uMlalazi Local Municipality
(Registration number KZN 284)
Annual Financial Statements
for the year ended 30 June 2023

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	The primary function of uMlalazi Local Municipality is to provide basic services i.e.electricity, refuse, roads and stormwater facilities within the Municipality's jurisdiction. The mandate of the Municipality is in terms of section 152 of the Constitution of South Africa.
Councillors	Mayor - Cllr QT Xulu
	Deputy Mayor - Cllr. MM Ngema
	Speaker - Cllr. JK Powell
	Chief Whip - Cllr. M Dludla
	Member of Executive Committee - Cllr. SD Khubisa
	Member of Executive Committee - Cllr. MM Cebekhulu
	Member of Executive Committee - Cllr. KS Mthabela
	Member of Executive Committee - Cllr. WL Ngema
	Member of Executive Committee - Cllr. K Ntanzi
	Member of Executive Committee - Cllr. SA Makhathini
	Member of Executive Committee - Cllr. K Khumalo
	Member of Executive Committee - Cllr MMM Ntuli
	Chairperson of the Municipal Public Account Committee- Cllr. SB Larkan
	Cllr. AN Sibiya
	Cllr. TN Shozi
	Cllr. SA Khuzwayo
	Cllr. BC Makhathini
	Cllr. Z Biyela
	Cllr. ZM Mhlongo
	Cllr. BXS Ntombela
	Cllr. MD Dladla
	Cllr. SB Dlamini
	Cllr. SW Yimba
	Cllr. BP Hlabisa
	Cllr. K Mthembu
	Cllr. SI Zibani
	Cllr. JM Ngema
	Cllr. MB Biyela
	Cllr. M Ndlovu
	Cllr. T Mdlalose
	Cllr. SM Gasa
	Cllr. VM Xulu
	Cllr. MG Mzimela
	Cllr. BC Magwaza
	Cllr. BM Nzuza
	Cllr. TH Biyela
	Cllr. N Vilakazi
	Cllr. IQ Ngema
	Cllr. MS Xulu
	Cllr. Z Mpungose
	Cllr. EF Shange
	Cllr. NG Qwabe
	Cllr. BL Zungu

General Information

	Cllr. MM Khanyile Cllr. ME Dlamini Cllr. GZ Ncanana Cllr. PTO Shange Cllr. B Ntombela Cllr TL Ntanzi Cllr. B Khanyile Cllr. M Mdluli Cllr. ZN Mthembu Cllr. B Xulu Cllr. S Magwaza Cllr. KR Khumalo
Grading of local authority	Grade 3
Chief Finance Officer (CFO)	NP Mgobhozi
Accounting Officer	NN Shandu
Registered office	Hutchinson Street Eshowe 3815
Business address	Hutchinson Street Eshowe 3815
Postal address	P O Box 37 Eshowe 3815
Bankers	First National Bank, Nedbank, Standard Bank and Investec Bank
Auditors	Auditor-General South Africa
Preparer	The annual financial statements were internally compiled by: Deputy Chief Financial Officer and reviewed by Chief Financial Officer and Internal Audit Unit.

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

Abbreviations used:

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
mSCOA	Municipal Standard Chart of Accounts
HDF	Housing Development Fund
SARS	South African Revenue Services
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
MFMG	Municipal Finance Management Grant
INEP	Integrated National Electrification Programme
MIG	Municipal Infrastructure Grant

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 annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

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

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent 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 endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

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

The Accounting Officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2024 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 municipality is wholly dependent on the municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The Accounting Officer also certifies that salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office as disclosed in the annual financial statements below are within the upper limits of the framework envisaged in Section 219 of the Constitution, read in conjunction with the Public Officer Berears Act and the Minister of Provincial Government's determination in accordance with this Act.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2023 and were signed on its behalf by:

Accounting Officer
NN Shandu

Thursday, 31 August 2023

Statement of Financial Position as at 30 June 2023

Figures in Rand	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	73 653 622	99 586 369
Inventories	4	2 815 269	3 456 353
Receivables from exchange transactions	5	32 104 184	27 866 911
Receivables from non-exchange transactions	6	30 908 127	19 817 550
Housing installments	5	-	7 645
		139 481 202	**150 734 828**
Non-Current Assets			
Property, plant and equipment	7	789 514 572	790 929 328
Investment property	8	31 333 000	30 655 000
Intangible assets	9	94 828	127 601
Heritage Assets	10	10 311 344	10 311 344
Investments	11	1 000	1 000
		831 254 744	**832 024 273**
Total Assets		**970 735 946**	**982 759 101**
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	52 178 580	50 514 878
Consumer deposits	13	3 644 117	3 356 247
Unspent conditional grants and receipts	14	1 197 907	1 276 837
Employee benefit obligation	15	2 142 000	1 875 000
VAT payable	16	5 867 251	958 885
Provisions	17	866 541	867 917
Long term loans	18	342 816	342 816
		66 239 212	**59 192 580**
Non-Current Liabilities			
Employee benefit obligation	15	26 293 000	27 081 000
Long term loans	18	1 777 780	2 131 212
		28 070 780	**29 212 212**
Total Liabilities		**94 309 992**	**88 404 792**
Net Assets		**876 425 954**	**894 354 309**
Reserves			
Housing operating account	19	4 007 822	3 778 075
Accumulated surplus	20	872 418 432	890 576 229
Total Net Assets		**876 426 254**	**894 354 304**

* See Note 54

Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	21	93 233 640	92 284 730
Rental of facilities and equipment	22	1 199 035	1 558 996
Interest received - receivable from exchange transactions	28	1 220 285	1 622 810
Agency services	24	2 156 185	1 732 100
Licences and permits	25	1 951 786	2 082 842
Operational revenue	29	1 834 012	2 794 231
Interest earned - external investments	30	8 140 359	6 436 938
Gain on disposal of assets	47	2 216 945	-
Fair value adjustments	46	678 000	4 210 000
Actuarial gains	15	3 973 592	1 174 000
Total revenue from exchange transactions		**116 603 839**	**113 896 647**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	31	68 421 869	66 472 081
Property rates - penalties imposed	31	3 035 721	2 534 701
Licences and permits	26	36 101	1 875
Transfer revenue			
Government grants & subsidies	33	285 405 790	264 111 008
Public contributions and donations		180 148	2 800 148
Fines, penalties and forfeits	23	1 503 418	3 055 880
Availability charge		1 316 579	1 247 843
Total revenue from non-exchange transactions		**359 899 626**	**340 223 536**
Contract revenue: INEP			
Contract revenue		3 156 604	5 736 536
Total revenue		**479 660 069**	**459 856 719**
Expenditure			
Employee related costs	34	175 108 551	170 635 224
Remuneration of councillors	35	23 223 213	20 684 422
Depreciation and amortisation	36	46 139 765	53 746 121
Impairment loss	37	8 889 940	271 206
Finance costs	38	276 858	319 443
Lease rentals on operating lease	27	1 799 609	1 880 678
Debt Impairment	39	5 136 165	3 782 775
Bad debts written off		1 136 759	561 109
Collection costs		3 156 604	5 736 536
Bulk purchases	41	73 697 110	70 135 684
Contracted services	42	85 984 425	85 581 883
Transfers and Subsidies	32	5 067 398	7 507 568
Loss on disposal of assets and liabilities		-	41 950
Sale of goods/Inventory		16 213 126	13 643 869
General Expenses	40	51 758 595	44 303 276
Total expenditure		**497 588 118**	**478 831 744**
Deficit for the year		**(17 928 049)**	**(18 975 025)**

