



City of uMhlathuze
Annual Financial Statements
for the year ended 30 June 2023

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

General Information

Nature of business	Local government
Executive Committee	Clr X Ngwezi (Mayor) Clr CM Botha (EXCO) Clr SH Zulu (EXCO) Clr Z Grobelaar (EXCO - Terminated on 03/03/2023) Clr MG Mhlongo (EXCO - Terminated on 03/03/2023) Clr ZH mkhize (EXCO - Terminated on 03/03/2023) Clr BC Mthembu (EXCO - Terminated on 03/03/2023) Clr KD Sibiyi (EXCO - Terminated on 03/03/2023) Clr RM Zikhali (EXCO - Terminated on 03/03/2023)
Demarcation Code	KZ282
Chief Finance Officer	Mr M Kunene
Accounting Officer	Mr NG Zulu
Registered Office	5 Mark Strasse Central Business District Richards Bay 3900
Bankers	ABSA
Auditors	Auditor-General South Africa

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

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Abbreviations used:

DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Accounting Officer's Responsibilities and Approval

The City of uMhlathuze, situated at 5 Mark Strasse, Richards Bay, is a category B municipality, established in terms of Section 12 (1) of the Municipal Structures Act, 1998 (Act No. 117 of 1998) and published in terms of the Provincial Government Notice 346 on 19 September 2000. The Local Government operations of the Municipality are assigned by section 156 and 229 of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996) and are defined specifically in terms of Section 83 of the Municipal Structures Act 1998 (Act No. 117 of 1998).


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 annual financial statements set out on page 4 to 82, which have been prepared on the going concern basis by the accounting officer in terms of section 126 (1) of the Municipal Finance Management Act, 2003 (Act No 56 of 2003) and were signed off by the accounting officer on 31 August 2023.

I certify that the Salaries, allowances and benefits of Councillors and payments made to Councillors as disclosed in note 28 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act, 1998 (Act No 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.

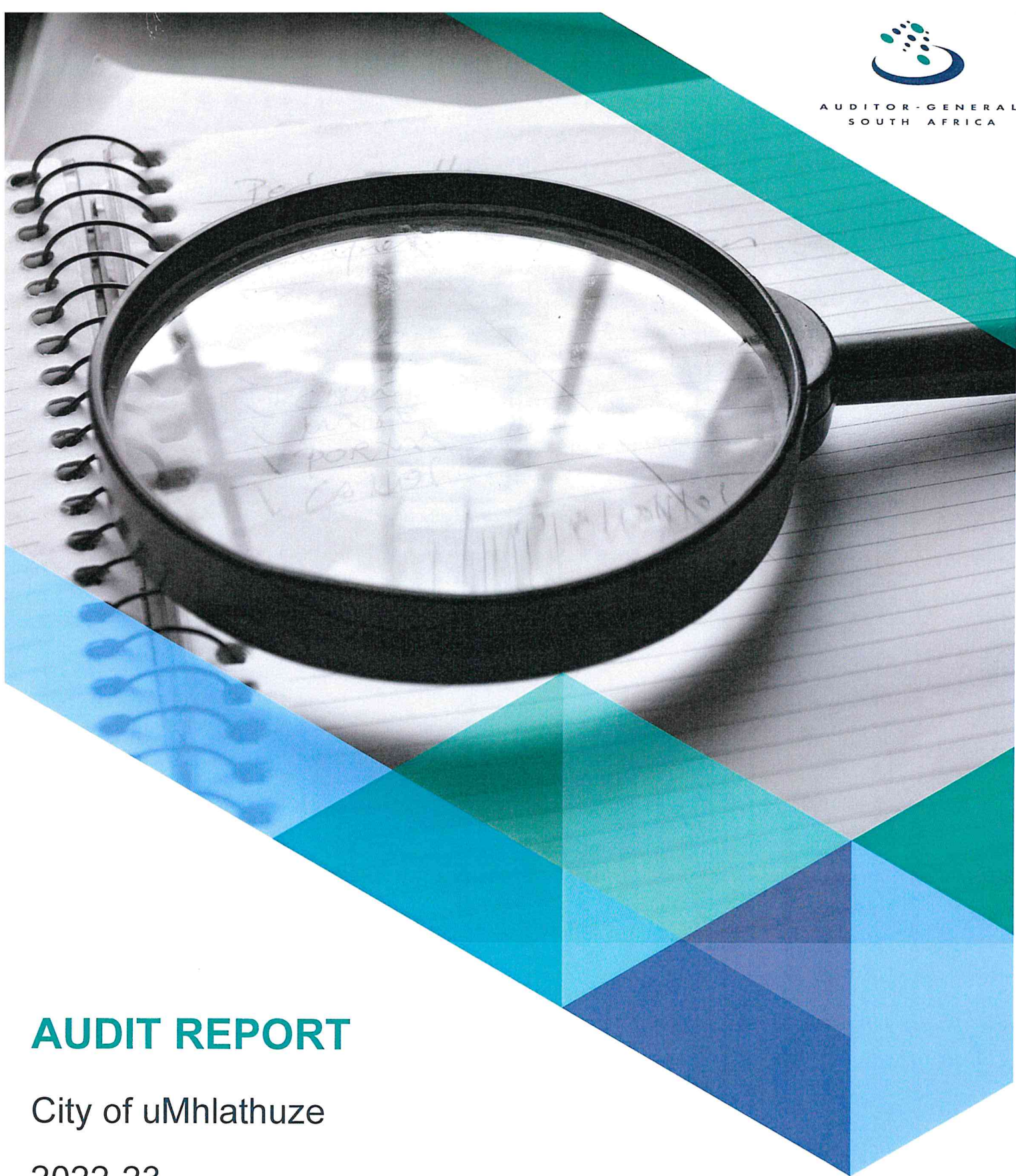
As required by Section 45 of the Municipal Systems Act, 2000 (Act No. 32 of 2000) and Section 121 (4)(a) and (b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) and Gazette number 43582 the Annual Financial Statements were submitted to the Auditor-General South Africa (AGSA) on 31 August 2023.



Mr NG Zulu
City Manager



AUDITOR-GENERAL
SOUTH AFRICA



AUDIT REPORT

City of uMhlathuze

2022-23

Date: 30 November 2023

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on the City of uMhlathuze Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the City of uMhlathuze Municipality set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2023, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the City of uMhlathuze Municipality as at 30 June 2023, and its financial performance and cash flows for the year then ended in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act 56 of 2003 (MFMA) and the Division of Revenue Act 5 of 2022 (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the responsibilities of the auditor-general for the audit of the financial statements section of my report.
4. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA code) as well as other ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Receivables from exchange transactions – allowance for impairment

7. As disclosed in note 4 to the financial statements, an allowance for impairment of R120 million (2021-22: R276,21 million) on receivables from exchange transactions was raised as the recoverability of these amounts was doubtful.

Bad debts written off

8. As disclosed in note 32 to the financial statements, R245,95 million (2021-22: R119,89 million) was written off as bad debts.

Bulk purchases – water losses

9. As disclosed in note 33 to the financial statements, water distribution losses of R434,10 million (2021-22: R260 million) was incurred, which represented 57% (2021-22: 38%) of total water purchased. These losses were largely due to illegal connections, metering losses and leakages.

Other matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

11. In terms of section 125(2)(e) of the MFMA, the particulars of non-compliance with the MFMA should be disclosed in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

12. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
13. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting

unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the auditor-general for the audit of the financial statements

14. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error; and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
15. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

16. In accordance with the Public Audit Act 25 of 2004 (PAA) and the general notice issued in terms thereof, I must audit and report on the usefulness and reliability of the reported performance against predetermined objectives for the selected key performance area presented in the annual performance report. The accounting officer is responsible for the preparation of the annual performance report.
17. I selected the following key performance area presented in the annual performance report for the year ended 30 June 2023 for auditing. I selected a key performance area that measures the municipality's performance on its primary mandated functions and that are of significant national, community or public interest.

Key performance area	Page numbers	Purpose
Basic service delivery and infrastructure development	XX-XX	Provision of infrastructure and delivery of basic services

18. I evaluated the reported performance information for the selected key performance area against the criteria developed from the performance management and reporting framework, as defined in the general notice. When an annual performance report is prepared using these criteria, it provides useful and reliable information and insights to users on the municipality's planning and delivery on its mandate and objectives.
19. I performed procedures to test whether:

- the indicators used for planning and reporting on performance can be linked directly to the municipality's mandate and the achievement of its planned objectives
- the indicators are well defined to ensure that they are easy to understand and can be applied consistently, as well as verifiable so that I can confirm the methods and processes to be used for measuring achievements
- the targets can be linked directly to the achievement of the indicators and are specific, time bound and measurable to ensure that it is easy to understand what should be delivered and by when, the required level of performance as well as how performance will be evaluated
- the indicators and targets reported on in the annual performance report are the same as those committed to in the approved initial or revised planning documents
- the reported performance information is presented in the annual performance report in the prescribed manner
- there is adequate supporting evidence for the achievements reported and for any measures taken to improve performance.

20. I performed the procedures for the purpose of reporting material findings only; and not to express an assurance opinion or conclusion.

21. I did not identify any material findings on the reported performance information for the selected key performance area.

Other matter

22. I draw attention to the matter below.

Achievement of planned targets

23. The annual performance report includes information on reported achievements against planned targets and measures taken to improve performance. Tabulated below are service delivery indicators that were not achieved for the basic service delivery and infrastructure key performance area.

24. The municipality plays a key role in delivering services to South Africans. The table that follow provide information on the achievement of planned targets and lists the key service delivery indicators that were not achieved as reported in the annual performance report. The reasons for measures taken to improve performance are included in the annual performance report on pages xx to xx.

Service delivery indicators not achieved – KPA 2 – Basic Service Delivery and infrastructure

Key service delivery indicators not achieved	Planned target	Reported achievement
Reduction of water losses (cumulative)	25%	88%
Wastewater Quality compliance of $\geq 90\%$ as per Green Drop standard	>90%	42%
Percentage of planned maintenance performed	100%	88%
Kilometres of paved municipal road which has been resurfaced and resealed	3	0
Construction of Pedestrian Bridges	5	0
Number of subsidised housing units completed	20	0
Percentage of Pre 1994 Old Housing stock transferred	100%	0%
Number of Post 1994 Old Housing stock transferred	46	34

Report on compliance with legislation

25. In accordance with the PAA and the general notice issued in terms thereof, I must audit and report on compliance with applicable legislation relating to financial matters, financial management and other related matters. The accounting officer is responsible for the municipality's compliance with legislation.
26. I performed procedures to test compliance with selected requirements in key legislation in accordance with the findings engagement methodology of the Auditor-General of South Africa (AGSA). This engagement is not an assurance engagement. Accordingly, I do not express an assurance opinion or conclusion.
27. Through an established AGSA process, I selected requirements in key legislation for compliance testing that are relevant to the financial and performance management of the municipality, clear to allow consistent measurement and evaluation, while also sufficiently detailed and readily available to report in an understandable manner. The selected legislative requirements are included in the annexure to this auditor's report.
28. I did not identify any material non-compliance with the selected legislative requirements.

Other information in the annual report

29. The accounting officer is responsible for the other information included in the annual report. The other information referred to does not include the financial statements, the auditor's report and the selected key performance area presented in the annual performance report that has been specifically reported on in this auditor's report.

30. My opinion on the financial statements, the report on the audit of the annual performance report and the report on compliance with legislation do not cover the other information included in the annual report and I do not express an audit opinion or any form of assurance conclusion on it.
31. My responsibility is to read this other information and, in doing so, consider whether it is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
32. The other information I obtained prior to the date of this auditor's report is the draft annual report received with the submission of the annual financial statements. The final annual report is expected to be made available to us after 30 November 2023.
33. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.
34. When I do receive and read the final annual report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

35. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
36. I did not identify any significant deficiencies in internal control.

Material irregularities

37. In accordance with the PAA and the Material Irregularity Regulations, I have a responsibility to report on material irregularities identified during the audit.

Material irregularities identified during the audit

38. The material irregularities identified are as follows:

Overpayment for sports fitness centre

39. I identified non-compliance with section 78(1)(c) of the MFMA, which requires that each senior manager and each official exercising financial management responsibilities must take all reasonable steps within their respective areas of responsibility to ensure that any unauthorised, irregular, or fruitless and wasteful expenditure and any other losses are prevented. In this regard, contracts for the development and construction of a fitness centre in Esikhaleni, Richards Bay, KwaZulu-Natal were awarded, and payments were made for goods and services not delivered. The overpayment was disclosed as irregular expenditure under assessment in note 48 to the 2022-23 financial statements. The overpayment is likely to result in a material financial loss if not recovered. The accounting officer was notified of the material irregularity on 29 March 2023. The following actions were taken:

- Disciplinary action against the officials that did not discharge their duties with due care as required by the MFMA and their agreed conditions of employment. These officials were suspended and their services later terminated.
- The project management consultant and contractor's contracts have since been terminated, and the process of financial recovery for the overpayment is underway through a legal process.
- Criminal cases against the suppliers have been lodged with the South African Police Service and the Directorate for Priority Crime Investigations.

40. I will follow up on the progress made to recover the overpayments during my next audit.

Auditor-General

Pietermaritzburg

30 November 2023



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure to the auditor's report

The annexure includes the following:

- The auditor-general's responsibility for the audit
- The selected legislative requirements for compliance testing

Auditor-general's responsibility for the audit

Professional judgement and professional scepticism

As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements and the procedures performed on reported performance information for the selected key performance area and on the municipality's compliance with selected requirements in key legislation.

Financial statements

In addition to my responsibility for the audit of the financial statements as described in this auditor's report, I also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made
- conclude on the appropriateness of the use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists relating to events or conditions that may cast significant doubt on the ability of the municipality to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify my opinion on the financial statements. My conclusions are based on the information available to me at the

date of this auditor's report. However, future events or conditions may cause a municipality to cease operating as a going concern

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and determine whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence and, where applicable, actions taken to eliminate threats or safeguards applied.

Compliance with legislation – selected legislative requirements

The selected legislative requirements are as follows:

Legislation	Sections or regulations
Municipal Finance Management Act 56 of 2003	Section 1 - paragraph (a), (b) & (d) of the definition: irregular expenditure Section 1 - definition: service delivery and budget implementation plan Sections 11(1), 13(2), 14(1), 14(2)(a), 14(2)(b), 15, 24(2)(c)(iv), 29(1), Sections 29(2)(b), 32(2), 32(2)(a), 32(2)(a)(i), 32(2)(a)(ii), 32(2)(b), 32(6)(a), Sections 32(7), 53(1)(c)(ii), 54(1)(c), 62(1)(d), 62(1)(f)(i), 62(1)(f)(ii), Sections 62(1)(f)(iii), 63(1)(a), 63(2)(a), 63(2)(c), 64(2)(b), 64(2)(c), 64(2)(e), Sections 64(2)(f), 64(2)(g), 65(2)(a), 65(2)(b), 65(2)(e), 72(1)(a)(ii), 112(1)(j), Sections 116(2)(b), 116(2)(c)(ii), 117, 122(1), 122(2), 126(1)(a), 126(1)(b), Sections 127(2), 127(5)(a)(i), 127(5)(a)(ii), 129(1), 129(3), 133(1)(a), Sections 133(1)(c)(i), 133(1)(c)(ii), 170, 171(4)(a), 171(4)(b)
MFMA: Municipal Budget and Reporting Regulations, 2009	Regulation 71(1), 71(2), 72
MFMA: Municipal Investment Regulations, 2005	Regulations 3(1)(a), 3(3), 6, 7, 12(2), 12(3)
MFMA: Municipal Regulations on Financial Misconduct Procedures and Criminal Proceedings, 2014	Regulations 5(4), 6(8)(a), 6(8)(b), 10(1)
MFMA: Municipal Supply Chain Management Regulations, 2017	Regulations 5, 12(1)(c), 12(3), 13(b), 13(c), 13(c)(i), 16(a), 17(1)(a), 17(1)(b), Regulations 17(1)(c), 19(a), 21(b), 22(1)(b)(i), 22(2), 27(2)(a), 27(2)(e), Regulations 28(1)(a)(i), 28(1)(a)(ii), 29(1)(a) and (b), 29(5)(a)(ii), 29(5)(b)(ii), Regulations 32, 36(1), 36(1)(a), 38(1)(c), 38(1)(d)(ii), 38(1)(e), 38(1)(g)(i), Regulations 38(1)(g)(ii), 38(1)(g)(iii), 43, 44, 46(2)(e), 46(2)(f)
MSA: Disciplinary Regulations for Senior Managers, 2011	Regulations 5(2), 5(3), 5(6), 8(4)
Annual Division of Revenue Act	Sections 11(6)(b), 12(5), 16(1); 16(3)

Legislation	Sections or regulations
Construction Industry Development Board Act 38 of 2000	Section 18(1)
Construction Industry Development Board Regulations, 2004	Regulations 17, 25(7A)
Municipal Property Rates Act 6 of 2004	Section 3(1)
Preferential Procurement Policy Framework Act 5 of 2000	Sections 2(1)(a), 2(1)(f)
Preferential Procurement Regulations, 2017	Regulations 4(1), 4(2), 5(1), 5(3), 5(6), 5(7), 6(1), 6(2), 6(3), 6(6), 6(8), 7(1), Regulations 7(2), 7(3), 7(6), 7(8), 8(2), 8(5), 9(1), 10(1), 10(2), 11(1), 11(2)
Preferential Procurement Regulations, 2022	Regulations 4(1), 4(2), 4(3), 4(4), 5(1), 5(2), 5(3), 5(4)
Prevention and Combating of Corrupt Activities Act 12 of 2004	Section 34(1)
Municipal Systems Act 32 of 2000	Sections 25(1), 26(a), 26(c), 26(h), 26(i), 27(1), 29(1)(b)(ii), 29(2)(a), Sections 29(2)(c), 34(a), 34(b), 38(a), 41(1)(a), 41(1)(b), 41(1)(c)(ii), 42, Sections 43(2), 56(a), 57(2)(a), 57(4B), 57(6)(a), 66(1)(a), 66(1)(b), Sections 67(1)(d), 74(1), 93J(1), 96(b)
MSA: Municipal Planning and Performance Management Regulations, 2001	Regulations 2(1)(e), 2(3)(a), 3(3), 3(4)(b), 3(5)(a), 7(1), 8, 9(1)(a), 10(a), Regulations 12(1), 15(1)(a)(i), 15(1)(a)(ii)
MSA: Municipal Performance Regulations for Municipal Managers and Managers directly Accountable to Municipal Managers, 2006	Regulations 2(3)(a), 4(4)(b), 8(1), 8(2), 8(3)

