



UMLALAZI
MUNICIPALITY

**AUDITED ANNUAL FINANCIAL
STATEMENTS**

2020/2021

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the uMlalazi Municipality set out on pages 8 to 134, which comprise the statement of financial position as at 30 June 2021, the statement of financial performance, statement of changes in net assets, cash flow statement and 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 uMlalazi Municipality as at 30 June 2021, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2020 (Act No.4 of 2020) (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 auditor-general's responsibilities 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.

Material impairment - receivables

7. As disclosed in note 5 to the financial statements, the municipality increased the provision for impairment on trade receivables from exchange transactions to R18,62 million (2019-20: R16,65 million) as the recoverability of these amounts was considered to be doubtful.

8. As disclosed in note 6 to the financial statements, the municipality increased the provision for impairment on receivables from non-exchange transactions to R204, 01 million (2019-20: R193,74 million) as the recoverability of these amounts was considered doubtful.

Material losses –electricity

9. As disclosed in note 40 to the financial statements, material electricity losses of R9,15 million (2019-20: R7,91 million) was incurred, which represents 15% (2019-2020: 14%) of total electricity purchased. Technical losses amounted to R3,43 million (2019-20: R3,16 million) and these were due to substation equipment losses, transmission lines losses, MV and LV cable network losses, electricity meters, MV and LV ring main units losses, minisubs losses and transformers losses. Non-technical losses amounted to R5,72 million (2019 20: 4,76 million) and were due to tampering with electricity installations and streetlights consumptions that are not metered.

Other matter

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

Unaudited supplementary schedules

11. The supplementary information set out on pages 129 to 134 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion on them.

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 the SA Standards of 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.

Auditor-general's responsibilities for the audit of the financial statements

14. My objectives are to obtain reasonable assurance about whether 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

Introduction and scope

16. In accordance with the Public Audit Act, 2004 (Act No. 25 of 2004) {PM} and the general notice issued in terms thereof, I have a responsibility to report on the usefulness and reliability of the reported performance information against predetermined objectives for selected key performance area presented in the annual performance report. I performed procedures to identify material findings but not to gather evidence to express assurance.
17. My procedures address the usefulness and reliability of the reported performance information, which must be based on the municipality's approved performance planning documents. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures do not examine whether the actions taken by the municipality enabled service delivery. My procedures do not extend to any disclosures or assertions relating to the extent of achievements in the current year or planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
18. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the Basic service delivery and infrastructure development key performance area presented on pages 35 to 48 of the municipality's annual performance report for the year ended 30 June 2021.
19. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
20. I did not identify any material findings on the usefulness and reliability of the reported performance information for the Basic service delivery and infrastructure development key performance area.

Other matters

21. I draw attention to the matter below.

Achievement of planned targets

22. Refer to the annual performance report on pages 3 to 50 for information on the achievement of planned targets for the year and management's explanations provided for the under/over achievement of targets.

Report on the audit of compliance with legislation

Introduction and scope

23. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the municipality's compliance with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

24. The material findings on compliance with specific matters in key legislation are as follows:

Expenditure management

25. Reasonable steps were not taken to prevent irregular expenditure amounting to R3,01 million as disclosed in note 57 to the annual financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by the municipality doing business with suppliers that are not tax compliant and deviations from procurement processes with insufficient reasons.

Other information

26. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report, which includes the mayor's foreword, municipal manager's overview, governance, audit committee's report and other information included in the annual report. The other information does not include the financial statements, the auditor's report and that selected key performance area presented in the annual performance report that has been specifically reported in this auditor's report.

27. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion on it.

28. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information 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.

29. The other information I obtained prior to the date of this auditor's report is the mayor's foreword, municipal manager's overview and governance. The audit committee's report and other information to be included in the annual report is expected to be made available to me after 30 November 2021.
30. 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.
31. When I do receive and read the audit committee's report and other information to be included in the 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

32. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.
33. There was inadequate oversight and monitoring over compliance with legislation by management and those charged with governance to prevent instances of non-compliance.

Other reports

34. I draw attention to the following engagement conducted that had, or could have an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigation

35. At the request of the municipality, an independent consultant was appointed during the years' 2013 to 2017 to investigate payments made to a service provider in respect of legal services rendered to the municipality, during an employee's disciplinary proceedings. This investigation was not finalised at the date of this auditor's report.

Auditor - General

Pietermaritzburg

30 November 2021



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence

Annexure – Auditor general's responsibility for the audit

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

Financial statements

2. 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 by the accounting officer
 - conclude on the appropriateness of the accounting officer's 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 uMlalazi 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 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

3. 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.
4. I also provide the accounting officer with a statement that I have complied with relevant ethical requirements regarding independence, and to 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.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

General Information

Country of incorporation and domicile	South Africa
Legal form of entity	Local Authority (Municipality)
Members of the Council	CT Dlamini (Mayor and Chairperson of the Executive Committee) BP Simelane (Deputy Mayor and Member of the Executive Committee) ME Dlamini (Speaker) S Naiker (chief Whip) CM Gamede (Member of the Executive Committee) MM Khanyile (Member of the Executive Committee) SB Larkan (Member of the Executive Committee) NL Ngidi (Member of the Executive Committee) JK Powel (Member of the Executive Committee) MH Qwabe (Member of the Executive Committee) I Woolatt (Member of the Executive Committee) QT Xulu (Member of the Executive Committee) EZ Jaffe (Chairperson of the Municipal Public Account Committee)
Councillors	EF Shange LB Biyela ZL Buthelezi SS Cele SV Chamane JC Erasmus AB Dlamini SB Dlamuka M Dludla IMM Filand M Govindsamy TV Jiyane NNF Luvuno BC Magwaza JT Magwaza SG Mbambo N Mbuyisa SF Mdletshe MF Mdluli SN Mkhize M Mnqayi MB Mthiyane WP Mzimela MT Ncanana MM Ngema WL Ngema BD Ngidi SF Ngonyama NB Nkala MZ Nkwanyana SS Ntsele TE Ntsele MG Ntuli MMM Ntuli

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

General Information

	NG Ntuli BN Shandu PTO Shange BC Sithole HS Thango NS Zulu BL Zungu
Grading of local authority	Grade 03
Accounting Officer	RP Mnguni
Chief Financial Officer (CFO)	ZN Mhlongo
Business address	Hutchinson Street Eshowe 3815
Postal address	P O Box 37 Eshowe 3815
Bankers	First National Bank
Auditors	Auditor-General South Africa
Preparer	The financial statements were internally compiled by: SS Mbuyazi Deputy Chief Financial Officer
Email address	mm@umlalazi.org.za
Telephone number	035-4733474
Fax number	035-4744733

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

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

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Appendix D(2): Actual versus Budget (Acquisition of Property, Plant and Equipment)

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UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Certification by the Accounting Officer

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

The financial statements have been prepared in accordance with Standards of Generally Recognized Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

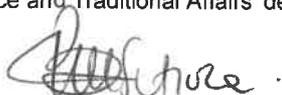
The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the Municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Municipality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

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

The Accounting Officer has reviewed the Municipality's cash flow forecast for the current year up to 30 June 2022 and, in the light of this review and the current financial position, he is satisfied that the Municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. The financial statements are prepared on the basis that the Municipality is a going concern

Certification by the Accounting Officer

I, Raymond Phiwamandla Mnguni hereby certify that the salaries, allowances and benefits of Councillors as disclosed in note 36 of these financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of the Public Office Bearers Act, 1998 (Act No. 20 of 1998) and the Minister of Co-operative Governance and Traditional Affairs' determination in accordance with this Act.



RP MNGUNI (THE ACCOUNTING OFFICER)

08 December 2021

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	4	3 203 395	3 233 412
Receivables from non-exchange transactions	6	15 818 658	20 207 032
Receivables from Exchange Transactions	5	20 801 414	20 976 925
Current Portion of Loans Receivable	12	7 508	15 349
Cash and cash equivalents	3	146 529 871	126 350 309
		186 360 846	170 783 027
Non-Current Assets			
Investment property	9	33 930 000	25 820 000
Property, plant and equipment	7	833 794 342	808 812 578
Intangible assets	8	235 807	346 938
Heritage Assets	10	10 311 344	10 311 344
Investments	11	1 000	1 000
Long Term Receivable	12	-	7 508
		878 272 493	845 299 368
Total Assets		1 064 633 339	1 016 082 395
Liabilities			
Current Liabilities			
Loans Payable	18	342 816	342 816
Trade and other payables	14	43 929 391	36 809 960
VAT payable	15	2 480 493	2 173 694
Consumer deposits	13	3 117 145	2 797 447
Unspent conditional grants and receipts	16	1 720 658	1 768 372
Provisions	17	14 743 849	13 892 177
Current portion of employee benefit obligation	19	1 407 758	1 235 294
		67 742 110	59 019 760
Non-Current Liabilities			
Loans Payable	18	2 484 645	2 838 078
Employee Benefit Obligation	19	25 456 242	31 348 585
		27 940 887	34 186 663
Total Liabilities		95 682 997	93 206 423
Net Assets		968 950 342	922 875 972
Reserves			
Housing operating account	20	5 097 646	5 063 138
Accumulated surplus	21	963 852 696	917 812 834
Total Net Assets		968 950 342	922 875 972

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	23	87 958 693	82 909 554
Rental of facilities and equipment	24	1 294 507	1 389 588
Electricity and refuse - Interest charged	25	1 105 681	693 496
Agency services	27	2 080 977	1 091 785
Licences and permits	28	1 754 118	1 512 059
Operational revenue	29	11 494 075	3 505 148
Interest earned - external investments	26	5 990 284	10 198 260
Gain on disposal of assets and liabilities	30	629 166	-
Fair value adjustments	48	8 110 000	7 038 000
Total revenue from exchange transactions		120 417 501	108 337 890
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	31	64 870 948	55 345 129
Property rates - penalties imposed	31	2 692 759	1 939 639
Licences and permits (Non-exchange)	32	8 193	3 878
Transfer revenue			
Government grants & subsidies	34	293 451 600	238 698 471
Fines, penalties and forfeits	33	2 855 658	21 184 421
Total revenue from non-exchange transactions		363 879 158	317 171 538
Total revenue	22	484 296 659	425 509 428
Expenditure			
Employee related costs	35	160 160 554	159 243 479
Remuneration of councillors	36	22 191 931	22 326 141
Depreciation and amortisation	37	47 608 343	44 621 615
Impairment loss on cash and non-cash generating assets	38	1 238 872	4 475 245
Finance costs	39	362 027	405 720
Lease rentals on operating leases	43	2 304 172	3 177 985
Debt Impairment	46	12 167 557	10 726 167
Bad debts written off	47	2 543 382	2 268 499
Bulk purchases	40	61 141 944	57 485 103
Contracted services	41	72 253 513	54 617 326
Transfers and subsidies	42	8 972 942	4 408 912
Loss on disposal of assets and liabilities	30	-	75 572
Other materials	44	9 289 921	8 665 231
Operational costs	45	37 921 462	34 344 078
Total expenditure		438 156 620	406 841 073
Surplus for the year		46 140 039	18 668 355

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets

Figures in Rand	Housing Operating Fund	Accumulated surplus	Total net assets
Opening balance as previously reported	8 419 820	896 421 624	904 841 444
Adjustments			
Correction of prior period errors	-	3 024 895	3 024 895
Balance at 01 July 2019 as restated*	8 419 820	899 446 519	907 866 339
Changes in net assets			
Net surplus/ (deficit) on the housing development account	(3 658 722)	-	(3 658 722)
Interest on investment backing up the fund	302 040	(302 040)	-
Net income (losses) recognised directly in net assets	(3 356 682)	(302 040)	(3 658 722)
Surplus for the year	-	18 668 355	18 668 355
Total recognised income and expenses for the year	(3 356 682)	18 366 315	15 009 633
Total changes	(3 356 682)	18 366 315	15 009 633
Restated* Balance at 01 July 2020	5 063 138	917 812 827	922 875 965
Changes in net assets			
Net Surplus/(deficit) on the Housing Development Account	(65 662)	-	(65 662)
Interest on investment	100 170	(100 170)	-
Net income (losses) recognised directly in net assets	34 508	(100 170)	(65 662)
Surplus for the year	-	46 140 039	46 140 039
Total recognised income and expenses for the year	34 508	46 039 869	46 074 377
Total changes	34 508	46 039 869	46 074 377
Balance at 30 June 2021	5 097 646	963 852 696	968 950 342
Note(s)	20		

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Taxation		57 726 311	60 550 697
Sale of goods and services		98 787 059	92 723 844
Government grants		293 403 886	287 975 739
Interest income		5 990 284	10 198 260
		<u>455 907 540</u>	<u>451 448 540</u>
Payments			
Employee cost		(177 830 078)	(167 374 527)
Suppliers		(175 136 166)	(207 818 058)
Finance Charges		(362 027)	(405 720)
Transfers and grants		(8 972 942)	(4 408 912)
		<u>(362 301 213)</u>	<u>(380 007 217)</u>
Net cash flows from operating activities	50	93 606 327	71 441 323
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(74 120 971)	(58 307 968)
Proceeds from sale of property, plant and equipment	7	1 032 290	361 396
Proceeds from sale of long term receivable		15 349	15 350
		<u>(73 073 332)</u>	<u>(57 931 222)</u>
Cash flows from financing activities			
Repayment of loans payable		(353 433)	(353 567)
		<u>(353 433)</u>	<u>(353 567)</u>
Net increase/(decrease) in cash and cash equivalents		20 179 562	13 156 534
Cash and cash equivalents at the beginning of the year		126 350 309	113 193 775
Cash and cash equivalents at the end of the year	3	146 529 871	126 350 309

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Difference % and Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	91 027 750	(618 620)	90 409 130	87 958 693	(2 450 437)	3%
Rental of facilities and equipment	1 536 680	(350 000)	1 186 680	1 294 507	107 827	9%
Agency services	3 693 130	1 000 000	4 693 130	3 816 689	(876 441)	19% Ref: 001
Licences and permits	20 000	(14 000)	6 000	18 406	12 406	207% Ref: 002
Other income	2 311 260	-	2 311 260	11 494 075	9 182 815	397% Ref: 003
Interest received - investment	9 593 440	(3 386 730)	6 206 710	5 990 284	(216 426)	4%
Total revenue from exchange transactions	108 182 260	(3 369 350)	104 812 910	110 572 654	5 759 744	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	61 215 460	3 595 100	64 810 560	64 870 948	60 388	0%
Licences and permits (Non-exchange)	13 940	(3 000)	10 940	8 193	(2 747)	25% Ref: 004
Transfer revenue						
Government grants & subsidies	318 910 430	36 413 290	355 323 720	293 451 600	(61 872 120)	17% Ref: 005
Fines and penalties	49 151 360	(35 000 000)	14 151 360	6 654 098	(7 497 262)	53% Ref: 006
Total revenue from non-exchange transactions	429 291 190	5 005 390	434 296 580	364 984 839	(69 311 741)	
Total revenue	537 473 450	1 636 040	539 109 490	475 557 493	(63 551 997)	
Expenditure						
Employee related costs	(156 783 970)	(6 521 410)	(163 305 380)	(160 160 554)	3 144 826	2%
Remuneration of councillors	(24 392 060)	-	(24 392 060)	(22 191 931)	2 200 129	9%
Depreciation, impairment and amortisation	(53 335 820)	-	(53 335 820)	(48 847 215)	4 488 605	8%
Finance costs	(372 640)	-	(372 640)	(362 027)	10 613	3%
Debt impairment	(45 363 610)	27 435 960	(17 927 650)	(14 710 939)	3 216 711	18% Ref: 007
Bulk purchases	(62 868 280)	-	(62 868 280)	(61 141 944)	1 726 336	3%
Contracted services	(134 051 030)	(13 228 840)	(147 279 870)	(72 253 513)	75 026 357	51% Ref: 008
Transfers and subsidies	(8 759 810)	(3 107 450)	(11 867 260)	(8 972 942)	2 894 318	24% Ref: 009
Other materials	(11 139 980)	(32 050)	(11 172 030)	(9 289 921)	1 882 109	17% Ref: 010
General expenses	(40 981 720)	(5 080 090)	(46 061 810)	(40 225 634)	5 836 176	13% Ref: 011
Total expenditure	(538 048 920)	(533 880)	(538 582 800)	(438 156 620)	100 426 180	
Operating surplus	(575 470)	1 102 160	526 690	37 400 873	36 874 183	
Gain on disposal of assets and liabilities	200 000	-	200 000	629 166	429 166	215% Ref: 012
Fair value adjustments	500 000	-	500 000	8 110 000	7 610 000	1522% Ref: 013
	700 000	-	700 000	8 739 166	8 039 166	
Operating surplus	124 530	1 102 160	1 226 690	46 140 039	44 913 349	

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Difference % and Reference
Figures in Rand						
Actual amount on comparable basis as presented in the Budget and Actual Comparative Statement	124 530	1 102 160	1 226 690	46 140 039	44 913 349	

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Difference % and Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	(9 063 000)	12 268 000	3 205 000	3 203 395	(1 605)	0%
Receivables from non-exchange transactions	(2 513 000)	19 099 000	16 586 000	15 818 658	(767 342)	5%
Consumer debtors	(54 783 000)	78 898 000	24 115 000	22 669 370	(1 445 630)	6%
Cash and cash equivalents	243 511 000	(134 691 000)	108 820 000	146 529 871	37 709 871	35% Ref: 014
	177 152 000	(24 426 000)	152 726 000	188 221 294	35 495 294	
Non-Current Assets						
Investment property	18 282 000	7 538 000	25 820 000	33 930 000	8 110 000	31% Ref: 015
Property, plant and equipment	844 745 000	(8 224 000)	836 521 000	833 794 338	(2 726 662)	0%
Intangible assets	359 000	(411 000)	(52 000)	235 807	287 807	554% Ref: 016
Heritage Assets	10 311 344	-	10 311 344	10 311 344	-	0%
Investments	1 000	-	1 000	1 000	-	0%
Long Term Receivable	38 000	(15 143)	22 857	7 508	(15 349)	67% Ref: 17
	873 736 344	(1 112 143)	872 624 201	878 279 997	5 655 796	
Total Assets	1 050 888 344	(25 538 143)	1 025 350 201	1 066 501 291	41 151 090	
Liabilities						
Current Liabilities						
Trade and other payables	122 231 000	(79 056 000)	43 175 000	49 998 496	6 823 496	16% Ref: 018
Consumer deposits	2 786 000	211 000	2 997 000	3 117 145	120 145	4%
Provisions	7 353 000	7 252 000	14 605 000	14 743 849	138 849	1%
	132 370 000	(71 593 000)	60 777 000	67 859 490	7 082 490	
Non-Current Liabilities						
Loans Payable	3 085 000	95 893	3 180 893	2 827 461	(353 432)	11% Ref: 019
Employee Benefit Obligation	21 115 000	11 468 879	32 583 879	26 864 000	(5 719 879)	18% Ref: 020
	24 200 000	11 564 772	35 764 772	29 691 461	(6 073 311)	
Total Liabilities	156 570 000	(60 028 228)	96 541 772	97 550 951	1 009 179	
Net Assets	894 318 344	34 490 085	928 808 429	968 950 340	40 141 911	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Housing Operating Account	5 063 138	-	5 063 138	5 097 646	34 508	1%
Accumulated surplus	889 255 206	34 490 085	923 745 291	963 852 694	40 107 403	4%
Total Net Assets	894 318 344	34 490 085	928 808 429	968 950 340	40 141 911	