* See Note 54

Statement of Changes in Net Assets

Figures in Rand	Housing Operating Fund	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	3 663 419	967 223 157	970 886 576
Adjustments			
Correction of prior period errors 54	-	(57 557 247)	(57 557 247)
Balance at 01 July 2021 as restated*	**3 663 419**	**909 665 910**	**913 329 329**
Changes in net assets			
Deficit for the year	-	(18 975 025)	(18 975 025)
Interest on investments	114 656	(114 656)	-
Total changes	114 656	(19 089 681)	(18 975 025)
Restated* Balance at 01 July 2022	**3 778 075**	**890 576 229**	**894 354 304**
Changes in net assets			
Interest earned	229 748	(229 748)	-
Net income (losses) recognised directly in net assets	229 748	(229 748)	-
Surplus for the year	-	(17 928 049)	(17 928 049)
Total recognised income and expenses for the year	229 748	(18 157 797)	(17 928 049)
Total changes	229 748	(18 157 797)	(17 928 049)
Balance at 30 June 2023	**4 007 822**	**872 418 432**	**876 426 254**
Note(s)	19		

* See Note 54

Cash Flow Statement

Figures in Rand	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Property Rates		56 783 563	62 529 317
Sale of goods and services		90 272 616	94 146 312
Government grants		289 079 818	269 403 723
Interest income		8 140 359	6 436 938
		444 276 356	432 516 290
Payments			
Employee cost		(190 116 308)	(187 069 854)
Suppliers		(223 037 523)	(218 768 399)
Finance costs		(276 858)	(319 443)
Transfers and grants		(5 067 398)	(7 507 568)
		(418 498 087)	(413 665 264)
Net cash flows from operating activities	44	**25 778 269**	**18 851 026**
Cash flows from investing activities			
Purchase of property, plant and equipment	7	(53 990 228)	(65 485 852)
Proceeds from sale of property, plant and equipment	7	2 625 000	18 796
Net Movement on loan receivable		-	(137)
Movement in housing rental		7 645	-
Net cash flows from investing activities		**(51 357 583)**	**(65 467 193)**
Cash flows from financing activities			
Repayment of loans payable		(353 432)	(353 433)
Net cash flows from financing activities		**(353 432)**	**(353 433)**
Net increase/(decrease) in cash and cash equivalents		**(25 932 746)**	**(46 969 600)**
Cash and cash equivalents at the beginning of the year		99 586 369	146 555 969
Cash and cash equivalents at the end of the year	3	**73 653 623**	**99 586 369**

* See Note 54

Statement of budget and actuals

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
2023											
Financial Performance											
Property rates	71 848 200	(1 017 640)	70 830 560	-		70 830 560	68 421 868		(2 408 692)	97 %	95 %
Service charges	96 928 360	(211 290)	96 717 070	-		96 717 070	94 550 219		(2 166 851)	98 %	98 %
Interest earned - external investments	6 723 730	700 000	7 423 730	-		7 423 730	8 140 359		716 629	110 %	121 %
Transfers recognised - operational	241 297 350	8 500 000	249 797 350	-		249 797 350	241 199 746		(8 597 604)	97 %	100 %
Other own revenue	39 170 870	(1 600 000)	37 570 870	-		37 570 870	19 805 081		(17 765 789)	53 %	51 %
Total revenue (excluding capital transfers and contributions)	**455 968 510**	**6 371 070**	**462 339 580**	**-**		**462 339 580**	**432 117 273**		**(30 222 307)**	**93 %**	**95 %**
Employee costs	(175 721 850)	-	(175 721 850)	-	1 365 000	(174 356 850)	(175 108 554)	-	(751 704)	100 %	100 %
Remuneration of councillors	(22 857 360)	(375 400)	(23 232 760)	-	-	(23 232 760)	(23 223 213)	-	9 547	100 %	102 %
Depreciation and asset impairment	(53 098 680)	-	(53 098 680)			(53 098 680)	(46 139 765)	-	6 958 915	87 %	87 %
Finance charges	(289 100)	-	(289 100)	-	-	(289 100)	(276 858)	-	12 242	96 %	96 %
Bulk purchases	(70 170 300)	(6 000 000)	(76 170 300)	-	-	(76 170 300)	(73 697 110)	-	2 473 190	97 %	105 %
Transfers and grants	(6 929 040)	1 575 240	(5 353 800)	-	3 600	(5 350 200)	(5 067 398)	-	282 802	95 %	73 %
Other expenditure	(170 326 310)	(5 745 910)	(176 072 220)	-	(1 368 600)	(177 440 820)	(174 075 220)	-	3 365 600	98 %	102 %
Total expenditure	**(499 392 640)**	**(10 546 070)**	**(509 938 710)**	**-**	**-**	**(509 938 710)**	**(497 588 118)**	**-**	**12 350 592**	**98 %**	**100 %**
Surplus/(Deficit)	**(43 424 130)**	**(4 175 000)**	**(47 599 130)**	**-**		**(47 599 130)**	**(65 470 845)**		**(17 871 715)**	**138 %**	**151 %**

Statement of budget and actuals

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 and subsidies - capital	43 535 650	4 175 000	47 710 650	-		47 710 650	47 542 796		(167 854)	100 %	109 %
Surplus (Deficit) after capital transfers and contributions	**111 520**	**-**	**111 520**	**-**		**111 520**	**(17 928 049)**		**(18 039 569)**	**(16 076)%**	**(16 076)%**
Surplus/(Deficit) for the year	**111 520**	**-**	**111 520**	**-**		**111 520**	**(17 928 049)**		**(18 039 569)**	**(16 076)%**	**(16 076)%**
Capital expenditure and funds sources											
Total capital expenditure	69 655 650	4 175 000	73 830 650	-		73 830 650	53 990 537		(19 840 113)	73 %	78 %
Sources of capital funds											
Transfers recognised - capital	43 535 650	4 175 000	47 710 650	-		47 710 650	38 983 968		(8 726 682)	82 %	90 %
Internally generated funds	26 120 000	-	26 120 000	-		26 120 000	15 006 569		(11 113 431)	57 %	57 %
Total sources of capital funds	**69 655 650**	**4 175 000**	**73 830 650**	**-**		**73 830 650**	**53 990 537**		**(19 840 113)**	**73 %**	**78 %**
Financial position											
Total current assets	164 433 000	(18 775 000)	145 658 000	-		145 658 000	139 481 202		(6 176 798)	96 %	85 %
Total non current assets	899 242 000	18 614 000	917 856 000	-		917 856 000	831 216 494		(86 639 506)	91 %	92 %
Total current liabilities	(67 859 000)	6 109 000	(61 750 000)	-		(61 750 000)	(66 239 212)		(4 489 212)	107 %	98 %
Total non current liabilities	(29 348 000)	(1 739 000)	(31 087 000)	-		(31 087 000)	(28 070 780)		3 016 220	90 %	96 %
Community wealth/Equity	966 468 000	4 209 000	970 677 000	-		970 677 000	876 387 704		(94 289 296)	90 %	91 %