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Position as at 30 June 2023

	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Inventories	2	134 270 063	130 729 852
Statutory receivables	3	207 117 880	177 162 613
VAT receivable		15 881 482	6 037 154
Receivables from exchange transactions	4	847 490 379	672 414 980
Other Receivables	5	26 167 012	24 092 250
Cash and cash equivalents	6	495 109 011	684 763 763
		1 726 035 827	1 695 200 612
Non-Current Assets			
Investment property	7	108 933 194	98 620 081
Property, plant and equipment	8	6 911 093 524	6 337 557 475
Intangible assets	9	201 853 396	188 628 105
Heritage assets	10	2 464 611	2 464 611
		7 224 344 725	6 627 270 272
Total Assets		8 950 380 552	8 322 470 884
Liabilities			
Current Liabilities			
Other financial liabilities	11	167 192 011	109 923 077
Payables from exchange transactions	12	719 189 072	720 068 180
Consumer deposits	13	57 155 018	61 180 750
Employee benefit obligation	16	20 380 000	16 838 000
Unspent conditional grants and receipts	14	38 593 781	10 015 946
Provisions	15	26 678 881	25 205 994
		1 029 188 763	943 231 947
Non-Current Liabilities			
Other financial liabilities	11	1 244 834 580	806 161 902
Employee benefit obligation	16	263 422 000	252 740 000
		1 508 256 580	1 058 901 902
Total Liabilities		2 537 445 343	2 002 133 849
Net Assets		6 412 935 209	6 320 337 035
Accumulated surplus	17	6 412 935 209	6 320 337 035
Total Net Assets		6 412 935 209	6 320 337 035

* See Note 44

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Performance for the year ended 30 June 2023

	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	2 520 919 377	2 330 472 115
Construction contracts	19	125 288 898	78 306 911
Rental of facilities and equipment		11 244 526	10 233 407
Interest received - outstanding debtors		-	387 405
Agency services		6 538 756	4 691 626
Licences and permits		3 492 315	3 014 742
Debt Impairment Reversal	20	204 116 989	136 019 044
Operational revenue	21	44 224 486	25 767 029
Interest received - investment	22	26 846 335	34 734 726
Total revenue from exchange transactions		2 942 671 682	2 623 627 005
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	615 807 639	567 443 544
Interest revenue - property rates	23	901 673	2 517 489
Surcharges and Taxes		7 667 511	16 038 916
Inventories water gains	2	581 557 584	527 840 130
Transfer revenue			
Transfers and subsidies	24	752 760 049	620 100 341
Public contributions and donations	25	1 386 692	163 465
Fines, Penalties and Forfeits	26	7 276 876	20 729 768
Total revenue from non-exchange transactions		1 967 358 024	1 754 833 653
Total revenue		4 910 029 706	4 378 460 658
Expenditure			
Employee related costs	27	1 076 639 472	1 032 294 399
Remuneration of councillors	28	32 723 590	30 528 265
Inventory Consumed	29	443 351 013	502 191 459
Depreciation and amortisation	30	301 929 662	330 672 030
Impairments loss	8	10 121 864	1 548 304
Finance costs	31	89 003 489	57 199 837
Bad debts written off	32	245 948 597	119 892 039
Bulk purchases	33	1 250 740 202	1 151 971 461
Contracted services	34	580 509 509	453 982 122
Transfers and Subsidies	35	8 772 298	9 278 714
Loss on disposal of assets and liabilities	8	44 346 166	23 289 489
Water losses	33	434 101 278	260 004 342
Operating expenses	36	311 835 669	282 411 530
Total expenditure		4 830 022 809	4 255 263 991
Surplus for the year from continuing operations		80 006 897	123 196 667
Actuarial Gains / (Loss)	16	12 591 273	117 667 991
Surplus for the year		92 598 170	240 864 658

* See Note 44

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Statement of Changes in Net Assets for the year ended 30 June 2023

	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported - 30 June 2021	6 027 616 979	6 027 616 979
Adjustments:		
Correction of errors 44	51 855 398	51 855 398
Restated* Balance at 01 July 2021	6 079 472 377	6 079 472 377
Changes in net assets		
Surplus for the year	240 864 658	240 864 658
Total changes	240 864 658	240 864 658
Restated* Balance at 01 July 2022	6 320 337 039	6 320 337 039
Changes in net assets		
Surplus for the year	92 598 170	92 598 170
Total changes	92 598 170	92 598 170
Balance at 30 June 2023	6 412 935 209	6 412 935 209

* See Note 44

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Cash Flow Statement

	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Property rates		598 117 233	473 102 167
Sale of goods and services		2 299 907 049	2 030 146 859
Grants		781 337 884	617 849 211
Interest income		33 424 811	32 259 596
Other receipts		75 536 363	67 970 917
Construction contract revenue		125 288 898	78 306 911
		<u>3 913 612 238</u>	<u>3 299 635 661</u>
Payments			
Employee costs		(1 109 363 062)	(1 006 396 647)
Suppliers		(2 438 597 610)	(1 975 120 423)
Finance costs		(83 138 800)	(56 341 247)
Transfers and subsidies		(8 772 298)	(9 278 714)
		<u>(3 639 871 770)</u>	<u>(3 047 137 031)</u>
Net cash flows from operating activities	39	<u>273 740 468</u>	<u>252 498 630</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(950 662 963)	(622 627 841)
Proceeds from sale of property, plant and equipment	8	55 710 000	140 000
Purchase of investment property	7	(10 775 899)	-
Purchase of other intangible assets	9	(47 743 281)	(50 346 346)
		<u>(953 472 143)</u>	<u>(672 834 187)</u>
Net cash flows from investing activities		<u>(953 472 143)</u>	<u>(672 834 187)</u>
Cash flows from financing activities			
Proceeds from other financial liabilities		600 000 000	374 000 000
Repayment of other financial liabilities		(109 923 077)	(89 590 988)
		<u>490 076 923</u>	<u>284 409 012</u>
Net cash flows from financing activities		<u>490 076 923</u>	<u>284 409 012</u>
Net increase/(decrease) in cash and cash equivalents		<u>(189 654 752)</u>	<u>(135 926 545)</u>
Cash and cash equivalents at the beginning of the year		684 763 763	820 690 308
Cash and cash equivalents at the end of the year	6	<u>495 109 011</u>	<u>684 763 763</u>

* See Note 44

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Statement of Budget Comparison and Actual Amounts for the year ended 30 June 2023

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Variance amount as % of final budget
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	2 596 874 400	(18 604 300)	2 578 270 100	2 520 919 377	(57 350 723)	(2,22)%
Construction contracts	-	-	-	125 288 898	125 288 898	- %
Rental of facilities and equipment	9 648 100	499 400	10 147 500	11 244 526	1 097 026	10,81 %
Interest received (trading)	128 000	(100 000)	28 000	-	(28 000)	- %
Agency services	6 179 400	-	6 179 400	6 538 756	359 356	5,82 %
Licences and permits	3 525 900	-	3 525 900	3 492 315	(33 585)	(1,00)%
Reduction in post-employment benefits	-	-	-	204 116 989	204 116 989	- %
Operational income	34 053 800	2 860 400	36 914 200	44 224 486	7 310 286	19,80 %
Interest received - investment	66 700 000	-	66 700 000	26 846 335	(39 853 665)	(48,06)%
Total revenue from exchange transactions	2 717 109 600	(15 344 500)	2 701 765 100	2 942 671 682	240 906 582	9
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	681 140 100	(150 000)	680 990 100	615 807 639	(65 182 461)	(9,60)%
Interest revenue - property rates	-	-	-	901 673	901 673	- %
Surcharges and Taxes	-	-	-	7 667 511	7 667 511	- %
Inventories water gains	-	-	-	581 557 584	581 557 584	- %
Transfer revenue						
Government grants & subsidies	709 520 000	39 683 100	749 203 100	752 760 049	3 556 949	1,00 %
Public contributions and donations	-	-	-	1 386 692	1 386 692	- %
Fines, Penalties and Forfeits	57 681 000	10 000	57 691 000	7 276 876	(50 414 124)	(87,39)%
Total revenue from non-exchange transactions	1 448 341 100	39 543 100	1 487 884 200	1 967 358 024	479 473 824	-6,86%
Total revenue	4 165 450 700	24 198 600	4 189 649 300	4 910 029 706	720 380 406	3,49%
Expenditure						
Remuneration of employees	(1 164 608 100)	21 959 900	(1 142 648 200)	(1 076 639 472)	66 008 728	(5,78)%
Remuneration of councillors	(37 291 100)	-	(37 291 100)	(32 723 590)	4 567 510	(12,25)%
Inventory consumed	(557 492 100)	(15 743 300)	(573 235 400)	(443 351 013)	129 884 387	77,34 %
Depreciation and amortisation	(326 552 300)	(13 984 200)	(340 536 500)	(312 051 526)	28 484 974	11,37 %
Finance costs	(72 864 600)	(15 357 300)	(88 221 900)	(89 003 489)	(781 589)	(1,00)%
Debt Impairment	(172 510 200)	-	(172 510 200)	(245 948 597)	(73 438 397)	142,57 %
Bulk purchases	(1 258 204 000)	21 962 300	(1 236 241 700)	(1 250 740 202)	(14 498 502)	1,17 %
Contracted Services	(395 567 400)	(68 498 680)	(464 066 080)	(580 509 509)	(116 443 429)	25,09 %
Transfers and Subsidies	(14 216 900)	4 688 900	(9 528 000)	(8 772 298)	755 702	(7,93)%
Losses	(214 797 800)	-	(214 797 800)	(478 447 444)	(263 649 644)	222,74 %
Operating expenses	(312 083 800)	(38 423 000)	(350 506 800)	(311 835 669)	38 671 131	(19,25)%
Total expenditure	(4 526 188 300)	(103 395 380)	(4 629 583 680)	(4 830 022 809)	(200 439 129)	3,22

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Statement of Budget Comparison and Actual Amounts for the year ended 30 June 2023

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Variance amount as % of final budget
Operating surplus	(360 737 600)	(79 196 780)	(439 934 380)	80 006 897	519 941 277	
Inventories losses/write-downs	507 883 400	-	507 883 400	-	(507 883 400)	14,51 %
Surplus before taxation	147 145 800	(79 196 780)	67 949 020	80 006 897	12 057 877	-
Surplus for the year from continuing operations	147 145 800	(79 196 780)	67 949 020	80 006 897	12 057 877	-
Actuarial gains	-	-	-	12 591 273	12 591 273	
Surplus for the year	147 145 800	(79 196 780)	67 949 020	92 598 170	24 649 150	-

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Statement of Budget Comparison and Actual Amounts for the year ended 30 June 2023

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Variance amount as % of final budget
Statement of Financial Position						
Assets						
Current Assets						
Inventories	116 043 948	14 943 773	130 987 721	134 270 063	3 282 342	2,51 %
VAT receivable	-	-	-	15 881 482	15 881 482	- %
Receivables from exchange transactions	403 394 975	370 858 569	774 253 544	1 054 608 259	280 354 715	36,21 %
Other Receivables	25 149 235	25 418 847	50 568 082	26 167 012	(24 401 070)	(48,25)%
Cash and cash equivalents	830 914 609	(328 185 294)	502 729 315	495 109 011	(7 620 304)	(1,52)%
	1 375 502 767	83 035 895	1 458 538 662	1 726 035 827	267 497 165	18,34 %
Non-Current Assets						
Investment property	114 650 725	(1 829 465)	112 821 260	108 933 194	(3 888 066)	(3,45)%
Property, plant and equipment	6 909 474 568	98 630 893	7 008 105 461	6 911 093 524	(97 011 937)	(1,29)%
Intangible assets	151 625 535	41 223 541	192 849 076	201 853 396	9 004 320	(4,67)%
Heritage assets	2 464 611	-	2 464 611	2 464 611	-	- %
	7 178 215 439	138 024 969	7 316 240 408	7 224 344 725	(91 895 683)	(1,16)%
Total Assets	8 553 718 206	221 060 864	8 774 779 070	8 950 380 552	175 601 482	2,08 %
Liabilities						
Current Liabilities						
Other financial liabilities	-	-	-	167 192 011	167 192 011	- %
Payables from exchange transactions	857 425 748	7 947 866	865 373 614	719 189 069	(146 184 545)	(17,00)%
Consumer deposits	54 304 470	6 637 495	60 941 965	57 155 018	(3 786 947)	(6,21)%
Employee benefit obligation	-	-	-	20 380 000	20 380 000	- %
Unspent conditional grants and receipts	12 438 687	2 575 604	15 014 291	38 593 783	23 579 492	157,05 %
Provisions	23 685 530	1 520 429	25 205 959	26 678 881	1 472 922	5,84 %
	947 854 435	18 681 394	966 535 829	1 029 188 762	62 652 933	6,38 %
Non-Current Liabilities						
Other financial liabilities	1 169 021 594	69 387 651	1 238 409 245	1 244 834 580	6 425 335	- %
Employee benefit obligation	261 841 900	(29 910 200)	231 931 700	263 422 000	31 490 300	13,6 %
	1 430 863 494	39 477 451	1 470 340 945	1 508 256 580	37 915 635,0	2,1 %
Total Liabilities	2 378 717 929	58 158 845	2 436 876 774	2 537 445 342	100 568 568	3,81 %
Net Assets	6 175 000 277	162 902 019	6 337 902 296	6 412 935 210	75 032 914	1,42 %
Net Assets						
Reserves						
Accumulated surplus	6 175 000 277	162 902 019	6 337 902 296	6 412 935 210	75 032 914	1,42 %

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Statement of Budget Comparison and Actual Amounts for the year ended 30 June 2023

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Variance amount as % of final budget
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property rates	652 532 216	(136 236)	652 395 980	598 117 233	(54 278 747)	(8,32)%
Service charges	2 478 602 581	24 417 847	2 503 020 428	2 274 897 425	(228 123 003)	(9,11)%
Grants	709 520 000	(38 468 558)	671 051 442	781 337 884	110 286 442	16,43 %
Interest income	66 764 000	(50 000)	66 714 000	33 424 811	(33 289 189)	(49,90)%
Other receipts	507 543 011	5 114 338	512 657 349	200 825 261	(311 832 088)	(60,83)%
	4 414 961 808	(9 122 609)	4 405 839 199	3 888 602 614	(517 236 585)	(11,73)%
Payments						
Employee costs	(1 164 608 100)	23 360 900	(1 141 247 200)	(1 109 363 062)	31 884 138	(2,79)%
Suppliers	(2 482 443 641)	(202 711 974)	(2 685 155 615)	(2 413 377 351)	271 778 264	(10,12)%
Finance costs	(72 864 600)	(15 357 300)	(88 221 900)	(83 138 800)	5 083 100	(5,76)%
Transfers and subsidies paid	(8 700 000)	-	(8 700 000)	(8 772 298)	(72 298)	1,00 %
	(3 728 616 341)	(194 708 374)	(3 923 324 715)	(3 614 651 511)	308 673 204	(7,83)%
Net cash flows from operating activities	686 345 467	(203 830 983)	482 514 484	273 951 103	(208 563 381)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(835 076 000)	(246 532 700)	(1 081 608 700)	(950 873 598)	130 735 102	(12,09)%
Proceeds from sale of property, plant and equipment	-	-	-	55 710 000	55 710 000	- %
Purchase of investment property	-	-	-	(10 775 899)	(10 775 899)	- %
Purchase of other intangible assets	-	-	-	(47 743 281)	(47 743 281)	- %
Net cash flows from investing activities	(835 076 000)	(246 532 700)	(1 081 608 700)	(953 682 778)	127 925 922	(11,82)%
Cash flows from financing activities						
Proceeds from financial liabilities	390 642 000	209 358 000	600 000 000	600 000 000	-	
Repayment of other financial liabilities	(126 808 999)	(5 398 091)	(132 207 090)	(109 923 077)	22 284 013	
Net cash flows from financing activities	263 833 001	203 959 909	467 792 910	490 076 923	22 284 013	
Net increase/(decrease) in cash and cash equivalents	115 102 468	(246 403 774)	(131 301 306)	(189 654 752)	(58 353 446)	44,44 %
Cash and cash equivalents at the beginning of the year	1 546 726 750	(308 523 231)	1 238 203 519	684 763 763	(553 439 756)	44,70 %
Cash and cash equivalents at the end of the year	1 661 829 218	(554 927 005)	1 106 902 213	495 109 011	(611 793 202)	55,27 %

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Statement of Budget Comparison and Actual Amounts for the year ended 30 June 2023

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Variance amount as % of final budget
Capital expenditure						
Finance and Administration	52 068 000	61 420 900	113 488 900	115 746 093	2 257 193	1,99 %
Community and Social Services	47 503 000	(5 570 300)	41 932 700	34 491 781	(7 440 919)	(17,74)%
Energy Sources	51 602 000	4 663 400	56 265 400	75 616 014	19 350 614	34,39 %
Environmental protection	2 500 000	2 250 000	4 750 000	655 407	(4 094 593)	(86,20)%
Planning and Development	48 603 000	1 817 500	50 420 500	3 566 792	(46 853 708)	(92,90)%
Public Safety	2 337 000	62 900	2 399 900	1 244 510	(1 155 390)	(48,14)%
Sport and Recreation	41 805 000	178 261 100	220 066 100	172 911 400	(47 154 700)	(21,40)%
Waste Management	11 802 000	(929 200)	10 872 800	1 834 782	(9 038 018)	(83,13)%
Wastewater Management	121 800 000	(18 390 196)	103 409 804	130 494 087	27 084 283	26,19 %
Water	311 419 000	39 350 303	350 769 303	405 826 054	55 056 751	15,70 %
Road Transport	132 137 000	(19 703 800)	112 433 200	57 264 433	(55 168 767)	(49,07)%
Other	11 500 000	3 300 000	14 800 000	10 775 899	(4 024 101)	(27,19)%
Total expenditure	835 076 000	246 532 607	1 081 608 607	1 010 427 252	(71 181 355)	(7,00)%

Explanation of variances of 20% or more per category is explained in Note 50.