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Difference % and Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property Rates	61 215 000	(986 000)	60 229 000	57 726 311	(2 502 689)	4%
Services Charges	91 028 000	(3 826 000)	87 202 000	87 958 693	756 693	1%
Transfers and Subsidies	192 120 000	168 924 000	361 044 000	293 403 886	(67 640 114)	19% Ref: 021
Interest	-	6 207 000	6 207 000	5 990 284	(216 716)	4%
Other Revenue	43 062 000	(26 208 000)	16 854 000	10 828 366	(6 025 634)	36% Ref: 022
	387 425 000	144 111 000	531 536 000	455 907 540	(75 628 460)	
Payments						
Suppliers and Employees	(430 217 000)	(23 828 000)	(454 045 000)	(352 966 244)	101 078 756	22% Ref: 023
Finance Charges	(373 000)	-	(373 000)	(362 027)	10 973	3%
Transfers and Grants	(431 000)	-	(431 000)	(8 972 942)	(8 541 942)	1982%
	(431 021 000)	(23 828 000)	(454 849 000)	(362 301 213)	92 547 787	
Net cash flows from operating activities	(43 596 000)	120 283 000	76 687 000	93 606 327	16 919 327	
Cash flows from investing activities						
Capital Assets	(71 566 000)	(9 199 000)	(80 765 000)	(74 120 971)	6 644 029	8%
Proceeds from sale of property, plant and equipment	-	-	-	1 032 290	1 032 290	100% Ref: 024
Decrease (Increase) in non-current receivables	(38 000)	53 000	15 000	15 349	349	2%
Decrease (increase) in non-current investments	(1 000)	2 000	1 000	-	(1 000)	0%
Net cash flows from investing activities	(71 605 000)	(9 144 000)	(80 749 000)	(73 073 332)	7 675 668	
Cash flows from financing activities						
Increase (decrease) in Consumer Deposits	2 786 000	(2 774 000)	12 000	-	(12 000)	100% Ref: 025
Repayment of Borrowing	-	(343 000)	(343 000)	(353 433)	(10 433)	3%
Net cash flows from financing activities	2 786 000	(3 117 000)	(331 000)	(353 433)	(22 433)	
Net increase/(decrease) in cash and cash equivalents	(112 415 000)	108 022 000	(4 393 000)	20 179 562	24 572 562	
Cash and cash equivalents at the beginning of the year	253 561 000	(140 437 000)	113 124 000	126 350 309	13 226 309	
Cash and cash equivalents at the end of the year	141 146 000	(32 415 000)	108 731 000	146 529 871	37 798 871	

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Difference % and Reference
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Figures in Rand

Budget differences.

Material differences between budget and actual amounts.

001. Agency services: The variance of 19% is due to the effect of national lockdown, the testing and licencing office was not operating fully for some part of 2021 financial year.

002. Licences and permits (exchange): The Municipality have anticipated that this service will be affected by COVID-19 but the actual result have proven to be better that projected.

003. Other income: A positive variance of 397% is due to the actuarial gain which was recognised emanating from the actuaries report.

004. Licences and permits (Non-exchange): The variance of 25% is due to fact that there were fewer applications of licences and permits received and processed by the Municipality during 2021 financial year.

005. Government grants and subsidies: The municipaity could not recognise Rural Housing Project Grant as revenue resulting from the implementation of a Guideline on Accounting for Arrangements Undertaken in terms of the National Housing Programme, this grant was budgeted as part of Government grants and subsidies revenue.

006. Fines and penalties: The variance of 53% is due to the fact that the issuing of fines was halted by the National Lockdown and that the new service provider was only appointed during the course of 2021 financial year.

007. Debt impairment: The variance of 18% is due to the fact that the issuing of fines was halted by the National Lockdown and that the new service provider only was appointed during the financial.

008. Contracted Services: The Municipality could not recognise expenditure on housing projects due to the impementation of a Guideline on Accounting for Arrangements Undertaken in terms of the National Housing Programme, this expenditure was budgeted for as part of contracted services expenditure.

009. Transfers and subsidies: A variance of 24% is due to the low spending on certain line items emanating from the fact that certain sections of the municipality were not fully functional for some part of 2021 financial year.

010. Other materials: A negative variance of 17% is due to the low spending on certain line items emanating from the fact that certain sections of the municipality were not fully functional for some part of 2021 financial year due to COVID 19 Pandemic.

011. General expenditure: A variance of 13% is due to the low spending on certain line items emanating from the fact that certain sections of the municipality were not fully functional for some part of 2021 financial year due to COVID 19 Pandemic.

012. Gain on disposal of assets and liabilities: A positive variance of 215% is due to the fact that the actual auction results were much better than anticipated outcome.

013. Fair value adjustment: A positive varince of R7 610 000 emanates from the valuation of certain properties by property valuer which came back higher than projected values.

014. Cash and cash equivalents: A variance is attributable to the low spending on certain line items emanating from the fact that certain sections of the Municipality were not fully functional for the major part of 2021 financial year due to COVID-19 Pandemic.

015. Investment property: A positive variance of 31% is attributable to the valuation of certain investment properties by the property valuer which came back higher that projected values.

016. Intangible Assets: This variance is due to actual figure being more than anticipated.

017. Long Term Receivable: The Variance of 67% is due to the fact that actual amount as at the end of the financial year was less than anticipated.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Difference % and Reference
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Figures in Rand

- 018. Trade and other payables:** The variance is attributable to amount of accrued invoices being more than anticipated.
- 019. Loans Payable:** A variance of 11% is due to the fact that the final amount of loan due to DBSA was less than projected.
- 020. Employee Benefit Obligation:** The variance of R5 719 879 is attributable to the actuarial gain recognised as per the atuaries report.
- 021. Transfer and Subsidies:** A variance in this line item is due to the fact that the Municipality cold not recognise Rural Housing Projects Grant as revenue emanating from the implementation of a Guideline on Accounting for Arrangements Undertaken in terms of the National Housing Programme, thi grant was budgeted as part of Government grants and subsidies revenue.
- 022. Other Revenue:** The variance is mainly attributable to fact that the issuing of fines was halted by the National Lockdown and the new service provider was only appointed during the course of 2021 financial year.
- 023. Suppliers and Employees:** The variance in this item is due to the fact that the Municipality could not recognise expenditure on housing projects due to the implementation of a Guideline on Accounting for Arrangements Undertaken in terms pof National Housing Programme. this expenditure was budgeted for as part of contracted services. the other contributing factor to this variance is that there were low spending on certain line items emanating from the fact that certain section of the Municipality were not fully functional for some part of the 2021 financial year.
- 024. Proceeds from Sale of Property Plant and Equipment:** A positive variance of R1 032 290 is due to fact that the actual auction results were much better than anticipated outcome.
- 025. Increase or (decrease) in Consumer deposits:** A variance of R12 000 is due to the fact the actual results were less than anticipated.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2021											
Financial Performance											
Property rates	61 215 460	3 595 100	64 810 560	-	-	64 810 560	64 870 949	-	60 389	100 %	106 %
Service charges	91 027 750	(618 620)	90 409 130	-	-	90 409 130	87 958 693	-	(2 450 437)	97 %	97 %
Investment revenue	9 593 440	(3 386 730)	6 206 710	-	-	6 206 710	5 990 284	-	(216 426)	97 %	62 %
Transfers recognised - operational	265 843 430	49 355 290	315 198 720	-	-	315 198 720	245 818 600	-	(69 380 120)	78 %	92 %
Other own revenue	57 426 370	(34 367 000)	23 059 370	-	-	23 059 370	32 025 133	-	8 965 763	139 %	56 %
Total revenue (excluding capital transfers and contributions)	485 106 450	14 578 040	499 684 490	-	-	499 684 490	436 663 659	-	(63 020 831)	87 %	90 %
Employee costs	(156 783 970)	(6 521 410)	(163 305 380)	-	-	(163 305 380)	(160 160 554)	-	3 144 826	98 %	102 %
Remuneration of councillors	(24 392 060)	-	(24 392 060)	-	-	(24 392 060)	(22 191 931)	-	2 200 129	91 %	91 %
Debt impairment	(45 363 610)	27 435 960	(17 927 650)	-	-	(17 927 650)	(14 710 938)	-	3 216 712	82 %	32 %
Depreciation and asset impairment	(53 335 820)	-	(53 335 820)	-	-	(53 335 820)	(48 847 215)	-	4 488 605	92 %	92 %
Finance charges	(372 640)	-	(372 640)	-	-	(372 640)	(362 027)	-	10 613	97 %	97 %
Materials and bulk purchases	(62 868 280)	-	(62 868 280)	-	-	(62 868 280)	(61 141 944)	-	1 726 336	97 %	97 %
Transfers and Subsidies	(8 759 810)	(3 107 450)	(11 867 260)	-	-	(11 867 260)	(8 972 942)	-	2 894 318	76 %	102 %
Other expenditure	(186 172 730)	(18 340 980)	(204 513 710)	-	-	(204 513 710)	(121 769 069)	-	82 744 641	60 %	65 %
Total expenditure	(538 048 920)	(533 880)	(538 582 800)	-	-	(538 582 800)	(438 156 620)	-	100 426 180	81 %	81 %
Surplus/(Deficit)	(52 942 470)	14 044 160	(38 898 310)	-	-	(38 898 310)	(1 492 961)	-	37 405 349	4 %	3 %

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	53 067 000	(12 942 000)	40 125 000	-		40 125 000	47 633 000		7 508 000	119 %	90 %
Surplus (Deficit) after capital transfers and contributions	124 530	1 102 160	1 226 690	-		1 226 690	46 140 039		44 913 349	3 761 %	37 051 %
Surplus/(Deficit) for the year	124 530	1 102 160	1 226 690	-		1 226 690	46 140 039		44 913 349	3 761 %	37 051 %
Capital expenditure and funds sources											
Total capital expenditure	71 565 750	15 492 250	87 058 000	-		87 058 000	74 120 963		(12 937 037)	85 %	104 %
Sources of capital funds											
Transfers recognised - capital	53 067 000	(7 440 250)	45 626 750	-		45 626 750	47 633 000		2 006 250	104 %	90 %
Internally generated funds	18 498 750	22 932 500	41 431 250	-		41 431 250	26 487 963		(14 943 287)	64 %	143 %
Total sources of capital funds	71 565 750	15 492 250	87 058 000	-		87 058 000	74 120 963		(12 937 037)	85 %	104 %

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Cash flows											
Net cash from (used) operating	(43 596 000)	120 283 000	76 687 000	-	-	76 687 000	93 606 327	-	16 919 327	122 %	(215)%
Net cash from (used) investing	(71 605 000)	(9 144 000)	(80 749 000)	-	-	(80 749 000)	(73 073 332)	-	7 675 668	90 %	102 %
Net cash from (used) financing	2 786 000	(3 117 000)	(331 000)	-	-	(331 000)	(353 433)	-	(22 433)	107 %	(13)%
Net increase/(decrease) in cash and cash equivalents	(112 415 000)	108 022 000	(4 393 000)	-	-	(4 393 000)	20 179 562	-	24 572 562	(459)%	(18)%
Cash and cash equivalents at the beginning of the year	253 561 000	(140 437 000)	113 124 000	-	-	113 124 000	126 350 309	-	13 226 309	112 %	50 %
Cash and cash equivalents at year end	141 146 000	(32 415 000)	108 731 000	-	-	108 731 000	146 529 871	-	(37 798 871)	135 %	104 %

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1. Presentation of Financial Statements

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

These 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.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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

These accounting policies are consistent with the previous period.

1.1 Significant judgements and sources of estimation uncertainty

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

Trade receivables / Held to maturity investments and/or loans and receivables

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

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

Financial assets and liabilities

The classification of financial assets and liabilities into categories is based on judgement by management.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Impairment testing

The Municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including economic factors.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 19.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the estimated future cash flows.

Revenue Recognition

Accounting Policy on Revenue describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-exchange Transactions. In particular, when services are rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

Classification of expenses

The analysis of expenses are presented based on the nature of expenses.

1.2 Presentation currency

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

1.3 Going concern assumption

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

1.4 Offsetting

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.5 Housing operating account

The Housing Operating Account was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government used to finance housing selling schemes both complete and in progress as at 1 April 1998, were also transferred to the Housing Operating Account.

In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Operating Account. Monies standing to the credit of the Housing Operating Account can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

1.6 Property, plant and equipment

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

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the Municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

Land is not depreciated as it is regarded as having an indefinite life.

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.6 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Community and Recreational Facilities	Straight line	20-30
Other Assets	Straight line	20-30
Vehicles	Straight line	5-10
Furniture and Fittings	Straight line	7-10
Roads	Straight line	30-80
Electricity	Straight line	20-50
Storm Water	Straight line	40-60
Solid Waste Disposal	Straight line	10-30

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

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

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

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.

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

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

The Municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 7)

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.7 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

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

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

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

Amortisation is provided on a straight line basis over their useful life.

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

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

Item	Depreciation method	Average useful life
Intangible assets	Straight line	3-5

Intangible assets are derecognised:

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

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

UMLALAZI MUNICIPALITY

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Accounting Policies

1.8 Heritage assets

Assets are resources controlled by the Municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the Municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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

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

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

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

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

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

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

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

The Municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements.

Recognition

The Municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the Municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.8 Heritage assets (continued)

Transfers

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

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

Derecognition

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

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

UMLALAZI MUNICIPALITY

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Accounting Policies

1.9 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the Municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the Municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

UMLALAZI MUNICIPALITY

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Accounting Policies

1.10 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is :

- the period of time over which an asset is expected to be used by the Municipality.

Designation

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

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

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

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the Municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the Municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

Identification

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Value in use

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

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

Basis for estimates of future cash flows

In measuring value in use the Municipality:

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.10 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Reversal of impairment loss

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

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

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

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

Redesignation

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

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Financial Statements for the year ended 30 June 2021

Accounting Policies

1.11 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

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

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

No obligation arises as a consequence of the sale or transfer of an operation until the Municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

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Accounting Policies

1.12 Borrowing costs

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

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

1.13 Materiality

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

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

1.14 Investment property

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

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

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

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

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.14 Investment property (continued)

Fair value

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

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

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

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

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

The Municipality separately discloses expenditure to repair and maintain investment property in the notes to the financial statements.

1.15 Financial instruments

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

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

A concessionary loan is a loan granted to or received by a Municipality on terms that are not market related.

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

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

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

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

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

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Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Financial instruments (continued)

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Financial instruments (continued)

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

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

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

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

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

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

Initial recognition

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

The Municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The Municipality measures a financial asset and financial liability initially at its fair value.

The Municipality first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the Municipality analyses a concessionary loan into its component parts and accounts for each component separately. The Municipality accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

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Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The Municipality measures all financial assets and financial liabilities after initial recognition using the:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

Reclassification

The Municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the Municipality cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the Municipality reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Financial instruments (continued)

Derecognition

Financial assets

The Municipality derecognises financial assets using trade date accounting.

The Municipality derecognises a financial asset only when:

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

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

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

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

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

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

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

Financial liabilities

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Financial instruments (continued)

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

Presentation

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

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

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

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

1.16 Statutory receivables

Identification

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

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

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

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

The transaction amount (for 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

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.
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UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.16 Statutory receivables (continued)

Accrued interest

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

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

Other charges

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

Impairment losses

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

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

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

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

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

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

Derecognition

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.16 Statutory receivables (continued)

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

1.17 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.18 Impairment of non-cash-generating assets

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

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

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

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

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

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

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

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

Useful life is the period of time over which an asset is expected to be used by the Municipality:

Designation

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

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

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

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

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the Municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the Municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

Identification

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

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

Redesignation

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

1.19 Employee benefits

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

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

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

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

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

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

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.19 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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

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

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

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

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

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

UMLALAZI MUNICIPALITY

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Accounting Policies

1.19 Employee benefits (continued)

Insured benefits

Where the Municipality pays insurance premiums to fund a post-employment benefit plan, the Municipality treats such a plan as a defined contribution plan unless the Municipality will have (either directly or indirectly through the plan) a legal or constructive obligation to either:

- pay the employee benefits directly when they fall due; or
- pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior reporting periods.

If the Municipality retains such a legal or constructive obligation, the entity treats the plan as a defined benefit plan.

Post-employment benefits: Defined contribution plans

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

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.19 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.19 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.19 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

Other post retirement obligations

The municipality provides post-retirement health care benefits upon retirement to all contributing retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

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

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.19 Employee benefits (continued)

Termination benefits

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

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

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

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

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

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

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

1.20 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.21 Revenue from exchange transactions

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

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

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

Measurement

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.21 Revenue from exchange transactions (continued)

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Interest, royalties and dividends

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

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

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

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

1.22 Revenue from non-exchange transactions

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

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

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.22 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.22 Revenue from non-exchange transactions (continued)

Taxes

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

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

The Municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

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

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

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

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

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

Fines

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

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

Gifts and donations, including goods in-kind

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

1.23 Investment income

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

1.24 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.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.24 Accounting by principals and agents (continued)

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Assessing which entity benefits from the transactions with third parties

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

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

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

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

Recognition

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

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

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

1.25 Comparative figures

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

1.26 Unauthorised expenditure

Unauthorised expenditure means:

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

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.26 Unauthorised expenditure (continued)

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

1.27 Fruitless and wasteful expenditure

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

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

1.28 Irregular expenditure

Irregular expenditure in relation to a municipality or municipal entity, means ---

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

- (a) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- (b) expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- (c) expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Remuneration of the Public Office Bearers Act, 1998 (Act No. 20 of 1998); or

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

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

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

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.29 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the Municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.30 Internal reserves

Capital replacement reserve (CRR)

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 in terms of a Council funding and Reserves Policy. 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.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.31 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.