Statement of budget and actuals

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	62 203 000	(6 534 000)	55 669 000	-		55 669 000	25 778 269		(29 890 731)	46 %	41 %
Net cash from (used) investing	(69 647 000)	(4 183 000)	(73 830 000)	-		(73 830 000)	(51 357 583)		22 472 417	70 %	74 %
Net cash from (used) financing	8 000	(8 000)	-	-		-	(353 432)		(353 432)	DIV/0 %	(4 418)%
Net increase/(decrease) in cash and cash equivalents	**(7 436 000)**	**(10 725 000)**	**(18 161 000)**	**-**		**(18 161 000)**	**(25 932 746)**		**(7 771 746)**	**143 %**	**349 %**
Cash and cash equivalents at the beginning of the year	146 530 000	(46 970 000)	99 560 000	-		99 560 000	99 586 369		26 369	100 %	68 %
Cash and cash equivalents at year end	**139 094 000**	**(57 695 000)**	**81 399 000**	**-**		**81 399 000**	**73 653 623**		**7 745 377**	**90 %**	**53 %**

Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome

Significant decrease/ increase is explained below;

Interest earned- external investments: Cash flow was monitored to ensure that investments were maximised where surplus funds became available, thereby maximising interest income.

Other own revenue: The main contributing factor emanates from the issuing of traffic fines for the period , where challenges were experienced by the municipality. Other factors are fair value of investment property gain on assets disposal that came less than projected.

Depreciation and asset impairment: The municipality has derecognised some assets and impaired assets that had poor condition during the verification period and this resulted in less depreciation charged.

Transfer recognised capital: The variance of 18% is attributable to INEP grant that was budgeted under capital expenditure but the newly issued treasury guidline provides that it be accounted for as an operational expenditure.

Internally generated funds: The variance is due to certain projects that showed a slow progress due unfavourable weather conditions.

Accounting Policies

Figures in Rand	Note(s)	2023	2022

1. Significant account policies

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

1.1 Basis of preparations

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

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

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.

1.2 Presentation currency

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

1.3 Going concern assumption

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

1.4 Materiality

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.

1.5 Significant judgments and sources of estimation uncertainty

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

Other significant judgments, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

Accounting Policies

1.5 Significant judgments and sources of estimation uncertainty (continued)

Trade receivables from exchange and non-exchange transactions

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

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

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

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.

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.

Useful lives infrastructure and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the infrastructure and other assets. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

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 15.

Allowance for doubtful debts

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

Accounting Policies

1.5 Significant judgments and sources of estimation uncertainty (continued)

Recognition and Derecognition of Land

In some instances the municipality is not the legal owner or the custodian of land appointed in terms of legislation, but assessed that it controls such land. Key judgments made and assumptions applied to conclude that it controls such land, are as follow:
-Whether the municipality can direct the use of the land's future economic benefits or service potential to provide services of beneficiaries.
-Whether the municipality can exchange, dispose of, or transfer the land; and/or
-Whether the municipality can use the land in any other way to generate future economic benefits or service potential.

Where the municipality uses the land to provide future economic benefits or service potential while another entity has the right to exchange, dispose of, or transfer the land, the municipality shall assess its ability to exercise the right to exchange, dispose of, or transfer the land to determine if it is able to direct or restrict or deny to the land.

When a municipality directs the use of the land to provide services to beneficiaries, either *itself or through directing another entity to provide specific services, the municipality will conclude that it has the right to direct access to land to restrict or deny access of others to land.

In some instances the municipality is the legal owner, or the custodian of land appointed in terms of legislation, but concludes that it does not control such land. Key judgments made and assumptions applied to conclude that it does not control such land, are as follow;
- Whether another entity can direct the use of the land;s future economic benefits or service potential to provide services to beneficiaries
-Whether another entity can direct the use of the land's future economic benefits or service potential to provide services to beneficiaries.
-Whether the municipality can exchange, dispose of, or transfer the land; and/or
-Whether the municipality can use the land in any other way to generate future economic benefits or service potential.

An entity maybe granted a right to use the land for a period of time. Control of the land will be demonstrated if the entity has substantive rights to the land that enable it to direct access to the land, or to restrict or deny the access of other to land. For the entity to demonstrate control, the right of use needs to be for an unlimited period of time and the entity should have other substantive rights that enable it to direct access to the land, or to restrict or deny the access of others to the land. In the absence of the municipality demonstrating that it has granted the right to direct access to and restrict or deny access of others to the land to another entity, the legal owner controls the land as it retains the right to direct access to land, and to restrict or deny the access of others to land.

Accounting Policies

1.5 Significant judgments and sources of estimation uncertainty (continued)

Accounting by principals and agent

Accounting Policies

1.5 Significant judgments and sources of estimation uncertainty (continued)

The municipality makes assessments on whether it is the principal or agent in principal-agent relationships. Significant judgments applied in determining whether the municipality is an agent are as follows;

a) It does not have the power to determine the significant terms and conditions of the transaction.

For a municipality to be an agent, it must not have the power to determine the significant terms and conditions of the transactions with third parties. This means that it should not have the power to affect the results of the transaction. The result of a transaction is the economic benefits or service potential (or both) that arise from that transaction. The economic benefits or service potential can therefore be quantitative or qualitative.

The quantitative result of a transaction represents the monetary amount of a transaction and could include:
-The amount paid by the third party for a good or service received, or the amount of any tax, levy, or other charge paid.
-The amount paid to the third party for goods and services procured, or benefits paid of a non-exchange transaction, e.g. a social benefit.

The qualitative result of a transaction could include;
-The quality of a particular goods or services received by the third party.
-The administrative efficiency with which a specific transaction or activity should be performed.
-The volume of a good or service provided to the third party.

The municipality does not have the power to determine the significant terms and conditions of transactions with third parties if it is not able to decide, for example, the following aspects, but not limited to:
-What goods and services should be provided to, or procured from, third parties;or what taxes, levies or other charges should be levied on, or payments made to third parties.
-To whom goods and services should be provided, or from whom goods and services should be procured; or whom taxes, levies or other charges should be levied, or to whom payments should be made. This does not require the identification of specific individual third parties, and could be groups of affected third parties.
-The price to be paid by third parties, or agree on the price to be paid to third parties; or the amount of tax, levies or other charges to be paid by, or the amount of payments to be made to third parties.
-The quality of the goods and services provided to, or received from third parties. This may be less relevant to transactions that relate to taxes, levies,charges received by, or payment by or to third parties.