City of uMhlatuze

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies for the year ended 30 June 2023

1. Presentation of Annual Financial Statements

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 annual financial statements have been prepared in accordance with Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board (ASB) in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below:

- GRAP 1 Presentation of Financial Statement
- GRAP 2 Cash Flow Statements
- GRAP 3 Accounting Policies, Changes in Accounting Estimates and Error
- GRAP 5 Borrowing Costs
- GRAP 9 Revenue from Exchange Transactions
- GRAP 11 Construction Contracts
- GRAP 12 Inventories
- GRAP 13 Leases
- GRAP 14 Events after the Reporting Date
- GRAP 16 Investment property
- GRAP 17 Property, Plant and Equipment
- GRAP 18 Segment Reporting
- GRAP 19 Provisions, Contingent Liabilities and Contingent Asset
- GRAP 20 Related Party
- GRAP 21 Impairment of non-cash generating asset
- GRAP 23 Revenue from Non-exchange transactions
- GRAP 24 Presentation of budget information
- GRAP 25 Employee benefits
- GRAP 31 Intangible Assets
- GRAP 103 Heritage Assets
- GRAP 104 Financial Instruments
- GRAP 108 Statutory Receivables
- GRAP 109 Accounting by Principals and Agents

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

-
- IGRAP 21 The effect of past decisions on materiality - effective 1 April 2023
- IGRAP 7 The limit on a defined benefit asset, minimum funding requirements and their interaction - no effective date yet)

The following GRAP standards have been issued and effective but are not applicable to the Municipality.

- GRAP 4 The effects of changes in foreign exchange rates
- GRAP 6 Consolidated and separate financial statements
- GRAP 7 Investments in associate
- GRAP 8 Interest in joint ventures
- GRAP 10 Financial reporting in hyperinflationary economics
- GRAP 27 Agriculture
- GRAP 32 Standard of GRAP on Service Concession Arrangements: Grantor
- GRAP 34 Separate financial statements
- GRAP 35 Consolidated financial statements
- GRAP 36 Investments in Associates and joint ventures
- GRAP 37 Joint arrangements
- GRAP 38 Disclosure of interests in other entities
- GRAP 105 Transfers of functions between entities under common control
- GRAP 106 Transfers of functions between entities not under common control
- GRAP 107 Mergers

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies for the year ended 30 June 2023

1.1 Presentation currency

These annual financial statements are presented in South African Rand. The figures are rounded off to the nearest rand.

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.

Management considers key financial metrics and approved medium-term budgets, MFMA Section 71 reports together with the municipality's dependency on grants from national and provincial government, to conclude that the going concern assumption used in the compiling of its annual financial statements, is appropriate.

1.3 Materiality

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

Materiality has been considered in determining whether information is required to be recognised, measured, presented and disclosed in accordance with the requirements in the Standards of GRAP as well as assessing the effect of omissions, misstatements and errors on the financial statements.

Budget information

Variances between budget and actual amounts are regarded as material when there is a variance of:
- 20% or greater in the statement of financial position, the statement of financial performance and the cash flow statement

1.4 Offsetting

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

1.5 Significant judgements and sources of estimation uncertainty

The preparation of the Municipality's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

Judgements

In the process of applying the Municipality's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements.

Operating lease – Municipality as lessor

The Municipality has entered into commercial property leases on its investment property portfolio. The Municipality has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are as follows:

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies for the year ended 30 June 2023

1.5 Significant judgements and sources of estimation uncertainty (continued)

Depreciation and impairment

The Municipality depreciates its assets over their estimated useful lives taking into account residual values, where appropriate. The appropriateness of its assets' estimated useful lives, residual values and their depreciation methods are re-assessed on an annual basis. The actual lives of these assets and their respective residual values may vary depending on a variety of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account.

Management used their judgement in applying the internal and external impairment indicators to its assets.

Consumer receivables

At year-end management makes an estimate of the amount of total outstanding customer debt that it expects to hand over to external debt collectors and the total subsequent receipts it expects to receive after year end. In addition, management estimates the amounts that it expects to recover from outstanding balances handed over based upon the age profile of debts handed over and based on prior experience and trends. A provision for impairment is raised based on these estimates.

Provisions

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

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 every 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 16.

1.6 Comparative figures

Prior year Comparative

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

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

Current year Comparative

Budgeted amounts have been included in the annual financial statements for the current financial year only.

1.7 Property, plant and equipment

Initially recognition

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 year.

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies for the year ended 30 June 2023

1.7 Property, plant and equipment (continued)

Infrastructure assets in particular are those that are part of a system or network, specialised in nature and do not have alternative uses, immovable and maybe subject to constraints on disposal.

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

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. 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 the municipality.

Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary asset is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Subsequent measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured.

Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it de-recognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, are measured at cost (or deemed cost), less accumulated depreciation and accumulated impairment losses. Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

Depreciation

Land is not depreciated as it is regarded as having an indefinite life. Depreciation on assets other than land is calculated on cost, using the straight-line method, to allocate their cost to their residual values over the estimated useful lives of the assets. 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 on each asset.

Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The depreciation rates are based on the following estimated useful lives.

The Municipality assesses at each reporting date whether there is any indication that the entity's expectations about the residual value and 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. The change(s) are accounted for in accordance with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Depreciation only commences when the asset is available for use.

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.

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies for the year ended 30 June 2023

1.7 Property, plant and equipment (continued)

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.

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 8).

The municipality discloses relevant information relating to assets that are work in progress, in the notes to the financial statements (see note 8).

The table below shows the depreciation methods and average useful lives.

Buildings	Straight line	30 years
Roads and paving	Straight line	15-65 years
Watercraft	Straight line	15 years
Furniture and fixtures	Straight line	7 years
Motor vehicles	Straight line	3-7 years
Office equipment	Straight line	3-5 years
Pedestrian bridges	Straight line	30 years
Electricity infrastructure	Straight line	20-30 years
Community	Straight line	5-30 years
Water infrastructure	Straight line	15-65 years
Sewerage infrastructure	Straight line	15-30 years
Housing	Straight line	30 years
Specialised plant and equipment	Straight line	10-15 years
Bins and containers	Straight line	5-10 years
Other property, plant and equipment	Straight line	2-5 years
Specialised vehicles	Straight line	10 years

Derecognition

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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.8 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.

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1.8 Leases (continued)

Operating leases - lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Leased assets are classified as investment property measured at cost model and depreciation on leased assets has been calculated in accordance with GRAP 16 Investment Properties.

Operating leases - lessee

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease expenses are recognised on a straight-line basis over the lease term.

1.9 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.

The municipality currently has only non-cash-generating assets as all of its assets are purely used for service delivery.

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. The value in use is measured as the depreciated replacement cost.

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.

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.

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

Reversal of an impairment loss

The municipality assess 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.

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.

In assessing whether there is any indication that an asset may be impaired, the following have been considered:

External sources of information

- Cessation or near cessation, of the demand or need for services provided by the asset;
- Significant long-term changes with an adverse effect on the entity that have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the municipality operates.

Internal sources of information

- Evidence of physical damage of an asset;
- Increased expenditure on repairs and maintenance on the asset.

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or circumstances indicate that the serviceable amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount exceeds the recoverable service amount.

The recoverable service amount is the higher of the assets fair value less cost to sell, or its value in use.

The value in use is the present value of the asset's remaining service potential expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

1.10 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences and development costs.

An asset is identifiable when it:

- 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, assets or liability, or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the Municipality or from other rights and obligations.

Initial recognition

The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or the 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.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

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1.10 Intangible assets (continued)

- the Municipality intends to complete the intangible asset for use or sale,
- the Municipality has the ability to use or sell the asset,
- the Municipality can reliably measure expenditure during development,
- it is technically feasible to complete the intangible asset,
- the Municipality has the resources to complete the project, and,
- it is probable that the Municipality will receive future economic benefits or service potential.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Internally generated intangible assets are subject to strict recognition criteria before they are capitalised.

Intangible assets are initially recognised at cost. Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Amortisation and impairment

The cost of an intangible asset is amortised over the useful life of 3 - 7 years.

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

An intangible asset with an indefinite useful life is not amortised.

Subsequent measurement

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

Derecognition

An intangible asset is derecognised when it is permanently withdrawn from use and no future economic benefit or service potential is derived from it. The gain or loss arising from the disposal of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset. It is recognised in surplus or deficit when the intangible asset is derecognised.

Assets Under Construction

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 9).

1.11 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.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

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

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

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

Initial recognition

Investment property is recognised as an asset, only where:

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1.11 Investment property (continued)

- It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and
- The cost or fair value of the investment property can be measured reliably.

Investment properties have been initially measured at cost (Transaction costs shall be included in this initial measurement). Transaction costs are costs which are directly attributable to the expenditure, for example professional fees for legal services, conveyancing fees, property transfer taxes and other transaction costs shall be included in this initial measurement.

If payment for investment property is deferred, its cost is the cash price equivalent.

The difference between this amount and the total payments is recognised as interest expense over the period of credit.

Subsequent measures

Subsequently investment properties are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is calculated on cost, using the straight-line method over the useful life of the property. Buildings held under Investment property are depreciated on an average useful life of 30 years. Vacant land held under investment properties is not depreciated.

Derecognition

An investment property is derecognised upon disposal, or when it is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. Any gain or loss arising from the retirement or disposal of investment property is included in surplus or deficit in the period of the retirement or disposal.

1.12 Inventories

Consumables are used by the municipality and not sold. Thus, the consumables are subsequently measured at lower of cost and current replacement cost, not at net realisable value.

Water for distribution is measured using weighted average method. Additions to water for distribution is accounted in two ways, namely bulk purchases and own production. Bulk purchases are capitalized in inventory based on actual costs from the service provider. Own productions are capitalised based on all the costs associated with producing water. Capitalised production costs are accounted for as inventory water gains in the Statement of Financial Performance and inventory water in the Statement of Financial Position.

In general, the basis of determining cost is not the first-in, first-out method. The FIFO is only used for consumables.

Land is initially recognised at cost, which is the fair value at recognition date.

Redundant and slow-moving inventories are not all written down to current replacement cost. Only consumables can be. Water and land must be written down to net realisable value.

1.13 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.

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1.13 Revenue from exchange transactions (continued)

Interest, royalties and dividends

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

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

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

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

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue in the period of consumption. Where meters cannot be read during a particular month, they are provisionally billed with the necessary adjustments made in the month in which they were read. Revenue from the sale of electricity prepaid meter cards is deferred and recognised as revenue on the consumption basis, commencing on date of purchase.

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

Service charges from sewerage are based on the water consumption on each developed property using the tariffs approved from Council and are levied monthly.

Interest and rentals are recognised on a time apportionment basis.

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant gazetted tariffs. This includes the issuing of licences and permits.

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

Revenue from the sale of goods is recognised when the risks and rewards of ownership of the goods is passed to the consumer.

Revenue from exchange transactions is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts allowed by the Municipality.

1.14 Revenue from non-exchange transactions

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

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis.

Fines constitute both spot fines and summons. Revenue from spot fines and summons is recognised when it is accrued. Spot fines are usually not given directly to the offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect to summons, the Public Prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender.

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are brought into use. Furthermore revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the municipality.

Where public contributions have been received by the municipality has not met the related conditions, a deferred income (liability) is recognised.

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1.14 Revenue from non-exchange transactions (continued)

Revenue from the recovery of unauthorised, irregular and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors of officials is virtually certain.

The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

1.15 Provisions and contingencies

Provisions are recognised when the Municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Contingent Liabilities and Assets are not recognized but disclosed.

A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

1.16 Housing development fund

Housing selling schemes both complete and in progress at 1 April 1998, were also transferred to the Housing Development Fund. All proceeds from housing developments, which include rental income and sales of houses, is paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund are used to finance housing developments within the municipal area. Any transfers to and from the fund are recognized in the statement of changes in net assets.

1.17 Retirement benefits

The Municipality provides post-retirement medical aid benefits to retired employees. The entitlement to these benefits is usually conditional on the employee remaining in employment up to retirement age.

An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions.

The Expected costs of these benefits are accrued of the period of employment. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized immediately in the statement of financial performance for the reporting period. The Defined benefit obligations are valued every year by independent qualified actuaries.

1.18 Borrowing costs

Borrowing costs incurred are recognised as an expense in the Statement of Financial Performance in the period in which they are incurred in accordance with GRAP 5.

1.19 Financial instruments

Classification

The Municipality has types of financial instruments and these can be broadly categorised as either Financial Assets or Financial Liabilities.

Subsequent measurement of financial assets and financial liabilities

Financial assets are categorised according to their nature as financial assets at amortised costs and financial liabilities are categorized as financial liabilities carried at amortised cost in accordance with GRAP 104.

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1.19 Financial instruments (continued)

Financial assets

The classification of financial assets depends on their nature and purpose, and is determined at the time of initial recognition.

Receivables from exchange transactions and other receivables

Trade and other receivables are categorised as financial assets: loans and receivables are initially recognised at fair value and subsequently carried at amortised cost. Amortised cost refers to the initial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year end. The fair value of Debtors is estimated as the present value of future cash flows, discounted at the effective interest rate at the reporting date.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (90 days and above) are considered indicators that the trade receivable is impaired. Impairments are determined by discounting expected future cash flows to their present value. Amounts that are receivable within 12 months from the reporting date are classified as current.

An impairment of trade receivables is accounted for by reducing the carrying amount of trade receivables through the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenses. When a trade receivable is uncollectible, it is written off.

Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The Municipality categorises cash and cash equivalents as financial assets: loans and receivables. The closing balance on the bank account is representative of its fair value of the monies held.

Financial liabilities

Payables from exchange transactions and Consumer deposits

Financial liabilities consist of trade payables and borrowings. They are categorised as financial liabilities held at amortised cost, are initially recognised at fair value and subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest. The fair value of creditors is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

Other financial liabilities

Borrowings are recognised initially at fair value, net transaction costs incurred. Long-term borrowings are non-derivative financial loans and the Municipality does not hold financial loans for trading purposes. Long-term borrowings are utilised. Other financial liabilities are carried at amortised cost.

The interbank rate or prime lending rate is not the risk-free interest rate, however it has been used as a benchmark for determining the market related rate of interest which is not significantly different to the current rates on long-term loans, hence the fair value of these loans equates their amortised cost.

1.20 Heritage assets

A heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance and is held and preserved indefinitely for the benefit of present and future generations. A heritage asset shall be recognised as an asset if, and only if,

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1.20 Heritage assets (continued)

(a) It is probable that the economic benefit or service potential will flow to the Municipality,

(b) The cost or the fair value will be measured reliably.

Initial measurement

A heritage asset that qualifies for recognition as an asset shall be measured at its cost (Cash price equivalent at the recognition date). Where a heritage asset is acquired through a non-exchange transaction, its cost is deemed to be its fair value as at the date of acquisition.

Subsequent measurement

Heritage assets are not depreciated, since their long economic life and high residual value mean that any depreciation would be immaterial.

After recognition as an asset, heritage assets shall be carried at its cost less any accumulated impairment losses. The Municipality assesses at each reporting date whether there are any indicators of impairment of Heritage assets.

Where there is an indication of impairment the assets are recorded at their recoverable amount or their recoverable service amount.

Derecognition

A Heritage asset is de-recognised when it is disposed or where there is no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from de-recognition, is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognized.

1.21 Short term benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.22 Grants in aid

The Municipality donates money, goods or services to individuals, organisations and other sectors of government from time to time. When making these donations, the Municipality does not:

Receive any goods or services directly in return as would be expected in a purchase or sale transaction;

Expect to be repaid in future; or

Expect a financial return, as would be expected from an investment.

These transfers are recognized in the statement of financial performance as expenses in the period during which events giving rise to the transfer occurred.

1.23 Budget information

The approved budget covers the fiscal period from 2022/07/01 to 2023/06/30.

The budget is prepared on an accrual basis. The budget amounts are scheduled as a separate additional financial statement called the statement of comparison of budget and actual amounts.

Explanatory comments are provided in the notes to the annual financial statements, first stating reasons for changes from approved to final budget and secondly reasons for overspending or underspending on line items.

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1.24 Unauthorised expenditure

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

1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

Irregular expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.26 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as an expense in the Statement of Financial Performance and when covered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.27 Value-added Tax

VAT

The Municipality accounts for Value Added Tax on payments basis. This means that VAT is declared to the South African Revenue Service as input VAT or output VAT only when payments are made to suppliers or payments are received for goods or services. The net output VAT on debtors where money has not been received or creditors where payment has not been made is disclosed separately in the Statement of Financial Position in terms of GRAP 1.

1.28 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. The municipality currently has property rates and fines classified in this category.

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 purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

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1.28 Statutory receivables (continued)

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

Accrued interest

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

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

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 are recognised in surplus or deficit.

In estimating the future cash flows, a 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

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1.28 Statutory receivables (continued)

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

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

1.29 Construction contracts and receivables

The Municipality has a level two accreditation in terms of its participation on the National Housing Programme. It is a project developer in terms of the arrangement to construct and transfer houses to the beneficiaries of the Programme.

Funds received to implement the National Housing Programme are recognised as contract revenue.

Contract revenue comprises:

- (a) the initial amount of revenue agreed in the contract; and
- (b) variations in contract work, claims and incentive payment to the extent that:
 - (i) it is probable that they will result in revenue; and
 - (ii) they are capable of being reliably measured.

Contract revenue is measured at the fair value of the consideration received or receivable.

When the outcome of a construction contract can be estimated reliably, contract revenue is recognised as revenue by reference to the stage of completion of the contract activity at the reporting date.

Cost incurred to implement the National Housing Programme are expensed as contract cost.

Contract costs comprise:

- (a) costs that relate directly to the specific contract;
- (b) costs that are attributable to contract activity in general and can be allocated to the on a systematic and rational basis; and
- (c) other costs are specifically chargeable to the customer under the terms of the contract.

Contract costs include the costs attributable to a contract for the period from the date of securing the contract to the final completion of the contract. Costs that cannot be attributed to contract activity or cannot be allocated to a contract are excluded from the costs of a construction contract.

Any unused funds advanced to the municipality is recognised as a liability.

1.30 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 made in respect of capital commitments for all contracts that are ongoing and not yet completed.

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and

City of uMhlathuze

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Accounting Policies for the year ended 30 June 2023

1.30 Commitments (continued)

- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.31 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Recognition

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

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

1.32 Internal reserves

Capital replacement reserve (CRR)

This reserve is ring-fenced through the accumulated surplus. In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

The following guidelines are set for the creation and utilisation of the CRR:

- 1) The cash funds that back up the CRR are invested until utilised.
- 2) The CRR may only be utilised for purchasing items of property, plant and equipment, and not their maintenance, unless otherwise directed by Council.
- 3) Whenever an asset is purchased out of the CRR, an amount equal to the cost price of the asset is transferred from CRR and accumulated surplus is credited by a corresponding amount.