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Financial Statements for the year ended 30 June 2021

Accounting Policies

1.32 Budget information

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

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

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

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

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

1.33 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.

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 financial statements.

1.34 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.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Accounting Policies

1.34 Events after reporting date (continued)

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.

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Accounting Policies

1.35 Standards and Interpretations that are effective for 2020/2021 financial year

List of effective Standards for 2020/21 financial year

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

List of effective Interpretations for 2020/2021 financial year

Name of Standard	IGRAP Ref.
Applying the Probability Test on Initial Recognition of Revenue	IGRAP 1
Changes in Existing Decommissioning, Restoration and Similar Liabilities	IGRAP 2
Determining whether an Arrangement Contains a lease	IGRAP 3
Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	IGRAP 4
Applying the Restatement Approach under the Standard of GRAP on Financial Reporting in Hyperinflationary Economies	IGRAP 5
Loyalty Programmes	IGRAP 6
The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	IGRAP 7
Agreements for the Construction of Assets from Exchange Transactions	IGRAP 8
Distribution of Non-cash Assets to Owners	IGRAP 9
Assets Received from Customers	IGRAP 10
Operating Lease - Incentives	IGRAP 13
Evaluating the Substance of Transactions Involving the Legal Form of a Lease	IGRAP 14
Revenue - Barter Transactions Involving Advertising Services	IGRAP 15

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Intangible Assets- Website Costs	IGRAP 16
Service Concession Arrangements Where a Grantor Controls a Significant Residual Interest in an Asset	IGRAP 17
Recognition and Derecognition of Land	IGRAP 18
Liabilities to Pay Levies	IGRAP 19
Accounting for Adjustments to Revenue (first time implementation)	IGRAP20

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Notes to the Financial Statements

Figures in Rand

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2020

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme

The objective of this guideline: Entities in the public sector are frequently involved in the construction of houses as part of government's housing policy, implemented through the national housing programme, which is aimed at developing sustainable human settlements. The Housing Act, Act No. 107 of 1997 provides information about the housing programmes that fall within the scope of the national housing programme. Concerns were raised by preparers about the inconsistent accounting applied to housing arrangements undertaken by entities under the national housing programme. Different accounting may be appropriate where there are differences between the terms and conditions of arrangements concluded by entities. However, under housing arrangements that are undertaken in terms of the national housing programme, there are common features and issues that need to be considered. As a result, the Board agreed to develop high-level guidance for arrangements undertaken in terms of the national housing programme.

It covers: Background to arrangements undertaken in terms of the national housing programme, Transactions that affect the accounting of housing arrangements, Consider whether the municipality undertakes transactions with third parties on behalf of another party, Accounting by municipalities appointed as project manager, Disclosure requirements, Accounting by municipalities appointed as project developer, Accounting for the accreditation fee, commission, administration or transaction fee received, Land and infrastructure, Conclusion and Application of this Guideline to existing arrangements.

The effective date of the guideline is for years beginning on or after 01 April 2020.

The entity has adopted the for the first time in the 2021/2020 financial statements.

The impact of the guideline is set out in note 62 Changes in Accounting Policy.

GRAP 110 (as amended 2016): Living and Non-living Resources

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources

It furthermore covers Definitions, Recognition, Measurement, Depreciation, Impairment, Compensation for impairment, Transfers, Derecognition, Disclosure, Transitional provisions and Effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27

The effective date of the standard is for years beginning on or after 01 April 2020.

The entity has adopted the standard for the first time in the 2000/2021 financial statements.

The impact of the standard is not material.

UMLALAZI MUNICIPALITY

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2. New standards and interpretations (continued)

IGRAP 20: Accounting for Adjustments to Revenue

As per the background to this interpretation of the Standards of GRAP, there are a number of legislative and regulatory processes that govern how entities levy, charge or calculate revenue, in the public sector. Adjustments to revenue already recognised in terms of legislation or similar means arising from the completion of an internal review process within the entity, and/or the outcome of an external appeal or objection process undertaken in terms of legislation or similar means. Adjustments to revenue include any refunds that become payable as a result of the completion of a review, appeal or objection process. The adjustments to revenue already recognised following the outcome of a review, appeal or objection process can either result in a change in accounting estimate, or an error.

As per the scope, this Interpretation of the Standards of GRAP clarifies the accounting for adjustments to exchange and non-exchange revenue charged in terms of legislation or similar means, and interest and penalties that arise from revenue already recognised as a result of the completion of a review, appeal or objection process. Changes to the measurement of receivables and payables, other than those charges arising from applying this interpretation, are dealt with in accordance with the applicable Standards of GRAP. The principles in this interpretation may be applied, by analogy to the accounting for adjustments to exchange or non-exchange revenue that arises from contractual arrangements where the fact patterns are similar to those in the Interpretation.

The interpretation sets out the issues and relating consensus with accounting for adjustments to revenue.

The effective date of the interpretation is for years beginning on or after 01 April 2020.

The entity has adopted the interpretation for the first time in the 2021 financial statements.

The impact of the interpretation is not material.

GRAP 18: Segment Reporting

The objective of this Standard is to establish principles for reporting financial information by segments.

The objective of segment reporting is to provide information about the specific operational objectives and major activities of an entity as well as the resources devoted to and costs of these objectives and activities.

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The effective date of the standard is for years beginning on or after 01 April 2020.

The entity has adopted the standard for the first time in the 2021 financial statements.

The adoption of this standard has not had a material impact on the results of the entity, but has resulted in more disclosure than would have previously been provided in the financial statements.

GRAP 34: Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities, joint ventures and associates when an entity prepares separate financial statement

It further covers Definitions, Preparation of financial statements, Disclosure, Transitional provisions and Effective date..

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Notes to the Financial Statements

2. New standards and interpretations (continued)

The effective date of the standard is for years beginning on or after 01 April 2020.

The entity has adopted the standard for the first time in the 2021 financial statements.

The impact of the standard is not material.

GRAP 35: Consolidate Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more entities.

To meet this objective, the standard requires an entity (the controlling entity) that controls one or more other entities (controlled entities) to present consolidated financial statements; defines the principle of control, and establishes control as the basis for consolidation; sets out how to apply the principle of control to identify whether an entity controls another entity and therefore must consolidate that entity; sets out the accounting requirements for the preparation of consolidated financial statements; and defines an investment entity and sets out an exception to consolidating particular controlled entities of an investment entity..

It furthermore covers Definitions, Control, Accounting requirements, Investment entities: Fair values requirement, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The entity has adopted the standard for the first time in the 2021 financial statements.

The impact of the standard is not material.

GRAP 36: Investments in Associates and Joint Ventures

The objective of this standard is to prescribe the accounting for investments in associates and joint ventures to set out the requirements for the application of equity method when accounting for investments in associates and joint ventures.

It furthermore covers Definitions, Significant influence, Equity method, Application of the equity method, Separate financial statements, Transitional provisions and Effective date..

The effective date of the standard is for years beginning on or after 01 April 2020.

The entity has adopted the standard for the first time in the 2021 financial statements.

The impact of the standard is not material.

GRAP 37: Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements).

To meet this objective, the standard defines joint control and requires entity that is a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement..

It furthermore covers Definitions, Joint arrangements, Financial statements, and parties to a joint arrangement, Separate financial statements, Transitional provisions and Effective date .

The effective date of the standard is for years beginning on or after 01 April 2020.

The entity has adopted the standard for the first time in the 2021 financial statements.

The impact of the standard is not material.

GRAP 38: Disclosure of Interest in other Entities

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Financial Statements for the year ended 30 June 2021

Notes to the Financial Statements

2. New standards and interpretations (continued)

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate the nature of, and risks associated with, its interests in controlled entities, unconsolidated controlled entities, joint arrangements and associates, and structured entities that are not consolidated; and the effects of those interests on its financial position, financial performance and cash flows.

It furthermore covers Definitions, Disclosing information about interests in other entities, Significant judgements and assumptions, Investment entity status, Interest in controlled entities, Interest in joint arrangements and associates, Interests in structured entities that are consolidated, Non-qualitative ownership interests, Controlling interests acquired with the intention of disposal, Transitional provisions and Effective date.

The effective date of the standard is for years beginning on or after 01 April 2020.

The entity has adopted the standard for the first time in the 2021 financial statements.

The impact of the standard is not material.

2.2 Standards and interpretations issued, but not yet effective

The entity has not applied the following standards and interpretations, which have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	Date still to be determined	Unlikely there will be a by the Minister of Finance material impact
• Guideline: Guideline on Accounting for Landfill Sites	Date still to be determined	Unlikely there will be a by the Minister of Finance material impact

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Petty cash and floats	15 940	15 940
Bank balances	7 343 922	6 454 470
Short-term investment deposits	139 170 009	119 879 899
	146 529 871	126 350 309

The difference of R15 940 between total cash and cash equivalent note and the cash book accounts balances is as a result of petty cash and float which are cash on hand kept within the municipality.

The difference of R2 239 485.90 between total cash book balances and total bank statements balances is attributable to a deposit of R3 058 292.52 made to the CRR account on 30 June 2021 and reflected on the bank statement on 01 July 2021 and reconciling differences of R818 807.62 which are explained in the bank reconciliation of the primary account.

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

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3. Cash and cash equivalents (continued)

The entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
Standard Bank -Call Deposit - 068872208-001	762 181	760 081	757 907	762 181	760 085	757 907
Standard Bank - Fixed Deposit - 068872208-002	1 743 732	1 675 536	1 530 191	1 743 732	1 675 536	1 530 191
Standard Bank - Call Deposit - 068872208-004	63 903 129	61 821 415	52 642 990	66 961 421	61 821 415	52 642 990
Standard Bank - Call Deposit - 068872208-005	95 048	14 779 338	3 399 609	95 049	14 779 338	3 399 609
Standard Bank - Call Account - 068872208-008	5 263 561	3 757 888	215 521	5 263 561	3 757 888	215 521
Standard Bank - Call Deposit - 068872208-009	9 017	1 144 349	709 821	9 017	1 144 349	(6 806)
First National Bank - Cheque Account - 52191090523	8 159 892	5 862 386	7 897 416	7 341 084	6 449 319	8 203 491
First National Bank - 32 Day Fixed Deposit - 74238125451	311 995	311 995	311 995	311 995	311 995	311 995
First National Bank - Call Deposit - 62120320081	10 973 314	10 682 305	3 473 784	10 973 314	10 682 305	3 473 784
First National Bank - Call Deposit - 62151319186	7 068 131	57 831	6 796 490	7 068 131	57 831	6 796 490
First National Bank - Call Deposit - 62124937246	423 049	265 482	81 479	423 049	265 482	81 479
First National Bank - Call Deposit - 62378736593	3 729 081	3 628 911	7 189 537	3 729 081	3 628 911	7 189 537
First National Bank - Call Deposit - 62024283038	295 943	295 271	295 961	295 943	295 271	294 996
First National Bank - Call Deposit - 62239675260	18 559 429	12 005 956	6 743 613	18 559 429	12 005 956	6 743 613
First National Bank - Call Account - 62094589036	1 007	1 642	4 814	1 007	1 642	4 814
First National Bank - Call Account - 62071691309	1 832	3 509	20 616	1 832	3 509	20 616
Investec - Call Deposit - 1100511779500	14 214 042	1 064 981	13 589 771	14 214 042	1 064 981	13 589 744
Investec - Call Deposit - 1100511779503	497 879	496 489	497 699	497 879	496 489	497 699
Investec - Call deposit - 1100511779502	313 989	313 113	596 240	313 989	313 113	596 240
Investec - Call Deposit - 1100511779504	1 109 534	-	-	1 109 534	-	-
Nedbank - Call Deposit - 037165024212	396 441	395 298	396 191	396 441	395 298	396 191
Nedbank - Call Deposit - 037165024182	3 864 909	3 853 773	3 862 215	3 864 909	3 853 773	3 862 215
Nedbank - Call Deposit - 037165024204	2 577 311	2 569 884	2 575 708	2 577 311	2 569 884	2 575 708
Total	144 274 446	125 747 433	113 589 568	146 513 931	126 334 370	113 178 024

4. Inventories

Electricity materials and supplies	1 840 395	1 852 488
Consumables stores	1 363 000	1 380 924
	3 203 395	3 233 412

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Notes to the Financial Statements

Figures in Rand	2021	2020
5. Receivables from Exchange Transactions		
Gross balances		
Sundry Debtors	9 305 263	8 722 311
Electricity	16 227 150	18 309 817
Refuse	10 979 124	8 785 749
Deposits with creditors	276 795	276 795
Payments made in advance	2 499 378	1 399 856
Housing installments	10 855	64 848
Consumer deposits raised	124 371	69 791
	39 422 936	37 629 167
Less: Allowance for impairment		
Sundry debtors	(5 971 789)	(5 753 373)
Electricity	(5 506 256)	(5 825 329)
Refuse	(7 068 569)	(4 970 843)
Housing installments	(10 855)	(64 848)
Consumer deposits raised	(64 053)	(37 849)
	(18 621 522)	(16 652 242)
Net balances		
Sundry debtors	3 333 474	2 968 938
Electricity	10 720 894	12 484 488
Refuse	3 910 555	3 814 906
Deposits with creditors	276 795	276 795
Payments made in advance	2 499 378	1 399 856
Consumer deposits raised	60 318	31 942
	20 801 414	20 976 925
Sundry Debtors		
Current (0 -30 days)	4 367 505	3 080 802
31 - 60 days	9 796	4 764
61 - 90 days	2 646	4 628
91 - 120 days	2 684	4 466
121 - 365 days	4 922 632	5 627 652
	9 305 263	8 722 312
Electricity		
Current (0 -30 days)	11 110 169	10 222 367
31 - 60 days	468 871	1 112 823
61 - 90 days	366 521	585 552
91 - 120 days	289 257	278 387
121 - 365 days	3 992 332	6 110 688
	16 227 150	18 309 817
Refuse		
Current (0 -30 days)	4 134 769	2 662 324
31 - 60 days	499 935	498 555
61 - 90 days	421 995	379 868
91 - 120 days	384 656	306 299
121 - 365 days	5 537 769	4 938 704
	10 979 124	8 785 750

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Notes to the Financial Statements

Figures in Rand	2021	2020
5. Receivables from Exchange Transactions (continued)		
Housing Installments		
Current (0 -30 days)	5 342	10 572
31 - 60 days	220	4 895
61 - 90 days	221	4 895
91 - 120 days	220	4 634
121 - 365 days	4 852	39 852
	10 855	64 848
Consumer Deposits Raised		
Current (0 -30 days)	46 443	13 392
31 - 60 days	7 875	1 500
61 - 90 days	6 000	17 050
91 - 120 days	6 000	12 527
121 - 365 days	58 053	25 322
	124 371	69 791
Summary of debtors by customer classification		
Residential	28 447 090	20 107 979
Commercial and industrial	5 612 657	5 758 257
National and Provincial Government	2 008 141	9 706 102
Payments Received in advance	578 876	380 179
	36 646 764	35 952 517
Reconciliation of allowance for impairment		
Balance at beginning of the year	(16 652 242)	(15 390 119)
Contributions to allowance	(3 097 374)	(1 668 451)
Debt impairment written off against allowance	1 128 093	406 328
	(18 621 523)	(16 652 242)
6. Receivable from Non-exchange Transactions		
Sundry Debtors	-	2 966 929
Property rates	8 701 755	4 814 874
Traffic fines	7 116 903	12 425 229
	15 818 658	20 207 032
Gross		
Sundry Debtors	-	2 966 929
Property Rates	41 901 821	33 479 713
Traffic Fines	177 922 572	177 503 276
	219 824 393	213 949 918
Impairment		
Property Rates	(33 200 066)	(28 664 839)
Traffic Fines	(170 805 669)	(165 078 047)
	(204 005 735)	(193 742 886)

UMLALAZI MUNICIPALITY

Financial Statements for the year ended 30 June 2021

Notes to the Financial Statements

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6. Receivable from Non-exchange Transactions (continued)

Total receivables from non-exchange transactions	15 818 658	20 207 032
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Statutory receivables included in receivables from non-exchange transactions are as follows, on a gross basis:

Traffic Fines	177 922 572	177 503 276
Property Rates	41 901 821	33 479 713
	219 824 393	210 982 989

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

Traffic Fines	(170 805 669)	(165 078 047)
Property Rates	(33 200 066)	(28 664 839)
	(204 005 735)	(193 742 886)

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

Traffic Fines	7 116 903	12 425 229
Property Rates	8 701 755	4 814 874
	15 818 658	17 240 103

UMLALAZI MUNICIPALITY

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6. Receivable from Non-exchange Transactions (continued)

Statutory receivables general information

Transaction(s) arising from statute

Property rates is levied in terms of the Local Government: Municipal Property Rates Act No. 6 of 2004 as amended by Local Government: Municipal Property Rates Amendment Act, No. 29 of 2014, hence this therefore is recognised as a statutory receivable. The receivable is calculated by applying the Council Approved rates randage against the valuation of individual properties within the municipality jurisdiction. Council approved rebates and exemptions are further applied to reduce the receivable.

Traffic fines are issued to offenders in terms of 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 rates debtors' balances older than 30 days in respect of rate accounts at a simple interest rate of prime plus 1% determined as at 28 February of each year for the financial year starting 1 July.

No interest is charged on outstanding fines, and any additional penalties applied by the court is paid by the offender to the court directly, and is therefore not considered to be revenue for the Municipality.

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

The Municipality assess 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 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 receivable is reduced. The amount of the loss is recognised in the surplus or deficit.

Statutory receivables past due but not impaired

Certain statutory receivables which are less than 3 months past due are not considered to be impaired. Other statutory receivable that are older than 3 months are not considered for impairment if there is indication they would be collected. At 30 June 2021, R7 938 359 (2020: R14 145 072) were past due but not impaired.