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

The types of resources that result from transactions with third parties could vary depending on the activities that are to be undertaken in terms of the binding agreement. The resources that could result from transactions with third parties include:
-Receipts related to the specific goods and services provided, or taxes, levies and other charges.
-Disbursements for specific goods and services procured to enable the execution of the transactions with third parties. The goods and services procured could also result in inventory.
-The municipality must not have the ability to use all, or substantially all, of resources that result from transactions with third parties. Where the municipality retains a portion of the revenue collected as a fee, e.g. a commission, or administration or transaction fee, for the service provided, this fee is usually nominal in relation to the total revenue collected, and as a result, the municipality would not have the ability to use all or substantially all of the resources that result from the transaction.

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

A municipality is exposed to variability in the results of the transaction when it has exposed to both the positive and negative results's associated with that transaction, and these exposures are not limited or fixed. There may be a number of factors that the municipality considers in determining whether it is exposed to the variability in the results of transactions. The municipality's exposures the variability in the results of a transaction are usually limited if:
-Another party is responsible for fulfilling the rights and obligations established in the binding arrangement. For example, if the provision of a certain good or service is the responsibility of a specific type of entity in legislation, then it is likely that recipients of that good or service will look to that entity for delivery of those goods or services.
-The municipality has limited inventory risk, i.e. the risk of theft, obsolescence or other losses, as well as changes in value.
The municipality receives a fixed fee or fixed margin, e.g. commission or administration or transaction fee, for carrying out the transactions.
-The Municipality is not exposed to significant default risk, i.e. the risk of fees, taxes, levies or other charges not being paid by third parties.

Additional information is disclosed in Note 65.

Accounting Policies

1.5 Significant judgments and sources of estimation uncertainty (continued)

Impairment of statutory receivables

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures and impairment loss. The impairment loss is measured 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, are reduced, either directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

In estimating the future cash flows, the 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 municipality 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 are 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.

Accounting for adjustments to revenue

Determining whether an adjustment to revenue charged in terms of legislation or similar means is a correction of an error or a change in an accounting estimate requires the application of judgment by management. When adjustments to revenue already recognised arise from new information that becomes known to the municipality, the following considerations are applied to determine whether the adjustment to revenue already recognised is a correction of an error or a change in an accounting estimate:

(a) If information becomes known to the municipality, and the municipality could reasonably have been expected to know of the information and/or the information used was incorrect, the adjustment to revenue is likely to be a correction of an error.

(b) If information becomes known to the municipality, but the municipality could not reasonably have been expected to know of this information when the revenue was charged, the adjustment to revenue is likely to be a change in an accounting estimate.

Accounting for adjustments to revenue that correct an error or prior period error

Following the outcome of the determination processes noted above, and assessing whether this is new information that becomes known to the municipality, the municipality accounts for an adjustment to revenue already recognised, including interest and penalties, as the correction of an error or prior period error where the entity:

(a) has not followed a proper due process to promulgate the tariff, basis, percentage or formula to charge the revenue; and/or

(b) incorrectly applied the tariff, basis, percentage or formula in charging revenue.

Errors discovered within the reporting period which relates to that period are corrected before the annual financial statements are authorised for issue. The principles in GRAP 3 are applied to account for the adjustment to revenue already recognised as a result of the correction of a prior period error.

Accounting for adjustments to revenue as a change in an accounting estimate

Following the outcome of the determination processes noted above, and assessing whether this is new information that becomes known to the municipality, the municipality accounts for any adjustment to revenue already recognised, including interest and penalties, as a change in an accounting estimate if changes occur in the circumstances that led to the recognition of the revenue.

The principles in GRAP 3 are applied to account for a change in an accounting estimate.

1.6 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

1.6 Investment property (continued)

- 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.

Fair value

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

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

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

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

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

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

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

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Accounting Policies

1.6 Investment property (continued)

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

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:
- All properties held to earn market related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investments;
-Land held for current undetermined future use. (If the municipality has not determined that it will use the land as owner occupied property or for short term sale in the ordinary course of business, the land is regarded as held for capital appreciation.;
-Property that is being constructed or developed for future use as investment property;
-A building owned by the municipality)or held by the municipality under a finance lease) and leased out under one or more operating leases; and
-A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as property plant and equipment or Inventory as appropriate:
-Property intended for sale in the ordinary course of operations or in the process of construction or developed for such sale;
-Property being constructed or developed on behalf of third parties;
Owner occupied property, including (among other things) property held for future use as owner occupied property, held for future development and subsequent use as owner, occupied property by employees such as housing for personnel (whether or not the employee pay rent at market rates) and owner occupied property awaiting disposal;
-Property that is leased to another entity under a finance lease.
-Property held to provide a social service and which also generates cash inflows; e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
-Property held for strategic purposes or service delivery.

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

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

1.7 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.

Accounting Policies

1.7 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Furniture and fixtures	Straight-line	05 - 15
Motor vehicles	Straight-line	07 - 15
Electricity	Straight-line	05 - 45
Community and recreational facilities	Straight-line	05 - 30
Storm water	Straight-line	10 - 50
Roads	Straight-line	03 - 50
Other assets	Straight-line	04 - 10

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 unless it is included in the carrying amount of another asset.

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

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

1.7 Property, plant and equipment (continued)

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

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

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

1.8 Intangible assets

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

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.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Intangible assets are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

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

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

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

Accounting Policies

1.8 Intangible assets (continued)

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	2-10 years

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

1.9 Heritage assets

Assets are resources controlled by an 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 an municipality's operations that is shown as a single item for the purpose of disclosure in the annual 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.

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

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 an 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 (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

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.

1.9 Heritage assets (continued)

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

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.

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).

1.10 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 uncollectability.

A concessionary loan is a loan granted to or received by an entity 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.

Accounting Policies

1.10 Financial instruments (continued)

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity'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.

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, an entity 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 entity 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 entity.

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.

Accounting Policies

1.10 Financial instruments (continued)

A financial asset is past due when a counterpart 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 unitised 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.

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;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- 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.

Classification

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

Class	**Category**
Cash and cash equivalent	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost

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

Class	**Category**
Borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

1.11 Statutory receivables

Identification

1.11 Statutory receivables (continued)

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

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

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

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

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

Recognition

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

Accrued interest

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

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

Other charges

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

Impairment losses

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

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

Accounting Policies

1.11 Statutory receivables (continued)

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

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

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

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

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

Derecognition

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

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

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

1.12 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.

Accounting Policies

1.12 Leases (continued)

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.

1.13 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.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- 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 are assigned using the weighted average cost formula. The same cost formulary 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.

1.14 Construction contracts and receivables

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

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

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

Accounting Policies

1.14 Construction contracts and receivables (continued)

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

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

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

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs.

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

1.15 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.

Accounting Policies

1.15 Impairment of cash-generating assets (continued)

Designation

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

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

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.

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.

Accounting Policies

1.15 Impairment of cash-generating assets (continued)

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.

Any impairment loss of a revalued 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 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.

Accounting Policies

1.15 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

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

1.16 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.

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.

Accounting Policies

1.16 Construction contracts and receivables (continued)

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 a municipality's objective of using the asset.

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

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

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.

Value in use

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

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

Depreciated replacement cost approach

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

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

1.16 Construction contracts and receivables (continued)

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

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.