Self insurance reserve

The municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that arises from municipal fleet that is not insured externally. The balance of the Self-Insurance Reserve is determined based on the insurance risk carried by the municipality and past claims history. The balance of the self-insurance fund is invested in short-term cash investments.

Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

This reserve is ring-fenced through the accumulated surplus.

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Accounting Policies for the year ended 30 June 2023

1.33 Segment information

A segment is an activity of an entity:

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

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

Measurement

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

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

The municipality report on segments in terms of the main revenue generating streams. These segments also represent the funding sources that fund the municipal operations as per mSCOA. Management also uses these segments for determining strategic objectives particularly on the financial viability of each service.

1.34 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 considered to be those family members who may be expected to influence, or be influenced by, that management 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.

City of uMhlathuze

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Accounting Policies for the year ended 30 June 2023

1.34 Related parties (continued)

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.

1.35 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.

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

	2023	2022
2. Inventories		
Consumable stores	36 179 515	34 040 457
Water for distribution	4 783 747	3 382 594
Land	93 306 801	93 306 801
	134 270 063	130 729 852
Inventory pledged as security		
During the year no Inventory was pledged as security.		
Water for distribution		
Opening balance	3 382 594	2 421 774
Bulk purchases	162 362 936	136 085 736
Own production (Inventory gain)	581 557 585	527 840 130
Water losses	33 (434 101 278)	(260 004 342)
Inventory consumed (Authorised consumption)	(308 418 090)	(402 960 704)
Closing balance	4 783 747	3 382 594

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

	2023	2022
3. Statutory receivables		
Fines	41 036 340	71 678 090
Property rates	199 507 447	186 816 946
Impairment - Rates	(22 600 000)	(39 680 000)
Impairment - Fines	(10 825 907)	(41 652 423)
	207 117 880	177 162 613

Statutory receivables general information

Transaction(s) arising from statute

Property Rates

Property rates are levied in terms of the Local Government: Municipal Property Rates Act No 6 of 2004, hence this is therefore recognised as a Statutory receivable. The receivable is calculated by the Council Approved rates and charges against the valuation of the individual properties within the Municipality's jurisdiction. Council Approved rebates and exemptions are further applied to reduce the receivables.

Fines

Traffic fines are issued to offenders in terms of the Criminal Procedures Act, hence this is therefore recognised as a Statutory receivable. The receivable is calculated by determining the value of the fine to be paid on initial recognition, and accounting for subsequent measurement by taking into account reductions and discounts made to the value of the fine payable in terms of the court of law.

Interest or other charges levied/charged

The Municipality charges interest on all outstanding debtor balances older than 30 days in respect of the property rates account at a simple interest rate of Prime plus 1%.

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

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.

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. When the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable is reduced. The amount of loss is recognised in the surplus or deficit.

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

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3. Statutory receivables (continued)

Statutory receivables past due but not impaired

Statutory receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2023, 7 872 549 (2022: 19 711 259) were past due but not impaired.

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

1 month past due	3 404 487	11 918 914
2 months past due	4 468 062	7 792 345

Rates

Current (0-30 days)	131 456 813	109 014 590
31-60 days	3 827 737	11 392 514
61-90 days	3 580 412	7 373 520
91-120 days	2 356 392	4 309 976
121-365 days	23 645 554	24 271 929
>365 days	34 640 540	30 454 418
	199 507 448	186 816 947

Fines

Current (0-30 days)	19 050	379 075
31-60 days	(423 250)	526 400
61-90 days	887 650	418 825
91-120 days	1 352 950	578 975
121-365 days	4 322 450	13 245 775
>365 days	34 877 490	56 529 040
	41 036 340	71 678 090

Reconciliation of provision for impairment for statutory receivables

Opening balance	(81 332 422)	(153 409 318)
Contribution	47 906 516	72 076 896
	(33 425 906)	(81 332 422)

4. Receivables from exchange transactions

Gross balances

Electricity	300 044 811	175 111 648
Water	427 583 821	590 899 922
Sewerage	37 626 724	32 366 590
Refuse	34 059 608	33 075 539
Sundry Debtors	139 400 484	94 330 746
Housing rental	28 774 931	22 840 535
	967 490 379	948 624 980

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Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

	2023	2022
4. Receivables from exchange transactions (continued)		
Less: Allowance for impairment		
Electricity	(31 600 000)	(65 750 000)
Water	(58 400 000)	(173 990 000)
Sewerage	(3 900 000)	(8 400 000)
Refuse	(5 800 000)	(7 450 000)
Sundry Debtors	(15 600 000)	(14 030 000)
Housing rental	(4 700 000)	(6 590 000)
	<u>(120 000 000)</u>	<u>(276 210 000)</u>
Net balance		
Electricity	268 444 811	109 361 648
Water	369 183 821	416 909 922
Sewerage	33 726 724	23 966 590
Refuse	28 259 608	25 625 539
Sundry Debtors	123 800 484	80 300 746
Housing rental	24 074 931	16 250 535
	<u>847 490 379</u>	<u>672 414 980</u>
Electricity		
Current (0 -30 days)	352 573 532	124 192 798
31 - 60 days	555 527	27 464 212
61 - 90 days	(3 687 198)	9 910 015
91 - 120 days	(49 478 189)	5 523 936
121 - 365 days	(3 828 885)	8 635 305
> 365 days	3 910 024	(614 618)
Less: Allowance for impairment	(31 600 000)	(65 750 000)
	<u>268 444 811</u>	<u>109 361 648</u>
Water		
Current (0 -30 days)	178 762 530	144 459 050
31 - 60 days	10 413 963	36 410 390
61 - 90 days	14 762 581	19 163 174
91 - 120 days	19 169 139	46 156 256
121 - 365 days	97 643 610	110 706 183
> 365 days	106 831 998	234 004 869
Less: Allowance for impairment	(58 400 000)	(173 990 000)
	<u>369 183 821</u>	<u>416 909 922</u>
Sewerage		
Current (0 -30 days)	22 309 364	11 869 987
31 - 60 days	691 465	3 721 107
61 - 90 days	970 330	1 488 381
91 - 120 days	834 635	1 443 474
121 - 365 days	5 230 694	5 747 767
> 365 days	7 590 236	8 095 874
Less: Allowance for impairment	(3 900 000)	(8 400 000)
	<u>33 726 724</u>	<u>23 966 590</u>

City of uMhlathuze

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4. Receivables from exchange transactions (continued)

Refuse

Current (0 -30 days)	22 189 970	18 141 799
31 - 60 days	623 807	5 682 994
61 - 90 days	836 679	1 325 328
91 - 120 days	856 814	884 143
121 - 365 days	4 254 325	4 206 805
> 365 days	5 298 013	2 834 470
Less: Allowance for impairment	(5 800 000)	(7 450 000)
	28 259 608	25 625 539

Sundry Debtors

Current (0 -30 days)	111 689 516	54 360 567
31 - 60 days	247 419	438 997
61 - 90 days	507 298	199 355
91 - 120 days	192 365	499 272
121 - 365 days	1 219 107	1 953 303
> 365 days	25 544 779	36 879 252
Less: Allowance for impairment	(15 600 000)	(14 030 000)
	123 800 484	80 300 746

Housing rental

Current (0 -30 days)	2 925 272	4 092 129
31 - 60 days	1 523 085	2 395 928
61 - 90 days	901 474	1 934
91 - 120 days	1 088 929	1 208 600
121 - 365 days	6 437 046	3 698 477
> 365 days	15 899 125	11 443 467
Less: Allowance for impairment	(4 700 000)	(6 590 000)
	24 074 931	16 250 535

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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4. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

Consumers

Current (0 -30 days)	31 806 246	69 462 979
31 - 60 days	2 192 330	4 871 738
61 - 90 days	4 511 612	5 875 791
91 - 120 days	5 472 723	6 221 079
121 - 365 days	36 258 469	29 621 313
> 365 days	109 020 267	101 177 400
	<u>189 261 647</u>	<u>217 230 300</u>
Less: Allowance for impairment	(36 004 366)	(69 744 089)
	<u>153 257 281</u>	<u>147 486 211</u>

Industrial/ commercial

Current (0 -30 days)	413 449 391	204 848 135
31 - 60 days	3 461 463	5 807 249
61 - 90 days	(1 740 587)	4 011 161
91 - 120 days	(48 122 818)	2 919 159
121 - 365 days	13 950 659	5 376 103
> 365 days	51 291 092	48 912 609
	<u>432 289 200</u>	<u>271 874 416</u>
Less: Allowance for impairment	(38 777 002)	(68 795 023)
	<u>393 512 198</u>	<u>203 079 393</u>

National and provincial government

Current (0 -30 days)	209 236 336	159 185 462
31 - 60 days	8 401 474	21 453 133
61 - 90 days	11 520 140	45 826 506
91 - 120 days	15 313 785	17 261 236
121 - 365 days	60 746 769	75 043 787
> 365 days	4 763 979	142 513 582
	<u>309 982 483</u>	<u>461 283 706</u>
Less: Allowance for impairment	(45 218 633)	(137 670 887)
	<u>264 763 850</u>	<u>323 612 819</u>

Total

Current (0 -30 days)	690 450 185	357 116 331
31 - 60 days	14 055 267	76 113 628
61 - 90 days	14 291 165	32 088 187
91 - 120 days	(27 336 310)	55 715 681
121 - 365 days	110 955 898	134 947 840
> 365 days	165 074 174	292 643 313
	<u>967 490 379</u>	<u>948 624 980</u>
Less: Allowance for impairment	(120 000 000)	(276 210 000)
	<u>847 490 379</u>	<u>672 414 980</u>
Less: Allowance for impairment		
> 365 days	(120 000 000)	(276 210 000)

City of uMhlathuze

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4. Receivables from exchange transactions (continued)

Reconciliation of allowance for impairment

Balance at beginning of the year	(276 210 000)	(340 317 218)
Contributions to allowance	156 210 000	64 107 218
	(120 000 000)	(276 210 000)

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2023, R 28 346 432 (2022: R 108 201 815) were past due but not impaired.

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

1 month past due	14 055 267	76 113 628
2 months past due	14 291 165	32 088 187

5. Other receivables

Accrued Interest	4 768 303	5 988 311
Prepayment and advances	16 690 143	14 850 432
Other	4 708 566	3 253 507
	26 167 012	24 092 250

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	41 432	20 611
Cash book balances	135 067 579	134 310 947
Short-term deposits	360 000 000	550 432 205
	495 109 011	684 763 763

Short-term deposits

As at the end of the financial year, the Municipality had the following call and fixed deposits:

Standard Bank (Call deposit)	-	40 000 000
Standard Bank (Fixed deposit)	90 000 000	150 432 205
Nedbank (Fixed deposit)	180 000 000	180 000 000
ABSA (Fixed deposit)	90 000 000	180 000 000
	360 000 000	550 432 205

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2023	30 June 2022	30 June 2021	30 June 2023	30 June 2022	30 June 2021
Absa Bank - Cheque - 2150000028	269 483	17 375 255	165 208 122	281 088	18 217 065	166 650 913
Absa Bank - Deposit - 2150000095	7 683 668	11 370 583	50 000	12 181 961	14 412 144	3 655 065
Absa Bank - Deposit - 9123615121	520 016	491 939	478 958	520 016	491 969	478 958
Absa Bank - Deposit - 9171373496	3 025 217	2 861 878	2 786 215	3 025 217	2 861 908	2 786 215
Absa Bank - Deposit - 9092247889	7 294 650	6 911 286	6 759 896	7 294 650	6 919 811	6 765 859
Absa Bank - Deposit - 9171373917	6 215 643	5 880 045	5 726 625	6 215 643	5 880 074	5 726 625
Absa Bank - Deposit - 9233674990	755 491	30 634 614	4 344	755 491	30 517 770	(121 511)
Absa Bank - Deposit - 9272068005	1 838 071	1 739 493	1 706 482	1 838 071	1 751 732	1 706 913
Absa Bank - Deposit - 4079286548	50 192	56 495	328 090	-	3 710	3 710
Absa Bank - Deposit - 9283221999	1 652 174	1 565 059	1 638 915	1 652 174	1 722 358	1 837 491
Absa Bank - Deposit - 9282916767	1 077 502	1 063 378	1 035 283	1 077 502	1 161 139	1 161 139
Absa Bank - Deposit - 9203780620	100 225 766	50 371 266	-	100 225 766	50 371 266	-
Total	130 607 873	130 321 291	185 722 930	135 067 579	134 310 946	190 651 377

City of uMhlatuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

Figures in Rand

7. Investment property

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	117 394 757	(8 461 563)	108 933 194	106 618 858	(7 998 777)	98 620 081

Reconciliation of investment property - 2023

	Opening balance	Work-In-Progress	Depreciation	Total
Investment property	98 620 081	10 775 899	(462 786)	108 933 194

Reconciliation of investment property - 2022

	Opening balance	Depreciation	Total
Investment property	99 115 472	(495 391)	98 620 081

Pledged as security

During the year there was no Investment Property 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.

City of uMhlatuze

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Figures in Rand

8. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 050 774 577	-	1 050 774 577	1 052 714 469	-	1 052 714 469
Operational Buildings	363 156 459	(193 616 336)	169 540 123	333 647 301	(184 542 014)	149 105 287
Plant and machinery	448 337 597	(237 457 745)	210 879 852	408 397 645	(221 351 220)	187 046 425
Transport assets	120 330 710	(81 707 970)	38 622 740	123 190 688	(81 924 265)	41 266 423
Infrastructure	12 776 640 211	(7 992 033 688)	4 784 606 523	12 404 821 006	(7 998 815 275)	4 406 005 731
Community	804 050 727	(287 423 733)	516 626 994	619 779 388	(266 737 439)	353 041 949
Other property, plant and equipment	84 324 650	(64 479 782)	19 844 868	83 716 838	(63 648 432)	20 068 406
Housing	182 886 221	(62 688 374)	120 197 847	182 886 221	(54 577 436)	128 308 785
Total	15 830 501 152	(8 919 407 628)	6 911 093 524	15 209 153 556	(8 871 596 081)	6 337 557 475

City of uMhlatuze

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Notes to the Annual Financial Statements for the year ended 30 June 2023

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Work-In-Progress	Disposals	Reclassification	Depreciation	Impairment loss	Total
Land	1 052 714 469	-	-	(1 939 892)	-	-	-	1 050 774 577
Operational Buildings	149 105 287	7 135 768	24 008 138	(440 557)	-	(10 268 513)	-	169 540 123
Plant and machinery	187 046 425	52 693 056	-	(1 779 940)	31 234	(27 110 923)	-	210 879 852
Transport Assets	41 266 423	11 912 937	-	(3 829 848)	188 710	(10 915 482)	-	38 622 740
Infrastructure	4 406 005 731	184 649 184	482 515 414	(93 080 433)	-	(185 385 758)	(10 097 615)	4 784 606 523
Community	353 041 949	2 928 979	181 373 677	(26 107)	-	(20 667 256)	(24 248)	516 626 994
Other property, plant and equipment	20 068 406	4 685 811	-	(199 389)	(219 944)	(4 490 016)	-	19 844 868
Housing	128 308 785	-	-	-	-	(8 110 938)	-	120 197 847
	6 337 557 475	264 005 735	687 897 229	(101 296 166)	-	(266 948 886)	(10 121 863)	6 911 093 524

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Notes to the Annual Financial Statements for the year ended 30 June 2023

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Work-In-Progress	Disposals	Transfers	Reclassification	Restatements	Depreciation	Impairment loss	Total
Land	1 054 071 451	-	-	(1 356 982)	-	-	-	-	-	1 052 714 469
Operational Buildings	148 320 283	1 990 057	7 590 250	(133 138)	(324 714)	3 786 953	(771 094)	(11 353 310)	-	149 105 287
Plant and machinery	170 774 542	40 737 873	-	(89 179)	(42 133)	-	438 499	(24 773 177)	-	187 046 425
Transport Assets	51 419 144	787 672	-	-	-	-	(36 978)	(10 903 415)	-	41 266 423
Infrastructure	4 083 941 312	122 716 989	408 550 087	(20 318 726)	(3 468 567)	(13 116 932)	45 292 677	(216 042 804)	(1 548 305)	4 406 005 731
Community	322 393 118	4 500 180	32 356 412	(1 483 998)	3 793 280	9 329 979	7 011 883	(24 858 905)	-	353 041 949
Other property, plant and equipment	18 878 519	5 025 117	-	(47 485)	42 134	-	545 268	(4 375 147)	-	20 068 406
Housing	136 423 519	-	-	-	-	-	(365 277)	(7 749 457)	-	128 308 785
	5 986 221 888	175 757 888	448 496 749	(23 429 508)	-	-	52 114 978	(300 056 215)	(1 548 305)	6 337 557 475

Pledged as security

No assets were pledged as security.

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

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected

Housing	-	5 589 530
The delay is due to budget issues.		
Community	-	992 474
The delays are due to community challenges.		
Other Assets	173 684	372 169
At a design stage		
Infrastructure	3 695 317	29 923 842
Project are still at planning phase and has not yet commenced.		
Water: Delays due to issues on site with the contractor.		

3 869 001

36 878 015

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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8. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2023

	Included within Infrastructure	Included within Community	Included within Other PPE	Included within Housing	Total
Opening balance	561 596 430	69 583 272	16 311 653	-	647 491 355
Additions/capital expenditure	482 515 414	181 373 677	24 008 138	-	687 897 229
Transferred to completed items	(80 492 512)	(23 500)	-	-	(80 516 012)
	963 619 332	250 933 449	40 319 791	-	1 254 872 572

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Community	Included within Other PPE	Included within Housing	Total
Opening balance	639 233 809	40 699 238	12 898 140	5 589 530	698 420 717
Additions/capital expenditure	408 550 086	32 356 412	7 590 250	-	448 496 748
Prior year correction	(2 979 134)	3 053 913	-	-	74 779
Prior year - Transferred to completed	(232 569 258)	(2 666 604)	(3 624 382)	(5 589 530)	(244 449 774)
Transferred to completed items	(250 639 074)	(3 859 689)	(552 352)	-	(255 051 115)
	561 596 429	69 583 270	16 311 656	-	647 491 355

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	239 690 783	207 420 961
Contracted services	141 959 780	131 590 670
Material	98 722 639	74 449 388
Transport	12 130 523	13 017 325
	492 503 725	426 478 344

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.

