 000)	-	**(12 000 000)**	(9 479 605)	**2 520 395**	Note 50
Contracted Services	(60 182 000)	(20 358 551)	**(80 540 551)**	(111 573 279)	**(31 032 728)**	Note 50
General Expenses	(51 840 551)	(8 346 063)	**(60 186 614)**	(62 506 283)	**(2 319 669)**	Note 50
Total expenditure	**(280 606 065)**	**(24 841 035)**	**(305 447 100)**	**(344 244 009)**	**(38 796 909)**	
Operating deficit	**54 295 648**	**3 256 969**	**57 552 617**	**(8 840 497)**	**(66 393 114)**	
Loss on disposal of assets and liabilities	-	-	**-**	(1 051 171)	**(1 051 171)**	
Fair value adjustments	-	-	**-**	4 648 000	**4 648 000**	
	-	**-**	**-**	**3 596 829**	**3 596 829**	
Deficit before taxation	**54 295 648**	**3 256 969**	**57 552 617**	**(5 243 668)**	**(62 796 285)**	

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
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**54 295 648**	**3 256 969**	**57 552 617**	**(5 243 668)**	**(62 796 285)**	

Reconciliation

Accounting Policies

Figures in Rand	Note(s)	2022	2021

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.

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 16 - 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 17.

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.

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

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

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.

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Land		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	3 - 15 years
Transport assets	Straight-line	5 - 15 years
Road infrastructure	Straight-line	3 - 50 years
Solid waste infrastructure	Straight-line	10 - 15 years
Storm water infrastructure	Straight-line	25 - 100 years
cemetery	Straight-line	30 years
Community centres	Straight-line	25 - 30 years
Community halls	Straight-line	25 - 30 years
Creches	Straight-line	25 - 30 years
Libraries	Straight-line	25 - 30 years
Outdoor recreational facilities	Straight-line	25 - 30 years
Market stalls	Straight-line	25 - 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.

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.7 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.

1.7 Intangible assets (continued)

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.8 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

Derecognition

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

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

1.9 Financial instruments

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

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.

1.9 Financial instruments (continued)

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
Provisions	Financial liability measured at amortised cost
Finance lease	Financial liability measured at amortised cost

1.10 Statutory receivables

Identification

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

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

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

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

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

The municipality has two classes of receivables that meet the criteria of statutory receivables, being property rates which are levied in terms of the Municipal Property Rates Act and traffic fines imposed in terms of the Criminal Procedure Act.

Property rates are currently disclosed as part of consumer debtors in note 8, whereas traffic fines are disclosed as receivables from non-exchange transactions in note 8.

The accounting policy on debtors has not been changed in respect of the classification and measurement of statutory receivables since the municipality has opted to apply the transitional provisions of Directive 3 in terms of not changing the classification and measurement of the debtors while the full implications of compliance with GRAP 108 is still under review.

Recognition

The municipality recognises statutory receivables as follows:
- if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

1.10 Statutory receivables (continued)

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

Impairment losses

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

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:
- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

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

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

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

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

Derecognition

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

Accounting Policies

1.10 Statutory receivables (continued)

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

1.11 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessee

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

1.12 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.

1.12 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.

1.12 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.

1.13 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.

Accounting Policies

1.13 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.

Accounting Policies

1.13 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.

1.14 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.

1.14 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.

Accounting Policies

1.14 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.

Accounting Policies

1.14 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

1.14 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.

1.15 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).

1.15 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 39.

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 1.12 and 1.13.

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.

1.16 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

1.17 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 .

Accounting Policies

1.17 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.

1.18 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.

Accounting Policies

1.18 Revenue from non-exchange transactions (continued)

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:.
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- he amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Government grants

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

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

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expenditure has been incurred and to the extent that any other restrictions have been complied with.

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

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

Fines

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

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

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

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.

1.19 Investment income

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

1.20 Borrowing costs

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

Accounting Policies

1.20 Borrowing costs (continued)

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

1.21 Comparative figures

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

1.22 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.

1.23 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.

1.24 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 -
- This Act and has not been condoned in terms of section 170, or
- 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
- 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)
- 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.

1.25 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.

Accounting Policies

1.25 Budget information (continued)

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 2021/07/01 to 2022/06/30.

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

The Variences of less than 10% are considered to be immaterial

1.26 Related parties

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

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

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

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

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

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

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

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

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

Accounting Policies

1.28 Retention (continued)

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.

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	2022	2021

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards	01 April 2021	The impact of the is not material.

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Guideline on Accounting for Landfill Sites	30 June 2023	Unlikely there will be a material impact
• GRAP 25 (as revised 2021): Employee Benefits	30 June 2023	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	30 June 2025	Unlikely there will be a material impact
• GRAP 104 (amended): Financial Instruments	01 April 2025	Unlikely there will be a material impact
• iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact
• GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	Unlikely there will be a material impact

Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	31 757 970	-	31 757 970	27 854 000	-	27 854 000

Reconciliation of investment property - 2022

	Opening balance	Disposals	Fair value adjustments	Total
Land	27 854 000	(744 000)	4 647 970	31 757 970

Reconciliation of investment property - 2021

	Opening balance	Total
Land	27 854 000	27 854 000

Pledged as security

There are no Investment properties pledged as security.

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

Amounts recognised in surplus or deficit

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	59 111 000	-	59 111 000	59 586 000	-	59 586 000
Plant and machinery	9 978 315	(5 677 252)	4 301 063	10 074 936	(5 559 266)	4 515 670
Furniture and office equipment	6 972 187	(3 465 337)	3 506 850	8 551 808	(4 016 132)	4 535 676
Motor vehicles	9 483 507	(5 490 107)	3 993 400	9 663 507	(4 971 327)	4 692 180
Computer equipment	2 901 965	(1 447 836)	1 454 129	4 308 827	(2 073 302)	2 235 525
Infrastructure - Roads	211 976 178	(133 772 554)	78 203 624	204 265 089	(120 413 126)	83 851 963
Community	184 471 550	(52 436 205)	132 035 345	171 665 739	(44 379 077)	127 286 662
Work in Progress - Community Assets	36 622 021	-	36 622 021	14 426 052	-	14 426 052
Infrastructure - electrical	8 658 514	(4 427 764)	4 230 750	8 658 514	(3 990 741)	4 667 773
Other asset	56 680 113	(11 440 998)	45 239 115	56 680 113	(9 262 231)	47 417 882
Work in progress - Road infrastructure	14 223 162	-	14 223 162	1 541 872	-	1 541 872
Work in progress - Other Assets	1 044 595	-	1 044 595	834 676	-	834 676
Infrastructure - Solid waste	10 280 482	(9 830 962)	449 520	9 716 647	(9 685 597)	31 050
infrastructure - Storm water	114 935 901	(54 777 234)	60 158 667	114 935 901	(49 833 858)	65 102 043
Leased assets	33 049	(12 530)	20 519	170 907	(48 424)	122 483
Total	**727 372 539**	**(282 778 779)**	**444 593 760**	**675 080 588**	**(254 233 081)**	**420 847 507**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Transfers	Donations	Change in estimate	Depreciation	Impairment loss	Total
Land	59 586 000	-	(475 000)	-	-	-	-	-	59 111 000
Plant and machinery	4 515 670	904 526	(169 694)	-	-	-	(949 439)	-	4 301 063
Furniture and office equipment	4 535 676	368 069	(310 375)	-	-	-	(1 086 520)	-	3 506 850
Motor vehicles	4 692 180	-	(60 012)	-	-	-	(638 768)	-	3 993 400
Computer equipment	2 235 525	258 305	(423 292)	-	55 343	-	(671 752)	-	1 454 129
Infrastructure - Roads	83 851 963	-	-	7 711 088	-	-	(12 730 844)	(628 583)	78 203 624
Community	127 286 662	-	-	12 805 810	-	-	(5 552 489)	(2 504 638)	132 035 345
Work in Progress - Community Assets	14 426 052	35 001 779	-	(12 805 810)	-	-	-	-	36 622 021
Infrastructure - electrical	4 667 773	-	-	-	-	-	(432 595)	(4 428)	4 230 750
Other asset	47 417 882	-	-	-	-	-	(1 879 387)	(299 380)	45 239 115
Work in progress - Road infrastructure	1 541 872	20 392 378	-	(7 711 088)	-	-	-	-	14 223 162
Work in progress - Other Assets	834 676	209 919	-	-	-	-	-	-	1 044 595
Infrastructure - Solid waste	31 050	-	-	-	-	563 835	(145 365)	-	449 520
infrastructure - Storm water	65 102 043	-	-	-	-	-	(4 600 135)	(343 241)	60 158 667
Leased assets	122 483	-	(61 897)	-	-	-	(40 067)	-	20 519
	420 847 507	**57 134 976**	**(1 500 270)**	**-**	**55 343**	**563 835**	**(28 727 361)**	**(3 780 270)**	**444 593 760**