1.17 Employee benefits

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

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

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

Accounting Policies

1.17 Employee benefits (continued)

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

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

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

Short-term employee benefits

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

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

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

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

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

Post-employment benefits

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

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

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

Accounting Policies

1.17 Employee benefits (continued)

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

The entity 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 entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity 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 entity account for the plan as if it was a defined contribution plan.

Insured benefits

Where the entity pays insurance premiums to fund a post-employment benefit plan, the entity treats such a plan as a defined contribution plan unless the entity 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 entity 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 entity 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 entity during a reporting period, the entity recognises 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 entity recognises that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the 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.

Accounting Policies

1.17 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.17 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 annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

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

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

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

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

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

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

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

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

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

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

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

Accounting Policies

1.17 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 municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

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 entity 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.

Accounting Policies

1.17 Employee benefits (continued)

Termination benefits

The entity 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 entity 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.

1.18 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.

Accounting Policies

1.18 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

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. Contingencies are disclosed in note 50.

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.

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

1.19 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.

1.19 Commitments (continued)

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

Accounting Policies

1.20 Revenue from exchange transactions

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

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

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

Measurement

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

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

Sale of goods

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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.

Accounting Policies

1.20 Revenue from exchange transactions (continued)

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

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Accounting Policies

1.21 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

1.22 Investment income

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

Accounting Policies

1.23 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.

1.24 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.

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Assessing which entity benefits from the transactions with third parties

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

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

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

Recognition

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

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

1.24 Accounting by principals and agents (continued)

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.

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

1.27 Fruitless and wasteful expenditure

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

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

1.28 Irregular expenditure

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

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

1.29 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.

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 reserve 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.

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);

Accounting Policies

1.31 Segment information (continued)

- 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.

1.32 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisation (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 in terms of MBRR and is on an accrual basis of accounting. However, the budget is presented on a different basis, being MBRR, whilst the financial statements are presented in terms of GRAP. Taking into account that the presentation basis is different, the municipality presents the budget and accruals information in a Statement of Budget and Actuals, in accordance with the MBRR.

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

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

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

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 ventures).

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.

Accounting Policies

1.33 Related parties (continued)

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

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

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

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

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

1.34 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.

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

1.35 Standards and Interpretations that are effective for 2022/2023 financial year

The following GRAP and IGRAP Standards were effective during 2022/2023 financial year.

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2023 or later periods:

GRAP 103 (as revised): Heritage Assets

Background

The Accounting Standards Board (the Board) completed its post-implementation review of the Standard of GRAP on Heritage Assets (GRAP 103) (hereafter referred to as “the review”) in 2020. Based on the feedback received as part of the review, the Board agreed to reconsider certain principles in GRAP 103.

The objective of the project was to revise and clarify principles in GRAP 103 following feedback received from the review and actions agreed by the Board.

Key amendments to GRAP 103

The Board agreed that the definition of a heritage asset in GRAP 103 should be reconsidered to better align it with the legislative explanation of a heritage resource in the National Heritage Resources Act, 1999, and the classification by the South African Heritage Resources Agency.

The proposed definition focuses on assets that have “cultural significance” and defines a heritage asset as “an asset that has cultural significance, and is held indefinitely for the benefit of present and future generations”. “Cultural significance” has also been defined and described in GRAP 103 based on legislation.

The characteristics displayed by heritage assets, and the range of assets that could be heritage assets, have also been aligned with legislation.

The amendments further relate to the Classification of dual purpose heritage assets, Determining a reliable value for a heritage asset, Protective rights imposed on heritage assets, Re-assessing if a reliable value becomes available subsequently, Aggregation of individually insignificant heritage assets, Impairment of heritage assets, Mandatory disclosures of heritage assets borrowed or on loan.

The effective date of these revisions have not yet been set.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 25 (as revised): Employee Benefits

Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS® 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14®) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

Key amendments to GRAP 25

The Board agreed to align GRAP 25 with IPSAS 39, but that local issues and the local environment need to be considered. As a result of this decision, there are areas where GRAP 25 departs from the requirements of IPSAS 39. The Board's decisions to depart are explained in the basis for conclusions.

The amendments to GRAP 25 are extensive and mostly affect the accounting for defined benefit plans. A new renumbered Standard of GRAP (e.g. GRAP 39) will not be issued, but rather a new version of the current GRAP 25.

The effective date of these revisions have not yet been set. 01 April 2023.

The municipality expects to adopt the revisions for the first time in the 2023/2024 annual financial statements.

The adoption of this revisions is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction

Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS® 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14®) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

The effective date of these revisions is 01 April 2023.

The municipality expects to adopt the revisions for the first time in the 2023/2024 financial year.

It is unlikely that the revisions will have a material impact on the municipality's annual financial statements.

GRAP 104 (as revised): Financial Instruments

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:
- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the revisions is 01/04/2025.

The municipality expects to adopt the revisions for the first time in the 2025/2026 financial statements.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

iGRAP 21: The Effect of Past Decisions on Materiality

Background

The Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3) applies to the selection of accounting policies. Entities apply the accounting policies set out in the Standards of GRAP, except when the effect of applying them is immaterial. This means that entities could apply alternative accounting treatments to immaterial items, transactions or events (hereafter called “items”).

The Board received questions from entities asking whether past decisions to not apply the Standards of GRAP to immaterial items effect future reporting periods. Entities observed that when they applied alternative accounting treatments to items in previous reporting periods, they kept historical records on an ongoing basis of the affected items. This was done so that they could assess whether applying these alternative treatments meant that the financial statements became materially “misstated” over time. If the effect was considered material, retrospective adjustments were often made.

This Interpretation explains the nature of past materiality decisions and their potential effect on current and subsequent reporting periods.

iGRAP 21 addresses the following two issues:
- Do past decisions about materiality affect subsequent reporting periods?
- Is applying an alternative accounting treatment a departure from the Standards of GRAP or an error?

The effective date of these interpretation have not yet been set. 01 April 2023.

The municipality expects to adopt the interpretation for the first time in the 2023/2024 01 July 2023.

It is unlikely that the interpretation will have a material impact on the municipality's annual financial statements.

GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB’s Amendments to IAS 1.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

Summary of amendments are:

Materiality and aggregation

The amendments clarify that:
- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

Disclosure of accounting policies

An municipality applies judgment based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after 01 April 2025.

The municipality expects to adopt the amendment for the first time in the 2025/2026 annual financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

2.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2023 or later periods but are not relevant to its operations:

Guideline: Guideline on Accounting for Landfill Sites

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexure's with Terminology & References to pronouncements used in the Guideline.

The effective date of the guideline is for years beginning on or after 01 April 2023.