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

1 month past due	862 868	926 514
2 months past due	688 873	670 916
3 months and above past due	6 386 618	12 547 642

Reconciliation of provision for impairment for statutory receivables

Opening balance	190 806 680	155 158 188
Provision for impairment	2 849 572	36 010 221
Amounts written off as uncollectible	(1 297 325)	(361 729)
Debt impairment reversed	(8 987 726)	-
	183 371 201	190 806 680

UMLALAZI MUNICIPALITY

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6. Receivable from Non-exchange Transactions (continued)		
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	193 742 884	186 558 634
Provision for impairment	11 678 139	12 717 016
Amounts written off as uncollectible	(1 415 288)	(1 938 308)
Debt impairment reversed	-	(3 594 458)
	204 005 735	193 742 884
Reconciliation of the allowance of debt impairment: Rates		
Balance at the beginning	28 664 838	33 556 621
Contribution to allowance	5 950 516	-
Doubtful debt written off	(1 415 288)	(1 297 325)
Debt impairment reversed	-	(3 594 458)
	33 200 066	28 664 838
Reconciliation of the allowance of debt impairment: Traffic fines		
Balance at the beginning	165 078 046	152 979 380
Contribution to allowance	5 727 623	12 717 016
Doubtful debt written off	-	(618 350)
	170 805 669	165 078 046
Age analysis (Property rates)		
Current (0 - 30 days)	(4 328 031)	(33 592)
31 - 60 days	1 187 934	1 166 763
61 - 90 days	988 771	902 883
91 - 120 days	937 735	858 691
121 days and above	43 115 412	30 584 968
	41 901 821	33 479 713
Summary of rates by consumer classification		
Residential	21 376 286	19 210 780
Commercial	3 592 014	2 070 161
National and Provincial Government	15 346 708	10 290 296
Payments received in advance	1 586 813	1 908 476
	41 901 821	33 479 713

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7. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	198 782 880	-	198 782 880	198 782 880	-	198 782 880
Plant and machinery	13 136 489	(6 453 393)	6 683 096	9 076 223	(5 618 259)	3 457 964
Furniture and fixtures	8 514 775	(6 653 800)	1 860 975	8 329 334	(6 054 582)	2 274 752
Motor vehicles	45 293 355	(22 094 577)	23 198 778	43 460 671	(22 797 284)	20 663 387
IT equipment	16 063 583	(8 869 173)	7 194 410	13 637 482	(7 216 697)	6 420 785
Infrastructure	703 098 006	(336 113 312)	366 984 694	659 582 353	(311 671 853)	347 910 500
Community	395 388 372	(166 298 863)	229 089 509	379 016 092	(149 713 782)	229 302 310
Total	1 380 277 460	(546 483 118)	833 794 342	1 311 885 035	(503 072 457)	808 812 578

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7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	198 782 880	-	-	-	-	198 782 880
Plant and machinery	3 457 964	4 154 709	(32 913)	(896 664)	-	6 683 096
Furniture and fixtures	2 274 752	224 508	(1 119)	(637 166)	-	1 860 975
Motor vehicles	20 663 387	6 404 219	(217 767)	(3 651 061)	-	23 198 778
IT equipment	6 420 785	2 829 301	(44 670)	(2 011 006)	-	7 194 410
Infrastructure	347 910 500	43 515 654	-	(24 209 090)	(232 370)	366 984 694
Community	229 302 310	16 992 580	(106 655)	(16 092 224)	(1 006 502)	229 089 509
	808 812 578	74 120 971	(403 124)	(47 497 211)	(1 238 872)	833 794 342

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	199 088 527	-	(305 647)	-	-	198 782 880
Plant and machinery	3 066 489	1 169 953	(2 542)	(775 936)	-	3 457 964
Furniture and fixtures	2 771 728	150 000	(6 168)	(640 808)	-	2 274 752
Motor vehicles	12 136 651	11 416 210	(91 343)	(2 798 131)	-	20 663 387
IT equipment	7 375 418	705 348	(22 573)	(1 637 408)	-	6 420 785
Infrastructure	339 251 349	30 803 074	-	(21 853 291)	(290 632)	347 910 500
Community	236 122 225	14 063 383	(8 695)	(16 689 993)	(4 184 610)	229 302 310
	799 812 387	58 307 968	(436 968)	(44 395 567)	(4 475 242)	808 812 578

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7. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Total
Opening balance	24 136 160	25 390 053	49 526 213
Additions/capital expenditure	42 785 981	16 892 680	59 678 661
Transferred to completed items	(35 743 683)	(12 593 290)	(48 336 973)
	31 178 458	29 689 443	60 867 901

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Total
Opening balance	3 712 447	14 561 572	18 274 019
Additions/capital expenditure	28 651 559	15 576 429	44 227 988
Transferred to completed items	(8 227 846)	(4 866 965)	(13 094 811)
	24 136 160	25 271 036	49 407 196

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	23 679 058	24 256 233
Contracted services	4 581 531	4 798 925
Sale of goods/Inventory	3 562 883	3 273 349
	31 823 472	32 328 507

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.

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8. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	2 689 388	(2 453 581)	235 807	2 689 388	(2 342 450)	346 938

Reconciliation of intangible assets - 2021

	Opening balance	Amortisation	Total
Computer software	346 938	(111 131)	235 807

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software	572 988	(226 050)	346 938

9. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	33 930 000	-	33 930 000	25 820 000	-	25 820 000

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9. Investment property (continued)

Reconciliation of investment property - 2021

	Opening balance	Fair value adjustments	Total
Investment property	25 820 000	8 110 000	33 930 000

Reconciliation of investment property - 2020

	Opening balance	Fair value adjustments	Total
Investment property	18 782 000	7 038 000	25 820 000

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.

Maintenance of investment property

No repairs and maintenance were undertaken on investment property during the current financial year as well as 2019/20 financial year.

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10. Heritage Assets

	2021			2020		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Zululand historical museum	9 232 212	-	9 232 212	9 232 212	-	9 232 212
Office bearer's ceremonial chains	1 079 132	-	1 079 132	1 079 132	-	1 079 132
Total	10 311 344	-	10 311 344	10 311 344	-	10 311 344

Reconciliation of heritage assets 2021

	Opening balance	Total
Zululand historical museum	9 232 212	9 232 212
Office bearer's ceremonial chain	1 079 132	1 079 132
	10 311 344	10 311 344

Reconciliation of heritage assets 2020

	Opening balance	Total
Zululand historical museum	9 232 212	9 232 212
Office bearer's ceremonial chain	1 079 132	1 079 132
	10 311 344	10 311 344

Expenditure incurred to repair and maintain heritage assets

No repairs and maintenance were undertaken on heritage assets during the year under review as well as 2019/20 financial year.

11. Investments

11. Investments (continued)**At amortised cost**

Shares in co-operative - Coastal Farmers	1 000	1 000
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Non-current assets

Unlisted	1 000	1 000
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12. Long Term Receivable

Old age home	-	7 508
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Current portion transferred to current receivables

Old Age Home	7 508	15 349
--------------	-------	--------

Summary

Loans receivable (non-current assets)	7 508	22 857
Current portion transferred to current Assets	(7 508)	(15 349)
	-	7 508

13. Consumer deposits

Electricity and refuse	3 050 856	2 720 226
Deposits other	66 289	77 221
	3 117 145	2 797 447

Guarantees held:

In lieu of electricity deposits	319 750	319 750
---------------------------------	---------	---------

14. Trade and other payables

Creditors control	24 363 584	20 712 839
Income received in advance	6 840 022	6 631 563
Retention monies	5 342 785	6 986 422
Unidentified direct deposits	5 341 596	582 154
Employee overtime/ standby	2 025 651	1 446 159
Operating lease liability	4 784	186 467
Salaries Control	10 969	264 356
	43 929 391	36 809 960

The fair value of trade and other payables approximate their carrying amounts. Trade and other payables are normally settled on 30 day terms in accordance with the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice/ statement. Thereafter interest is charged in accordance with the credit policies of the various individual creditors.

15. VAT payable

Tax payables	2 480 493	2 173 694
--------------	-----------	-----------

16. Unspent conditional grants and receipts

Unspent conditional grants from spheres of government

Provincial Grants	1 720 658	1 742 258
District Municipality	-	26 114
	1 720 658	1 768 372

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Coastal Management Programme Grant KCDM	-	17 214
Informal Trading Training Grant	-	8 900
GIS Software and Spatial Development Framework Grant	244 987	244 987
Sunnydale Low Coast Housing Grant	393 972	393 972
Tittle Deeds Registration Grant	1 081 699	1 103 299
	1 720 658	1 768 372

The nature and extent of government grants recognised in the 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 34 for reconciliation of grants from National/Provincial Government.

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

17. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Total
Staff leave	8 989 788	4 429 303	(4 137 095)	9 281 996
Staff bonuses	4 902 389	6 362 004	(5 802 540)	5 461 853
	13 892 177	10 791 307	(9 939 635)	14 743 849

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Total
Staff leave	6 118 644	3 652 791	(781 647)	8 989 788
Staff bonuses	4 805 421	4 487 169	(4 390 201)	4 902 389
	10 924 065	8 139 960	(5 171 848)	13 892 177

18. Loans payable

Annuity Loans

Current portion transferred to current liabilities	342 816	342 816
Annuity loans	2 484 645	2 838 078

(Refer to Appendix A for more details)

Bear Interest of 12.422% per annum, and is redeemed in bi annual installments, including interest, over a period of 20 years

18. Loans payable (continued)

Fair value impairment

Long term loans are recorded at the actual liability to loan creditors. No impairment has been recorded.

Non-current liabilities

Loans payable	2 484 645	2 838 078
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Current liabilities

Current portion of loans payable	342 816	342 816
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19. Employee benefit obligations

Defined benefit plan

Post-retirement medical aid plan

The Council operates a defined medical aid benefit scheme for the benefit of its employees. Post-retirement medical aid benefits are offered to all employees by subsidising a portion of the medical aid provision after retirement

An actuarial valuation was carried out at 30 June 2010 and a full liability has been raised which relates to retired employees and existing employees.

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

Opening balance	26 234 392	15 938 000
Benefits paid	(809 778)	(702 000)
Net expense recognised in the statement of financial performance	(7 273 614)	10 998 392
	18 151 000	26 234 392

Net expense recognised in the statement of financial performance

Current service cost	676 000	764 000
Interest cost	1 441 000	1 624 000
Actuarial (gains) losses	(9 390 614)	8 610 392
	(7 273 614)	10 998 392

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	(9 390 614)	8 610 392
---------------------------------------	-------------	-----------

19. Employee benefit obligations (continued)

Key assumptions used

APN 301 states that the assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below:

Discount rates used	12.34 %	6.64 %
Consumer Price Inflation	7.90 %	2.99 %
Medical Aid Contribution Inflation	8.90 %	3.99 %
Net Effective Discount Rate	3.15 %	2.55 %

Financial Variables

The most important financial variables used in the valuation are discount rate and Medical aid inflation.

Discount Rate

GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

"The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve".

The actuaries used the nominal and real zero curves as at 30 June 2021 supplied by the JSE to determine the discount rates and CPI assumptions at each relevant time period. In the event that the valuation is performed prior to the effective valuation date, the actuaries use the prevailing yield at the time of performing their calculations.

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 curve based) medical aid contribution inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. The actuaries do not consider these increases to be sustainable and have assumed that medical aid contribution increases would outstrip general inflation by 1% per annum over the foreseeable future.:

19. Employee benefit obligations (continued)

Other assumptions

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

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. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependents

The actuaries 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. Where necessary it was assumed that female spouses would be five years younger than their male spouses at retirement and vice versa.

Sensitivity Analysis

The valuation is only an estimate of the cost of providing post-employment medical aid benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables.

In order to illustrate the sensitivity of the results to changes in certain key variables, the actuaries have recalculated the liabilities using the following assumptions:

- 20% increase/decrease in the assumed level of mortality;
- 1% increase/decrease in the medical aid inflation

Mortality rate

Deviations from the assumed level of mortality experience of the current employees and the continuation members (pensioners) will have a large impact on the actual cost to the Municipality. If the actual rate of mortality turns out higher than the rates assumed in the valuation basis, the cost to the Municipality in the form of subsidies will reduce and vice versa.

We have illustrated the effect of higher and lower mortality rates by increasing and decreasing the mortality rates by 20%. The effect is as follows:

	-20% Mortality rate	Valuation assumptions	+20% Mortality rate
Total accrued liability	19 553 000	18 151 000	16 956 000
Service cost	2 104 000	1 950 000	1 819 000
Interest cost	983 000	909 000	844 000
	-	-	-

Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

19. Employee benefit obligations (continued)

The actuaries have tested the effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows:

	-1% Medical aid inflation	Valuation assumption	+1% Medical aid inflation
Total accrued liability	17 137 000	18 151 000	18 960 000
Service cost	1 838 000	1 950 000	2 039 000
Interest cost	846 000	909 000	955 000
	-	-	-

Amounts for the current and previous four years are as follows:

	2021 R	2020 R	2019 R	2018 R	2017 R
Defined benefit obligation	18 151 000	26 234 392	15 938 000	14 138 000	14 138 000
Long Term Obligation					
Total Liability			18 151 000	26 234 392	
Current portion of long term liability			(676 000)	(677 109)	
			17 475 000	25 557 283	

Defined contribution plan

Other Long-term Employee Benefits

Provision for Long-service Bonus Awards

The Council offers employees leave awards that may be exchanged for cash on a certain anniversaries of commencing service and a retirement gift determined by reference to length of service.

An actuarial valuation was carried out at 30 June 2021 and the full liability has been raised. The main assumptions used by the actuary are:

19. Employee benefit obligations (continued)

Heading

Discount Rate	9.01%	9.25%
CPI (Consumer Price Inflation)	5.89%	8.44%
Normal Salary Increase Rate	6.89%	5.88%
Net Effective Discount Rate	2.95%	3.18%
	-	-

Sensitivity Analysis

The cost of the Long Service Awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of the future employees

We have tested the effect of a 1% per annum change in the normal salary inflation assumption

The effect is as follows:

	1% decrease R's	30 June 2020 Valuation basis R's	1% increase R's
Employer's accrued liability	5 951 430	6 349 487	6 789 220
Current service cost	679 513	731 758	790 279
Interest cost	482 149	561 511	602 187
	-	-	-

As per the table above, a 1% increase in the salary increase rate results in a 6.93% increase in the accrued liability whilst a 1% decrease in the salary increase rate will result in a 6.27% decrease in the accrued liability.

Changes in the present value of the Long-service Bonus Awards are as follows:

Opening Balance	6 349 487	6 113 000
Current service cost	731 758	686 000
Interest cost	561 511	622 000
Benefits paid	(679 855)	(581 000)
Actuarial (gain)/loss	1 750 099	(490 513)
	8 713 000	6 349 487
Long term obligation		
Total Liability	8 713 000	6 349 487
Current portion of long term liability	(731 758)	(558 185)
	7 981 242	5 791 302
Total Non-current employee benefit obligation		
Post-retirement medical benefits	17 475 000	25 557 283
Long service awards	7 981 242	5 791 302
	25 456 242	31 348 585

20. Housing Development Fund

The housing Development Fund was established in terms of the Housing Act, (Act No 107 of 1997). The municipality maintain a separate Housing Operating Account as required by section 15(5) and 16 of the Housing Act. The Housing Development Fund is 100% cash backed.

Government loans extinguished in 1998	828 828	794 320
Installments received from borrowers	6 196 608	6 196 608
Accumulated deficit	(1 927 790)	(1 927 790)
	5 097 646	5 063 138

Reconciliation of the Housing Development Fund

Opening Balance	5 063 138	8 419 820
Housing projects payments	-	(3 594 220)
Provision for doubtful debt	(64 573)	(64 845)
Public contributions	(1 089)	343
Transfer from Accumulated Surplus (Interest)	100 170	302 040
	5 097 646	5 063 138

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21. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus - 2021

	Capital replacement reserve	Electrical Network Upgrade	SMME Establishment	Electricity	Indigent Support	Accumulated Surplus	Total
Opening balance	68 397 737	10 682 305	2 435 617	34 399 130	295 271	801 602 767	917 812 827
Net Surplus/ (Deficit) for the year	-	-	-	-	-	46 140 039	46 140 039
Transfer from Accumulated Surplurs	14 064 821	603 004	70 296	-	672	(14 838 964)	(100 171)
	82 462 558	11 285 309	2 505 913	34 399 130	295 943	832 903 842	963 852 695

Ring-fenced internal funds and reserves within accumulated surplus - 2020

	Capital replacement reserve	Electrical Network Upgrade	SMME Establishment	Electricity	Indigent Support	Accumulated Surplus	Total
Opening balance	57 060 152	3 884 591	2 386 881	34 399 130	330 124	801 385 634	899 446 512
Net Surplus/ (Deficit) for the year	-	-	-	-	-	18 668 355	18 668 355
Transfer from accumulated surplus	11 337 585	6 797 714	48 736	-	(34 853)	(18 451 222)	(302 040)
	68 397 737	10 682 305	2 435 617	34 399 130	295 271	801 602 767	917 812 827

22. Revenue

Service charges	87 958 693	82 909 554
Rental of facilities and equipment	1 294 507	1 389 588
Interest received (trading)	1 105 681	693 496
Agency services	2 080 977	1 091 785
Licences and permits	1 754 118	1 512 059
Other income	11 494 075	3 505 148
Interest received - investment	5 990 284	10 198 260
Property rates	64 870 948	55 345 129
Property rates - penalties imposed	2 692 759	1 939 639
Government grants & subsidies	293 451 600	238 698 471
Fines, Penalties and Forfeits	2 855 658	21 184 421
	475 549 300	418 467 550

The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	87 958 693	82 909 554
Rental of facilities and equipment	1 294 507	1 389 588
Electricity and refuse - penalties imposed	1 105 681	693 496
Agency services	2 080 977	1 091 785
Licences and permits	1 754 118	1 512 059
Other income	11 494 075	3 505 148
Interest received - investment	5 990 284	10 198 260
	111 678 335	101 299 890

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue

Property rates	64 870 948	55 345 129
Property rates - penalties imposed	2 692 759	1 939 639
Licences or permits	8 193	3 878

Transfer revenue

Government grants & subsidies	293 451 600	238 698 471
Fines, Penalties and Forfeits	2 855 658	21 184 421
	363 879 158	317 171 538

23. Service charges

Sale of electricity	73 657 658	69 408 659
Refuse removal	14 301 035	13 500 895
	87 958 693	82 909 554

The service charges revenue are in respect of services rendered to consumers and billed in terms of the Council's approved tariffs.