Notes to the Annual Financial Statements

Figures in Rand

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Change in estimate	Transfers in	Transfers out	Prior period adjustments	Depreciation	Impairment loss	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 office equipment	2 434 201	2 967 258	-	-	-	135 350	(982 179)	(18 954)	4 535 676
Motor vehicles	5 498 423	-	-	-	-	38 628	(844 871)	-	4 692 180
Computer equipment	1 933 201	1 040 795	-	-	-	-	(658 389)	(80 082)	2 235 525
Infrastructure - Roads	79 078 612	391 596	-	16 495 330	-	-	(11 969 648)	(143 927)	83 851 963
Community	130 803 520	-	-	2 605 431	-	-	(5 640 479)	(481 810)	127 286 662
Work in Progress - Community Assets	2 013 485	14 397 482	-	-	(2 605 431)	620 516	-	-	14 426 052
Infrastructure - electrical	5 103 654	-	-	-	-	-	(432 926)	(2 955)	4 667 773
Other asset	21 302 912	457 531	-	27 586 095	-	-	(1 729 735)	(198 921)	47 417 882
Work in progress - Road infrastructure	196 600	17 840 602	-	-	(16 495 330)	-	-	-	1 541 872
Work in progress - Other Assets	24 589 580	3 831 191	-	-	(27 586 095)	-	-	-	834 676
Infrastructure - Solid waste	3 316 762	-	(3 281 112)	-	-	-	(4 600)	-	31 050
infrastructure - Storm water	69 702 491	-	-	-	-	-	(4 600 448)	-	65 102 043
Leased assets	156 665	-	-	-	-	-	(34 182)	-	122 483
	401 407 361	**50 687 644**	**(3 281 112)**	**46 686 856**	**(46 686 856)**	**794 494**	**(27 795 909)**	**(964 971)**	**420 847 507**

Pledged as security

There was no property, plant and equipment pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

4. Property, plant and equipment (continued)

Property Plant and Equipment - Fully Depreciated Assets

The Municipality has 25 assets included in the Fixed Assets Register which have a net book value of zero. These assets are still in use by the Municipality.

The Municipality performed a review of the assets with zero carrying values during the financial period ended 30 June 2022 and concluded that the effects of these adjustments would not have a qualitative and quantitative impact on the financial statements.

The class of assets which are affected as well as the total cost is detailed below:

Property, plant and equipment fully depreciated and still in use (Gross carrying amount)		
Computer Equipment	123 808	-
Computer Software	46 835	-
Furniture and Office Equipment	174 314	-
	344 957	**-**

Reconciliation of Work-in-Progress 2022

	Infrastructure Assets	Community Assets	Other Assets	Total
Opening balance	1 541 872	14 426 050	834 676	16 802 598
Additions/capital expenditure	20 392 378	35 001 779	209 919	55 604 076
Transferred to completed items	(7 711 088)	(12 805 810)	-	(20 516 898)
	14 223 162	**36 622 019**	**1 044 595**	**51 889 776**

Reconciliation of Work-in-Progress 2021

	Infrastructure Assets	Community Assets	Other Assets	Total
Opening balance	196 600	2 013 485	24 589 580	26 799 665
Additions/capital expenditure	17 840 602	14 397 480	3 831 191	36 069 273
Prior year error adjustments	-	620 516	-	620 516
Transferred to completed items	(16 495 330)	(2 605 431)	(27 586 095)	(46 686 856)
	1 541 872	**14 426 050**	**834 676**	**16 802 598**

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance		
Employee related costs	3 582 701	-
Contracted services	21 088 365	11 748 215
General Expenses - Repairs and maintenance	-	398 411
Material	1 253 338	-
	25 924 404	**12 146 626**

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

5. Intangible assets

	2022			2021		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	2 677 408	(2 135 102)	542 306	2 677 408	(1 784 010)	893 398

Reconciliation of intangible assets - 2022

	Opening balance	Amortisation	Total
Computer software, other	893 398	(351 092)	542 306

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Amortisation	Impairment loss	Total
Computer software, other	1 048 865	200 199	(339 536)	(16 130)	893 398

Pledged as security

No intangible asset had been pledged as security.

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

Notes to the Annual Financial Statements

Figures in Rand

6. Heritage assets

	2022			2021		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Mayors chain	84 000	-	84 000	84 000	-	84 000
Statue	1 020 835	-	1 020 835	1 020 835	-	1 020 835
Total	**1 104 835**	**-**	**1 104 835**	**1 104 835**	**-**	**1 104 835**

Reconciliation of heritage assets 2022

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

Reconciliation of heritage assets 2021

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

Restrictions on heritage assets

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

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

6. Heritage assets (continued)

Pledged as security

There are no heritage assets pledged as security:

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

7. Receivables from exchange transactions

Gross balances		
Consumer debtors - Refuse removal	21 354 942	19 361 638
Security	8 993 541	9 041 028
	30 348 483	**28 402 666**

Less: Allowance for impairment		
Consumer debtors - Refuse removal	(16 850 589)	(11 683 033)
Security	(5 919 229)	(5 555 797)
	(22 769 818)	**(17 238 830)**

Net balance		
Consumer debtors - Refuse removal	4 504 353	7 678 605
Security	3 074 312	3 485 231
	7 578 665	**11 163 836**

Refuse removal		
Current (0-30 days)	2 095 117	626 254
31-60 Days	985 553	845 963
61-90 Days	964 872	419 944
91-120 Days	945 591	421 716
121-365 Days	16 363 809	14 393 542
	21 354 942	**16 707 419**