The municipality does not envisage the adoption of the guideline until such time as it becomes applicable to the municipality's operations.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	15 940	15 940
Bank balances	10 520 305	9 923 453
Short-term investment	63 117 377	89 646 976
	73 653 622	**99 586 369**

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2023	30 June 2022	30 June 2023	30 June 2022
Standard Bank - Call Account - 068872208 - 001	816 805	765 127	816 805	765 127
Standard Bank - Fixed Deposit - 068872208 - 002	1 926 308	1 801 633	1 926 308	1 801 633
Standard Bank - Call Account - 068872208 - 004	31 225 847	67 220 244	31 225 847	62 020 243
Standard Bank - Call Account - 068872208 - 005	11 681 871	49 544	11 681 871	49 544
Standard Bank - Call Account - 068872208 - 008	2 122 784	1 167 429	2 122 784	1 167 429
Standard Bank - Call Account - 068872208 - 009	553 413	1 112	553 413	1 112
First National Bank - Cheque Account- 52191090523	18 593 209	6 220 188	10 520 305	9 923 453
First National Bank - Fixed Deposit - 74238125451	311 995	311 995	311 995	311 995
First National Bank - Call Account - 62120320081	84 626	11 009 311	84 626	11 009 311
First National Bank - Call Account - 62151319186	1 725 311	127 390	1 725 311	127 390
First National Bank - Call Account - 62124937246	201 457	468 765	201 457	468 765
First National Bank - Call Account - 62378736593	4 073 484	3 843 736	4 073 484	3 843 736
First National Bank - Call Account - 62024283038	314 406	296 909	314 406	296 909
First National Bank - Call Account - 62239675260	70 856	254 560	70 856	254 560
Investec Bank - Call Account - 1100511779500	48 052	44 918	48 052	44 918
Investec Bank - Call Account - 1100511779504	1 230 190	1 151 675	1 230 190	1 151 675
Nedbank - Call Account - 037165024212	1 580	1 481	1 580	1 481
Nedbank - Call Account - 037165024182	4 157 633	3 894 212	4 157 633	3 894 212
Nedbank - Call Account - 037165024204	2 570 759	610 477	2 570 759	2 436 935
Total	**81 710 586**	**99 240 706**	**73 637 682**	**99 570 428**

Short Term Investments

The municipality invests in short term investment accounts, a summary of cash book balances have been indicated below:

Summary of cash book balances on investments accounts:		
Standard Bank	48 327 027	65 805 088
First National Bank	6 782 135	16 312 666
Investec Bank	1 278 242	1 196 593
Nedbank	6 729 972	6 332 628
	63 117 376	**89 646 975**

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

A difference of R8 072 904.22 is attributable to reconciling difference mainly outstanding payments and deposits that were captured in June on cashbook but only reflected on bank in July.

4. Inventories

Materials and supplies	1 583 740	1 811 470
Consumables stores	1 231 529	1 644 883
	2 815 269	**3 456 353**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

5. Receivables from exchange transactions

Gross balances		
Electricity	19 903 627	16 542 881
Refuse	15 800 761	13 252 399
Housing rental	1 204	8 648
Sundry debtors	11 970 736	12 600 035
	47 676 328	**42 403 963**
Less: Allowance for impairment		
Electricity	(2 528 814)	(2 071 716)
Refuse	(8 133 312)	(7 366 689)
Housing rental	(1 103)	(1 003)
Sundry debtors	(4 908 915)	(5 089 997)
	(15 572 144)	**(14 529 405)**
Net balance		
Electricity	17 374 813	14 471 165
Refuse	7 667 449	5 885 710
Housing rental	101	7 645
Sundry debtors	7 061 821	7 510 038
	32 104 184	**27 874 558**
Electricity		
Current (0 -30 days)	4 790 273	6 404 679
31 - 60 days	1 194 549	934 193
61 - 90 days	963 776	225 810
91 - 120 days	763 573	169 056
121 - 365 days	3 326 172	123 519
> 365 days	8 865 284	8 667 624
	19 903 627	**16 524 881**
Refuse		
Current (0 -30 days)	1 248 488	2 508 897
31 - 60 days	643 574	517 522
61 - 90 days	476 604	442 474
91 - 120 days	411 094	395 850
121 - 365 days	2 281 932	4 744 436
> 365 days	10 739 069	4 643 220
	15 800 761	**13 252 399**
Housing Rental		
Current (0 -30 days)	-	7 545
> 365 days	1 204	1 103
	1 204	**8 648**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

5. Receivables from exchange transactions (continued)

Sundry debtors		
Current (0 -30 days)	2 034 703	6 101 851
31 - 60 days	15 618	56 840
61 - 90 days	12 628	105 780
91 - 120 days	152 818	34 086
121 - 365 days	296 193	1 769 113
> 365 days	9 458 776	4 532 365
	11 970 736	**12 600 035**

Summary of debtors by customer classification

Residential	17 929 362	20 636 229
Commercial and Industrial	15 557 312	7 234 475
Organ of State	7 402 196	8 955 709
Payments received in advance	439 086	534 227
Other debtors	6 348 372	5 043 323
	47 676 328	**42 403 963**

Reconciliation of allowance for impairment		
Balance at beginning of the year	(14 529 405)	(16 396 078)
Contributions to allowance	(1 042 739)	1 866 673
	(15 572 144)	**(14 529 405)**

Included in Sundry debtors is the payments made in advance, deposits with creditors, consumer deposits raised etc.

6. Receivables from non exchange transactions

Gross balances		
Consumer debtors - Rates	61 355 446	47 818 178
Consumer debtors - Availability charges	4 378 259	3 548 747
Consumer debtors - Fines	181 650 601	180 599 841
	247 384 306	**231 966 766**

Less: Allowance for impairment		
Consumer debtors - Rates	(39 126 141)	(38 353 921)
Consumer debtors - Availability charges	(2 965 461)	(2 225 446)
Consumer debtors - Fines	(174 384 577)	(171 569 849)
	(216 476 179)	**(212 149 216)**

Net balance		
Consumer debtors - Rates	22 229 305	9 464 257
Consumer debtors - availability charge	1 412 798	1 323 301
Consumer debtors - Fines	7 266 024	9 029 992
	30 908 127	**19 817 550**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

6. Receivables from non exchange transactions (continued)

Summary of aging of debtors (Property rates)

Current (0 -30 days)	2 366 991	(18 748)
31 - 60 days	1 611 481	1 111 066
61 - 90 days	1 190 809	902 223
91 - 120 days	1 041 736	843 997
121 - 365 days	20 156 741	18 288 772
> 365 days	34 987 688	26 690 868
	61 355 446	**47 818 178**

Summary of property rates consumer classification

Residential	27 247 010	26 890 021
Commercial	2 928 840	3 151 557
Organ of State	19 766 267	13 297 634
Other	11 413 329	4 478 966
	61 355 446	**47 818 178**

Reconciliation of allowance for impairment

Balance at beginning of the year	(212 149 216)	(206 231 181)
Contributions to allowance	(4 326 963)	(5 918 035)
	(216 476 179)	**(212 149 216)**

6. Receivables from non exchange transactions (continued)

Statutory receivables are accountable for as follows;

Transaction(s) arising from statute

Traffic fines are issued to offenders in terms of the Administrative of Road Traffic Offences (AARTO Act) and Criminal Procedures Act, by the way of notices to offenders which specify the value of the fine that must be paid.

Property rate is charged in terms of the Municipal Property Rates Act and Approved Council Property Rates policy.

Determination of transaction amount

Schedule 3 of the AARTO Regulations 2008 for charge codes and descriptions, penalties and their discounts, and demerit points.