24. Rental of facilities and equipment

Premises

Community halls	17 888	78 249
Land leases and other rentals	1 148 646	1 151 552
Rental of municipal houses	127 973	159 787
	1 294 507	1 389 588

25. Electricity and refuse - Interest charged

Electricity - Interest charged	673 447	443 892
Refuse - Interest charged	432 234	249 604
	<hr/>	<hr/>
	1 105 681	693 496

26. Interest earned**Interest revenue**

Current account	105 917	378 207
Short - term investment deposits	5 884 367	9 820 053
	<hr/>	<hr/>
	5 990 284	10 198 260

27. Agency services

Vehicle Registration

2 080 977

1 091 785

Analysis and assessment of principal-agent arrangement.

The KwaZulu Natal Provincial Government, through the KwaZulu Natal Department of Transport, is mandated to collect motor vehicle licences on an annual basis. The KZN department of Transport determine the fee that is payable annually by motor vehicle owners.

To make the payment of motor vehicles easier, the KZN Department of Transport entered into a contractual arrangement with the Municipality to undertake this activity on its behalf. In terms of the arrangement:

- a) The Department issue the motor vehicle licence renewal form to the respective owners of the vehicles, indicating the amount due for the year.
- b) The Municipality provide facilities for owners of motor vehicles to pay their licences.
- c) The Department provide the municipality with access to its IT system so that the Municipality can capture the amounts received and issue the motor vehicle licences on their behalf. The system automatically generates the motor licence upon capturing the payment of the fees due.
- d) The Municipality collect the fees due from motor vehicle owners and simultaneously issue the new licences on behalf of the Department.
- e) The Municipality is required to pay over any revenue (cash) collected to the Department in respect of the vehicle licences.
- f) The Municipality is entitled to retain 8.55% of the cash collected for undertaking this activity on behalf of the Department.

The Assessment

The Department issue the renewal notices and as a result determine who is illegible to pay motor vehicle licences during the period, as well as the amount due.

- The Municipality does not have power to determine the significant terms and conditions of the transactions with the third parties.

The Municipality is only entitled to 8.55% of the total cash collected and cannot use all or substantially all of the cash collected for its own benefits, 91.45% of the cash collected must be paid over to the department.

- The Municipality does not have the ability to use all or substantially all the resources that result from the transactions with third parties.

The system operated by the department automatically generates the licences and therefore any errors or other defects in the licence are the responsibility of the Department, further the Municipality is only liable to pay over actual cash collected and therefore not exposed to any financial variability in the transaction.

- The Municipality is not exposed to variability in the results of the transaction with third parties.

Conclusion

After this analysis and assessment it is concluded that:

The principal-agent arrangement exist between the KwaZulu Natal Department of Transport and uMlalazi Municipality.

The Municipality is an agent in this principal-agent arrangement.

28. Licences and permits

Trading licences	18 406	13 148
Road and Transport	1 735 712	1 498 911
	<hr/>	<hr/>
	1 754 118	1 512 059

29. Other income

Administrative handling fees	107 208	107 680
Town planning and servitudes	51 603	23 542
Breakages and losses recovered	2 091	1 227
Advertisements	-	3 826
Commission	-	22 491
Building plan approval	826 493	500 615
Cemetery and burial fees	190 548	153 288
Cleaning and removal	19 630	37 483
Clearance certificate	109 227	60 890
Insurance refund	-	1 348 109
Entrance fees	9 583	42 392
Skills development levy refund	213 187	238 814
Photocopies and faxes	573 891	471 913
Sales of E-cards	-	2 365
Actuarial Gain	9 390 614	490 513
	<hr/>	<hr/>
	11 494 075	3 505 148

30. Gain/ (loss) on sale of assets

Gain on sale of ecards	-	3 358
Gain/(Loss) on disposal of PPE	629 166	(78 930)
	<hr/>	<hr/>
	629 166	(75 572)

31. Property rates

Rates earned

Residential	21 963 662	20 994 929
Commercial	14 498 383	11 344 020
Education and state	15 650 713	13 169 193
Agriculture	5 114 331	4 827 513
Municipal	52 369	1 482
Public benefit	920	446
Vacant land	4 901 725	4 174 492
Mining	1 116 676	401 335
Public service infrastructure	1 572 169	431 719
	<hr/>	<hr/>
Property rates - penalties imposed	64 870 948	55 345 129
	<hr/>	<hr/>
	2 692 759	1 939 639
	<hr/>	<hr/>
	67 563 707	57 284 768

Valuations

Residential	3 186 348 500	2 508 594 000
Commercial	979 240 750	776 886 000
Education and state	1 181 209 950	2 326 681 000
Agriculture	3 411 787 000	1 805 819 000
Municipal	188 620 500	138 547 000
Public benefit	109 912 250	88 436 000
Vacant land	311 150 500	261 735 000
Mining	75 985 000	20 412 000
Public Service Infrastructure	3 786 241 250	3 028 348 000
	<hr/>	<hr/>
	13 230 495 700	10 955 458 000

Valuations on land and buildings are performed every four years in terms of the Municipal Property Rates Act, (Act No. 6 of 2004). The basic rate for land and buildings range between R0.2792 and R2.2335 (2020 - R0.2792 and 2.2335) respectively.

Messrs. Umhlaba Geomatics Incorporated compiled the valuation roll which was implemented on 1 July 2020.

32. Licences and permits (non-exchange)

Rank permits	8 193	3 878
	<hr/>	<hr/>

33. Fines, penalties and forfeits

Law enforcement fines	3 261	2 435
Overdue books fines	1 513	10 358
Traffic fines	613 425	20 991 175
Disconnection fees penalties	205 809	180 453
Retentions forfeits	2 031 650	-
	<hr/>	<hr/>
	2 855 658	21 184 421

34. Government grants and subsidies

Operating grants

Equitable share	234 792 000	185 590 000
Finance Management Grant	1 700 000	1 770 802
Community Library Grant	5 023 000	4 850 000
EPWP Grant	3 388 000	3 068 000
Museums Grant	894 000	386 000
Spatial Development Grant	-	468 050
Costal Management Programme & Informal Traders Training Grants	21 600	-
Tittle Deeds Registration Grant	-	88 400
Disaster Management Grant	-	745 000
	<hr/>	<hr/>
	245 818 600	196 966 252

Capital grants

Municipal Infrastructure Grant	47 633 000	41 732 219
	<hr/>	<hr/>
	293 451 600	238 698 471

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	58 659 600	53 099 471
Unconditional grants received	234 792 000	185 590 000
	<hr/>	<hr/>
	293 451 600	238 689 471

Equitable Share

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

All registered indigents receive a monthly subsidy which is funded from the grant.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	1 352 219
Current-year receipts	47 633 000	40 380 000
Conditions met - transferred to revenue	(47 633 000)	(41 732 219)
	<hr/>	<hr/>
	-	-

Coastal Management Programme Grant

Balance unspent at beginning of year	17 214	17 214
Conditions met - transferred to revenue	(17 214)	-
	<hr/>	<hr/>
	-	17 214

Conditions still to be met - remain liabilities (see note 16).

Provincialisation of Libraries and Community Library Services

Current-year receipts	4 571 000	4 850 000
Conditions met	(4 571 000)	(4 850 000)
	<hr/>	<hr/>
	-	-

Informal Traders Training Grant

34. Government grants and subsidies (continued)

Balance unspent at beginning of year	8 900	8 900
Conditions met - transferred to revenue	(8 900)	-
	-	8 900

Conditions still to be met - remain liabilities (see note 16).

GIS Software and SDF Grant

Balance unspent at beginning of year	244 987	713 037
Conditions met - transferred to revenue	-	(468 050)
	244 987	244 987

Conditions still to be met - remain liabilities (see note 16).

Rural Housing Project Grant

Balance unspent at beginning of year	-	2 033 667
Current-year receipts	32 120 591	49 995 040
Conditions met	(32 120 591)	(52 028 707)
	-	-

Analysis and assessment of a Principal-Agent arrangement

The KwaZulu Natal Department of Human Settlements is mandated and directly responsible in legislation for providing access to adequate housing in the province of the KwaZulu Natal. The Housing Act provides for the facilitation of a sustainable housing development process. It requires the Minister of Human Settlements to publish the National Housing Code which contains the national housing policy. The KZN Department of Human Settlements entered into contractual agreements uMlalazi Municipality to assist in constructing the houses and to hand over the houses once completed to the beneficiaries of each project. The KZN Department of Human Settlement draft technical specifications for the houses. The Department captures, process and approves the beneficiary applications on the Housing Subsidy System (HSS). The Municipality appoints the implementing agent but do not enter into a direct contract with the implementing agent. The Municipality make payments to the implementing agent in accordance with milestones as provided for in the agreement between the Municipality and the Department. uMlalazi Municipality is a non-accredited Municipality. The roles and responsibilities of the Municipality as outlined in each contractual agreement for each project are similar to those of a level one accredited municipality.

The binding agreements under consideration are agreements between uMlalazi Municipality and the KZN Department of Human Settlements signed by both parties. There are two transactions with the third party that the Municipality undertakes on behalf of the Department as per each agreement:

1. The Municipality appoints implementing agents on behalf of KZN Department of Human Settlements.
2. The Municipality administers the process of handing over the completed houses to the beneficiaries identified by the Department on behalf of KZN Department of Human Settlements.

A principal-agent relationship exist between uMlalazi Municipality and KZN Department of Human Settlements.

Analysis:**Power to determine significant terms conditions of the transaction with third party.**

a) The municipality does not determine the type or quality of houses transferred to the beneficiaries of the programme nor draft the technical specification of houses to be constructed.

b) The Municipality do not identify which beneficiaries shoul receive houses. The department captures, process and approve the beneficiary applications on the Housing Subsidy System (HSS).

Ability to use all or substantially all of the resources that result from the transaction with third party.

34. Government grants and subsidies (continued)

- a) The Municipality does not have the ability to direct who benefits from the transaction and is therefore not able to use the resources to fulfil its objectives.
- b) The Municipality does not have the ability to use the Grant funding for any purposes other than in terms of conditions of the grant.

Exposure to variability in the results of the transaction with third party.

The municipality is not exposed to any variability in the result of the hand over process to the beneficiaries. As the Department specifies the type and quality of houses provided, if beneficiaries are not satisfied with the houses, the department is responsible for remedying the situation. The department concluded the contracts with contractors, it agreed the nature, type, quality and price of the goods to be provided.

Conclusion:

uMlalazi Municipality is an agent of KZN Department of Human Settlements in this Principal-agent relationship.

Sunnydale Low-cost Housing Grant

Balance unspent at beginning of year	393 972	393 972
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Conditions still to be met - remain liabilities (see note 16).

EPWP Grant

Current-year receipts	3 388 000	3 068 000
Conditions met - transferred to revenue	(3 388 000)	(3 068 000)
	-	-

Finance Management Grant

Balance unspent at beginning of year	-	802
Current-year receipts	1 700 000	1 770 000
Conditions met - transferred to revenue	(1 700 000)	(1 770 802)
	-	-

Conditions still to be met - remain liabilities (see note 16).

Integrated National Electrification Programme Grant

Current-year receipts	5 000 000	7 000 000
Conditions met	(5 000 000)	(7 000 000)
	-	-

Analysis and assessment of a Principal-agent arrangement

The Municipality have entered in an agreement with Eskom for the electrification of houses in the Eskom area of supply. The Municipality appoint the contractor to construct the asset. The asset is transferred to Eskom on completion of the construction. This project is funded by the schedule 5B INEP grant. The Municipality do not have an electricity licence for this area and is constructing asset in an Eskom licenced area. The Municipality do not have control over this asset and there are no economic benefits as no revenue to be derived from the asset.

The Binding agreement under consideration is the agreement with Eskom which is signed by both the Municipality and Eskom. The transaction with third party is the appointment of the contractors to construct the assets. The asset transferred to Eskom on completion of the construction is therefore for the benefit of Eskom.

34. Government grants and subsidies (continued)

GRAP 109.25 state that an entity is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

a) It does not have the power to determine the significant terms and conditions of the transaction with the third parties;

The Municipality does not have the power to effect the result of the transaction, that is the economic benefit or service potential that arises from the transaction. The quality of the electrical infrastructure received by agreement, among others:

- The electrification infrastructure to be designed and built in accordance with Eskom standards and specifications.
- The designs for the above mentioned projects must be approved by Eskom project engineers before construction commences.
- All materials used for the project must be approved by Eskom.
- Eskom clerk of works will carry out ad hoc inspection of the construction work to ensure the project complies with the approved designs.
- After the completion of the construction activities Eskom inspect the network and any defects identified to be rectified by the Municipality.

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

The Municipality does not have unrestricted access to those resources and cannot use those resources for its own benefit due to the following:

- The meters installed for the project must be sourced from Eskom stores.
- The grant funding received may only be utilised in terms of the conditions of the grant (construct electrical infrastructure) and cannot be used for the Municipality's own purpose.

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

- Eskom is responsible for fulfilling the legislated mandate of supply of electricity, and hence, consumers will look to Eskom for delivery of electricity.

- The Municipality receive no compensation for carrying out the transaction;

The Municipality is not exposed to significant default risk i.e. risk of fees, taxes, levies or other charges not being paid by third parties.

Conclusion

Based on the above the Municipality is transacting with contractor on behalf of Eskom and is therefore an agent of Eskom.

Museums Grant

Current-year receipts	894 000	386 000
Conditions met - transferred to revenue	(894 000)	(386 000)
<hr/>	-	-

Title Deeds Registration Grant

Balance unspent at beginning of year	1 103 299	-
Current-year receipts	-	1 191 699
Conditions met - transferred to revenue	(21 600)	(88 400)
<hr/>	1 081 699	1 103 299

34. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 16).

Disaster Management Grant

Current-year receipts	-	745 000
Conditions met - transferred to revenue	-	(745 000)
	-	-

During the year under review (2020/2021 financial year) the Municipality incurred an amount of R3 068 027.68 in relation to COVID-19 pandemic on expenditure such as protective clothing, hand sanitisers, office decontamination and machinery and equipment. The Municipality used the additional Equitable Share that was received to fund this expenditure since there was no specific grant received and allocated merely for disaster management but in the form of additional Equitable Share.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

35. Employee related costs

Basic salary and wages	97 076 683	91 132 754
Bonuses	7 320 457	6 738 882
Medical Aid Contributions	7 483 311	6 944 988
Annual leave	4 429 302	5 336 995
Post-retirement benefit obligations	2 117 000	2 398 846
Overtime	9 124 394	8 556 517
Long service awards	1 293 269	1 500 743
Motor vehicle allowance	5 195 200	5 187 293
Housing allowances	1 477 934	1 399 191
Rental subsidy	75 284	75 693
Group life insurance	1 691 442	1 571 039
Performance Bonuses	921 490	666 408
Cellphone Allowances	1 476 848	1 427 600
Pension and UIF contributions	18 727 841	17 696 138
Actuarial loss	1 750 099	8 610 392
	<hr/>	<hr/>
	160 160 554	159 243 479

Remuneration of Municipal Manager

Annual Remuneration	1 004 044	1 001 621
Car Allowance	180 000	180 000
Performance Bonuses	166 396	152 530
Contributions to UIF, Medical and Pension Funds	182 541	188 080
Group Life	20 080	19 456
	<hr/>	<hr/>
	1 553 061	1 541 687

Remuneration of Chief Financial Officer

Annual Remuneration	822 895	822 895
Car Allowance	180 000	180 000
Performance Bonuses	158 685	158 684
Contribution to UIF, Medical and Pension Fund	114 138	114 109
Group Life	16 458	16 012
	<hr/>	<hr/>
	1 292 176	1 291 700

Remuneration of the Director: Corporate Services

Annual Remuneration	1 011 678	1 011 677
Car Allowance	120 000	120 000
Performance Bonuses	158 685	158 684
Contributions to UIF, Medical and Pension Funds	1 813	1 785
	<hr/>	<hr/>
	1 292 176	1 292 146

Remuneration of the Director: Engineering Services

Annual Remuneration	558 792	388 108
Car Allowance	58 333	90 000
Contributions to UIF, Medical and Pension Funds	1 069	73 186
Group Life	43 021	-
	<hr/>	<hr/>
	661 215	551 294

The Director Engineering Services resigned on 31 December 2019 and the post have been vacant up until the end of 2019/20 financial year. The new Director was appointed on 01 December 2020.

Remuneration of the Director: Community Services

35. Employee related costs (continued)

Annual Remuneration	776 337	778 962
Car Allowance	180 000	180 000
Performance Bonuses	147 350	147 350
Contributions to UIF, Medical and Pension Funds	177 154	174 501
	1 280 841	1 280 813

Remuneration of the Director Planning and Economic Development Services

Annual Remuneration	553 018	553 017
Car Allowance	300 000	300 000
Performance Bonuses	158 685	32 921
Contributions to UIF, Medical and Pension Funds	1 813	1 784
Group Life	11 060	10 555
Housing Allowance	267 600	267 600
	1 292 176	1 165 877

36. Remuneration of Councillors

Mayor's allowance	757 148	905 259
Deputy Mayor's allowance	733 088	733 088
Executive committee members	5 520 367	5 520 368
Speaker's allowance	733 780	733 088
Councillors	13 752 602	13 744 292
Chief Whip	694 946	690 046
	22 191 931	22 326 141

Remuneration of Councillors

Basic allowance	15 940 598	16 020 131
Cellphone allowance	2 196 400	2 203 200
Travelling allowance	3 092 042	3 116 224
Data allowance	193 800	194 400
Pension fund contribution	769 091	792 186
	22 191 931	22 326 141

Remuneration of the Mayor

Basic allowance	469 662	568 328
Cellphone allowances	34 000	40 800
Travelling allowance	180 037	208 317
Data allowance	3 000	3 600
Pension fund contribution	70 449	84 214
	757 148	905 259

Remuneration of the Deputy Mayor

Basic allowance	640 640	640 640
Cellphone allowances	40 800	40 800
Data allowance	3 600	3 600
Pension fund contribution	48 048	48 048
	733 088	733 088

Remuneration of the Speaker

Basic allowance	449 595	454 663
Cellphone allowances	40 800	40 800
Travelling allowance	172 345	166 653
Data allowance	3 600	3 600
Pension fund contribution	67 439	67 372
	733 779	733 088

Remuneration of the Chief Whip

Basic allowance	424 269	426 247
Cellphone allowances	40 800	40 800
Travelling allowance	162 637	156 238
Data allowance	3 600	3 600
Pension fund contribution	63 640	63 161
	694 946	690 046

Remuneration of the Executive Committee Members

Basic allowance	3 812 021	3 812 021
Cellphone allowance	326 400	326 400
Travelling allowance	1 129 879	1 129 880
Data allowance	28 800	28 800
Pension fund contribution	223 267	223 267

36. Remuneration of Councillors (continued)**5 520 367 5 520 368****Remuneration of Ordinary Councillors**

Basic allowance	10 144 411	10 118 232
Cellphone allowance	1 713 600	1 713 600
Travelling allowance	1 447 144	1 455 136
Data allowance	151 200	151 200
Pension fund contribution	296 247	306 124
	13 752 602	13 744 292

In-kind benefits

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

The Mayor, Deputy Mayor and Speaker each have the use of Municipal owed vehicles for official duties.