City of uMhlatuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

Figures in Rand

9. Intangible assets

	2023			2022		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Patents, trademarks and other rights	9 576 953	(331 258)	9 245 695	9 576 953	(91 834)	9 485 119
Computer software, other	278 108 541	(89 053 298)	189 055 243	230 365 259	(54 774 731)	175 590 528
Servitudes	3 552 458	-	3 552 458	3 552 458	-	3 552 458
Total	291 237 952	(89 384 556)	201 853 396	243 494 670	(54 866 565)	188 628 105

Reconciliation of intangible assets - 2023

	Opening balance	WIP	Amortisation	Total
Patents, trademarks and other rights	9 485 119	-	(239 424)	9 245 695
Computer software, other	175 590 528	47 743 281	(34 278 566)	189 055 243
Servitudes	3 552 458	-	-	3 552 458
	188 628 105	47 743 281	(34 517 990)	201 853 396

Reconciliation of intangible assets - 2022

	Opening balance	Additions	WIP	Amortisation	Total
Patents, trademarks and other rights	-	9 576 953	-	(91 834)	9 485 119
Computer software, other	164 849 727	34 451 470	6 317 923	(30 028 592)	175 590 528
Servitudes	3 552 458	-	-	-	3 552 458
	168 402 185	44 028 423	6 317 923	(30 120 426)	188 628 105

Pledged as security

There are no Intangible assets pledged as security.

City of uMhlatuze

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9. Intangible assets (continued)

Intangible assets in the process of being constructed or developed

Reconciliation of WIP

Opening balance	6 317 923	28 530 266
Additions/Capitalisations	47 743 281	6 317 923
Transferred to completed	-	(28 530 266)
	54 061 204	6 317 923

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.

City of uMhlatuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

Figures in Rand

10. Heritage assets

	2023			2022		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	524 313	-	524 313	524 313	-	524 313
Historical buildings	1 940 298	-	1 940 298	1 940 298	-	1 940 298
Total	2 464 611	-	2 464 611	2 464 611	-	2 464 611

Reconciliation of heritage assets 2023

	Opening balance	Total
Art Collections, antiquities and exhibits	524 313	524 313
Historical buildings	1 940 298	1 940 298
	2 464 611	2 464 611

Reconciliation of heritage assets 2022

	Opening balance	Total
Art Collections, antiquities and exhibits	524 313	524 313
Historical buildings	1 940 298	1 940 298
	2 464 611	2 464 611

11. Other financial liabilities

At amortised cost

DBSA loan	398 452 552	244 495 619
Nedbank loan	436 709 759	20 005 551
Standard Bank loan	576 864 280	651 583 809
	1 412 026 591	916 084 979

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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11. Other financial liabilities (continued)

Total other financial liabilities	1 412 026 591	916 084 979
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Refer to Appendix A for interest rates per loan and the full redemption dates.

Non-current liabilities

At amortised cost	1 244 834 580	806 161 902
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Current liabilities

At amortised cost	167 192 011	109 923 077
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12. Payables from exchange transactions

Trade payables	247 478 002	237 429 545
Payments received in advanced	69 157 365	55 391 494
Retentions	76 736 983	44 315 528
Other payables	48 429 865	83 942 538
Accrued leave pay	23 890 391	21 437 898
Accrued VAT	52 840 723	50 676 450
Accruals	118 080 809	169 609 670
Housing Contracts	82 574 934	57 265 057
	719 189 072	720 068 180

13. Consumer deposits

Electricity	56 895 495	60 833 405
Regional services levies	259 523	347 345
	57 155 018	61 180 750

Bank Guarantees in favour of the Municipality for consumer deposits amounts R 59 055 410 (2023) and R 57 697 610 (2022)

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Provincial Housing Grant	2 729 676	2 584 298
Provincial Local Government Grants	8 452 959	5 812 954
Provincial Libraries Grant	651 436	1 449 322
King Cetshwayo District Municipality	169 372	169 372
Municipal Disaster Relief Grant	26 590 338	-
	38 593 781	10 015 946

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 24 for reconciliation of grants from National/Provincial Government.

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

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

	2023	2022
15. Provisions		
Reconciliation of provisions - 2023		
Pro rata bonus	Opening Balance 25 205 994	Additions 1 472 887
	Total 26 678 881	
Reconciliation of provisions - 2022		
Pro rata bonus	Opening Balance 23 685 565	Additions 1 520 429
	Total 25 205 994	

The bonus accrues on an annual basis based on their anniversary month. The provision is an estimate of the amount payable to staff for the following year on a pro-rata basis. The timing of the amount is uncertain with regards to payment of pro-rata bonus when staff members resign.

16. Employee benefit obligations

Post-employment medical benefits

The Municipality operates on 5 accredited medical aid schemes, namely: Bonitas, Hosmed, Keyhealth, LA Health and Samwumed. Pensioners continue on the option they belonged to on the day of their retirement. The independent valuers, Arch Actuarial Consulting, carried out a statutory valuation for the year ended 30 June 2023 with projected liabilities for year ending 2024 and 2025. The present value of the obligation is R211 651 000 (2022 - R200 215 000). There are no plan assets.

Long-service awards

The municipal employees are entitled to long service awards which can be encashed as per the bargaining council agreement. This benefit accrues to employees after 5 years of completed service. The independent valuers, Arch Actuarial Consulting, carried out a statutory valuation for the year ended 30 June 2023 with projected liabilities for year ending 2024 and 2025. The present value of the obligation is R 72 151 000 (2023 - R69 363 000).

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

Carrying value

Present value of the defined benefit obligation-wholly unfunded	(269 578 000)	(331 740 000)
Current service cost	(14 026 000)	(15 735 000)
Interest cost	(30 497 000)	(35 581 000)
Past service cost	-	(18 772 000)
Actuarial gain/(loss)	12 591 273	117 667 991
Benefits paid	17 707 727	14 582 009
	(283 802 000)	(269 578 000)
Non-current liabilities	(263 422 000)	(252 740 000)
Current liabilities	(20 380 000)	(16 838 000)
	(283 802 000)	(269 578 000)

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

Opening balance	269 578 000	331 740 000
Net amount recognised in the statement of financial performance	14 224 000	(62 162 000)
	283 802 000	269 578 000

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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16. Employee benefit obligations (continued)

Net amount recognised in the statement of financial performance

Current service cost	14 026 000	15 735 000
Past service cost	-	18 772 000
Interest cost	30 497 000	35 581 000
Actuarial (gains) losses	(12 591 273)	(117 667 991)
Settlement	(17 707 727)	(14 582 009)
	14 224 000	(62 162 000)

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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16. Employee benefit obligations (continued)

Key assumptions used

Post-employment medical benefits

Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) discount rate for each relevant time period and the yield curved based medical aid contribution inflation for each relevant time period.

Average Retirement Age.

The average retirement age for all active employers was assumed to be 62 years.

Normal Retirement Age.

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates.

Mortality before retirement has been based on the SA 85-90 mortality tables.

Spouses and Dependents.

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children.

Discount Rate.

A discount rate of 12.53% per annum has been used. The corresponding index-linked yield at this term is 4.94%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 19 June 2023.

Long service awards

Normal Salary Inflation Rate.

The salaries used in the valuation include an assumed increase on 01 July 2023.

Average Retirement Age.

The average retirement age for all active employers was assumed to be 62 years.

Normal Retirement Age.

The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rate

Mortality before retirement has been based on the SA 85-90 mortality tables.

Discount

Rate

A discount rate of 11.71% per annum has been used. The corresponding liability-weighted index-linked yield is 4.89%. These rates do not reflect any adjustment for taxation, and were deduced from the interest rate data obtained from the JSE after the market close on 19 June 2023.

Discount rates used	11,71%	Yield Curve
Expected rate of return on assets		
Average Retirement Age	62 years	62 years
Health care cost inflation rate	8,26%	

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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16. Employee benefit obligations (continued)

Defined Contribution Plan

The municipality's employees are members of one of the three Natal Joint Municipal Pension Fund i.e. (Superannuation, Provident and Retirement). The valuator carries out a statutory valuation once after three years and an interim valuation on an annual basis.

The following valuations have been carried out:

Superannuation fund - interim on annual basis

Provident fund - interim on annual basis

Retirement fund - interim on annual basis

Superannuation

An Interim Valuation of the fund was carried out for the period ending 31 March 2022.

For services to 31 March 2022

	Pensioners	Members	Total
Assets	7 494 951 000	7 969 134 000	15 464 085 000
Liabilities	(6 064 393 000)	(6 312 988 000)	(12 377 381 000)
	1 430 558 000	1 656 146 000	3 086 704 000

Pensioners: Funding level - 120.7%

Members: Funding level - 118.8%

For services to 31 March 2021

	Pensioners	Members	Total
Assets	6 609 549 000	7 368 515 000	13 978 064 000
Liabilities	(5 492 723 000)	(6 356 065 000)	(11 848 788 000)
	1 116 826 000	1 012 450 000	2 129 276 000

Pensioners: Funding level - 117.5%

Members: Funding level - 100.1%

Investment reserves

Contribution reserves 31 March 2022

86 400 000

Investment reserves

Contribution reserve 31 March 2021

80 018 000

Conclusion

1. The valuation reveals that the Fund is 108.9% funded on the "best estimate" Funding basis as at the valuation date and is also fully funded on the alternative bases as set out in PF Notice No. 2 of 2016.

2. The Asset composition on the valuation date is appropriate to the nature of the liabilities and that the investment strategy of the fund is suitable for the fund.

3. The fund self-insures its risk benefits. The lump sum element of these benefits is relatively small, with the major element comprising of annuity payments. Given the recommended Risk Reserve, the fund's reinsurance is appropriate.

4. The fund is in a sound financial position as at the valuation date.

Provident Fund

City of uMhlatuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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16. Employee benefit obligations (continued)

The salient features of the Statutory Actuarial Valuation Report on the fund as at 31 March 2022 and 31 March 2021 were that the net market value of the fund's assets was sufficient for to fully cover the members' share account and to provide total reserves of R582 305 000 at 31 March 2022 and R 491 033 000 at 31 March 2021.

Due to the smoothing mechanism, a portion of the investment return to 31 March 2022 has been applied to fund the interim bonus for April 2022. The value of the liabilities therefore includes all interim bonuses to 30 April 2022.

Conclusion

1. The valuation reveals that the fund is 100.2% funded as at the valuation date
2. The contribution rate allocated towards risk benefits and expenses in the year following the valuation date is expected to be sufficient to cover the cost of these benefits and expenses.
3. The Actuary is satisfied that the asset composition on the valuation date is appropriate to the nature of the liabilities and that the investment strategy of the fund is suitable for the fund.
4. The fund self-insures its death benefits and disability benefits. The Actuary is satisfied that, given the recommended Risk and Expense Reserve Account, the arrangement is appropriate for the fund.
5. The Actuary is of the view that the fund is in a sound position as at the valuation date.

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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16. Employee benefit obligations (continued)

Retirement Fund

The Actuarial value of total assets of the fund was more than the actuarial value of the liabilities for the service of pensioners and members to that date:

The total assets for 31 March 2022 were R 5 346 445 000 and for 31 March 2021 R 4 806 932 000.

The total liabilities for 31 March 2022 were R1 441 068 000 and for 31 March 2021 R 1 479 115 000.

For services to 31 March 2022

for pensioners - funding level 128.8% (2021: funding level 124.5%)

for members - funding level 120.4% (2021: funding level 102.7%)

The fund did not hold an Investment Reserve

Taking into account the results of the valuation, the cost of the improvements, the market performance following the valuation date and especially considering the current market volatility, we estimate that the surcharge will be required for about two further years to enable the improvements to be given.

The Actuary therefore recommend that the current surcharge of 35.0% of pensionable salaries continue to be paid to bring forward the elimination of historical discrimination by the improvement of the benefits to members.

Conclusion

1. The fund is 107.1% funded on the 'best estimate' basis as at the valuation date, and is also not fully funded on the alternative basis as set out in PF Notice No. 2 of 2016.
2. The Actuary is satisfied that the asset composition on the valuation date is appropriate to the nature of the liabilities and that the investment strategy of the fund is suitable for the fund.
3. The fund self-insures its risk benefits.
4. The Actuary is of the view that the fund is not in a sound financial position as at the valuation date.

17. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2023

	Capital replacement reserve	Accumulated surplus	Insurance reserve	Housing development fund	Total
Opening balance	303 744 524	6 008 327 344	5 000 000	3 265 173	6 320 337 041
Transfer to capital replacement reserve	(123 744 524)	123 744 524	-	-	-
Surplus for the year	-	92 598 170	-	-	92 598 170
Contribution to Housing development fund	-	(280 120)	-	280 120	-
	180 000 000	6 224 389 918	5 000 000	3 545 293	6 412 935 211

City of uMhlathuze

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Notes to the Annual Financial Statements for the year ended 30 June 2023

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17. Accumulated surplus (continued)

Ring-fenced internal funds and reserves within accumulated surplus - 2022

	Capital replacement reserve	Accumulated surplus	Insurance reserve	Housing development fund	Total
Opening balance	573 371 263	5 497 835 946	5 000 000	3 265 173	6 079 472 382
Transfer to capital replacement reserve	(269 626 739)	269 626 739	-	-	-
Surplus for the year	-	240 864 657	-	-	240 864 657
	303 744 524	6 008 327 342	5 000 000	3 265 173	6 320 337 039

18. Service charges

Sale of electricity	1 760 071 801	1 562 940 002
Sale of water	545 863 434	556 459 020
Sewerage and sanitation charges	107 728 401	108 153 359
Refuse removal	107 255 741	102 919 734
	2 520 919 377	2 330 472 115

An amount of (2023: R 12 791 172.44) (2022: R 13 067 206.71) received in respect of prepaid electricity sales has been deferred and transferred to amounts received in advance.

An amount of R 144 662.74 for 2023 received in respect of prepaid water sales has been deferred and transferred to amounts received in advance.

19. Construction Contracts

Construction Contracts

Revenue	125 288 898	78 306 911
Expenditure - Included under Contracted Services	(125 288 898)	(78 306 911)
	-	-

The construction contracts relate to the agreements entered into between the Municipality and the KwaZulu-Natal Department of Housing in respect of housing projects where the Municipality is a project developer in this arrangement. This arrangement is accounted for in line with the accounting policy for Construction Contract - Housing Projects.

The construction contracts expenses consist mainly of contracted services wherein the Municipality procures the services of building contractors and other consultants in the construction of the houses on its behalf.

The construction contracts revenue is recognised on a stage of completion based on the costs incurred. There are no contracts accounted for as work in progress given that costs are expensed when incurred.

The amounts received in advance for work to be done is recognised as a liability and disclosed on Note 12: Payables from exchange transactions.

City of uMhlathuze

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Notes to the Annual Financial Statements for the year ended 30 June 2023

	2023	2022
20. Debt impairment reversal		
Contributions to debt impairment provision	(204 116 989)	(136 019 044)
Debt impairment reversal is broken down into services as follows:		
Debt Impairment Reversal		
Electricity	(34 150 000)	14 182 073
Fines	(30 826 516)	(54 954 031)
Housing rentals	(1 890 000)	(1 810 760)
Rates	(17 080 000)	(17 122 865)
Sundry debtors	1 570 000	(11 645 885)
Refuse	(1 650 000)	(3 182 545)
Sewerage	(4 500 000)	(1 476 369)
Water	(115 590 473)	(60 008 662)
	(204 116 989)	(136 019 044)
21. Operational Revenue		
Building Plans	433 984	638 115
Extension Fees	2 253 879	880 456
Forfeited Deposits	8 160 357	8 038 195
Insurance claims refund	1 524 515	1 270 153
Sundries	18 765 546	8 686 252
Advertisement	2 450 827	2 540 876
Incidental cash surplus	4 097 637	558 723
Discount Received	644 900	715 570
Collection charges	4 869 342	641 670
Meter Replacement	-	28 368
Legal fees recovered	1 023 499	1 768 651
	44 224 486	25 767 029
22. Investment received - investment		
Interest revenue		
Bank	26 846 335	34 734 726

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

	2023	2022
23. Property rates		
Rates received		
Residential	211 871 782	213 743 932
Commercial	176 208 991	162 205 467
State	9 048 956	19 705 928
Municipal	38 673 315	35 562 570
Small holdings and farms	295 145	258 956
Industrial	155 302 306	146 619 431
Mining	863 794	813 195
Public Service Infrastructure	36 314 667	20 858 023
Less: Income forgone	(12 771 317)	(32 323 958)
	615 807 639	567 443 544
Property rates - penalties imposed	901 673	2 517 489
	616 709 312	569 961 033
Valuations		
Residential	22 251 506 000	22 085 286 000
Commercial	8 664 047 000	8 134 285 000
State	3 706 040 000	4 411 553 000
Vacant Land	3 281 475 000	3 001 073 000
Public benefit organisation	116 108 000	11 612 000
Agriculture	1 134 519 000	1 121 213 000
Industrial	6 939 317 000	6 851 609 000
Mining	36 142 000	36 142 000
Public service infrastructure	209 880 000	85 337 000
Multiple use	-	386 719 000
	46 339 034 000	46 124 829 000

The first valuation in terms of the Property Rates Act No.6 of 2004 came into effect on 01 July 2008. Valuations were performed on land and buildings together. Valuations on land and buildings are performed every four years. The last valuation came into effect on 1 July 2020. One supplementary valuation roll and objection roll in terms of the new Act were processed during the financial year. The following rate randage and ratio to residential tariff were applied:

	Rates Randage	Ratio to Residential Tariff
Residential	0,0104	1 : 1,00
Business/Commercial	0,0218	1 : 2,10
Industrial	0,0228	1 : 2,20
Agricultural	0,0026	1 : 0,25
Public Service Purposes (State owned)	0,0120	1 : 1,10
Public Services Infrastructure	0,0026	1 : 0,25
PBO's	0,0026	1 : 0,25
Mining	0,0238	1 : 2,30
Vacant Land	0,0218	1 : 2,10

Subject to the provisions contained in the Rates Policy and upon application, the following rebates were applied:

Agricultural Properties - 5%

Non-profit Organisations - 20%

Pensioners - R250 000 Valuation Reduction on primary developed property

City of uMhlatuze

Annual Financial Statements for the year ended 30 June 2023

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23. Property rates (continued)

In addition to the statutory R15 000 reduction in the valuation on residential properties, a further reduction of R145 000 of the valuation on all developed residential properties with >R480 000 was made.

Rates are levied on a monthly basis but upon request can be levied annually. The final date for payment of rates that are levied on an annual basis is 30 September of each year, and 30 June for monthly ratepayers. Interest of prime plus 1% is levied on outstanding rates.