Security Levy		
Current (0-30 days)	239 429	-
31-60 Days	118 461	-
61-90 Days	113 909	-
91-120 Days	107 985	-
121-365 Days	8 413 757	-
	8 993 541	**-**

Trade and other receivables pledged as security

There are no trade receivables that were pledged as security for any liabilities during the current financial period.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

8. Receivables from non-exchange transactions

Gross balances		
Statutory debtors - property rates	194 475 468	154 486 101
Sundry debtor	2 881 351	2 129 505
Statutory debtors - traffic fines	14 407 567	13 351 667
	211 764 386	**169 967 273**
Less: Allowance for impairment		
Consumer debtors - Rates	(146 359 500)	(142 317 596)
Statutory debtors - traffic fines	(12 786 065)	(13 351 667)
	(159 145 565)	**(155 669 263)**
Net balance		
Statutory debtors - property rates	48 115 968	12 168 505
Sundry debtor	2 881 351	2 129 505
Statutory debtors - traffic fines	1 621 502	-
	52 618 821	**14 298 010**
Statutory receivables included in receivables above are as follows:		
Statutory debtors - property rates	48 115 968	12 168 505
Statutory debtors - traffic fines	1 621 502	-
	49 737 470	**12 168 505**
Reconciliation of provision for impairment for statutory receivables		
Opening balance	(155 669 263)	(111 659 060)
Provision for impairment	(3 476 302)	(44 010 203)
	(159 145 565)	**(155 669 263)**
Statutory debtors - property rates		
Current (0 -30 days)	4 477 316	4 987 283
31 - 60 days	7 464 255	7 425 345
61 - 90 days	3 609 578	3 944 065
91 - 120 days	4 020 710	3 806 681
121 - 365 days	174 903 609	148 252 191
	194 475 468	**168 415 565**
Statutory debtors - traffic fines		
Current (0 -30 days)	229 800	188 400
31 - 60 days	187 000	207 000
61 - 90 days	33 200	157 750
91 - 120 days	120 800	234 900
121 - 365 days	13 836 777	12 563 617
	14 407 577	**13 351 667**

Statutory receivables general information

Transaction(s) arising from statute

Statutory receivables are receivables that arise from legislation, supporting regulations, or other means and are settled in cash or another financial asset.

Property rates – are levied in terms of the Municipal Property Rates Act No. 6 of 2004 to customers with immovable properties within the municipality jurisdiction.

8. Receivables from non-exchange transactions (continued)

Traffic fines – are issued to offenders in terms of Criminal Procedures Act No. 51 of 1977.

Determination of transaction amount

Transaction amounts are determined as follows

Property rates – transaction amount is determined by applying the Council approved rates randanges to the market value of individual properties within the municipality jurisdiction. Council approved rebates and exemptions are further applied to the assessed amount.

Traffic fines – transaction amount for traffic fines is determined according to Schedule 3 of the AARTO Regulations 2008 for charge codes and descriptions, penalties and their discounts, and demerit points.

Interest or other charges levied/charged

Property rates – interest at a fixed rate of 1.5% per month (2021: 1.5% per month) is charged on all outstanding debtor balances older than 30 days. No other charges are levied on property rates.

Traffic fines – no interest or other levies are charged on outstanding traffic fines balances.

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

Rates

The Municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

Business, government and other account, excluding residential, are classified as significant debtors and assessed for impairment individually. Credit impairment rates are determined based on the credit risk characteristics for each category and individual prevailing circumstances.

If the municipality determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

For collective assessment, debtors are grouped based on ageing and credit impairment is calculated as follows:
- 120 days – 50% impairment
- Above 120 days - 90% impairment

Trafic fines

The Municipality assesses whether objective evidence of impairment exists individually or collectively for traffic fines debtors.

For collective assessment, debtors are grouped based on ageing and credit impairment is calculated as follows:
- 120 days – 50% impairment
- Above 120 days - 90% impairment

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

9. Consumer Debtors by Classification

Residential/ Consumer		
Current (0-30 days)	3 015 996	3 259 543
31-60 Days	4 949 569	4 539 689
61-90 Days	2 542 628	2 406 541
91-120 Days	2 919 408	2 346 548
221-365 Days	130 692 736	110 928 347
	144 120 337	**123 480 668**

Government		
Current (0-30 days)	563 202	542 992
31-60 Days	1 085 600	1 007 782
61-90 Days	520 294	603 316
91-180 + Days	514 035	600 107
221-365 Days	28 514 237	23 411 807
	31 197 368	**26 166 004**

Buisness/ Commercial		
Current (0-30 days)	1 879 441	1 835 110
31-60 Days	2 923 474	2 724 837
61-90 Days	1 405 630	1 351 447
91-180 + Days	1 419 068	1 282 241
221-365 Days	40 602 358	30 408 466
	48 229 971	**37 602 101**

Totals		
Current (0-30 days)	5 458 639	5 637 645
31-60 Days	8 958 643	8 272 308
61-90 Days	4 468 552	4 361 304
91-180 + Days	4 852 511	4 228 896
221-365 Days	199 809 331	164 748 620
Fines	14 407 567	13 351 667
Other receivables from non-exchange revenue 2	2 881 351	2 129 505
Less: Allowance for impairment	(181 915 383)	(172 908 093)
	58 921 211	**29 821 852**

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 2022, R 7 539 573 (2021: R9 225 770) were past due but not impaired.

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

1 month past due	3 830 306	5 088 287
2 months past due	3 709 267	4 137 482

10. VAT receivable

VAT	966 929	1 689 790

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balance petty cash	27 561	13 389
Bank balances	1 242 329	3 911 037
Short-term deposits	5 371 972	42 637 697
	6 641 862	**46 562 123**

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2022	30 June 2021	30 June 2020	30 June 2022	30 June 2021	30 June 2020
First National Bank - Primary 53093735184	1 242 329	3 911 037	2 097 966	1 242 329	3 911 037	2 097 966
First National Bank - Eskom 71044025057	191 600	191 600	191 600	191 600	191 600	191 600
First National Bank - Money Market 62424097831	1 623 419	1 586 803	1 556 717	1 623 419	1 586 803	1 556 717
First National Bank - Call Account 62424098376	76 488	329 087	3 837 743	76 488	329 087	3 837 743
First National Bank - Money Market 6242094986	52 012	4 937 087	1 864 466	52 012	4 937 087	1 864 466
First National Bank - 62848428117	72 255	70 660	12 327 934	72 255	70 660	12 327 934
First National Bank - Small Town Rehabilitation 62848429511	2 545 636	9 101 469	7 062 138	2 545 636	9 101 469	7 062 138
First National Bank - INEP 62848428480	434 749	424 944	3 111 684	434 749	424 944	3 111 684
First National Bank - Traffic fines 62451696995	179 358	20 194 733	2 626 141	179 358	20 194 733	2 626 141
First National Bank - Petty Cash 62393938249	27 561	13 389	6 163	27 561	13 389	6 163
Nedbank Limited Invest 037165025375	156 894	151 227	146 303	156 894	151 227	146 303
First National Bank - Cashback 62869585128	39 561	5 650 087	-	39 561	5 650 087	-
Total	**6 641 862**	**46 562 123**	**34 828 855**	**6 641 862**	**46 562 123**	**34 828 855**