The Mayor has full-time bodyguards, The Deputy Mayor, Speaker and Chief whip have each got two full-time bodyguards.

37. Depreciation and amortisation

Property, plant and equipment	47 445 418	44 395 565
Intangible assets	162 925	226 050
	47 608 343	44 621 615

38. Impairment of assets**Impairments**

Property, plant and equipment	1 238 872	4 475 245
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39. Finance Charges

Loans payable	362 027	405 720
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40. Bulk purchases

Electricity - Eskom	61 141 944	57 485 103
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40. Bulk purchases (continued)

Electricity losses

	Units 2021	Units 2020		
Units purchased	50 468 760	50 560 713	62 474 303	57 485 103
Units sold	(43 070 963)	(43 594 826)	(53 316 715)	(49 565 224)
Total loss	7 397 797	6 965 887	9 157 588	7 919 879
Comprising of:				
Technical losses	2 775 435	2 780 288	3 435 657	3 161 055
Non-technical losses	4 622 362	4 185 598	5 721 931	4 758 824
Total	7 397 797	6 965 886	9 157 588	7 919 879
Percentage Loss:				
Technical losses	6 %	6 %	6 %	6 %
Non-technical losses	9 %	8 %	9 %	8 %
Total	15 %	14 %	15 %	14 %

Electricity losses are caused by the following:

- 1) Street lights consumptions that are not metered.
- 2) Tempering with electricity installations.
- 3) Other technical losses contributes up to 5.5% of the total of electricity losses, such as substation equipment losses, transmission lines losses, MV and LV cable network losses, electricity meters, MV and LV ring main units losses, minisubs losses and transformers losses.

The national norm for the electricity losses is 5% to 10% (National Treasury Circular No. 71)

41. Contracted services

Outsourced Services

Alien vegetation control	244 042	9 500
Animal care	622 136	501 360
Burial services	1 297 100	1 141 950
Business and advisory	2 520 861	2 186 966
Clearing and grass cutting services	2 755 363	2 551 086
Hygiene Services	944 028	300 000
Litter picking and street cleaning (CBD)	891 977	1 049 080
Medical examinations	252 427	800
Personnel and labour (work creation projects and EPWP)	8 989 975	8 120 740
Connection/Dis-connection	8 929	9 021
Refuse removal	6 902 205	5 742 809
Security services	13 865 134	10 671 303
Traffic fines management	793 263	1 424 079

Consultants and Professional Services

Business and advisory	2 260 389	3 501 346
Infrastructure and planning	1 795 450	633 143
Legal cost	989 450	1 130 656

41. Contracted services (continued)

Contractors

Artists and performers	-	1 000
Catering services	1 041 895	933 110
Graphic designers	-	950
Maintenance of buildings and facilities	901 705	1 203 463
Maintenance of equipment	1 147 879	267 409
Grader programme and maintenance of vehicles	21 793 976	9 972 851
Prepaid electricity vendors	1 396 075	1 396 164
Stage and sound crew	287 435	151 440
Rural housing project and Rural electrification	551 819	1 717 100
	72 253 513	54 617 326

42. Transfers and subsidies

Other subsidies

Fencing of communal gardens SMME equipment and irrigation system	3 103 974	1 431 127
SPCA Grant-in-aid	150 000	145 000
Tourism grant-in-aid	225 000	220 190
Households (Groceries, temporally shelters and food parcels)	4 598 743	2 046 605
Bursaries (non-employees)	183 255	162 000
Social welfare grant-in-aid	155 000	150 370
Zululand Historical Museum Grant -in-aid	556 970	253 620
	8 972 942	4 408 912

43. Lease rentals on operating leases

Motor vehicles

Vehicles for political office bearers	755 518	1 299 521
Plant and equipment		
Office equipment	1 020 072	1 110 372
Lease rentals on operating lease - 2		
Weigh bridges	330 804	544 900
Lease rentals on operating lease - Other		
Property rentals	197 778	223 192
	2 304 172	3 177 985

44. Other materials

Sale of goods

Inventory Consumed Consumables Standard Rated (Stationery and Cleaning Materials)	5 591 027	5 268 131
Inventory Consumed Finished Goods (Electrical parts and hardware used for building maintenance)	14 518	36 218
Inventory Consumed Materials and Supplies (asphalt hot mix, stone)	3 684 376	3 360 882
	9 289 921	8 665 231

45. General expenses

Advertising	2 644 787	1 539 612
Audit fees - external	1 957 196	2 224 626
Bank charges	248 798	302 811
Cleaning Services	2 464	3 885
Commission paid, third party vendors	59 325	48 200
Council's Communications	1 911 155	1 422 921
Entertainment allowances	109 716	107 879
Hire charges	615 803	283 352
Insurance	2 062 224	1 600 106
External computer services	6 324 622	4 325 914
Skills development fund levies	1 182 573	1 094 372
Printing, publications and books	6 626	10 259
Uniform and protective clothing	1 806 195	2 210 431
Performing Arts	749	11 237
Professional bodies, membership and subscriptions and membership fees	10 524	47 955
Vehicle Tracking	175 026	280 585
Transport provided - activities and events	263 662	451 200
Training	1 093 410	967 224
Travel and subsistence	571 440	2 635 545
Loose Tools	127 585	105 360
Municipal services - District Municipality	3 230 313	3 268 697
Archiving	134 897	72 374
Bargaining Council	1 833 361	1 724 410
Employee bursaries	582 204	403 710
Honoraria (voluntary workers)	49 400	15 550
Indigent relief	6 533 033	5 003 866
Remuneration to ward committees	3 234 300	3 094 000
Road worthy test	7 071	8 272
Sitting Allowance for traditional Leaders	18 000	37 000
Signage	121 847	43 800
Workmen's Compensation Fund	1 003 156	998 925
	37 921 462	34 344 078

46. Allowance of debt impairment

Debt impairment	12 167 557	10 726 167
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47. Bad Debts Written Off

From Exchange Transactions	1 128 094	472 206
From Non-exchange transactions	1 415 288	1 796 293
	2 543 382	2 268 499

48. Fair value adjustment

Fair value adjustment for investment properties	8 110 000	7 038 000
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49. Auditors' remuneration

Fees	1 957 196	2 224 626
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50. Cash generated from operations

Surplus	46 140 039	18 668 355
Adjustments for:		
Depreciation and amortisation	47 608 343	44 621 615
Gain/Loss on sale of assets and liabilities	(629 166)	75 572
Fair value adjustments	(8 110 000)	(7 038 000)
Actuarial gains (non-cash)	(9 390 614)	(490 513)
Actuarial loss (non-cash)	1 750 099	8 610 392
Impairment deficit	1 238 872	4 475 245
Post-employment medical aid	1 306 126	1 696 846
Movements in Bonus provision	559 464	4 487 169
Long services awards	548 842	919 743
Movements in leave provision	292 208	3 652 791
Changes in working capital:		
Inventories	30 017	(116 937)
Receivables from exchange transactions	175 511	(6 920 413)
Receivables from non-exchange transactions	4 388 374	(1 021 415)
Trade and other payables	7 119 429	1 163 017
VAT	306 799	1 173 627
Unspent conditional grants and receipts	(47 714)	(2 751 439)
Consumer deposits	319 698	235 668
	<hr/>	<hr/>
	93 606 327	71 441 323

51. Retirement benefits

The municipality's personnel are members of the three Natal Joint Municipal Pension Funds i.e. (Superannuation Fund, Provident Fund and Retirement Fund). The valuator carries out a statutory valuation once after every 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

47.1 Superannuation

An Interim Actuarial Valuation of the fund was carried out for the period ending 31 March 2020.

51. Retirement benefits (continued)

For service to 31 March 2020	Pensioners	Members	Total
Assets	4 829 396 000	5 439 100 000	10 268 496 000
Liabilities	(5 119 149 000)	(6 064 004 000)	(11 183 153 000)
	(289 753 000)	(624 904 000)	(914 657 000)

Pensioners: Funding level is 92.2%

Members: Funding level is 86.5%

For services to 31 March 2019	Pensioners	Members	Total
Assets	5 730 118 000	6 427 752 000	12 157 870 000
Liabilities	(5 730 118 000)	(6 427 752 000)	(12 157 870 000)
	-	-	-

Pensioners: Funding level - 105.8%

Members: Funding level - 100%

Investment reserve	31 March 2020
Contribution reserve	49 559 000

Investment reserve	31 March 2019
Contribution reserve	43 605 000

Conclusion

1. The valuation reveals that the fund is 92.4% funded on the "best estimate" Funding 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. The funding level is estimated to improve to 98.2% as at 31 May 2020.

2. The asset composition on the valuation date is appropriate to the nature of the liabilities and that the investment strategy of the fund 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 arrangements are appropriate.

4. The fund is not in a sound financial position as at the valuation date, but because this was mainly due to the impact of the Covid19 epidemic on financial markets, which has since partially recovered, the actuaries recommended that no immediate action is taken. The funding level of the fund improved to 98.2 after the market recovery and based on the position on 31 May 2020 (after the recovery) the actuaries expect the surcharge of 6.3% of pensionable salaries to eliminate the deficit by 2022.

47.2 Provident Fund

The salient features of the Statutory Actuarial Valuation Report on the fund as at 31 March 2020 and 31 March 2019 were that the net market value of the fund's assets were sufficient to fully cover the members' share account and to provide total reserves of R4 591 119 000 and R4 579 622 000 respectively

The assets of the fund exceed the liabilities as at the reporting date (31 March) for both 2020 and 2019 financial years, resulting in a small surplus of R261 975 000 and R50 716 000 respectively, which represents 1.1% and 5.7% of liabilities and reserves in respective years.

Due to the smoothing mechanism, a portion of the investment return to 31 March 2020 has been applied to fund the interim bonus for April 2020. The value of the liability liabilities therefore includes all interim bonuses to 30 April 2020.

Conclusion

51. Retirement benefits (continued)

1. The valuation reveals that the fund is 101.1% 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 actuaries are 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 actuaries are satisfied that, given the recommended Risk and Expense Reserve Account, the arrangement is appropriate for the Fund.
5. The actuaries are of the view that the Fund was in a sound financial position as at the valuation date.

47.3 Retirement Fund

The actuarial value of total assets of the fund was less than the actuarial value of the liabilities for the service of pensioners and members to that date by R247 129 000 (2019 - R135 071 000).

Made up as follows:

For service to 31 March 2020:

for pensioners - funding level 96.2% (2019 : funding level 113.4%).

for members - funding level 84.7% (2019 : funding level 92.1%) - deficit of R135 071 000 (2018 - R160 817 000)

The fund did not hold an investment reserve.

With effect from 01 July 2000, local authorities commenced paying a surcharge equal to 2% of pensionable salaries. It was subsequently increased each year and is currently (31/03/2020), for local authorities 35% (2019 - 35%), and members pay 0.00% (2019 - 0.00%).

A surcharge of 17.5% of pensionable salaries was paid until 31 December 2016. Of the surcharge, 1.65% of pensionable salaries were paid by members who joined the Fund prior to 01 July 2002. The surcharge was increased to 21.65% with effect from 01 January 2017 by increasing the surcharge from the local authorities from 15.85% to 20% of pensionable salaries. With effect from 01 February 2019 the members no longer pay any surcharges. The surcharge from the local authorities was increased to 35% of pensionable salaries with effect from 01 March 2019 in line with the recommendation in the report on the previous statutory valuation date.

Even though a surcharge was paid during the valuation period, the funding level has not increased by as much as was expected. This is primarily as a result of high salary increases over the valuation period and a strengthening of the valuation basis

Conclusion

1. The valuation reveals that the Fund is 93.5% funded (2019 - 96.6%) 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. The funding level improved to 97.1 as at 31 May 2020.
2. The actuaries are 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 risks benefits. The lump sum element of these benefits is relatively small, with the major element comprising of annuity payments. The actuaries are satisfied that, given the recommended Risk Reserve, the Fund's reinsurance arrangements are appropriate.

51. Retirement benefits (continued)

4. The actuary is of the view that the fund is not in a sound financial position as at the valuation date, but the reduction in the funding level was mainly due to the impact of the Covid19 epidemic on financial market, which has since partially recovered. The funding level of the Fund improved to 97.1% after the market recovery and based on the portion on 31 May 2020 (after recovery) the actuaries still expect the surcharge of 35% of pensionable salaries to eliminate the deficit by 2021.

48.4 Municipal Councillors' Pension Fund

The Municipal Councillors' Pension Fund operates as a defined contribution fund. The contributions paid by the members (13.75%) and council (15%) is sufficient to fund the benefits accruing from the fund in the future. The last valuation performed for the year ended 30 June 2012 revealed that the fund had a funding level of 99.5% (2009 - 102.0%).

52. Capital commitments

Authorised capital expenditure

Approved and contracted

• Infrastructure Assets	16 044 678	11 253 153
• Community Assets	12 749 783	4 569 862
• Other Assets	3 875 405	8 233 395
	32 669 866	24 056 410

Total capital commitments

Already contracted for but not provided for	32 669 866	24 056 410
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This expenditure will be funded as follows

Own sources	6 008 484	9 939 601
Government grants	26 661 382	14 116 809
	32 669 866	24 056 410

This committed expenditure relates to property, plant and equipment and will be financed through government grant, existing cash resources and funds internally generated.

Operating leases - as lessee (expense)

Minimum lease payments due

- within one year	781 919	480 927
- in second to fifth year inclusive	1 334 027	54 269
	2 115 946	535 196

Operating lease payments represent rentals payable by the entity for office equipment, weigh bridges and property rental. Leases are negotiated for an average term of three years and rentals are fixed for an average of three years with escalation where applicable. No contingent rent is payable.

53. Accounting by principals and agents

The entity is a party to a principal-agent arrangements.

53. Accounting by principals and agents (continued)

Details of the arrangement(s) is/are as follows:

1) The principal-agent arrangement between uMlalazi Municipality and the KwaZulu Natal Department of Transport.

The Municipality have entered into an agreement with KwaZulu Natal Department of Transport for the provision of vehicle registration services to vehicle owners on behalf of the KwaZulu Natal Department of Transport and receive 8.55% commission as compensation for the services provided.

The municipality is an agent in this arrangement . Refer to note 27 for significant judgements applied in making this assessment.

2) The principal-agent arrangement between uMlalazi Municipality and Eskom.

The Municipality have entered into an agreement with Eskom for the electrification of houses in the Eskom area of supply. This project is funded by the schedule 5B INEP grant. The Municipality do not have an electricity licence for this area (rural areas). The Municipality is constructing assets in an Eskom licenced area. The municipality do not have control over this asset and there are no economic benefits as no revenue or service potential to be derived from this asset.

The Municipality is an agent in the arrangement. Refer to note 34 for significant judgements applied in making this assessment.

3) The principal-agent arrangement between uMlalazi Municipality and Provincial Department of Human Settlements.

The Municipality have entered into contractual agreements with KwaZulu Natal Provincial of Human Settlements to assist the Department in constructing the houses within housing projects and to hand over the houses once completed to the beneficiaries of projects. The KwaZulu Natal Department of Human Settlement has outlined clear specifications for the houses. The Department captures and processes the beneficiary application forms on Housing Subsidy System (HSS) and approves such applications based on the predetermined criteria. The Municipality is currently not accredited by the department. The Municipality have signed five contracts with the department that are running in the 2020/21 financial year. According to all five agreement the duties of the Municipality are similar to those of level one accredited Municipalities.

The Municipality is an argent in the arrangement. Refer to note 34 for significant judgements applied in making this assessment.

53. Accounting by principals and agents (continued)

Entity as agent

Resources held on behalf of the principal(s), but recognised in the entity's own financial statements

1) The Municipality and KZN Department of transport.

The municipality do not hold any resources on behalf of KwaZulu Natal Department of Transport, therefore there is no risk transferred from the KwaZulu Natal Department of Transport to the Municipality as a result of the custodianship over the resources held by the municipality on behalf of the KwaZulu Natal Department of Transport.

2) The Municipality and Eskom

As at the reporting date the Municipality do not hold any resources on behalf of Eskom since the grant was fully spent, the asset constructed was transferred to Eskom and the Municipality do not keep any unused meters, therefore there is no risk transferred from Eskom to the Municipality as a result of the custodianship over the resource held by the municipality on behalf of Eskom as at 30 June 2020 and 2021 financial years. The Municipality have during the year paid an amount of R5 000 000 over to contractors in respect of this agreement.

3) The Municipality and KZN Department of Human Settlements

As at the reporting date, the Municipality do not hold any resources on behalf of KZN Department of Human Settlements since the Allocation was fully spent, therefore there is no risk transferred from KZN Department of Human Settlements to the Municipality as a result of the custodianship over the resources held by the Municipality on behalf of the KZN Department of Human Settlements as at 30 June 2020 and 2021 financial years. The Municipality have during the financial year paid an amount of R32 120 591 over to contractors in relation to this agreement.

Revenue recognised

1) The municipality and KZN Department of Transport.

The aggregate amount of revenue that the municipality recognised as compensation for the transactions carried out on behalf of the KZN Department of Transport (the principal) is R2 080 977 (2020: R1 091 788).

2) The Municipality and Eskom.

The Municipality do not receive any commission or any kind of revenue as compensation for the transaction carried out on behalf Eskom (the principal).

3) The Municipality and KZN Department of Human Settlements

The Municipality do not receive any commission or any kind of revenue as compensation for the transaction carried out on behalf of KZN Department of Human Settlements (the principal).

Liabilities and corresponding rights of reimbursement recognised as assets

1) The Municipality and KZN Department of Transport

As at the reporting date (30 June 2021 and 30 June 2020), no liabilities were incurred by the municipality on behalf of the KZN Department of Transport that the municipality have recognised as any cash collected gets deposited to the department's account on a daily basis.

No corresponding rights of reimbursement that the municipality have recognised as assets as at the reporting date.