24. Transfers and subsidies

Operating grants

Equitable share	471 939 000	416 124 000
Finance Management Grant	2 500 000	2 450 000
Expanded Public Works Integrated Grant	3 213 000	3 417 000
Energy Efficiency and demand side management grant	133 775	94 342
Provincial Housing Grant	4 662 506	1 923 778
Provincial Libraries/Museums Grant	11 529 331	11 786 046
Municipal Disaster Relief Grant	7 426 195	-
Provincial local government grant	614 994	506 703
Integrated Urban Development Grant	-	604 190
	502 018 801	436 906 059

Capital grants

Integrated Urban Development Grant	209 302 000	130 145 810
Energy Efficiency and demand side management grant	1 866 225	3 905 658
Water Service Infrastructure Grant	37 000 000	40 000 000
Municipal Disaster Relief Grant	949 467	-
Provincial Local Government Grant	495 000	7 237 081
Provincial Libraries/Museums Grant	1 128 556	1 905 733
	250 741 248	183 194 282
	752 760 049	620 100 341

Equitable Share

Equitable Share

Current-year receipts	471 939 000	416 124 000
Conditions met - transferred to revenue	(471 939 000)	(416 124 000)
	-	-

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

Water services infrastructure grant

Current-year receipts	37 000 000	40 000 000
Conditions met - transferred to revenue	(37 000 000)	(40 000 000)
	-	-

National Conditional Grants are allocated in terms of the Division of Revenue Act. The purpose of this grant is to facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and enhance the sustainability of services especially in rural municipalities; provide basic and intermittent water and sanitation supply that ensures provision of services to identified and prioritised communities; support municipalities in implementing water conservation and water demand management projects; support drought relief projects in affected municipalities.

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

	2023	2022
24. Transfers and subsidies (continued)		
Provincial Housing Grant		
Balance unspent at beginning of year	2 584 298	2 674 198
Current-year receipts	4 662 506	1 764 445
Conditions met - transferred to revenue	(4 662 506)	(1 923 778)
Interest Received	145 378	69 433
Conditions still to be met - remain liabilities (see note 14)	2 729 676	2 584 298

Provincial Housing grants were allocated to assist in the refurbishment of various hostels. The grants are spent in accordance with a business plan approved by the Provincial Government. Funds were provided for the housing operating account. Funds were also provided for the Municipality to implement the Enhanced Extended Discount Benefit Scheme. No funds were withheld.

Financial management grant

Current-year receipts	2 500 000	2 450 000
Conditions met - transferred to revenue	(2 500 000)	(2 450 000)
	-	-

National Conditional Grants are allocated in terms of the Division of Revenue Act. The Financial Management Grant is used to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA). No funds have been withheld.

Provincial Local Government Grant

Balance unspent at beginning of year	5 812 954	5 936 405
Current-year receipts	3 750 000	7 620 333
Conditions met - transferred to revenue	(1 109 995)	(7 743 784)
Conditions still to be met - remain liabilities (see note 14)	8 452 959	5 812 954

Provincial Local Government grants are used to implement administrative and financial framework and to provide a municipal infrastructure framework. The grants are spent in accordance with a business plan approved by the Provincial Government. No funds have been withheld.

Provincial Libraries/Museums

Balance unspent at beginning of year	1 449 322	1 860 301
Current-year receipts	11 860 000	13 280 800
Conditions met - transferred to revenue	(12 657 886)	(13 691 779)
Conditions still to be met - remain liabilities (see note 14)	651 436	1 449 322

Funding was received for the installation of computer hardware and software for public internet access, the cost of the internet connectivity, furniture to house these computers and salaries for the employment of "cyber-cadets". The subsidies are spent in accordance with a business plan approved by the Provincial Government. A subsidy was also received for the operations of the museums. Certain assets were also donated for the libraries. Funding received as a contribution towards the new Mpembeni Modular Library. No funds have been withheld.

Expanded Public Works Integrated grant

Current-year receipts	3 213 000	3 417 000
Conditions met - transferred to revenue	(3 213 000)	(3 417 000)
	-	-

National Conditional Grants are allocated in terms of the Division of Revenue Act. The grant is to incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in compliance with EPWP Guidelines. No funds have been withheld.

City of uMhlatuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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24. Transfers and subsidies (continued)

Energy Efficiency and Demand Side Management grant

Current-year receipts	2 000 000	4 000 000
Conditions met - transferred to revenue	(2 000 000)	(4 000 000)
	-	-

National Conditional Grants are allocated in terms of the Division of Revenue Act. The purpose of the grant is to provide subsidies to municipalities to implement energy efficiency and demand side management (EEDSM) initiatives within municipal infrastructure in order to reduce electricity consumption and improve energy efficiency.

King Cetshwayo District Municipality

Balance unspent at beginning of year	169 372	169 372
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King Cetshwayo allocated funds for the beach protection project at Alkandstrand beach Richards Bay.

Integrated Urban Development Grant (IUDG)

Current-year receipts	209 302 000	130 750 000
Conditions met - transferred to revenue	(209 302 000)	(130 750 000)
	-	-

National Conditional Grant are allocated in terms of the Division of Revenue Act. The purpose of the grant is to provide funding for public investment in infrastructure for the poor and to promote increased access to municipal own sources of capital finance in order to increase funding for public investment in economic infrastructure; to ensure that public investments are spatially aligned and to promote the sound management of the assets delivered. No funds have been withheld for the 2022 Financial year.

Municipal Disaster Recovery Grant

Current-year receipts	34 966 000	-
Conditions met - transferred to revenue	(8 375 662)	-
	26 590 338	-

National Conditional Grants are allocated in terms of the Division of Revenue Act. The purpose of the grant is to rehabilitate and reconstruct municipal infrastructure damaged by a disaster.

25. Public contributions and donations

Other public contributions and donations	1 386 692	163 465
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Public contributions and donations were received from various organisations for skills development.

26. Fines, Penalties and Forfeits

Law Enforcement Fines	7 275 111	20 726 388
Overdue Books Fines	1 765	3 380
	7 276 876	20 729 768

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

	2023	2022
27. Employee related costs		
Basic	595 612 058	564 851 727
Bonus	48 493 256	46 366 042
Medical aid - company contributions	49 887 038	46 777 759
UIF	4 546 987	4 474 895
Leave pay	27 337 814	23 444 112
Other short term costs	26 891 165	26 300 927
Defined contribution plans	8 686 727	7 790 009
Travel, motor car, accommodation, subsistence and other allowances	62 008 479	56 736 349
Overtime payments	98 244 724	79 418 377
Long-service awards	575 941	379 842
Housing benefits and allowances	3 454 497	3 987 287
Cell phone allowance	5 245 586	6 439 071
Pension and group life	118 839 927	109 822 011
Employee benefit obligation - Medical aid subsidy	22 182 273	32 661 991
Employee benefit obligation - Long service awards	4 633 000	22 844 000
	1 076 639 472	1 032 294 399

Included in employee related cost is an accrual amount of R 605 092 for 2022/2023 performance bonuses of Senior Managers.

2023 : Remuneration to senior managers & managers	City Manager	COO	DCM: Infrastructure Services	DCM:Electricity and Energy Services
Annual Remuneration	1 957 830	1 260 945	1 605 823	1 324 985
Annual Bonus	1 783	104 319	124 760	111 492
Contribution to UIF, Medical & Pension Fund	146 981	309 965	72 000	678 431
Travel Allowance	138 620	313 080	252 485	161 782
	2 245 214	1 988 309	2 055 068	2 276 690

2022 : Remuneration to senior managers & managers	City Manager	COO	DCM: Infrastructure Services	DCM:Electricity and Energy Services
Annual Remuneration	2 113 865	1 231 070	471 066	1 273 707
Annual Bonus	192 767	102 589	-	106 142
Performance Bonus	-	89 947	-	-
Contribution to UIF, Medical & Pension Fund	413 878	278 675	36 182	349 488
Travel Allowance	260 581	229 759	105 160	112 756
	2 981 091	1 932 040	612 408	1 842 093

2023 : Remuneration to senior managers & managers	DCM: City Development	DCM: Community Services	DCM: Financial Services (CFO)	DCM: Corporate Services	Head: Engineering Services
Annual Remuneration	1 519 972	1 398 261	1 572 078	3 325 458	-
Annual Bonus	121 506	119 237	125 772	6 598	-
Performance Bonus	91 296	107 936	398 735	-	-
Contribution to UIF, Medical & Pension Fund	180 321	336 823	80 633	227 479	-
Travel Allowance	161 498	254 866	204 600	225 021	-
	2 074 593	2 217 123	2 381 818	3 784 556	-

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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27. Employee related costs (continued)

2022 : Remuneration to senior managers & managers	DCM: City Development	DCM: Community Services	DCM: Financial Services (CFO)	DCM: Corporate Services	Head: Engineering Services
Annual Remuneration	1 430 400	1 380 688	1 471 697	1 539 333	-
Annual Bonus	119 200	115 057	122 641	-	-
Performance Bonus	-	-	89 947	-	-
Travel Allowance	140 051	247 056	204 600	238 736	-
Contribution to UIF, Medical & Pension Fund	152 442	99 291	43 154	64 023	-
	1 842 093	1 842 092	1 932 039	1 842 092	-
2023 : Remuneration to senior managers & managers	Head: Financial Service Exp	Head: Financial Service Revenue	Head: Roads, Transport and Stormwater	Head: Water and Sanitation	Head: Management Services
Annual Remuneration	894 589	298 196	894 589	525 436	429 331
Annual Bonus	74 549	4 047	74 549	74 756	-
Housing Subsidy	12 141	-	-	-	4 047
Travel Allowance	365 582	386 144	365 582	214 965	196 208
Contribution to UIF, Medical & Pension Fund	301 835	102 112	234 949	302 443	120 234
Acting Allowance	-	-	-	-	64 841
	1 648 696	790 499	1 569 669	1 117 600	814 661
2022 : Remuneration to senior managers & managers	Head: Financial Service Exp	Head: Financial Service Revenue	Head: Roads, Transport and Stormwater	Head: Water and Sanitation	Head: Management Services
Annual Remuneration	852 802	53 417	595 293	852 802	852 802
Annual Bonus	71 067	-	-	71 067	71 067
Housing Subsidy	11 574	-	-	-	11 574
Travel Allowance	347 184	53 417	241 865	347 184	347 184
Contribution to UIF, Medical & Pension Fund	294 286	-	152 694	268 911	314 901
	1 576 913	106 834	989 852	1 539 964	1 597 528

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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27. Employee related costs (continued)

2023 : Remuneration to senior managers & managers	Head:Public Health & Emergency Services	Head: Electrical Services	Head: Economic Development	Head: Corporate Services	Head: SCM
Annual Remuneration	894 589	447 294	670 942	670 942	727 527
Annual Bonus	74 549	30 841	-	74 549	74 549
Housing Subsidy	12 141	4 047	-	3 035	8 094
Travel Allowance	365 582	182 324	274 264	274 878	297 364
Contribution to UIF, Medical & Pension Fund	269 408	136 261	222 076	404 255	270 900
	1 616 269	800 767	1 167 282	1 427 659	1 378 434

2022 : Remuneration to senior managers & managers	Head:Public Health & Emergency Services	Head: Electrical Services	Head: Economic Development	Head: Corporate Services	Head: SCM
Annual Remuneration	852 802	-	852 802	852 802	852 802
Annual Bonus	71 067	-	71 067	71 067	71 067
Housing Subsidy	11 574	-	-	-	11 574
Travel Allowance	347 184	-	347 184	347 184	347 184
Contribution to UIF, Medical & Pension Fund	150 139	-	321 553	279 605	402 615
	1 432 766	-	1 592 606	1 550 658	1 685 242

28. Remuneration of councillors

Mayor	1 167 263	1 058 113
Deputy Mayor	549 212	839 960
Executive Committee Members	5 372 583	5 345 382
Speaker	929 485	848 310
Councillors	22 955 630	21 068 686
Chief Whip	886 939	736 081
Section 79 committee chairperson	862 478	631 733
	32 723 590	30 528 265

In-kind benefits

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

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

Included in the Remuneration of councillors is an accrual amount of R 1 081 147 for 2022/2023 remuneration increase. This will be processed 2023 financial year once the final Gazette is issued.

29. Inventory Consumed

Inventory Consumed	443 351 013	502 191 459
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City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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29. Inventory Consumed (continued)

Inventory Consumed

Consumables	881 948	1 471 923
Finished Goods	682 313	491 516
Materials and Supplies	133 363 554	97 267 316
Water Inventory	308 418 090	402 960 704
	443 345 905	502 191 459

30. Depreciation and amortisation

Property, plant and equipment	266 948 886	300 056 215
Investment property	462 786	495 390
Intangible assets	34 517 990	30 120 425
	301 929 662	330 672 030

31. Finance costs

Other financial liabilities	89 003 489	57 199 837
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32. Bad debt written off

Electricity	448 998	382 806
Fines	36 800 600	67 108 585
Sewerage	1 952 016	2 119 064
Rates	6 999 904	3 031 276
Refuse	1 575 718	1 572 892
Water	198 171 361	45 677 416
	245 948 597	119 892 039

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

	2023	2022
33. Bulk purchases		
Electricity	1 250 740 202	1 151 971 461
Electricity losses		
Units purchased (KW)	965 039 240	957 059 422
Units sold (KW)	(887 263 972)	(870 334 964)
Total loss	77 775 268	86 724 458
Electricity losses (KW)	77 775 268	86 724 458
Unit cost / KW	1,30	1,20
Loss in Rand Value	101 107 848	104 069 349
Percentage Loss	8 %	9 %
Electricity losses are attributable to the following reasons:		
Non-Technical reasons: Theft .		
Technical reasons: Electricity resistivity in the network. Ageing of network without sufficient replacement, refurbishment and maintenance. Incorrect meter calibration and monitoring.		
Water losses		
Apparent losses: Unauthorised consumption	19 731 708	12 719 376
Apparent losses: Customer meter inaccuracies	39 069 115	23 400 328
Real losses: Leakage on transmission and distribution mains	234 549 017	140 571 149
Real losses: Leakage and overflows at storage tanks/ reservoirs	17 364 051	10 400 146
Real losses: Leakage on service connections up to the point of customer meter	99 932 845	59 913 161
Real losses: During repairs and maintenance	23 454 542	13 000 182
Total losses (Rand value)	434 101 278	260 004 342
Units purchased and produced (KL)	61 038 748	51 579 137
Authorised consumption (KL)	(26 493 403)	(32 218 463)
Total loss (units)	34 545 345	19 360 674
Percentage Loss	57 %	38 %

In accordance with the Water Inventory Balance model Water Losses are attributed to two primary categories of Apparent Losses and Real Losses. Apparent Losses are further broken down into two subcategories - Unauthorized Consumption (Theft, illegal connections) and Meter Inaccuracies. Real Losses are the losses that occur in the inefficiencies of the water transmission and distribution and storage systems

City of uMhlatuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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34. Contracted services

Outsourced Services

Other Contractors	30 663 247	28 215 140
Project Management	129 122 173	89 170 155
Internal Audit	12 151 954	7 602 319
Legal Services	6 946 694	3 840 649
Credit Control Services	5 983 633	4 801 006
Cleaning Services	7 966 663	7 861 574
Meter Management	10 897 731	8 590 702
Security Services	84 063 094	74 554 734
Sewerage Services	16 280 911	20 534 634
Social Housing Contractors	125 288 898	78 306 911
Maintenance Contractors	151 144 511	130 504 298

580 509 509

453 982 122

35. Transfer and subsidies

Other subsidies

Subsidies Paid	8 772 298	9 278 714
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City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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35. Transfer and subsidies (continued)

Details of Grants and Subsidies paid

SPCA	465 800	405 043
Bursaries Employees Children	456 450	438 559
Funeral Councillors - In Kind	41 000	95 500
Funeral Councillors	254 610	127 562
University Registrations	570 000	216 000
Disaster Management Awareness Campaigns and Relief Assistance	512 565	515 176
Mthiya (Pty) Ltd Holdings Boxing Tournament	-	300 000
Human Rights and Freedom Day	-	106 302
Richards Bay Football Club	1 060 000	3 000 000
Mandela Day Celebration	168 429	100 000
Christmas Party for Senior Citizens	-	522 800
uMhlathuze Beauty Pageant 2022	-	36 000
Chieta Funding Grant in Aid	-	163 465
Soul and Jazz Experience	-	2 625 000
Madiba jive Music Festival	-	250 000
Federations - Netball	-	18 000
uMhlathuze Community Tourism Association	300 000	300 000
Youth Manager - Strategic Partnership	137 052	59 307
Dolofees	200 000	-
Umhlathuze International Jazz Festival	200 000	-
Umhlathuze Hindu Development Community	50 000	-
Zwide 24 Entertainment - King Cetshwayo Festival	200 000	-
Umhlathuze Rise Youth Festival	100 000	-
Isiqqi Lifestyle and Develoment Foundation: Artists Talent Search	100 000	-
NYE (New Year's Eve) Abajabule Abantu - Afrotainment	500 000	-
Winzaar - Ubuntombi Bami	477 500	-
God's Power Gospel Celebration	150 000	-
BF Entertainment - The Social Experiment	100 000	-
Downstream Aluminium Center for Technology (DACT)	220 000	-
SAFA King Cetshwayo Football Association	60 000	-
Sundries	138 584	-
NRB Harriers: Umhlathuze 32km Challenge	200 000	-
Primere Skool Arboretum	80 000	-
Mhlongo ME	200 000	-
Boys to Men	122 860	-
Girls to Woman	122 860	-
Youth Development: Community Youth Month Celebration	370 194	-
Executive mayor Campaigns	782 065	-
Ingoma Festival	121 888	-
Agricultural projects	263 941	-
Chieta Funding Training and Development	46 500	-
	8 772 298	9 278 714

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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36. Operating expenses

Personnel recruitment fees	1 715 395	-
Advertising	3 585 967	2 687 727
Auditors' remuneration	6 115 190	5 655 478
Bank charges	9 813 387	8 978 091
Cleaning	43 951	6 640
Commission paid	6 948 481	7 362 904
Entertainment	220 431	160 704
Fines and penalties	-	16 164
Insurance	15 930 405	13 517 738
Community development and training	7 579 296	5 390 715
Conferences and seminars	488 199	364 601
Employee awards	59 101	117 928
Levies	8 774 180	8 169 107
Motor vehicle expenses	1 699 866	1 313 645
Packaging	308 971	302 325
Fuel and oil	65 939 146	44 689 109
Postage and courier	1 754 721	2 388 521
Printing and stationery	120 121	182 998
Workmen's Compensation Fund	5 061 203	5 323 708
Software expenses	35 275 088	30 865 227
Subscriptions and membership fees	11 973 988	10 686 781
Telephone and fax	8 064 224	9 526 223
Refuse site fees	14 435 173	13 332 664
Sewerage and waste disposal	19 877 296	21 519 974
Uniforms	6 343 568	5 435 559
Bursaries	516 497	468 102
Electricity Consumption - Indigent Support	19 106	1 445 286
Licences	4 087 241	3 853 758
Travel and Subsidies	3 244 331	2 071 984
Rental of Property, Plant and Equipment	24 954 436	49 140 526
Signage	518 506	736 877
Water Levies	44 580 569	25 202 153
Inventory Loss	1 787 635	1 498 313
	311 835 669	282 411 530

37. Auditors' remuneration - fees

Fees	6 115 190	5 655 478

38. Operating lease

The municipality as a lessee.