Interest or other charges levied/charged

No interest is charged on outstanding fines, and any additions are further applied by the court is paid by the offender to the court directly, and therefore not considered to be revenue for the municipality.

Property rates: Interest is raised on overdue accounts at 10.25% per annum in accordance with the National Credit Act, in respect of arrears at a simple interest rate of prime 1% determined as at 28 February of each year for the financial year starting 01 July of each year.

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

Traffic fines

The Municipality account for the traffic fines impairment in accordance with IGRAP 1.

The Municipality assessed the average collection rate of the traffic fines over 3 years.

Property rates

The estimate were determined in accordance with the debt impairment policy of the municipality, supplemented by experience of past practices and statistics in relation to uncollected debt.

Management considered both individually receivables that may be impaired as well as groups of similar receivables that may be impaired.

The total debts were further separated into groups of similar receivables and collection rate with similar risk profiles and assessed for impairment.

Statutory receivables past due but not impaired

Property rates

As at 30 June 2023, the following statutory receivables were considered to be past due and not impaired. This was determined by taking into account the debt that is outstanding for a period of not more than 90 days which have not been subjected to impairment except for government debts. At 30 June 2023, 23 229 590 (2022: 9 464 257) were past due but not impaired.

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

	2023	2022
1 month past due	176 842	896 643
2 months past due	54 467	701 005
3 months past due	22 998 281	7 866 609

Statutory receivables impaired

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

6. Receivables from non exchange transactions (continued)

Traffic fines

As of 30 June 2023, Traffic fines of 181 650 601 (2022: 180 599 841) were impaired and provided for.

The amount of the provision was 174 384 577 as of 30 June 2023 (2022: 171 569 849).

The net balance is R7 266 025 (2022: R9 029 992).

Property rates

As of 30 June 2023, Property rates of R61 355 446 (2022: R47 818 178) were impaired and provided for.

The amount of the provision was R39 126 141 (2022: R38 353 921).

The net balance is R22 229 305 (2022: R9 464 257).

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	150 720 351	-	150 720 351	150 720 351	-	150 720 351
Buildings	20 827 165	(13 447 593)	7 379 572	20 827 165	(12 847 033)	7 980 132
Plant and machinery	15 659 530	(8 640 120)	7 019 410	14 262 085	(8 040 751)	6 221 334
Furniture and fixtures	8 014 499	(6 208 283)	1 806 216	8 670 011	(7 281 308)	1 388 703
Motor vehicles	46 823 133	(31 299 196)	15 523 937	46 207 295	(26 836 512)	19 370 783
IT equipment	18 816 380	(12 834 314)	5 982 066	18 241 531	(10 860 211)	7 381 320
Infrastructure	778 402 049	(394 137 124)	384 264 925	752 062 547	(363 696 365)	388 366 182
Community	391 849 921	(175 031 826)	216 818 095	370 293 864	(160 793 341)	209 500 523
Total	**1 431 113 028**	**(641 598 456)**	**789 514 572**	**1 381 284 849**	**(590 355 521)**	**790 929 328**

Notes to the Annual Financial Statements

Figures in Rand

7. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	150 720 351	-	-	-	-	150 720 351
Buildings	7 980 132	-	-	(600 560)	-	7 379 572
Plant and machinery	6 221 334	3 125 964	(186 548)	(1 731 841)	(409 499)	7 019 410
Furniture and fixtures	1 388 703	888 342	(71 158)	(367 321)	(32 350)	1 806 216
Motor vehicles	19 370 783	615 838	-	(4 052 951)	(409 733)	15 523 937
IT equipment	7 381 320	1 345 453	(25 204)	(2 363 295)	(356 208)	5 982 066
Infrastructure	388 366 182	26 339 501	-	(26 236 849)	(4 203 909)	384 264 925
Community	209 500 523	21 675 130	(125 145)	(10 754 174)	(3 478 239)	216 818 095
	790 929 328	**53 990 228**	**(408 055)**	**(46 106 991)**	**(8 889 938)**	**789 514 572**

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	150 720 351	-	-	-	-	150 720 351
Buildings	8 745 848	-	-	(765 716)	-	7 980 132
Plant and machinery	6 683 092	1 262 578	(56 332)	(1 668 004)	-	6 221 334
Furniture and fixtures	1 860 972	155 452	-	(627 721)	-	1 388 703
Motor vehicles	23 197 443	1 062 513	-	(4 889 173)	-	19 370 783
IT equipment	7 194 410	2 205 128	(4 414)	(2 013 804)	-	7 381 320
Infrastructure	366 208 423	49 740 809	-	(27 583 050)	-	388 366 182
Community	214 784 009	11 059 372	-	(16 071 652)	(271 206)	209 500 523
	779 394 548	**65 485 852**	**(60 746)**	**(53 619 120)**	**(271 206)**	**790 929 328**

Pledged as security

The municipality have no assets pledged as security.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

7. Property, plant and equipment (continued)

Leased Assets

The municipality has no finance leased assets included in the Property, plant and equipment in the 2022/2023 financial year.

Donations

	2023	2022
Community Assets	-	2 800 000
Computer equipment	70 248	-
Machinery and equipment	109 900	-
	180 148	**2 800 000**

The municipality received donations in a form of computers and a generator amount to R180 148 from the Department of Art and Culture as at 30 June 2023.

The municipality received donations in a form of Early Childhood Development buildings amount to R2800 148 from Divine Life as at 30 June 2022.

Reconciliation of Work-in-Progress 2023

	Included within Infrastructure	Included within Community	Total
Opening balance	23 525 719	24 756 453	48 282 172
Additions/capital expenditure	26 056 186	21 217 371	47 273 557
Transferred to completed items	(8 283 729)	(1 999 552)	(10 283 281)
	41 298 176	**43 974 272**	**85 272 448**

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Community	Total
Opening balance	31 178 458	29 689 443	60 867 901
Additions/capital expenditure	49 549 441	11 059 370	60 608 811
Transferred to completed items	(57 202 180)	(15 992 360)	(73 194 540)
	23 525 719	**24 756 453**	**48 282 172**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

7. Property, plant and equipment (continued)

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	2023	2022
Labour costs (amount paid to employees)	25 903 150	25 857 058
Contracted services (amount paid to suppliers)	5 389 057	3 842 668
Materials	5 350 201	4 778 361
Fuel and Oil	1 910 522	1 228 935
	38 552 930	**35 707 022**

Amount paid to employees R25 903 150 (2022: R25 857 058), is included in the Employee related cost (Note 35) in the Statement of Financial Performance.

Amount paid to suppliers R5 389 057 (2022: R3 842 668), is included in the contracted services (Note 43) in the Statement of Financial Performance.

Materials amounting to R5 350 201 (2022: R4 778 361), is included in the inventory consumed (note 44) in the Statement of Financial Performance.

Fuel and Oil amounting to R1 910 522 (2022: R1 228 935), is included in the contracted services (Note 43) in the Statement of Financial Performance.