12. Payables from exchange transactions

Trade payables	21 212 760	7 128 920
Hall hire deposits	101 429	87 688
Payroll Accruals	3 980 591	122 722
Accrued leave pay	7 670 421	6 226 381
Accrued bonus	2 294 093	2 003 315
Accrued expense	21 721 653	16 168 534
Unallocated deposits	988 037	3 360 405
Retentions	6 156 001	3 438 482
Debtors with credit balances	2 249 508	-
	66 374 493	**38 536 447**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

13. Finance lease obligation

Minimum lease payments due		
- within one year	-	59 340
	-	59 340
less: future finance charges	-	(3 125)
Present value of minimum lease payments	**-**	**56 215**

Present value of minimum lease payments due		
- within one year	-	56 215

The average lease term was 2 years and the average effective borrowing rate was was 18% (2021: 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.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Sport Grant	-	860 673
Tourisim Grant	7 150 141	9 988 608
EDTEA	321 585	1 750 000
Refurbishment of Khula Recycling Centre	-	375 000
Small Town Rehabilitation	1 315 889	-
Library Support Grant	582 674	-
	9 370 289	**12 974 281**

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

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

See note 26 for reconciliation of grants from National/Provincial Government.

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

15. Advances - Agency/principal relationship transactions

Emergency Housing Project	1 882 469	1 882 469
Housing Grant	1 232 377	1 232 377
	3 114 846	**3 114 846**
Total other financial liabilities	**3 114 846**	**3 114 846**

See note 52 for reconciliation of Agency/principal relationship transactions.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

16. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Movement	Utilised during the year	Finance costs	Service costs	Actuarial (gains) losses	Total
Environmental rehabilitation - Long term	12 711 874	16 634 586	-	-	-	-	29 346 460
Long service award - Short term	442 074	(334 898)	-	-	-	-	107 176
Environmental rehabilitation - Short term	18 103 121	(14 457 494)	-	-	-	-	3 645 627
Long service award - Long term	2 356 667	-	(706 824)	277 096	899 155	52 857	2 878 951
	33 613 736	**1 842 194**	**(706 824)**	**277 096**	**899 155**	**52 857**	**35 978 214**

Reconciliation of provisions - 2021

	Opening Balance	Movement	Utilised during the year	Finance costs	Service costs	Actuarial (gains) losses	Total
Environmental rehabilitation - Long term	20 821 775	-	(8 109 901)	-	-	-	12 711 874
Long service award - Short term	242 352	199 722	-	-	-	-	442 074
Environmental rehabilitation - Short term	12 373 085	5 730 036	-	-	-	-	18 103 121
Long service award - Long term	2 409 922	(199 722)	(268 118)	225 015	299 698	(110 128)	2 356 667
	35 847 134	**5 730 036**	**(8 378 019)**	**225 015**	**299 698**	**(110 128)**	**33 613 736**

	2022	2021
Non-current liabilities	32 225 411	15 068 541
Current liabilities	3 752 803	18 545 195
	35 978 214	**33 613 736**

Environmental rehabilitation provision

In terms of the Municipality’s licensing stipulations on waste landfill sites, provision is made for the estimated cost of rehabilitating the landfill sites for the potion of land used or contaminated at the reporting date. The provision has been determined based on an independent valuation performed by engineers as at 30 June 2022.

Key Cost Parameters:	**2022**
Estimated dates of reaching full capacity	Between 2016 - 2023
Estimated post closure rehabilitation time	2 years
Period for monitoring post closure	30 years
Average estimated annual inflation rate	7.23%
Discount rate at the average borrowing rate	11.05%

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.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

16. Provisions (continued)

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 3.56%.

Employee benefit cost 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.

Key assumptions used		
Discount rates used	11,20%	8,81 %
Consumer Price Inflation	6,80%	5,05 %
Expected increase in salaries	7,80%	6,08%
Nominal retirement age (years)*	65	65
Average retirement age (years)*	63	63
	-	-

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

The methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation report, 30 June 2021 the duration of liabilities was 7.25 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2022 is 11.20% per annum, and the yield on inflation-linked bonds of a similar term was about 3.65% per annum. This implies an underlying expectation of inflation of 6.80% per annum ([1 + 11.20% - 0.5%] / [1 + 3.65%] - 1).

We have assumed that salary inflation would exceed general inflation by 1.00% per annum, i.e. 7.80% per annum.

However, it is the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 3.15% per annum ([1 + 11.20%] / [1 + 7.80%] - 1).

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

17. 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	(2 359 000)	(2 266 000)

[Provide a brief description of the link between the reimbursement right(s) and the related obligation]

The fair value of plan assets includes:

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

Opening balance	2 266 000	2 033 000
Net expense recognised in the statement of financial performance	93 000	233 000
	2 359 000	**2 266 000**

Net expense recognised in the statement of financial performance

Interest cost	207 000	198 000
Actuarial (gains) losses	64 000	213 000
Medical aid contributions	(178 000)	(178 000)
	93 000	**233 000**

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	11,73 %	9,25 %
Consumer Price Inflation	8,01 %	5,54 %
Health Care Cost Inflation	9,51 %	7,04 %
Net discount rate	2,03 %	2,32 %

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

17. Employee benefit obligations (continued)

Other assumptions

Profile of active employees

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

Valuation method

In accordance with the requirements of GRAP25, the Projected Unit Credit method has been applied. The assumption underlying the funding method is that the employer’s post- employment medical scheme costs in respect of an employee should be fully recognised by the time that the employee reaches fully accrued age. The valuation has been made with reference Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP25.

Valuation assumptions

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

Additional textThe methodology of setting the financial assumptions has been updated to be more duration specific. At the previous valuation date, 30 June 2021 the duration of liabilities was 8.50 years. At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2022 is 11.73% per annum, and the yield on the inflation-linked bonds of a similar term was about 2.98% per annum, implying an underlying expectation of inflation of 8.01% per annum ([1 + 11.73% - 0.50%] / [1 + 2.98%] - 1).

A healthcare cost inflation rate of 9.51% was assumed. This is 1.50% in excess of the expected inflation over the expected term of the liability, consistent with the previous actuary.

However, it is the relative levels of the discount rate and healthcare inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 2.03% per annum ([1 + 11.73%] / [1 + 9.51%] - 1). This year’s valuation basis is therefore stronger than previous year’s basis from a discount rate perspective.

18. Service charges

Service charges	5 400 537	7 323 707
Less: Income forgone	(61 764)	(86 603)
	5 338 773	**7 237 104**

19. Rental of facilities and equipment

Premises		
Premises	173 155	211 050
Facilities and equipment		
Rental of facilities	19 429	-
	192 584	**211 050**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

20. Fines, Penalties and Forfeits

Fines, Penalties and Forfeits	1 468 600	1 577 357

21. Licences and permits (exchange)

Licences and permits	2 627 967	1 657 760

22. Lease rentals on operating lease

Equipment		
Contractual amounts	2 382 279	2 771 339

23. Recoveries

Recovery	302 296	-

24. Investment revenue

Interest revenue		
Bank	1 159 052	1 722 317

25. Property rates

Rates received

Residential	40 284 572	41 126 303
State	10 796 719	14 871 240
Small holdings and farms	6 998 971	6 526 067
Less: Income forgone (Rebates)	(2 675 912)	(2 902 759)
	55 404 350	**59 620 851**

Valuations

Residential	2 329 734 400	2 329 734 400
State	2 286 543 000	2 286 543 000
Municipal	101 541 000	101 541 000
Small holdings and farms	3 082 922 000	3 082 922 000
	7 800 740 400	**7 800 740 400**

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.