At the reporting date, the municipality has an outstanding commitment under operating leases which fall due as follows:

IT Equipment

Within one year	2 838 255	3 438 255
In the second to the fifth year inclusive	3 518 250	2 314 069
	6 356 505	5 752 324

Operating lease payment represents rental of printers and the telephone system.

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

	2023	2022
39. Net cash flows from operating activities		
Surplus	92 598 170	240 864 658
Adjustments for:		
Depreciation and amortisation	301 929 662	330 672 030
Loss on sale of assets and liabilities	44 346 166	23 289 489
Impairment loss	10 121 864	1 548 304
Debt impairment	(204 116 989)	(136 019 044)
Bad debts written off	245 948 597	119 892 039
Non-cash item - employee benefit obligations	14 224 000	(62 162 000)
Movements in provisions	1 472 887	1 520 429
Other non-cash items - inventory gain	(581 557 584)	(527 840 131)
Water losses	434 101 278	260 004 342
Inventory loss	1 787 635	1 498 313
Changes in working capital:		
Inventories	157 421 572	119 956 885
Receivables from exchange transactions	(221 013 492)	(250 453 801)
Statutory receivables	(25 849 255)	(29 535 769)
Other Receivables	(2 074 762)	1 055 322
Payables from exchange transactions	(10 307 056)	159 891 510
VAT	(9 844 328)	(7 935 896)
Unspent conditional grants and receipts	28 577 835	(624 330)
Consumer deposits	(4 025 732)	6 876 280
	273 740 468	252 498 630
40. Commitments		
Authorised capital expenditure		
Already contracted for		
• Property, plant and equipment	716 707 402	718 656 868
Total capital commitments		
Approved and already contracted for	716 707 402	718 656 868

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

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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41. Contingencies

Panda Petroleums: Tender 8/2/1/983 was awarded to Panda Petroleums CC. There is a term letter that was addressed to the lessee on 30 June 2017 advising them of the various breaches committed in terms of the agreement and urged him to remedy the breaches within a specific time frame, which was not adhered to. A termination letter was subsequently sent to Panda. The meeting held between that was held between the two parties was unable to bring forth a consensus and therefore the matter was taken to court. The potential financial effect is not yet known. The fees incurred by council to date are R 130 407.70.

Thinasobabili Trading Enterprises CC: Tender 8/2/1/UMH798-16/17 was awarded to Thinasobabili Trading and the contractor failed to perform its duties in a sound and prudent manner and further failed to proceed with the works in accordance with the programme. Council invoked the breach provisions of the SLA and later cancelled the agreement. An action was instituted against Council by Thinasobabili for an amount of R 1 198 897 in respect of Invoices not paid. Council is in the process of attempting to claim against the guarantee for the amount that Council had to incur to employ another contractor. The fees incurred by council to date are R 57 711.61.

Council is in litigation with various sport clubs regarding expired leases. Council is in the process of scheduling meetings with the various clubs with purpose of attempting to reach out of court settlements with them. The fees incurred by council to date are R 3 879 206,26.

Comoza (Pty) Ltd: An urgent Notice of Motion was served to council by Comozar, interdicting council from awarding tender 8/2/1/UMH619-19/20: Long term lease and development of council property portion 156 of REM 533 harbour. The potential financial effect is not yet known. The fees incurred by council to date are 231 234,02.

River Rock Investments: made an application to the high court for an order declaring that the Lease that they had with Council was still valid. The matter was dismissed by the Pietermaritzburg High Court with costs. Council is in the process of finalising the lease agreement. The potential financial effect is not yet known. The fees incurred by Council are R 1 361 903.

DMV Consultants: A letter from attorneys representing DMV consultants have been received by the municipality claiming consultancy fees owed to them for various water and sanitation projects. The municipality is disputing the claim and the matter will be legally challenged. There are no legal fees incurred to date.

Contingent assets

In the process of seeking to procure the services, Kulu Civils invoked the provisions of Section 32 of the SCM policy. The intention to award was therefore cancelled. The matter was taken to court and judgement in favour of council was handed down however Kulu Civils filed an application for Leave to Appeal. This matter is ongoing. The potential financial effect is not yet known. Fees incurred by council to date are R 248 408.32.

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

Figures in Rand

42. Related parties

Key management information

Remuneration of management

Executive committee members

2023

Name	Basic salary	Cellphone/Data Allowance	Travel Allowance	Medical Aid	Pension	Back Pay	Total
Ngwezi X - Mayor	848 241	46 413	-	102 930	127 236	40 979	1 165 799
Donda NG - Mayor	-	1 200	-	-	-	-	1 200
Ngwezi X - Mayor	-	264	-	-	-	-	264
Ngubane NN - Deputy Mayor	435 295	28 041	-	-	65 642	19 034	548 012
Sibiya KD - Deputy Mayor	-	1 200	-	-	-	-	1 200
Gumede TS- Speaker	708 617	46 580	-	31 944	108 363	32 781	928 285
Mkhize G - Speaker	-	1 200	-	-	-	-	1 200
Donda NG - Chief Whip	703 308	46 200	-	-	105 496	30 735	885 739
Lourens M - Chief Whip	-	1 200	-	-	-	-	1 200
Botha CM - Executive Committee	471 363	47 780	202 201	64 536	70 704	30 735	887 319
Mthembu BC - Executive Committee	312 335	33 123	136 431	50 842	46 117	20 738	599 586
Zikhali RM - Executive Committee	327 120	33 123	136 431	33 840	48 334	20 738	599 586
Mkhize ZH - Executive Committee	452 529	32 138	-	26 296	66 901	20 738	598 602
Grobelaar Z - Executive Committee	457 130	32 138	-	21 004	67 591	20 738	598 601
Zulu SH - Executive Committee	703 308	46 580	-	-	105 496	30 735	886 119
Mhlongo MG - Executive Committee	439 134	31 923	-	41 700	64 892	20 738	598 387
Sibiya KD - Executive Committee	327 120	31 923	136 431	33 840	48 334	20 738	598 386
Gumede TS - Executive Committee (Back-pay after termination)	-	1 200	-	-	-	-	1 200
Mthethwa KN - Executive Committee (Back-pay after termination)	-	1 200	-	-	-	-	1 200
Sookroo M - Executive Committee (Back-pay after termination)	-	1 200	-	-	-	-	1 200
Ndimande DJ - Executive Committee (Back-pay after termination)	-	1 200	-	-	-	-	1 200
Phahla TM - Executive Committee (Back-pay after termination)	-	1 200	-	-	-	-	1 200
	6 185 500	467 026	611 494	406 932	925 106	309 427	8 905 485

City of uMhlatuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

Figures in Rand

42. Related parties (continued)

2022

Name	Basic salary	Cellphone/Data Allowance	Travel Allowance	Medical Aid	Pension	Total
Mhlongo MG - Mayor	284 550	13 600	-	32 236	42 683	373 069
Donda NG - Mayor	58 551	700	-	-	-	59 251
Ngwezi X - Mayor	484 667	22 813	-	41 700	76 614	625 794
Sibiya KD - Deputy Mayor	173 483	13 600	71 894	16 176	26 022	301 175
Ngubane NN - Deputy Mayor	449 423	23 720	-	-	65 642	538 785
Mkhize G - Speaker	231 283	13 600	-	22 856	33 436	301 175
Gumede TS - Speaker	436 310	24 707	4 793	18 035	63 290	547 135
Lourens M - Chief Whip	235 460	13 600	-	-	34 141	283 201
Ndonga NG - Chief Whip	388 093	22 571	-	-	42 216	452 880
Botha CM - Executive Committee	375 826	38 307	162 909	56 636	54 326	688 004
Mthembu BC - Executive Committee	352 685	35 865	152 250	61 816	50 760	653 376
Zikhali RM - Executive Committee	367 097	35 865	154 172	41 556	54 684	653 374
Mkhize ZH - Executive Committee	298 588	24 707	-	36 074	41 286	400 655
Zulu SH - Executive Committee	329 957	24 707	-	-	45 992	400 656
Mhlongo MG - Executive Committee	258 334	22 265	-	50 040	35 689	366 328
Sibiya KD - Executive Committee	206 329	22 265	84 849	25 380	27 505	366 328
Gumede TS - Executive Committee	167 128	13 600	67 400	10 004	25 069	283 201
Mthethwa KN - Executive Committee	162 272	13 600	67 400	16 472	23 457	283 201
Ndimande DJ - Executive Committee	155 534	13 600	67 400	24 220	22 447	283 201
Phahla TM - Executive Committee	155 534	13 600	67 400	24 220	22 447	283 201
Sookroo M - Executive Committee	149 760	13 600	67 400	30 860	21 581	283 201
Grobelaar Z - Executive Committee	329 957	24 707	-	-	45 992	400 656
	6 050 821	445 599	967 867	508 281	855 279	8 827 847

Management class: Councillors

2023

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

Figures in Rand

42. Related parties (continued)

Name	Basic salary	Cellphone/Data Allowance	Travel Allowance	Medical Aid	Pension	Back Pay	Total
Executive committee members	6 185 500	467 026	611 494	406 932	925 106	309 427	8 905 485
Other Councillors	16 087 884	2 676 126	868 853	377 600	2 203 279	741 887	22 955 629
Section 79 Chairperson	512 009	47 565	196 270	-	76 801	29 831	862 476
	22 785 393	3 190 717	1 676 617	784 532	3 205 186	1 081 145	32 723 590

2022

Name	Basic salary	Cellphone/Data Allowance	Travel Allowance	Medical Aid	Pension	Total
Executive committee members	6 050 821	445 599	967 867	508 281	855 279	8 827 847
Other Councillors	15 002 465	2 231 552	1 059 103	678 140	2 097 426	21 068 686
Section 79	373 944	35 865	148 967	20 920	52 036	631 732
	21 427 230	2 713 016	2 175 937	1 207 341	3 004 741	30 528 265

43. Change in estimate

Property, plant and equipment

The municipality in the current financial year changed the estimate useful lives of certain Property, Plant and Equipment that were reaching their initial estimated useful lives. The effect of this revision has reduced the depreciation charges for the current and future periods by R 46 629 315

Intangible assets

The municipality in the current financial year changed the estimate useful lives of certain Intangible assets that were reaching their initial estimated useful lives. The effect of this revision has reduced the amortisation charges for the current and future periods by R 224 889

Investment Property

The municipality in the current financial year changed the estimate useful lives of certain Intangible assets that were reaching their initial estimated useful lives. The effect of this revision has reduced the amortisation charges for the current and future periods by R 32 604

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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44. Prior-year adjustments

The Municipality restated prior year receivables from exchange and non exchange transactions due to billing transactions that were adjusted in the prior year. During the year the municipality reviewed the useful lives of assets and there were assets that had been fully depreciated but still in use and prior depreciation had to be reversed and treated as prior period error. There were assets that were capitalised from Work-In-Progress in the prior period that also affected the prior period. There was also a take on of a Library which was previously not recognised in the Municipality's asset register under community assets.

An amount relating to collection charges was erroneously included under property rates interest instead of operational revenue in the 30 June 2022 Statement of Financial Performance. This has been reclassified correctly.

Statement of financial position

2022

	Note	As previously reported	Restatement	Re-classification	Restated
Receivables from exchange transactions	4	674 178 423	(1 762 279)	-	672 416 144
Statutory receivables	3	175 529 245	1 633 368	-	177 162 613
Accumulated surplus	17	5 956 471 944	51 855 398	-	6 008 327 342
Property, Plant and Equipment	8	6 285 442 497	52 114 978	-	6 337 557 475
Inventories	2	130 860 521	(130 669)	-	130 729 852
Other financial liabilities (Non-Current liabilities)	11	806 161 902	-	(963 012)	805 198 890
Trade and other payables		720 068 180	-	963 012	721 031 192
		14 748 712 712	103 710 796	-	14 852 423 508

Statement of financial performance

2022

	Note	As previously reported	Re-classification	Restated
Operational revenue	21	25 125 358	641 671	25 767 029
Interest revenue - property rates	23	3 159 159	(641 671)	2 517 488
		28 284 517	-	28 284 517

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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45. Risk management

Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The municipality's approach is to ensure that sufficient liquidity is available to meet its liabilities when due. The municipality uses cash flow forecasts to ensure that sufficient cash is available to meet expected operating expenses.

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2023	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	142 122 147	151 758 070	419 840 640	691 595 975
Trade and other payables	718 218 289	-	-	-
Consumer deposits	57 155 018	-	-	-
At 30 June 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	109 923 077	120 046 044	333 901 212	351 251 634
Trade and other payables	721 031 192	-	-	-
Consumer deposits	61 180 750	-	-	-

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 counterparty.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards.

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

Financial instrument	2023	2022
Investments	360 000 000	550 432 205
Cash and cash equivalents	135 109 011	134 331 558
Receivables from exchange transactions	847 490 379	672 414 980
Other receivables	26 167 012	24 092 250

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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45. Risk management (continued)

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.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

46. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus of 6 412 935 209 and that the municipality's total assets exceed its liabilities by 6 412 935 209.

The statement of financial performance shows a surplus of R107 311 224 for the year ending 30 June 2023 however when capital revenue is excluded the result is an operating deficit of R199 140 024. The cash and cash equivalents have reduced which indicate that the municipality will have to improve its working capital management. However, 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 monitor closely the cash flow position and the expenditure patterns for the ongoing operations of the municipality.

47. Events after the reporting date

There were no events that took place after the reporting date.

48. Irregular expenditure

Opening balance as previously reported	4 355 981	180 676 116
Add: Irregular expenditure - current	405 057	-
Less: Amount written off - prior period	-	(176 320 135)
Closing balance	4 761 038	4 355 981

Irregular expenditure

The opening balance relates to a matter from prior years that is still under investigation as resolved by MPAC. Irregular expenditure for the current year relates to awards made in terms of section 36 of the Supply Chain Management Policy which were deemed not to meet the criteria in terms of section 36.

Irregular expenditure under assessment

There is currently a matter relating to eSikhaleni Fitness Centre Project Tender 8/2/1/UMH570-19/20 which is still under investigation for non-performance of contractor, consultant and payments not in line with percentage of work completed. The impact on irregular expenditure is not yet known and will only be assessed once the investigation has been completed.

49. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	11 973 988	10 686 781
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City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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

Audit fees

Current year subscription / fee	6 115 190	5 655 478
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PAYE and UIF

Current year subscription / fee	182 516 333	164 988 528
Amount paid - current year	(182 516 333)	(164 988 528)
	-	-

Pension and Medical Aid Deductions

Opening balance	(31 547)	(27 747)
Current year subscription / fee	241 770 403	224 744 695
Amount paid - current year	(241 753 922)	(224 748 495)
Amount paid - previous years	15 066	31 547
	-	-

VAT

VAT receivable/(Payable)	15 881 482	6 037 154
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All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2023:

30 June 2023	Outstanding less than 90 days	Outstanding more than 90 days	Total
Zulu SH	-	8 401	8 401
Zibani T	7	8 669	8 676
Sabela LS	348	3 249	3 597
Mtshali KC	-	299	299
Mathaba FB	-	440	440
Zwane IN	124	296	420
Khuzwayo PH	637	-	637
Nzuza JL	497	-	497
	1 613	21 354	22 967

30 June 2022	Outstanding less than 90 days	Outstanding more than 90 days	Total
Sabela LS	64	1 225	1 289
Zibani T	508	7 214	7 722
Zulu SH	56	9 221	9 277
Zwane	71	109	180
	699	17 769	18 468

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

Incident

Emergency	26 290 754	106 327 732
Sole provider	1 199 220	6 254 018
Exceptional case where it is impossible to follow the SCM process	4 319 878	86 314 615
	31 809 852	198 896 365

50. Segment information

General information

Identification of segments

The segments were organised around the type of services delivered by the municipality which are also the main revenue generating streams. These segments also represent the funding sources that fund the municipal operations as per mSCOA. Management uses these same segments for determining strategic objectives particularly on the financial viability of each service. Different services funded by rates and general were aggregated to the other segment for reporting purposes.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes.

The reporting of information per geographical area is currently impractical.

Types of goods and/or services by segment

These reportable segments as well as the goods and/or services for each segment are set out below:

Reportable segment

Electricity Management
Waste Management
Wastewater Management
Water Management
Other

Goods and/or services

Energy Services
Refuse Services
Sewerage Services
Water Services
Community Services, Sports and Recreation, Roads, Public Safety, Finance and Admin, Housing and etc.