2) The municipality and Eskom

As at the reporting date, no liabilities were incurred by the Municipality on behalf of Eskom for both 2021 and 2020 financial years that the Municipality have recognised as the total allocation for this transaction was fully spent and the asset that was constructed was transferred to Eskom during the financial year.

53. Accounting by principals and agents (continued)

No corresponding rights of reimbursement that the Municipality have recognised as assets as at the reporting date since the the cash at bank was fully spent and the infrastructure constructed was transferred to Eskom.

3) The Municipality and KZN Department of Human Settlements

As at the reporting date, no liabilities were incurred by the Municipality on behalf of KZN Department of Human Settlements for both 2021 and 2020 financial years that the Municipality have recognised since the total allocation for this transaction was fully spent.

No corresponding rights of reimbursement that the Municipality have recognised as asset as at the reporting date since the cash at bank (allocation received) was fully spent.

The resources have been recognised/have not been recognised by the agent in its financial statements. [Choose as appropriate]

The remittance of resources during the period [State details].

The expected timing of remittance of remaining resources by the agent to the entity, are [State timing and details].

The expected timing of remittance of remaining resources by the agent to third parties, are [State timing and details].

Resource or cost implications for the entity if the principal-agent arrangement is terminated, are [State information/discussion].

[Provide additional info as appropriate]

Fee paid

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

The resource and/or cost implications for the entity if the principal-agent arrangement is terminated, are [State information/discussion].

[Provide additional info as appropriate]

54. Segment information

General information

Identification of segments

The Municipality is organised and reports to management on the basis of five major functional areas: Basic Services, Good governance, Public participation, Financial Management and Institutional capacity. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Some segments were aggregated 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.

Aggregated segments

The Municipality operates within uMalazi Municipality boundaries within King Cetshwayo District Municipality in the KwaZulu Natal Province in three Towns. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout the Municipality were sufficiently similar to warrant aggregation.

54. Segment information (continued)

Types of goods and/or services by segment

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

Reportable segment	Goods and/or services
Cemeteries	Provision of cemeteries
Electricity	Provision of electricity
Housing	Providing access to adequate housing
Roads and storm water	Provision of roads and storm water
Refuse removal	Refuse removal

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54. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2021

	Cemeteries	Electricity	Housing	Roads and Storm water	Refuse removal	Other Segments	Total
Revenue							
Revenue from non-exchange transactions	-	205 970	21 600	-	3 388 000	360 263 589	363 879 159
Revenue from exchange transactions	190 548	73 657 658	235 181	-	14 320 665	32 013 448	120 417 500
Total segment revenue	190 548	73 863 628	256 781	-	17 708 665	392 277 037	484 296 659
Entity's revenue							484 296 659
Expenditure							
Employee related cost	632 223	7 534 841	1 838 797	13 161 062	12 674 685	124 318 946	160 160 554
Remuneration of Councillors	-	-	-	-	-	22 191 931	22 191 931
Contracted Services	1 297 100	1 952 351	170 118	20 757 286	13 848 536	34 228 122	72 253 513
Bulk Purchases	-	61 141 943	-	-	-	-	61 141 943
Depreciation	-	2 835 409	-	37 646 486	-	8 365 320	48 847 215
Debt impairment	-	282 908	-	-	2 505 273	11 922 758	14 710 939
Finance Charges	-	-	-	362 027	-	-	362 027
Transfers and subsidies	-	-	-	-	-	8 972 941	8 972 941
Other Materials	-	1 776 871	-	1 783 835	1 055 518	4 673 696	9 289 920
Other Expenditures	4 462	7 255 930	64 557	472 807	947 738	31 480 143	40 225 637
Total segment expenditure	1 933 785	82 780 253	2 073 472	74 183 503	31 031 750	246 153 857	438 156 620
Total segmental surplus/(deficit)							46 140 039

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	Cemeteries	Electricity	Housing	Roads and Storm water	Refuse removal	Other Segments	Total
54. Segment information (continued)							
Assets							
Community Assets	126 010	-	-	263 155	-	16 408 839	16 798 004
Infrastructure	-	729 671	-	40 370 645	-	2 609 916	43 710 232
Furniture and equipment	-	-	-	31 656	-	192 850	224 506
Machinery and equipment	-	-	-	514 973	29 619	3 610 116	4 154 708
Vehicles	-	-	-	51 000	4 306 369	2 046 850	6 404 219
Computer and equipment	-	-	-	-	-	2 829 302	2 829 302
Total segment assets	126 010	729 671	-	41 231 429	4 335 988	27 697 873	74 120 971
Total assets as per Statement of financial Position							74 120 971

Paragraph 21 of GRAP 18 requires the Municipality to report a measure of assets and liability for each reportable segment if such an amount is regularly provided to management. The information of liabilities for each reportable segment is currently not regularly provided to management hence a measure of liabilities for each reportable segment is not reported.

Information about geographical areas

The Municipality's operations are within the boundaries of uMlalazi municipality which is under King Cetshwayo District Municipality in KwaZulu Natal Province. The Municipality have three towns, i.e. Eshowe, Gingindlovu and Mthunzini which are classified as urban areas for the purposes of segment reporting. All other wards are deemed rural. All other operations and assets that affect the Municipality as a whole including all Municipal offices are regarded as "The whole of Municipality".

The table below indicates the relevant geographical information after eliminating inter segmental transfers:

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54. Segment information (continued)				
2021				
	External revenues from non-exchange transactions	External revenues from exchange transactions	Total expenditure	Non-current assets
Urban Areas	64 870 948	87 958 693	112 894 384	60 260 535
Rural Areas	-	-	-	93 785 258
The Whole of Municipality	299 008 210	32 458 808	325 262 236	724 226 700
Total	363 879 158	120 417 501	438 156 620	878 272 493

*Non-current assets excludes additions to financial instruments and post-employment benefit assets

55. Additional disclosure in terms of the Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 234 984	1 144 057
Amount paid - current year	(1 234 984)	(1 144 057)
	-	-

Audit fees

Current year audit fees	1 957 196	2 224 626
Amount paid - current year	(1 957 196)	(2 224 626)
	-	-

PAYE and UIF

Current year payroll deduction	24 761 251	23 201 557
Amount paid - current year	(24 761 251)	(23 201 557)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	38 691 421	36 245 437
Amount paid - current year	(38 691 421)	(36 245 437)
	-	-

VAT

VAT receivable	40 828 558	23 360 066
VAT payable	(43 313 193)	(25 533 759)
	(2 484 635)	(2 173 693)

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

VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.

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

Councillors' arrear consumer accounts

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

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
ML Govindsamy	1 843	5 219	7 062
30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
ML Govindsamy	2 095	1 264	3 359

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

30 June 2021	Highest outstanding amount	Aging (in days)
ML Govindsamy	5 219	120
30 June 2020	Highest outstanding amount	Aging (in days)
ML Govindsamy	1 264	120

Deviation from supply chain management

The following deviations and ratifications of minor breaches of procurement processes were reported to Council in terms of Section 36(2) of the Supply Chain Management Policy:

A register containing full details and reasons for each deviation transaction is available for inspection:

Incident

Impractical and impossible to follow official procurement processes	1 488 001	3 468 189
Goods or services available from the single supplier only	53 285	32 665
Emergency	10 533 775	4 997 032
	12 075 061	8 497 886

56. Unauthorised expenditure

Opening balance as previously reported	11 177 238	14 829 590
Opening balance as restated	11 177 238	14 829 590
Add: Expenditure identified - current	-	11 177 238
Less: Amount written off by council	(11 177 238)	(14 829 590)
Closing balance	-	11 177 238

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

Non-cash	-	11 086 208
Cash	-	91 030
	-	11 177 238

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56. Unauthorised expenditure (continued)		
Analysed as follows: non-cash		
Employee related cost	-	11 086 208
Analysed as follows: cash		
Interest on DBSA loan	-	91 030
Unauthorised expenditure: Budget overspending – per municipal department		
Community Services	-	2 992 864
Corporate Services	-	3 170 180
Engineering Services	-	1 186 197
Financial Services	-	2 988 848
Municipal Managers Office	-	784 739
Planning and Development	-	(36 620)
	-	11 086 208
57. Irregular expenditure		
Opening balance as previously reported	354 408	3 689 553
Correction of prior period error	-	79 389
Opening balance as restated	354 408	3 768 942
Add: Irregular Expenditure - current	3 017 988	1 301 768
Add: Irregular Expenditure - prior period	32 120 591	52 136 322
Less: Amount written off - current	(34 506 875)	(53 083 682)
Less: Amount written off - prior period	(354 408)	(3 768 942)
Closing balance	631 704	354 408

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57. Irregular expenditure (continued)		
Incidents/cases identified in the current year include those listed below:		
Inadequate SCM documents and processes	32 120 591	52 028 707
No contract and no evidence of SCM process followed in the appointment of security services	-	107 614
Suppliers tax matters are not in order	1 001 829	150 000
Appropriate Procurement process not followed	-	797 360
Minimum threshold for local content not met	-	155 409
Competitive Bidding not followed	-	199 000
SCM process followed not in line with SCM policy	533 155	-
Insufficient reasons for deviation (sanitisation of offices)	847 920	-
Price for PPE exceed Circular from National Treasury	3 380	-
Private Public Partnership without due processes	631 704	-
	35 138 579	53 438 090

Amounts written-off

After the council committee investigations, council adopted the council committee recommendation to write-off an amount of R 34 861 283 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

The outstanding balance of R631 704.74 is still under investigation in terms section 32 of Municipal Finance Management Act.

58. Fruitless and wasteful expenditure

Opening balance as previously reported	-	1 809 823
Opening balance as restated	-	1 809 823
Add: Expenditure identified - current	1 275	7 414
Less: Amounts recoverable - current	-	(847)
Less: Amount written off - prior period	-	(1 816 390)
Closing balance	1 275	-

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58. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

	Disciplinary steps taken/criminal proceedings		
Flight tickets re-issue fees	The full amount was recovered from relevant employees.	-	847
Traffic fines administration fees		-	5 000
Late payment charge		-	1 567
Interest on overdue account		849	-
Hotel Consumables		426	-
		1 275	7 414

Amounts written-off

The total balance of R1 274.80 is still under investigation in terms of section 32 of the Municipal Finance Management Act.

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59. Related parties

Parties are considered to be related if:

- 1) One part has the ability to control the other party, or
- 2) Exercise significant influence over the other party in making financial and operational decisions.

Key management information

Class	Description	Number
Non-executive board members	Speaker and Chief Whip	02
Executive board members	Members of Executive Committee	09
Executive management	Heads of Departments (Directors)	05
Mayor	Chairperson of the Executive Committee	01
Councillors	Councillors	42
Municipal Managers	Accounting Officer	01

Remuneration of management

Management class: Councillors

Refer to note 36 "Remuneration of Councillors"

Management class: Executive management

*Refer to note 35 "Employee Related Cost"

60. Reclassifications

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been reclassified:

Statement of financial performance

2020

An amount of R1 939 639 in respect of property rates- penalties imposed was previously disclosed as part of fines, penalties and forfeits (Revenue from non-exchange transaction), this transaction have been reclassified and separately disclosed on the face of the Statement of Financial Performance as Property Rates-Penalties imposed due to the transaction being material in nature.

The reason for this reclassification is to disclose the property rates-penalties imposed on the faces of the Statement of Financial Performance to conform with materiality disclosure requirements.

The effect of this reclassification is as follows:

	Note	As previously reported	Re-classification	Restated
Fines and penalties and forfeits (Revenue from non-exchange transactions)		23 124 060	(1 939 639)	21 184 412
Property rates-penalties imposed (Revenue form non-exchange transactions)		-	1 939 639	1 939 639
Surplus for the year		23 124 060	-	23 124 051

UMLALAZI MUNICIPALITY

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61. Prior period errors

Revenue recognition in respect of the Spatial Development Grant was accounted for as if it was VAT attractive, which resulted in an overstatement of revenue recognised from the grant and an understatement of unspent grant liability of R61 050 being the VAT portion of the total amount recognised. It is noteworthy that VAT was accounted for correctly on the system hence adjustment on VAT is not required.

An amount of R2 966 928.69 was transferred to the Municipality by KZN Department of Human settlement as part of the expenditure incurred during months of April, May and June, however the actual transfer took place after 30 June 2020 due to Covid-19 lockdown restrictions. This was an additional transfer which was due to progress made in projects on the ground which was slightly above what was initially anticipated. Prior to the implementation of the Guideline on the Accounting for Arrangements Undertaken in Terms of National Housing Projects, the Municipality would have recognised expenditure, Accrued expense (liability), revenue and accrued income (debtor) since money was not received as at 30 June 2020. The Municipality correctly recognised expenditure and accrued expense but did not recognise revenue and accrued income which resulted in the understatement of revenue and debtors with the same amount as indicated above.

An amount of R119 016.57 in respect of capital project (Rehabilitation of Eshowe Town Hall) was incorrectly classified as operational expenditure. This resulted in an understatement of Property, Plant and Equipment (Work in Progress) and overstatement of operational expenditure in prior years, which has in turn resulted in an understatement of the Opening Balance of Accumulated Surplus.

Correction of errors resulted in adjustments as follows: increase/ (decrease)

Statement of financial position

Property, plant and equipment (Work in progress)	-	119 017
Opening Accumulated Surplus or Deficit	-	119 017
Receivable from non-exchange transaction	-	2 966 929
Opening Accumulated Surplus	-	2 966 929
Unspent Conditional Grant Liability	-	61 050
Opening Accumulated Surplus or Deficit	-	(61 050)

62. Changes in accounting policy

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

- GRAP 18
- Guideline on Accounting for Arrangements Undertaken in Terms of the National Housing Programme.

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

During the year, the Municipality changed its accounting policy regarding the treatment of transaction resulting from the National Housing Programme. In order to conform with the benchmark treatment in terms guideline on accounting for arrangements undertaken in terms of the National Housing Programme as newly issued and effective during 2020/21 financial year. The implementation of this guide has resulted in the change in which the municipality accounts for transactions undertaken under the National Housing Programme and are now accounted for GRAP 109. The Municipality subsequently do not account for revenue and expenditure resulting from the Human Settlement Grant related transactions on housing project that the municipality undertake on behalf of KwaZulu Natal Department of Human Settlement. The Guide became effective during the year under review.

The change in accounting policy did not have effect on the Accumulated Surplus for 2020 financial year as well as 2021 financial year but it resulted in a reduction in revenue and expenditure of the same amount. The aggregate effect of the changes in accounting policy on the financial statements for the year ended 30 June 2020 is as follows:

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62. Changes in accounting policy (continued)		
Statement of Financial Performance		
Government Grant and Subsidies		
Previously stated	-	290 727 178
Adjustment	-	(52 028 707)
		- 238 698 471
Contracted Services		
Previously stated	-	106 646 033
Adjustment	-	(52 028 707)
		- 54 617 326

63. Contingent liabilities

Contingent liabilities as at 30 June 2021

R Mall v uMlalazi Municipality (Ref: BU000). Claim arising from the alleged removal of certain structures on the remainder of Erf 436, Eshowe to the amount of R50 000.

The Nigel Williamson Trust v uMlalazi Municipality (Ref: BU001). Claim arising from a property rates dispute on Erf 331, Mtunzini to the amount of R20 000.

Ighora Construction v uMlalazi Municipality. Claim arising from the termination of road construction contract at the King Dinizulu Suburb to the amount of R10 754 222.

Sibgem v uMlalazi Municipality. Claim arising from the termination of Project Management Unit Services contract to the amount of R702 240.

Mgamule Consulting v/s uMlalazi Municipality. Claim arising from breach of consulting contract for the Kwabulawayo Sports Field to the amount of R1 002 251.

Mucoque v uMlalazi Municipality. Review of an arbitration award for reinstatement in the Labour Court.

Abednigo Shabalala v/s uMlalazi Municipality: Letter of demand in relation to Section 29 of the Small Claim Court Act of 1984. The claim is for damages against uMlalazi Municipality for medical expenses for injury caused by Lucky Gumede (uMlalazi Municipality Employee) on 22 October 2015.

Idah Gartrell v/s uMlalazi Municipality: Letter of demand by employee regarding claim for damages against uMlalazi Municipality for medical expenses for injury caused when she fall down.

Sduduzo Mathonsi v/s uMlalazi Municipality: Claim of R38 000 arising from damages caused to the plaintiff's vehicle when it drove into a drain hole allegedly left open by the Municipality.

Bamr Magis v/s uMlalazi Municipality: Interdict by applicant preventing Municipality from closing down his business. Applicant does not have a trading licence. Neither does he have a lease agreement with the Landlord (ITHALA).

Priscilla Chetty v/s uMlalazi Municipality: Unfair labour practice relating to promotion.

64. Financial risk management

Financial risk management

The Municipality's activities expose it to a variety of financial risks: cash flow risk, credit risk and liquidity risk.

The Municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Municipality's financial performance. The risk policy provides written principles for overall risk management, as well as written policies covering specific areas, such as, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

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64. Financial risk management (continued)

Liquidity risk

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

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The Municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors.

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

Financial instrument	2021	2020
Receivables from exchange transactions	20 801 414	20 976 925
Receivables from non-exchange transactions	15 818 658	20 207 032
Current portion of loans receivable	7 508	15 349
Cash and cash equivalents	146 529 871	126 350 309

The risk relating to short term deposits is minimised due to the nature of the Municipality finance structure.

The risk relating to cash and cash equivalent is minimised as the municipality only deposits cash with major banks with high quality credit standing.

Credit Risk

Loans Payables	342 816	342 816
Payables from exchange transactions	43 929 391	36 809 960
Consumer deposits	3 117 145	2 797 447
Unspent conditional grants receipts	1 720 658	1 768 372
Provisions	14 743 849	13 892 177
VAT Payable	2 480 493	2 173 694
Current portion of employee benefits obligation	1 407 758	1 235 294
	67 742 110	59 019 760

Current Assets 186 360 846 170 783 027

Current Liabilities 67 742 110 59 019 760

- Current assets as a percentage of current liabilities 275% (2020-289%)
- Current assets to current liabilities ratio: 2.75:1 (2020 - 2.89:1)
- The generally accepted norm for this ratio 1.5:1. The higher the ratio, the more liquidity the municipality, and the better chances of meeting short term debt with short term liquid resources.

65. Going concern

We draw attention to the fact that at 30 June 2021, the Municipality had an accumulated surplus (deficit) of R 963 852 696 and that the Municipality's total assets exceed its liabilities by R 968 950 342.

The 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.