A fixed rate is applied based on categories of properties:

• Agriculture	0.00225
• Business/Commercia	0.01569
• Government	0.01569
• Hospitality Industry	0.01569
• Public Service Infrastructure	0.00225
• Residential	0.00897
• Vacant stand	0.00897

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

26. Government grants and subsidies

Operating grants		
Equitable share	183 333 000	213 266 495
Covid 19 grant	-	881 827
Library provincial support grant	3 983 326	4 378 000
Municipal infrastructure operational grant	1 300 982	1 327 593
Wall to wall grant	-	577 500
Financial management grant	1 920 000	1 900 000
Refurbishment of Khula recycling centre	375 000	-
Emergency housing	-	3 091 105
Caretaker grant	450 000	450 000
Expanded public work program	1 028 000	1 945 000
Small Town Rehabilitation	10 184 108	-
EDTEA (operational)	1 428 415	-
	204 002 831	**227 817 520**
Capital grants		
Infrastructure sports facility grant	3 110 673	4 889 326
Municipal infrastructure grant	32 090 018	29 842 407
Economic Development Tourism and Environment Affairs	-	1 750 000
Tourisim Information Centre	8 838 467	2 257 796
	44 039 158	**38 739 529**
	248 041 989	**266 557 049**

Equitable Share

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

Infrastructure sport and recreation

Balance unspent at beginning of year	860 673	-
Current-year receipts	2 250 000	5 750 000
Conditions met - transferred to revenue	(3 110 673)	(4 889 327)
	-	**860 673**

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

Municipal Infrastructure Grant

Current-year receipts	32 090 018	29 842 407
Conditions met - transferred to revenue	(32 090 018)	(29 842 407)
	-	**-**

Tourism Grant

Balance unspent at beginning of year	9 988 608	12 246 404
Current-year receipts	6 000 000	-
Conditions met - transferred to revenue	(8 838 467)	(2 257 796)
	7 150 141	**9 988 608**

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

EDTEA (operational)

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

26. Government grants and subsidies (continued)

Balance unspent at beginning of year	1 750 000	-
Current-year receipts	-	1 750 000
Conditions met - transferred to revenue	(1 428 415)	-
	321 585	**1 750 000**

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

Refurbishment of Khula Recycling Centre

Balance unspent at beginning of year	375 000	-
Current-year receipts	-	375 000
Conditions met - transferred to revenue	(375 000)	-
	-	**375 000**

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

COVID-19 Grant

Balance unspent at beginning of year	-	881 827
Conditions met - transferred to revenue	-	(881 827)
	-	**-**

EDTEA (Capital)

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

Library provincial support grant

Current-year receipts	4 566 000	422 000
Conditions met - transferred to revenue	(3 983 326)	(422 000)
	582 674	**-**

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

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

Municipal Infrastructure Operating Grant

Current-year receipts	1 300 982	1 327 593
Conditions met - transferred to revenue	(1 300 982)	(1 327 593)
	-	**-**

Wall to Wall Grant

Current-year receipts	-	577 500
Conditions met - transferred to revenue	-	(577 500)
	-	**-**

Financial Management Grant

Current-year receipts	1 920 000	1 900 000

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

26. Government grants and subsidies (continued)

Conditions met - transferred to revenue	(1 920 000)	(1 900 000)
	-	-

Expanded Public Works Program

Current-year receipts	1 028 000	1 945 000
Conditions met - transferred to revenue	(1 028 000)	(1 945 000)
	-	-

Caretaker Grant

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

Small town rehabilitation

Current-year receipts	11 500 000	-
Conditions met - transferred to revenue	(10 184 108)	-
	1 315 892	-

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

27. Public contributions and donations

Public contributions and donations	55 343	-

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

28. Employee related costs

Basic	63 430 808	55 357 911
Bonus	6 648 300	4 110 572
Medical aid - company contributions	5 171 305	5 407 335
UIF	544 161	439 184
SDL	1 021 068	1 432 657
Other payroll levies	28 985	23 707
Leave pay provision charge	177 259	18 276
Cellphone allowance	80 398	129 126
Pension contributions	10 903 454	8 475 166
Travel, motor car, accommodation, subsistence and other allowances	12 007 970	9 351 070
Overtime payments	2 714 010	1 793 640
Long-service awards	1 401 780	961 061
Acting allowances	-	108 534
Housing benefits and allowances	882 912	1 057 784
Standby allowance	2 763 590	1 842 517
	107 776 000	**90 508 540**

Remuneration of municipal manager

Annual Remuneration	692 399	421 170
Car Allowance	332 054	116 494
Contributions to UIF, Medical and Pension Funds	29 400	41 691
Housing allowance	225 787	190 420
Other	-	5 345
	1 279 640	**775 120**

Remuneration of chief finance officer

Annual Remuneration	489 038	615 520
Car Allowance	172 095	205 173
Acting allowance	7 132	7 274
Other	93 228	-
	761 493	**827 967**

Remuneration of Director Community Services

Annual Remuneration	378 766	382 083
Car Allowance	97 800	163 749
Other	46 827	145 563
	523 393	**691 395**

Remuneration of Director Technical Services

Annual Remuneration	122 738	575 653
Car Allowance	22 800	148 025
Cellphone allowance	4 200	-
Housing allowance	-	98 683
Acting allowance	26 058	-
Other	45 259	40 805
	221 055	**863 166**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

28. Employee related costs (continued)

Remuneration of Director Planning

Annual Remuneration	489 037	489 038
Car Allowance	172 095	187 740
Contributions to UIF, Medical and Pension Funds	45 058	46 870
Cellphone allowance	25 200	25 200
Housing allowance	93 228	93 228
	824 618	**842 076**

Remunaration of Director Corporate Services

Annual Remuneration	597 713	276 037
Car Allowance	257 665	118 303
Performance Bonuses	-	32 862
Other	51 487	-
	906 865	**427 202**

29. Remuneration of councillors

Executive Major	814 171	812 031
Deputy Executive Mayor	669 653	669 658
Speaker	666 963	666 963
Councillors	13 861 841	13 776 113
	16 012 628	**15 924 765**

30. Depreciation and amortisation

Property, plant and equipment	28 727 361	27 754 318
Intangible assets	351 092	339 535
	29 078 453	**28 093 853**

31. Impairment of assets

Impairments		
Property, plant and equipment	3 780 301	981 103

32. Finance costs

Finance leases	1 655 181	2 218 611

33. Debt impairment

Debt impairment	9 479 605	46 402 664

34. Contracted services

Outsourced Services		
Catering Services	2 660 801	-
Professional Staff	-	49 900
Refuse Removal	6 146 485	4 283 670
Security Services	13 017 804	10 276 926