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

Figures in Rand

50. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2023

	Electricity Management	Waste Management Services	Wastewater management	Water Management	Other	Total
Revenue						
External revenue from non-exchange transactions	30 636 771	96 354 038	240 706 123	884 901 888	714 759 204	1 967 358 024
External revenue from exchange transactions	1 736 914 595	104 980 844	108 218 607	459 383 885	420 728 336	2 830 226 267
Inter-segment revenue	75 487 579	2 627 615	3 131 502	16 943 657	-	98 190 353
Interest income	-	-	-	-	26 846 335	26 846 335
Total segment revenue	1 843 038 945	203 962 497	352 056 232	1 361 229 430	1 162 333 875	4 922 620 979
Entity's revenue						4 922 620 979
Expenditure						
Salaries and wages	120 356 139	132 844 758	99 902 472	122 163 043	601 373 058	1 076 639 470
Interest	27 188 695	159 929	3 953 005	37 445 666	20 256 193	89 003 488
Depreciation	23 950 526	1 627 419	52 083 004	58 479 801	165 788 913	301 929 663
Other Expenditure	1 565 801 531	68 500 691	150 264 448	1 279 950 252	297 933 266	3 362 450 188
Total segment expenditure	1 737 296 891	203 132 797	306 202 929	1 498 038 762	1 085 351 430	4 830 022 809
Total segmental surplus/(deficit)						92 598 170
Assets						
Segment assets	4 285 191 892	400 781 988	1 549 317 369	2 555 651 321	166 352 552	8 957 295 122
Total assets as per Statement of financial Position						8 957 295 122
Liabilities						
Segment liabilities	328 263 588	53 519 246	180 864 111	334 094 494	1 632 905 420	2 529 646 859
Total liabilities as per Statement of financial Position						2 529 646 859

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

Figures in Rand

50. Segment information (continued)

2022

	Electricity	Waste Management Services	Wastewater management	Water	Other	Total
Revenue						
Revenue from non-exchange transactions	13 899 782	83 892 003	193 341 067	749 617 403	725 613 700	1 766 363 955
Revenue from exchange transactions	1 504 306 503	114 841 871	108 124 666	528 003 806	335 575 128	2 590 851 974
Inter-segment transfers	82 658 018	-	4 141 008	17 378 967	-	104 177 993
Interest income	-	-	-	-	34 734 726	34 734 726
Total segment revenue	1 600 864 303	198 733 874	305 606 741	1 295 000 176	1 095 923 554	4 496 128 648
Entity's revenue						4 496 128 648
Expenditure						
Salaries and wages	83 470 892	102 279 656	74 422 159	95 321 496	676 800 196	1 032 294 399
Interest	20 151 566	168 293	4 158 511	15 896 653	16 824 813	57 199 836
Depreciation	27 289 186	1 703 865	64 723 825	72 548 324	164 406 831	330 672 031
Other Expenditure	1 388 611 231	65 626 421	104 661 588	950 048 458	326 150 027	2 835 097 725
Total segment expenditure	1 519 522 875	169 778 235	247 966 083	1 133 814 931	1 184 181 867	4 255 263 991
Total segmental surplus/(deficit)						240 864 657
Assets						
Segment assets	2 282 074 783	250 783 346	1 293 954 195	2 014 844 836	2 423 080 420	8 264 737 580
Total assets as per Statement of financial Position						8 264 737 580
Liabilities						
Segment liabilities	313 314 721	37 920 430	198 632 091	465 131 651	981 097 802	1 996 096 695
Total liabilities as per Statement of financial Position						1 996 096 695

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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51. Budget differences

Explanation of variances between approved and final budget amounts

The variance between approved and final budget is as a result of an adjustment budget that was approved by Council on 25 January 2023 (RPT174620)

Explanation of variances greater than 20% between the final budget and actual amounts

Statement of financial performance:

Revenue

Interest received on investments

The variance is due to limited surplus available for investment for most part of the year as the municipality only drew down on the budgeted loan funds towards the end of the year.

Fines, Penalties

The variance is due to the expiry of the traffic fines management contract during the year, therefore fewer fines were issued.

Transfers and subsidies

As a result of various lock down regulations implemented by government, a lot of activities and programmes only took place late in the financial year and therefore there was a decrease in the subsidies offered by the municipality.

Expenditure

Contracted Services

The variance on contracted services is due to contract expenditure on social housing.

Statement of financial position

Receivables from exchange

The variance is mainly due to the reduction in the provision for impairment at the end of the financial year.

Unspent Conditional Grants

The increase in unspent grant is as a result of Municipal Disaster Recovery Grant which was only received in March 2023.

Cash flow statement

Interest income

The variance is due to less cash available during the year to for investing.

Other receipts

The variance is due to revenue housing construction contract which was not included in the budget..

52. Accounting by principals and agents

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

City of uMhlathuze

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements for the year ended 30 June 2023

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52. Accounting by principals and agents (continued)

Details of the arrangement is as follows:Details of the arrangement is as follows:

Department of Transport

The municipality acts on behalf of the Department of Transport to issue licences to, and collect money from motorists, i.e. there are three parties to the arrangement, Principal (Department of Transport), Agent (uMhlathuze Municipality) and Third party (The Motorist)

As the Department of Transport is responsible for issuing the licence, the transaction is however between the Department of Transport and the motorist, i.e. the municipality is not a party to the transaction with the third parties. The municipality facilitates the issuing of these licences and the collection of the prescribed fees.

The municipality receives a fee of 8.55% of the transaction amount and there were no changes that occurred during the reporting period.

Entity as agent

Revenue recognised

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the principal is R 6 538 756 (2022: R4 691 626).

53. Operating surplus reconciliation

Included in operating surplus reflected in the Statement of Financial Performance are capital revenue items, namely capital grants revenue and land sales revenue. The net operating surplus/(deficit) excluding capital revenue is reconciled below:

Surplus for the year	92 598 170	240 864 657
Less: Capital grant revenue	(250 741 248)	(183 194 282)
Less: Proceeds on disposal of assets	(55 710 000)	(140 000)
Operating surplus/(deficit) for the year	(213 853 078)	57 530 375

Schedule of external loans as at 30 June 2023

Loan Number	Redeemable	Balance at Thursday, 30 June 2022	Received during the period	Redeemed written off during the period / Interest accrued	Balance at Friday, 30 June 2023	Carrying Value of Property, Plant & Equip	Other Costs in accordance with the MFMA
		Rand	Rand	Rand	Rand	Rand	Rand
Development Bank of South Africa							
DBSA (9,70%)	61007577	2029/06/29	244 495 619	-	26 161 009	218 334 610	-
DBSA (11,96%)			-	180 000 000	-	180 000 000	-
			244 495 619	180 000 000	26 161 009	398 334 610	-
Other loans							
Standard Bank (5,82%)	665381	2030/06/30	83 166 519	-	7 281 908	75 884 611	-
Nedbank (10,23%)	1003878/3	2022/06/17	-	420 000 000	-	420 000 000	-
Nedbank (10,13%)	1003878/4	2024/06/28	20 005 550	-	10 005 550	10 000 000	-
Standard Bank (10,24%)	407554	2026/06/30	193 537 007	-	41 397 812	152 139 195	-
Standard Bank (7,81%)	727054	2032/06/30	374 880 283	-	26 039 808	348 840 475	-
			671 589 359	420 000 000	84 725 078	006 864 281	-
Total external loans							
Development Bank of South Africa			244 495 619	180 000 000	26 161 009	398 334 610	-
Other loans			671 589 359	420 000 000	84 725 078	006 864 281	-
			916 084 978	600 000 000	110 886 087	405 198 891	-

Appendix B (Unaudited)

June 2023

Analysis of property, plant and equipment as at 30 June 2023

Cost/Revaluation	Accumulated depreciation
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	Opening Balance Rand	Acc Depr Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Acquisitions Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	1 052 714 469	-	-	-	-	-	1 052 714 469	-	(1 939 892)	-	-	-	(1 939 892)	1 050 774 577
	1 052 714 469	-	-	-	-	-	1 052 714 469	-	(1 939 892)	-	-	-	(1 939 892)	1 050 774 577
Infrastructure														
Roads Infrastructure	2 599 878 508	1 690 208 719)	-	-	-	(8 186)	909 661 603	48 383 569	-	-	(51 591 270)	(70 000)	(3 277 701)	906 383 902
Storm water Infrastructure	1 201 103 894	(890 446 671)	-	-	-	(64 517)	310 592 706	2 761 952	-	-	(17 034 717)	-	(14 272 765)	296 319 941
Coastal Infrastructure	38 772 177	(20 829 703)	-	-	-	-	17 942 474	958 975	-	-	(465 200)	-	493 775	18 436 249
Information and Communication	92 539 444	(13 569 694)	-	-	-	-	78 969 750	4 709 236	-	-	(2 265 537)	-	2 443 699	81 413 449
Electrical Infrastructure	1 125 766 374	(417 766 879)	-	-	-	(526 280)	707 473 215	75 284 211	(44 562 249)	-	(22 443 619)	(6 939 378)	1 338 965	708 812 180
Rail Infrastructure	6 106 569	(4 701 086)	-	-	-	-	1 405 483	-	-	-	(85 428)	-	(85 428)	1 320 055
Sanitation Infrastructure	1 858 287 381	1 193 970 393)	-	-	-	(1 262 337)	663 054 651	86 449 625	(111 621)	-	(34 158 262)	(857 438)	51 322 304	714 376 955
Solid Waste Infrastructure	13 636 191	(6 777 639)	-	-	-	-	6 858 552	2 295 630	-	-	(476 313)	-	1 819 317	8 677 869
Water Supply Infrastructure	5 468 730 490	3 755 440 379)	-	-	-	(3 242 812)	1 710 047 299	446 321 399	(48 406 562)	-	(56 865 410)	(2 230 800)	338 818 627	2 048 865 926
	2 404 821 028	7 993 711 163)	-	-	-	(5 104 132)	4 406 005 733	667 164 597	(93 080 432)	-	(185 385 756)	(10 097 616)	378 600 793	4 784 606 526
Community Assets														
Community Facilities	318 148 564	(130 022 464)	-	-	-	(669 452)	187 456 648	15 168 633	(26 107)	-	(10 705 325)	(5 992)	4 431 209	191 887 857
Recreational Facilities	301 630 826	(136 032 268)	-	-	-	(13 255)	165 585 303	169 134 021	-	-	(9 961 931)	(18 256)	159 153 834	324 739 137
	619 779 390	(266 054 732)	-	-	-	(682 707)	353 041 951	184 302 654	(26 107)	-	(20 667 256)	(24 248)	163 585 043	516 626 994

Appendix B (Unaudited)

June 2023

Analysis of property, plant and equipment as at 30 June 2023

Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Acc Depr Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Acquisitions Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Heritage assets														
Buildings	2 306 561	-	-	-	-	-	2 306 561	-	-	-	-	-	-	2 306 561
Other	158 050	-	-	-	-	-	158 050	-	-	-	-	-	-	158 050
	2 464 611	-	-	-	-	-	2 464 611	-	-	-	-	-	-	2 464 611
Specialised vehicles														
Other assets														
Transport Assets	123 190 689	(81 924 265)	-	-	-	-	41 266 424	11 912 936	(3 829 848)	188 710	(10 915 482)	-	(2 643 684)	38 622 740
Plant & equipment	408 397 650	(221 351 226)	-	-	-	-	187 046 424	52 693 057	(1 779 940)	31 234	(27 110 923)	-	23 833 428	210 879 852
Computer Equipment	53 485 651	(40 071 085)	-	-	-	-	13 414 566	3 828 393	(180 351)	-	(2 925 597)	-	722 445	14 137 011
Furniture & Fittings	30 231 194	(23 577 354)	-	-	-	-	6 653 840	857 418	(19 038)	(219 944)	(1 564 419)	-	(945 983)	5 707 857
Other buildings	333 647 301	(183 951 583)	-	-	-	(590 432)	149 105 286	31 143 906	(440 557)	-	(10 268 513)	-	20 434 836	169 540 122
Housing	182 886 221	(54 577 436)	-	-	-	-	128 308 785	-	-	-	(8 110 938)	-	(8 110 938)	120 197 847
	1 131 838 706	(605 452 949)	-	-	-	(590 432)	525 795 325	100 435 710	(6 249 734)	-	(60 895 872)	-	33 290 104	559 085 429

Appendix B (Unaudited)

June 2023

Analysis of property, plant and equipment as at 30 June 2023

Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Acc Depr Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Acquisitions Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment														
Land and buildings	1 052 714 469	-	-	-	-	-	1 052 714 469	-	(1 939 892)	-	-	-	(1 939 892)	1 050 774 577
Infrastructure	2 404 821 028	7 993 711 163)	-	-	-	(5 104 132)	4 406 005 733	667 164 597	(93 080 432)	-	(185 385 756)	(10 097 616)	3 78 600 793	4 784 606 526
Community Assets	619 779 390	(266 054 732)	-	-	-	(682 707)	353 041 951	184 302 654	(26 107)	-	(20 667 256)	(24 248)	163 585 043	516 626 994
Heritage assets	2 464 611	-	-	-	-	-	2 464 611	-	-	-	-	-	-	2 464 611
Other assets	1 131 838 706	(605 452 949)	-	-	-	(590 432)	525 795 325	100 435 710	(6 249 734)	-	(60 895 872)	-	33 290 104	559 085 429
	5 211 618 204	8 865 218 844)	-	-	-	(6 377 271)	6 340 022 089	951 902 961	(101 296 165)	-	(266 948 884)	(10 121 864)	573 536 048	6 913 558 137
Agricultural/Biological assets														
Intangible assets														
Computers - software & programming	230 365 259	(54 774 731)	-	-	-	-	175 590 528	47 743 281	-	-	(34 278 566)	-	13 464 715	189 055 243
Water Rights	9 576 953	(91 834)	-	-	-	-	9 485 119	-	-	-	(239 424)	-	(239 424)	9 245 695
Servitudes	3 552 458	-	-	-	-	-	3 552 458	-	-	-	-	-	-	3 552 458
	243 494 670	(54 866 565)	-	-	-	-	188 628 105	47 743 281	-	-	(34 517 990)	-	13 225 291	201 853 396
Investment properties														
Investment property	106 618 858	(7 990 261)	-	-	-	(8 516)	98 620 081	10 775 899	-	-	(462 786)	-	10 313 113	108 933 194
	106 618 858	(7 990 261)	-	-	-	(8 516)	98 620 081	10 775 899	-	-	(462 786)	-	10 313 113	108 933 194
Total														
Land and buildings	1 052 714 469	-	-	-	-	-	1 052 714 469	-	(1 939 892)	-	-	-	(1 939 892)	1 050 774 577
Infrastructure	2 404 821 028	7 993 711 163)	-	-	-	(5 104 132)	4 406 005 733	667 164 597	(93 080 432)	-	(185 385 756)	(10 097 616)	3 78 600 793	4 784 606 526
Community Assets	619 779 390	(266 054 732)	-	-	-	(682 707)	353 041 951	184 302 654	(26 107)	-	(20 667 256)	(24 248)	163 585 043	516 626 994
Heritage assets	2 464 611	-	-	-	-	-	2 464 611	-	-	-	-	-	-	2 464 611
Other assets	1 131 838 706	(605 452 949)	-	-	-	(590 432)	525 795 325	100 435 710	(6 249 734)	-	(60 895 872)	-	33 290 104	559 085 429
Intangible assets	243 494 670	(54 866 565)	-	-	-	-	188 628 105	47 743 281	-	-	(34 517 990)	-	13 225 291	201 853 396
Investment properties	106 618 858	(7 990 261)	-	-	-	(8 516)	98 620 081	10 775 899	-	-	(462 786)	-	10 313 113	108 933 194
	5 561 731 732	8 928 075 670)	-	-	-	(6 385 787)	6 627 270 275	1 010 422 141	(101 296 165)	-	(301 929 660)	(10 121 864)	597 074 452	7 224 344 727



Appendix B (Unaudited)

June 2023

Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
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Appendix B (Unaudited)

June 2023

Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
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Appendix F (Unaudited)
Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003
June 2023

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Quarterly Expenditure				Grants and Subsidies delayed / w	
		Sep	Dec	Mar	Jun	Sep	Dec	Mar	Jun	Dec	Mar
Museum Subsidy	KZN - Dept of Edu & Culture	-	235 000	-	-	935 996	872 760	960 922	1 061 674	-	-
Housing operationa acc	KZN - Dept of Housing	3 394 084	397 720	870 702	-	4 722 820	4 506 933	3 780 602	6 414 171	-	-
IUDG	National Treasury	-	-	-	-	-	-	-	-	-	-
Financial Management Grant	National Treasury	2 500 000	-	-	-	283 742	524 345	498 146	1 193 767	-	-
Equitable share EPWP	National Treasury	184 056 000	157 313 000	130 570 000	-	-	-	-	-	-	-
Energy efficient and demand mngt	National Treasury	2 000 000	-	-	-	1 738 304	140 740	16 228	104 728	-	-
Mpembeni Modular Library	KZN- Dept of Library Services	-	-	-	-	-	384 948	65 732	31 789	-	-
Water services Infrastructure	National Treasury	10 000 000	-	27 000 000	-	2 099 258	2 962 592	-	31 938 150	-	-
Extended public works programme	National Treasury	804 000	1 446 000	963 000	-	204 755	709 829	797 489	1 500 927	-	-
eSikhawini hostel refurbishmen t	KZN - Dept of Hosing	15 890	20 513	23 555	27 126	-	-	-	-	-	-
INEP	National treasury	-	-	-	-	-	-	-	-	-	-

Beach Protection	KCDM	-	-	-	-	-	-	-	-	-	-
Implementation of the enhanced discount benefit scheme	KZN - Dept of Housing	10 961	13 958	15 480	17 896	-	-	-	-	-	-
Libraries - Internet Access	KZN - Dept of library services	-	-	2 032 000	-	669 256	1 469 251	208 911	-	-	-
Library Subsidy	KZN - Dept of library services	-	-	9 593 000	-	8 021 192	8 489 265	8 245 834	9 257 448	-	-
Career Expo	Dept of public works	-	-	-	-	-	-	-	-	-	-
Municipal Excellence Awards	KZN - COGTA	-	500 000	-	-	-	-	-	495 000	-	-
Municipal Employment Initiative	KZN - COGTA	-	1 500 000	500 000	-	-	-	19 278	-	-	-
Airport Feasibility	KZN - Economic Development & Tourism	-	-	1 000 000	-	-	-	361 094	20 281	-	-
Arbor Month	KZN - Dept of forestry, Fisheries and Environment	250 000	-	-	-	-	-	26 050	28 000	-	-
Donated land	Department of human settlement	-	-	-	-	-	-	-	-	-	-
Tourism Development	KZN - COGTA	-	-	-	-	-	-	-	-	-	-
Municipal Disaster Recovery	National Treasury	-	-	34 966 000	-	-	7 426 195	-	949 467	-	-
Implement of the enhanced discount benefit	KZN - Housing	-	-	-	-	-	-	-	-	-	-
Comm Dev Programme	KZN - COGTA	-	-	-	-	-	-	-	-	-	-
GIS	KZN - COGTA	-	-	-	-	-	-	-	-	-	-
Sport & Rec	Dept of Sport	-	-	-	-	-	-	-	-	-	-
Cleanest town	Water Affairs	-	-	-	-	-	-	-	160 292	-	-
Intergrated urban development grant	National Treasury	58 869 000	29 434 000	120 999 000	-	20 257 824	46 849 890	40 313 733	101 880 553	-	-
		261 899 935	190 860 191	328 532 737	45 022	38 933 147	74 336 748	55 294 019	155 036 247	-	-

Note: A municipality should provide additional information on how a grant was spent per Vote. This excludes allocations from the Equitable Share.