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65. Going concern (continued)

The ability of the Municipality to continue as a going concern is dependent on a number of factors which includes among others the following:

- a) The Municipality will continue charging rates in accordance with Local Government: Municipal Property Rates Act.
- b) National Treasury and other Provincial Departments will continue to provide Grants in terms of the Division of Revenue Act.
- c) The Municipality did not loose any of its key suppliers.
- d) The Municipality does not experience labour difficulties.
- e) The Municipality does not have shortage of important Suppliers.
- f) Financial indicators (ratios, financial results, bank account balance and net asset are all positive and within acceptable norms.

UMLALAZI MUNICIPALITY

Appendix A

June 2021

Schedule of external loans as at 30 June 2021

	Balance at 30 June 2020	Received during the period	Redeemed written off during the period	Balance at 30 June 2021		
	Rand	Rand	Rand	Rand	Rand	Rand
Loan Stock	-	-	-	-	-	-
Structured loans	-	-	-	-	-	-
Funding facility	-	-	-	-	-	-
Development Bank of South Africa						
Principal Balance	3 085 340	-	342 816	2 742 524	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	-	-	-	-	-	-
	3 085 340	-	342 816	2 742 524	-	-
Bonds	-	-	-	-	-	-
Other loans	-	-	-	-	-	-
Lease liability	-	-	-	-	-	-
Annuity loans	-	-	-	-	-	-
Government loans	-	-	-	-	-	-
Total external loans	3 085 340	-	342 816	2 742 524	-	-

APPENDIX B

uMLALAZI MUNICIPALITY

ANALYSIS OF PROPERTY PLANT AND EQUIPMENT FOR THE YEAR ENDED 30 JUNE 2021

	Cost / Revaluation								Accumulated Depreciation			Accumulated Impairment			Carrying Value 2020/2021	Carrying Value 30/06/2020		
	Opening Balance	Additions infrastructure	AUC released	Additions	Revaluation	Donated assets	Disposals	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	Opening Balance	Additions			Disposals	Closing Balance
	30/06/2020	2020/2021	2020/2021	2020/2021	2020/2021	2020/2021	2020/2021	2020/2021	30/06/2020	2020/2021	2020/2021	2020/2021	30/06/2020	2020/2021			2020/2021	2020/2021
R	R		R	R	R	R	R	R	R	R	R	R	R	R	R	R		
Land	198 782 880	-	-	-	-	-	-	198 782 880	-	-	-	-	-	-	-	-	198 782 880	198 782 880
Community assets	353 875 805	-	-	13 469 375	-	-	(620 299)	366 724 881	(133 424 953)	(16 092 223)	305 927	(149 211 249)	(16 538 600)	(1 006 502)	207 717	(17 337 385)	200 176 247	203 912 252
Work in Progress	25 390 053	-	-	4 299 389	-	-	-	29 689 442	-	-	-	-	-	-	-	-	29 689 442	25 271 037
Vehicles	43 460 671	-	-	6 404 219	-	-	(4 571 535)	45 293 355	(22 744 106)	(3 651 061)	4 334 915	(22 060 252)	(53 180)	-	18 854	(34 326)	23 198 776	20 663 385
Roads	486 234 867	-	-	38 642 503	-	-	-	524 877 370	(211 868 248)	(18 028 725)	-	(229 896 974)	(4 739 225)	-	-	(4 739 225)	290 241 171	269 627 393
Bridges: Pedestrian	156 243	-	-	-	-	-	-	156 243	(24 659)	(5 293)	-	(29 952)	-	-	-	-	126 290	131 583
Bridges: Vehicles	6 273 576	-	-	-	-	-	-	6 273 576	(2 518 754)	(257 814)	-	(2 776 568)	(43 615)	-	-	(43 615)	3 453 393	3 711 207
Roads: Asphalt basis/structure	145 252 883	-	-	8 676 048	-	-	-	153 928 931	(75 103 963)	(4 187 733)	-	(79 291 695)	(269 371)	-	-	(269 371)	74 367 865	69 879 550
Roads: Asphalt surface	120 828 751	-	-	10 825 129	-	-	-	131 653 880	(29 524 704)	(5 692 095)	-	(35 216 798)	(809 666)	-	-	(809 666)	95 627 416	90 494 381
Causeways	11 997 056	-	-	-	-	-	-	11 997 056	(4 651 315)	(597 140)	-	(5 248 455)	-	-	-	-	6 748 601	7 345 740
Roads: Earthworks	98 861 236	-	-	73 421	-	-	-	98 934 657	(53 411 734)	(3 185 454)	-	(56 597 188)	-	-	-	-	42 337 469	45 449 502
Roads: Gravel surface	27 846 153	-	-	10 581 059	-	-	-	38 427 212	(17 304 230)	(2 133 095)	-	(19 437 324)	(2 877 717)	-	-	(2 877 717)	16 112 171	7 664 206
Roads: Kerb and channels	36 074 391	-	-	1 444 548	-	-	-	37 518 938	(24 550 421)	(1 240 126)	-	(25 790 547)	(177 834)	-	-	(177 834)	11 550 557	11 346 136
Land - Road reserve	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Roads: Pedestrian footpaths	7 334 298	-	-	-	-	-	-	7 334 298	(1 973 869)	(430 017)	-	(2 403 886)	(557 075)	-	-	(557 075)	4 373 337	4 803 354
Road calming measures	781 088	-	-	-	-	-	-	781 088	(500 452)	(22 823)	-	(523 275)	-	-	-	-	257 812	280 636
Speed humps	1 179 217	-	-	-	-	-	-	1 179 217	(242 157)	(59 065)	-	(301 222)	(3 490)	-	-	(3 490)	874 506	933 570
Roads: Street lighting	3 937 375	-	-	-	-	-	-	3 937 375	(1 667 757)	(119 753)	-	(1 787 510)	(458)	-	-	(458)	2 149 407	2 269 160
Roads: Traffic lights	469 020	-	-	-	-	-	-	469 020	(220 096)	(20 579)	-	(240 675)	-	-	-	-	228 345	248 924
Roads: Traffic signs	1 107 420	-	-	-	-	-	-	1 107 420	(174 138)	(77 739)	-	(251 876)	-	-	-	-	855 544	933 283
Work in Progress	24 136 161	-	-	7 042 298	-	-	-	31 178 459	-	-	-	-	-	-	-	-	31 178 459	24 136 161
Storm water	103 033 291	-	-	3 367 294	-	-	-	106 400 585	(60 591 088)	(3 572 768)	-	(64 163 856)	(1 469 577)	-	-	(1 469 577)	40 767 152	40 972 626
Channels	47 799 593	-	-	-	-	-	-	47 799 593	(21 722 200)	(1 704 479)	-	(23 426 679)	(1 349 921)	-	-	(1 349 921)	23 022 993	24 727 472
Kerb inlets	8 518 525	-	-	277 880	-	-	-	8 796 405	(6 413 201)	(258 194)	-	(6 671 394)	(12 030)	-	-	(12 030)	2 112 980	2 093 294
Masonry structures	4 798 831	-	-	3 089 415	-	-	-	7 888 245	(2 464 277)	(298 649)	-	(2 762 926)	(14 664)	-	-	(14 664)	5 110 656	2 319 890
Pipes	31 839 680	-	-	-	-	-	-	31 839 680	(22 598 678)	(686 126)	-	(23 284 804)	(128)	-	-	(128)	8 554 748	9 240 874
RC Structures	10 076 662	-	-	-	-	-	-	10 076 662	(7 392 733)	(625 320)	-	(8 018 053)	(92 835)	-	-	(92 835)	1 965 774	2 591 095
Work in Progress	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Electrical	70 314 195	-	-	729 671	-	-	-	71 043 866	(31 059 563)	(2 607 597)	-	(33 667 160)	(1 944 148)	(232 370)	-	(2 176 518)	35 200 188	37 310 484
Cables	15 966 969	-	-	-	-	-	-	15 966 969	(9 355 733)	(530 699)	-	(9 886 432)	-	-	-	-	6 080 537	6 611 236
Mini sub stations	13 951 509	-	-	170 522	-	-	-	14 122 031	(5 519 201)	(474 309)	-	(5 993 509)	(317 434)	-	-	(317 434)	7 811 087	8 114 874
Perimeter protection	218 592	-	-	-	-	-	-	218 592	(196 114)	(10 368)	-	(206 482)	-	-	-	-	12 110	22 478
Prepaid electricity meters	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Ring main unit	3 152 968	-	-	432 850	-	-	-	3 585 818	(654 686)	(124 027)	-	(778 713)	(76 306)	-	-	(76 306)	2 730 799	2 421 976
Substation switchgear	25 909 902	-	-	-	-	-	-	25 909 902	(9 814 392)	(864 710)	-	(10 679 102)	(1 278 497)	-	-	(1 278 497)	13 952 303	14 817 013
Substation	3 563 941	-	-	-	-	-	-	3 563 941	(1 372 311)	(209 402)	-	(1 581 713)	(117 814)	(93 447)	-	(211 261)	1 770 967	2 073 816
Transformers	7 550 315	-	-	126 299	-	-	-	7 676 614	(4 147 127)	(394 083)	-	(4 541 210)	(154 096)	(138 923)	-	(293 019)	2 842 385	3 249 093
Computer equipment	13 637 570	-	-	2 829 302	-	-	(403 200)	16 063 672	(7 199 545)	(2 011 007)	358 530	(8 852 021)	(17 146)	-	-	(17 146)	7 194 504	6 420 879
Furniture and equipment	8 329 348	-	-	224 506	-	-	(39 066)	8 514 787	(5 917 489)	(637 166)	37 947	(6 516 708)	(137 091)	-	-	(137 091)	1 860 988	2 274 767
Machinery and equipment	8 826 457	-	-	4 154 709	-	-	(94 444)	12 886 721	(5 358 567)	(896 664)	61 531	(6 193 700)	(9 918)	-	-	(9 918)	6 683 103	3 457 972
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Property, plant and equipment (Note 7)	1 286 495 083	-	-	74 120 967	-	-	(5 728 545)	1 380 277 559	(478 163 559)	(47 497 211)	5 098 850	(520 561 920)	(24 908 886)	(1 238 872)	226 571	(25 921 187)	833 794 447	808 693 670
Heritage assets (Note 12)	10 311 344	-	-	-	-	-	-	10 311 344	-	-	-	-	-	-	-	-	10 311 344	10 311 344
Investment properties (Note 11)	25 820 000	-	-	8 110 000	-	-	-	33 930 000	-	-	-	-	-	-	-	-	33 930 000	25 929 000
Intangible assets (Note 10)	1 537 068	-	-	-	-	-	-	1 537 068	(1 190 131)	(111 132)	-	(1 301 263)	-	-	-	-	235 805	346 938
	1 324 163 496	-	-	82 230 967	-	-	(5 728 545)	1 426 055 971	(479 353 689)	(47 608 344)	5 098 850	(521 863 183)	(24 908 886)	(1 238 872)	226 571	(25 921 187)	878 271 596	845 280 952

UMLALAZI MUNICIPALITY

Appendix C

Actual versus budget - Statement of Financial Performance per vote

	2021 Budget R	2021 Actual R	2021 Variance R	2020 Variance %
Community Services	117 026 780	108 403 013	8 623 767	7%
Corporate Services	45 234 260	37 477 557	7 756 703	17%
Engineering Services	151 162 400	142 158 576	9 003 824	6%
Financial Services	40 896 690	33 610 761	7 285 929	18%
Mayoral Office	86 607 140	77 758 741	8 848 399	10%
Municipal Manager	8 682 840	7 657 687	1 025 153	12%
Planning And Development	88 972 690	21 026 874	67 945 816	76%
Total	538 582 800	428 093 210	110 489 590	

UMLALAZI MUNICIPALITY
Appendix D (1)

Actual versus budget - revenue by source and expenditure by type

	Budget R	Actual R	Variance R	Variance %
Revenue by source				
Revenue from exchange transactions				
Service charges	90 409 130	87 958 693	2 450 437	3%
Rental facilities and equipment	1 186 680	1 294 507	-107 827	-9%
Electricity and Refuse - interest charged				
Interest earned - external investments	6 206 710	5 990 285	216 425	3%
Agency service	4 693 130	3 816 689	876 441	19%
Licences and permits	6 000	18 406	-12 406	-207%
Other Income	2 311 260	2 103 459	207 801	9%
Gain on disposal of assets and liabilities	500 000	629 167	-129 167	-26%
Fair value adjustments	200 000	8 110 000	-7 910 000	-3955%
Total revenue from exchange transactions	105 512 910	109 921 205	-4 408 295	
Revenue from non- exchange transactions				
Taxation revenue				
Property rates	64 810 560	64 870 949	-60 389	0%
Licences and permits (non-exchange)	10 940	8 193	2 747	25%
Fines and penalties	14 151 360	6 654 099	7 497 261	53%
	-			
Transfer revenue				
Government grants & subsidies	355 323 720	293 451 600	61 872 120	17%
Total revenue from non-exchange transactions	434 296 580	364 984 841	69 311 739	
Total revenue	539 809 490	474 906 046	64 903 444	
Expenditure by type				
Employee Related Cost	163 305 380	150 769 945	12 535 435	8%
Remuneration of Councillors	24 392 060	22 191 931	2 200 129	9%
Bad Debts Written Off	17 927 650	14 710 940	3 216 710	18%
Depreciation and Amortisation	53 335 820	48 847 216	4 488 604	8%
Bulk Purchases	62 868 280	61 141 944	1 726 336	3%
Interest, Dividends and Rent on Land	372 640	362 028	10 612	3%
Contracted Services	147 279 870	72 253 513	75 026 357	51%
Inventory Consumed	11 172 030	9 289 921	1 882 109	17%
Operating Leases	2 555 460	2 304 173	251 287	10%
Operational Cost	43 506 350	37 921 462	5 584 888	13%
Loss on disposal of assets and liabilities				
Transfers and Subsidies	11 867 260	8 972 941	2 894 319	24%
Total expenditure	538 582 800	428 766 013	109 816 787	
Surplus for the year	1 226 690	46 140 033	-44 913 343	

UMLALAZI MUNICIPALITY

Appendix D (2)

Actual versus budget - acquisition of property plant and equipment per vote

	2020 Budget R	2020 Actual R	2020 Variance R	2020 Variance %
Corporate Services	17 356 110	12 530 691	4 825 419	28%
Engineering Services	37 938 130	33 283 649	4 654 481	12%
Financial Services	585 220	342 938	242 282	41%
Mayoral Office	150 000	-	150 000	100%
Municipal Manager	626 950	508 315	118 635	19%
Planning And Development	262 400	63 751	198 649	76%
	69 574 510	58 307 968	11 266 542	

APPENDIX E						
uMLALAZI MUNICIPALITY						
DISCLOSURE OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA (ACT NO. 56 OF 2003)						
FOR THE YEAR ENDED 30 JUNE 2021						
Grants and Subsidies Received						

DEPARTMENT OF CO-OPERATIVE GOVERNANCE AND TRADITIONAL AFFAIRS						
DETAILS	OPENING BALANCE	ROLL-OVER (NOT APPROVED)	RECEIVED	EXEPENDITURE TRANSFERRED TO REVENUE	ADJUSTMENT	UNSPENT
GIS SoftWare Grant	-58 987	-	-	-	-	-58 987
Spatial Development Framework Grant	-186 000	-	-	-	-	-186 000
	-244 987	-	-	-	-	-244 987

NATIONAL TREASURY						
DETAILS	OPENING BALANCE	APPROVED ROLL-OVER (NOT APPROVED)	RECEIVED	EXEPENDITURE TRANSFERRED TO REVENUE	ADJUSTMENT	UNSPNT
Municipal Infrastructure Grant	-	-	-47 633 000	47 633 000	-	-
Financial Management Grant	-	-	-1 700 000	1 700 000	-	-0
Expanded Public Works Programme Integrated Grant	0	-	-3 388 000	3 388 000	-	0
	0	-	-52 721 000	52 721 000	-	0

DEPARTMENT OF HUMAN SETTLEMENTS						
DETAILS	OPENING BALANCE	ROLL-OVER (NOT APPROVED)	RECEIVED	EXEPENDITURE TRANSFERRED TO REVENUE	ADJUSTMENT	UNSPNT
Sunnydale Low Cost housing grant	-393 972	-	-	-	-	-393 972
Rural Housing project grant	-	-	-32 120 591	32 120 591	-	-0
Human Settlement: Title Deeds Registration	-1 103 269	-	-	21 600	-	-1 081 669
	-1 497 241	-	-32 120 591	32 142 191	-	-1 475 641

DEPARTMENT OF SPORTS AND CULTURAL AFFAIRS						
DETAILS	OPENING BALANCE	ROLL-OVER (NOT APPROVED)	RECEIVED	EXEPENDITURE TRANSFERRED TO REVENUE	ADJUSTMENT	UNSPNT
Museum subsidies	-	-	-368 000	368 000	-	-
Provincialisation of Libraries	-	-	-4 190 000	4 190 000	-	-
Community Library Services Grant	-	-	-420 000	420 000	-	-
	-	-	-4 978 000	4 978 000	-	-

DEPARTMENT OF SPORT AND RECREATION						
DETAILS	OPENING BALANCE	APPROVED ROLL-OVER (NOT APPROVED)	RECEIVED	EXEPENDITURE TRANSFERRED TO REVENUE	ADJUSTMENT	UNSPNT
Maintenance of sport facilities grant	-	-	-	-	-	-
Sports facilities grant	-	-	-	-	-	-
	-	-	-	-	-	-

DEPARTMENT OF MINERALS AND ENERGY						
DETAILS	OPENING BALANCE	APPROVED ROLL-OVER (NOT APPROVED)	RECEIVED	EXEPENDITURE TRANSFERRED TO REVENUE	ADJUSTMENT	UNSPNT
Integrated national electrification programme grant	-	-	-5 000 000	5 000 000	-	0
	-	-	-5 000 000	5 000 000	-	0

KIND CETSHWAYO DISTRICT MUNICIPALITY						
DETAILS	OPENING BALANCE	APPROVED ROLL-OVER (NOT APPROVED)	RECEIVED	EXEPENDITURE TRANSFERRED TO REVENUE	ADJUSTMENT	UNSPNT
Coastal Management Programme Grant	-17 214	-	-	17 214	-	-
Informal Traders Training Grant	-8 900	-	-	8 900	-	-
	-26 114	-	-	26 114	-	-

TOTAL GRANTS	-1 768 342	-	-94 819 591	94 867 305	-	-1 720 628
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