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

34. Contracted services (continued)

Consultants and Professional Services		
Business and Advisory	30 649 377	31 962 950
Infrastructure and Planning	-	337 500
Legal Cost	20 177 709	15 168 567
Contractors		
Building	2 399 662	1 620 552
Employee Wellness	12 300	900 662
Maintenance of Buildings and Facilities	3 197 969	585 693
Maintenance of Equipment	2 349	-
Maintenance of Unspecified Assets	23 656 089	10 543 752
Public participation	5 999 982	949 054
Traffic and Street Lights	-	6 743
Transportation	438 380	-
Sports and Recreation	916 626	-
Stage and Sound Crew	1 381 956	-
Stream Cleaning and Ditching	915 790	2 699 360
	111 573 279	**79 385 329**

35. General expenses

Advertising	6 245 457	2 947 490
Auditors remuneration	2 321 016	2 308 509
Bank charges	717 385	848 508
Computer expenses	-	(178 020)
Consumables	5 270 716	7 007 372
Entertainment	122 115	176 710
Disaster relief	5 003 385	-
Hire	2 211 410	-
Insurance	1 224 196	487 393
Household electrification	9 384 401	5 061 233
IT expenses	187 417	246 923
Local economic development	9 486 454	489 700
Fuel and oil	1 226 035	344 645
Printing and stationery	2 734 931	2 774 228
Personal protective equipment	1 383 944	1 335 750
Repairs and maintenance	85 055	398 411
Subscriptions and membership fees	419 953	2 343 603
Telephone and fax	3 623 714	2 202 321
Transport and freight	1 334 811	270 865
Training	-	1 527 889
Travel - local	458 677	911 394
Utilities - Other	4 081 058	1 212 784
Uniforms	680	1 475 070
Interest	1 416 656	2 935 519
Other expenses	3 566 817	4 822 432
	62 506 283	**41 950 729**

36. Fair value adjustments

Investment property (Fair value model)	4 648 000	-

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

37. Cash generated from operations

(Deficit) surplus	(5 243 668)	45 492 749
Adjustments for:		
Depreciation and amortisation	29 078 453	28 093 853
Gain on sale of assets and liabilities	1 051 171	-
Fair value adjustments	(4 648 000)	-
Finance costs - Finance leases	-	2 180 918
Emergency Grant - Withheld	-	4 739 810
Impairment deficit	3 780 301	981 103
Debt impairment	9 479 605	46 402 664
Donations	(55 340)	-
Movements in retirement benefit assets and liabilities	93 000	233 000
Movements in provisions	2 364 478	(2 233 398)
Actuarial gain	-	(110 128)
Other non-cash items:re-alloc of unspent to Equitable share	-	(2 905 495)
Other non-cash items	(563 835)	(143 211)
Changes in working capital:		
Receivables from exchange transactions	3 585 171	(4 170 543)
Consumer debtors	(9 479 605)	(3 159 263)
Other receivables from non-exchange transactions	(38 320 811)	4 014 955
Payables from exchange transactions	27 838 042	(2 326 179)
VAT	722 861	(2 316 771)
Unspent conditional grants and receipts	(3 603 992)	(3 636 945)
	16 077 831	**111 137 119**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

38. Commitments

Authorised capital expenditure

Contracted for and provided		
• Property, plant and equipment	72 224 418	50 315 544

Total capital commitments		
Already contracted for but not provided for	72 224 418	50 315 544

Authorised operational expenditure

Approved and contracted for		
• Operating commitment	41 862 460	45 340 846

Total operational commitments		
Already contracted for but not provided for	41 862 460	45 340 846

Total commitments

Total commitments		
Authorised capital expenditure	72 224 418	50 315 544
Authorised operational expenditure	41 862 460	45 340 846
	114 086 878	**95 656 390**

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	253 086	1 518 518
- in second to fifth year inclusive	-	253 087
	253 086	**1 771 605**

Operating lease payments represent rentals payable by the municipality for its printing machines. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years. q.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

39. Contingencies

K.I Mkhwanazi vs Mtubatuba Local Municipality. The municipality is a defendant in this labour matter. The possible liability is R 200 092.15. K.I. Mkwanazi made an urgent application at the labour court. The matter is still pending.

JN Madondo N.O/ Mtubatuba Municipality. MEC, COGTA, Various Applications and Litigation Matters: High Cover. The estimated liability is R 775 870.91. The matter is still pending.

Case No: 5640/18P we have been sending numerous emails to the applicant. Attorneys for them to file their affidavit. The estimated liability is R 80 000.00. The matter is still pending.

The municipality lauched an application to review the Decision it made to appoint DMITC. The estimated liability is R 400 000.00. The matter is still pending.

TS Cele vs Mtubatuba Local Municipality. The municipality is a defendant in this labour matter. The estimated liability is R 40 000.00. The matter is still pending.

Mtubatuba Local Municipality vs TT Mbokazi . The estimated liability is R 150 000.00. The matter is still pending.

Civil Recoveries. The estimated liability is R 981 529.30. The matter is still pending.

MJM Mbatha vs Mtubatuba Local Municipality. The municipality is a defendant in this labour matter. Matter is at the SALGBC for Arbitration. The estimated liability is R 3 000 000.00. The matter is still pending.

40. Related parties

Relationships	
Management	Refer to employee related costs note 28
Council remuneration	Refer to remuneration of councillors note 29
MEC- Provincial Department of Cooperative Governance and Traditional Affairs.	
Provincial Department of Cooperative Governance and Traditional Affairs.	
Administrator	Mr. S. Mbhele

Related party balances

Amounts included in Trade receivable regarding related parties		
Council	324 998	-

There are no payment arrange made to settle the above balance.

Provision for doubtful debts related to outstanding balances with related parties		
Council	263 797	-
Expenses recognised in respect of bad or doubtful debts		
Council	263 797	-

41. Prior period errors

Payables from exchange transactions

In addition management noted instances where insurance claim was incorrectly accounted for under hall hire deposit account balance resulting to misstatement of hall hire deposit account balance and unallocated deposits account balance which are both disclosed under Trade and Other payables on the statement of financial performance.

41. Prior-year adjustments (continued)

Receivables from non-exchange transaction

Through detailed review of the Billing Module and Valuation Roll, management noted and amended current accounting treatment with regard to certain properties that are still classified as municipal properties in deed office (due to different reasons pertaining the pending deeds transfer) and valuation roll while occupied by private individuals. Management took a decision not to bill these properties on the grounds that they are classified as municipal properties in deed office and valuation roll classified. The change in accounting treatment has resulted to reduction of revenue charged in the prior year and account receivable balances balances.

Property, Plant and equipment

There were errors in accounting for changes in the Provision for Landfill Rehabilitation for St Lucia and Nordales sites. The error was corrected in line with iGRAP 2**.**

Government grants & subsidies

Through detailed review of accounting records for grants and hall hire deposits, management noted that library grant revenue was incorrectly accounted for under hall hire deposits account balance instead of conditional grant accounting records. This error resulted to understatement of grant revenue and overstatement of hall hire deposit lability account.

Other payables

In addition management noted instances where insurance claim was incorrectly accounted for under hall hire deposit account balance resulting to misstatement of hall hire deposit account balance and unallocated deposits account balance which are both disclosed under Trade and Other payables on the statement of financial performance.

Revenue & Receivable from non exchange transactions

Through detailed review of the Billing Module and Valuation Roll, management noted and amended current accounting treatment with regard to certain properties that are still classified as municipal properties in deed office (due to different reasons pertaining the pending deeds transfer) and valuation roll, while those properties are occupied by private individuals. Management took a decision not to bill these properties on the grounds that they are classified as municipal properties in deed office and valuation roll. The change in accounting treatment has resulted to reduction of revenue charged in the prior year and account receivable balances.

Payable from exchange transaction

1. Through detailed review of the unallocated deposits account balances, we noted numerous misclassification of other account balances, with mostly debit balances, line item. For example balance included material debit balance that resulted to overspending on INEP grants in the 2020 and 2021 financial years. The error resulted to understatement of the unallocated deposit account balance and expenditure line item.

2. Through detailed review of payment records and 2021 accrual listing we noted invoices that were not raised as accrual during 2021 financial year. The error resulted to understatement of trade and other payables from exchange transactions, expenditure and VAT account

Receivable from exchange transaction

Through detailed review of receivable from other exchange transaction account balances we noted that this account balance was misstated with the take on balance of debt impairment from 2020 financial year that was not taken into account when determining movement in credit impairment during 2021 financial year.

Cash flow movements
The above transactions had an impact in the computation of the cash flow statement and cash flow related notes.

The correction of the error(s) results in adjustments as follows:

41. Prior-year adjustments (continued)

Statement of financial position

	2021	2020
Property, plant and equipment	(11 020 630)	(12 287 077)
VAT	134 849	29 502
Receivables from non-exchange transactions	(4 014 337)	(3 159 268)
Receivables from exchange transactions	(353 694)	(322 637)
Payables from exchange transactions	(2 991 829)	(1 809 453)
Opening Accumulated Surplus or Deficit	18 245 641	17 548 933

Statement of financial performance

	2021	-
Property rates	(399 517)	-
Rendering of services	4 183	-
Service charges	(119 313)	-
Interest income	(367 427)	-
Government grants & subsidies	637 000	-
Depreciation and amortisation	645 930	-
Contracted services	(708 980)	-
General Expenses	(388 580)	-

Cash flow statement

Cash flow from operating activities		
Cash receipts from taxes, levies and fines	858 922	-
Suppliers	970 232	-
	1 829 154	**-**
Cash flow from investing activities		
Purchase of property, plant and equipment	(620 518)	-
Cash flow from financing activities		
Repayment of other financial liabilities	(1 208 636)	-

42. 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	Re-classification	Restated
Receivables from non-exchange transactions	8	18 312 965	(3 159 267)	(1 586 932)	13 566 766
Receivables from exchange transactions	7	7 315 930	-	1 586 932	8 902 862
Property, plant and equipment	4	412 928 541	(12 287 078)	-	400 641 463
Payables from exchange transactions	12	(39 053 173)	(1 809 453)	-	(40 862 626)
Accumulated surplus		404 715 432	17 255 798	-	421 971 230
		804 219 695	**-**	**-**	**804 219 695**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

42. Prior-year adjustments (continued)

2021

	Note	As previously reported	Correction of error	Re-classification	Restated
Receivables from non-exchange transactions	8	19 899 280	(4 014 337)	(1 586 932)	14 298 011
Receivables from exchange transactions	7	9 930 597	(353 694)	1 586 932	11 163 835
VAT	10	1 554 940	134 849	-	1 689 789
Property, plant and equipment	4	431 868 137	(11 020 630)	-	420 847 507
Payables from exchange transactions	12	(35 544 617)	(2 991 829)	-	(38 536 446)
Unspent conditional grants and receipts	14	(16 089 127)	-	3 114 846	(12 974 281)
Advances - Agency/principal relationship transactions	15	-	-	(3 114 846)	(3 114 846)
Accumulated surplus		(452 097 616)	18 245 641	-	(433 851 975)
		(40 478 406)	**-**	**-**	**(40 478 406)**

Statement of financial performance

2021

	Note	As previously reported	Correction of error	Re-classification	Restated
Rendering of services		647 872	4 183	-	652 055
Property rates	25	62 972 319	(399 517)	(2 951 950)	59 620 852
Service charges	18	7 293 238	(119 313)	63 180	7 237 105
Interest income		14 751 440	(367 427)	-	14 384 013
Government grants and subsidies	26	265 920 049	637 000	-	266 557 049
Depreciation and amortisation	30	(28 739 758)	645 930	-	(28 093 828)
Revenue Foregone		(2 888 770)	-	2 888 770	-
Contracted services	34	(77 980 801)	(708 980)	(695 548)	(79 385 329)
General expenditure	35	(42 257 697)	(388 580)	695 548	(41 950 729)
Operating surplus		(47 060 431)	696 704	-	(46 363 727)
Surplus for the year		**152 657 461**	**-**	**-**	**152 657 461**

Cash flow statement

2021

	Note	As previously reported	Correction of error	Restated
Cash flow from operating activities				
Cash receipts from taxes, levies and fines		33 191 748	858 922	34 050 670
Suppliers		(112 637 639)	970 232	(111 667 407)
		(79 445 891)	**1 829 154**	**(77 616 737)**
Cash flow from investing activities				
Purchase of property, plant and equipment		(97 374 498)	(620 518)	(97 995 016)
Cash flow from financing activities				
Repayment of other financial liabilities		-	(1 208 636)	(1 208 636)

Figures in Rand	2022	2021

43. Risk management

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.

Financial instrument	2022	2021
Payables from exchange	66 374 493	38 536 447
Unspent Conditional Grant	9 370 289	12 974 281
Provisions	3 752 803	18 545 195
Finance lease	-	56 215
	79 497 585	**70 112 138**

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	2022	2021
Receivables from exchange transactions	7 578 665	11 163 836
Receivables from non exhange transactions	52 618 821	14 298 010
Cash and Cash equivalents	6 641 862	46 562 123
VAT receivable	966 929	1 689 790

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

Market risk

Interest rate risk

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

44. 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.

45. Events after the reporting date

A municipal vehicle was involved in an accident during July 2022 and was written off by the insurance company. The vehicle had a carrying amount of R427 394 as of 30 June 2022. The Municipality entered into a settlement agreement with the insurers for R473 633.

The Municipality is in the process of upgrading the old Mtubatuba Rugby Club into a multi-disciplinary Mtubatuba Sports Complex. As part of the upgrade, the old Rugby Clubhouse was demolished during the month of August 2022. The clubs house had a carrying amount of

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

45. Events after the reporting date (continued)

A robbery took place during August 2022 at the Mtubatuba library during August 2022 where laptops with a carrying amount of R54465 were taken. The Municipality entered into a settlement agreement with the insurers for R160 983 in respect of the stolen computer equipment.

46. Unauthorised expenditure

Opening balance as previously reported	87 005 390	52 602 726
Opening balance as restated	**87 005 390**	**52 602 726**
Add: Expenditure identified - current	46 057 681	34 402 664
Less: Authorised by council	(87 005 390)	-
Closing balance	**46 057 681**	**87 005 390**

Analysed as follows: non-cash

Impairment loss/ Reversal of impairments	3 780 301	-
Loss on disposal of property, plant and equipment	1 051 171	-
Provision of impairment	-	34 402 664
	4 831 472	**34 402 664**

Analysed as follows: cash

Contracted services	31 012 028	-
General expenditure	2 319 669	-
Employee related costs	5 512 233	-
Lease rentals on operating lease	2 382 279	-
	41 226 209	**-**

47. Fruitless and wasteful expenditure

Opening balance as previously reported	4 333 144	1 364 474
Opening balance as restated	**4 333 144**	**1 364 474**
Add: Expenditure identified - current	981 988	2 968 670
Closing balance	**5 315 132**	**4 333 144**

Expenditure identified in the current year include those listed below:

Interest on late payments	34 913	26 222
Penalties - SARS	861 425	2 856 798
COIDA	85 650	85 650
	981 988	**2 968 670**

48. Irregular expenditure

Opening balance as previously reported	232 092 231	106 940 666
Opening balance as restated	**232 092 231**	**106 940 666**
Add: Irregular Expenditure - current	23 893 781	125 151 565
Closing balance	**255 986 012**	**232 092 231**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to SALGA

Current year subscription / fee	1 139 357	1 179 750
Amount paid - current year	(1 139 357)	(1 179 750)
	-	-

Audit fees

Current year subscription / fee	2 639 791	2 652 732
Amount paid - current year	(3 175 309)	(2 652 732)
	(535 518)	-

PAYE and UIF

Opening balance	2 476 470	8 535 836
Current year subscription / fee	17 630 754	14 655 011
Amount paid - current year	(16 513 627)	(12 178 541)
Amount paid - previous years	(2 476 470)	(8 535 836)
	1 117 127	**2 476 470**

Pension and Medical Aid Deductions

Opening balance	-	3 458 123
Current year subscription / fee	26 239 897	22 725 282
Amount paid - current year	(24 035 038)	(22 725 282)
Amount paid - previous years	-	(3 458 123)
	2 204 859	-

VAT

VAT receivable	966 929	1 689 790

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

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2022:

30 June 2022	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor N.A. Mthethwa	15 505	175 977	191 482
Councillor J.M. Gumede	4 042	49 676	53 718
Councillor MP Govender	3 094	14 169	17 263
Councillor RBB Mkhwanazi	3 417	52 578	55 995
Councillor NE Zuma	2 755	3 785	6 540
	28 813	**296 185**	**324 998**

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**

Notes to the Annual Financial Statements

50. Actual operating expenditure versus budgeted operating expenditure

Refer to the Statement of Comparison of Budget and Actual Amounts for the comparison of actual operating expenditure versus budgeted expenditure.

The Variences of less than 10% are considered to be immaterial

Rendering of services
This relates to non-recurring transaction for business licences, Search fees, Rates clearance certificates, burial fees. You can properly plan for these services as they are need based and varies from year to year.

Rental of facilities and equipment
This was because of COVID 19 regulation that restricted most of activities to take place. Also most activies now are taking place in the digital platforms other than physical venues.

Licences and permits
The municipality over perform because of the recently completed traffic management centre. The municipality has adjusted the planning for this line item in the 2022/2023 financial year as there is the picture of how this function is performing.

Recoveries
This relates to extra charge for cost incurred by employees in their cell phone allowance package. The difference in allowable amount

Interest received - investment
This is because of low cash available kept under investment throught the whole financial year.

Gains on disposal of assets
This relates to the sale of land that we held as investment properties. To date, the municipality has receive the amount to a region of R1,372 million from the attorneys.

Property rates
The this is because of reversing of the Public Service infrastructure billing as it was not supposed to be billed. Also the reversal of billing to preperties belonging to the municipality after reviews of the whole billing system.

Government grants & subsidies
This is because of the reduction of the government grant for Communuty Service Library,

Public contributions and donations
This relates to computer equipment donated by the department of art and culture for CYBER CADET activities.

Employee related costs
This is because or returned employee as a result of unfair dismissal, revised organogram and the filling of vacant posts. This has resulted in over expenditure in the municpality.

Remuneration of councillors
This was because of the period in which there were no councillors beucase of elections. That has resulted in cost savings to the municpality.

Finance costs
This is because of the discontinued provision for St Lucia landfill site as these was no longer an obligation to rehabilitate.

Lease rentals on operating lease
This is budget for under general expenditure

Debt Impairment
The municipality has applied a culculates risk approach in determing the debt impairment provision. This is to assess each individual debtor other than a blanket approach.

Contracted Services
This relates to some items of the operational nature or general expenditure that are mapped under contracted services. Any outsourced services is regarded as contracted services.

Figures in Rand	2022	2021

50. Actual operating expenditure versus budgeted operating expenditure (continued)

General Expenses
This relates to normal operational expenditure

51. 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

	2022	2021
Sole service provider	1 143 356	87 192
Other - service	-	27 220
	1 143 356	**114 412**

52. Accounting by principals and agents

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

Details of the arrangment(s) is|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 entered into an arrangement with the Department of Human Settlements whereby the municipality acts as an agent on behalf of the department in overseeing the contractors engaged by the department to build low cost houses for distribution to beneficiaries within the Umtubatuba area.

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

Entity as agent

Intergrated National Electrification Programme
An amount of R 5 940 000 was transferred to the Municipality for Intergrated National Electrification Programme during the year. A total of R 5 940 000 was utilised for the project leaving no unspent amount at year end.

Hounsing Project
An amount of R 3 114 846 was unspent at the begining, There were no receips or payments during the current year

Liabilities and corresponding rights of reimbursement recognised as assets

An amount of R 3 114 846 that was underspent relates to to amounts received from National Treasury for housing grant

No other Liabilities were incurred on behalf of the principal(s) that have been recognised by the Municipality. No Corresponding rights of reimbursement that have been recognised as assets.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

52. Accounting by principals and agents (continued)

Additional information

Transactions undertaken in terms of the principal-agent arrangement

Housing grant

Opening balance	1 882 469	3 091 108
Current year receipts	-	29 771 742
Expenditure incurred	-	(27 889 273)
Withheld from Equitable share	-	(3 091 108)
	1 882 469	**1 882 469**

Amount of expenses paid during the reporting period

Emergency Housing project	-	30 980 381

Integrated National Electrification Programme

Opening balance	-	2 905 495
Current year receipts	5 940 000	7 000 000
Expenditure incurred	(5 940 000)	(7 000 000)
Withheld from Equitable share	-	(2 905 495)
	-	-

Amount of expenses paid during the reporting period:

Shikishela-Madwaleni Phase 2 Electrification	2 987 053	-
Nyalazi and esiyembeni electrification	-	342 413
ward11 Electrification	-	2 133 830
Shikishela/ Madwaleni electrification project	-	739 416
Ward 12 Electrification project	-	3 027 586
Esiyembeni #2 Electrification	1 294 991	756 755
Mtubatuba NB7 Refurbishment	1 312 400	-
Indlovu Village Electrification	345 554	-
	5 939 998	**7 000 000**