Capital projects that have been significantly delayed	2023	2022
Ndlongolwane Road and Causeway	-	5 555 317
King Dinizulu Sport Complex	25 104 532	-
Eyetheni phase one and two	7 618 370	-
Urban roads	1 950 885	-
	34 673 787	**5 555 317**

2023 financial year

King Dinizulu Sport complex - The municipality has experienced a slow performance from the appointed contractor. The Municipality has implemented contract management. The contractor has been terminated. The appointed consultant is in a process of finalising the bill of quantity. This project is budgeted for in the 2023/2024 financial year.

Eyetheni phase one and two - The delay is attributable to the unfavourable weather condition. The contractor was granted an extension of contract.

Urban roads - The delay is attributable to poor performance from the appointed contractor. The municipality has implemented contract management. The contractor has been terminated. The appointed consultant is in a process of finalising the bill of quantity. This project is budgeted for in the 2023/2024 financial year.

The Municipality have tested for possible impairment.

2022 financial year

Ndlongolwane Road and Causeway is a construction of 2.1 kilometre. The project was planned to be completed by 31 December 2021, however there has been delays in the completion of the project. The delays are attributable to the poor performance by the contractor. This project has been completed during 2022/2023 financial year.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

7. Property, plant and equipment (continued)

Contractual commitments for the acquisition of property plant and equipment

As at the reporting date, the municipality has contractual commitments in relation to acquisition to the acquisition of property plant and equipment that are recognised in the annual financial statement. Commitments are as follows:

Contractual commitments		
Infrastructure assets	19 883 463	13 081 715
Community assets	11 548 059	6 028 615
	31 431 522	**19 110 330**
Approved and contracted		
Property plant and equipment	31 431 522	19 110 330
This expenditure will be financed from		
Government grants	21 397 542	18 554 312
Internally funded	10 033 980	556 018
	31 431 522	**19 110 330**

Notes to the Annual Financial Statements

8. Investment property

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	31 333 000	-	31 333 000	30 655 000	-	30 655 000

Reconciliation of investment property - 2023

	Opening balance	Fair value adjustments	Total
Investment property	30 655 000	678 000	31 333 000

Reconciliation of investment property - 2022

	Opening balance	Fair value adjustments	Total
Investment property	27 065 000	3 590 000	30 655 000

Investment property in the process of being constructed or developed

There is no investment property in the process of being constructed or developed.

The Investment property have been valued in accordance with the municipal valuation roll and have been adjusted to take into account current markets conditions, and other special assumptions depending on the categories of property,

The last effective date of the fair value adjustment was June 2023. The valuations were performed by a Professional Valuer. The valuation was based on the estimated amount for which an asset should exchange on the date of evaluation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The municipal Valuer has extensively experience in the location and category of investment property valued with the necessary qualifications.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

8. Investment property (continued)

Notes to the Annual Financial Statements

Figures in Rand

9. Intangible assets

	2023			2022		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	336 250	(241 422)	94 828	336 250	(208 649)	127 601

Reconciliation of intangible assets - 2023

	Opening balance	Amortisation	Total
Computer software	127 601	(32 773)	94 828

Reconciliation of intangible assets - 2022

	Opening balance	Amortisation	Total
Computer software	235 807	(108 206)	127 601

Notes to the Annual Financial Statements

Figures in Rand

10. Heritage Assets

	2023			2022		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	9 232 212	-	9 232 212	9 232 212	-	9 232 212
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 2023

	Opening balance	Total
Historical monuments	9 232 212	9 232 212
Ceremonial chains	1 079 132	1 079 132
	10 311 344	**10 311 344**

Reconciliation of heritage assets 2022

	Opening balance	Total
Historical monuments	9 232 212	9 232 212
Ceremonial chains	1 079 132	1 079 132
	10 311 344	**10 311 344**

11. Investments

At amortised cost		
Shares in co-operatives	1 000	1 000

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

11. Investments (continued)

Non-current assets		
Unlisted	1 000	1 000

12. Payables from exchange transactions

Trade payables	18 811 344	18 960 457
Payments received in advanced	6 641 611	8 334 719
Retention	7 207 346	4 909 163
Bonus payables	4 956 954	4 509 737
Unallocated deposits	4 413 555	4 847 630
Sundry payables	59 000	103 193
Accrued leave pay	8 649 516	8 820 286
Salary Control	1 439 254	29 693
	52 178 580	**50 514 878**

13. Consumer deposits

Electricity and refuse	3 644 117	3 356 247

Interest is not paid on Consumer Deposits.

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Department of Human Settlement Grant	116 208	116 208
Integrated National Electrification Grant (INEP)	-	78 930
Title Deeds Registration Grant	1 081 699	1 081 699
	1 197 907	**1 276 837**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

15. Employee benefit obligations

Defined benefit plan

Post retirement medical aid plan

The Municipality offers employees and continuation members the opportunity to belong to one several accredited medical schemes. Upon retirement, an employee may continue membership of a accredited medical scheme. Upon a member's death in service, or death in retirement, the surviving dependents may continue membership of the medical scheme.

Eligible employees will receive a post employment subsidy additional of 60% of the contribution payable should they be a member of a medical scheme, subject to the following conditions;

- Membership of a municipality accredited medical aid scheme for the majority of their total services (i.e more than half of their services by retirement.

Continuation members and their eligible dependents receive 60% subsidy.

The most recent actuarial valuations of plan asset and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2023 by an independent valuers.

The present value of the defined benefits obligation and the related current cost and past cost, were measured using the Projected Unit Credit Method.

The principal assumptions used were as follows		
Discount rate used	14.23 %	9.21 %
CPI (Inflation rate)	9.11 %	6.21 %
Medical Aid contribution inflation	10.11 %	7.76 %
Net Effective discount rate	3.74 %	1.34 %

Inservice members	300	291
Continuation members	15	18
	315	**309**

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

Opening balance	19 750 000	18 151 000
Interest cost	2 345 000	1 950 000
Expected employee benefit payment/current service cost	966 000	909 000
Actuarial (gain)losses	(2 941 568)	(543 000)
Less: municipal paid benefits	(799 432)	(717 000)
	19 320 000	**19 750 000**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

15. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Expected employee benefit payments/Current service cost	966 000	909 000
Interest cost	2 345 000	1 950 000
Actuarial (gains) losses	(2 941 568)	(543 000)
	369 432	**2 316 000**

Liability classification

Current liabilities	847 000	909 000
Non current liabilities	18 473 000	18 841 000
	19 320 000	**19 750 000**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

15. Employee benefit obligations (continued)

Superannuation funds

The latest statutory valuation of the Superannuation Fund (defined benefit) as at 31 March 2022 concluded that:

The fund's liabilities for service to the valuation date was 108.9% (2021:100.1%) funded on the discounted cash flow method at the valuation date.

The fund is 108.9% funded on the "best estimate"funding basis as at the valuation date, and is also fully funded on the financial soundness basis incorporating the full solvency reserve. At the valuation report, the fund was in a sound financial position.

There was no deficit in respect of active members, A surcharge of 5.3% pensionable salaries is payable.

Retirement funds

The latest statutory valuation of the Retirement Fund (defined benefits) as at 31 March 2022 reflect;

The funding level of the Pensions Memorandum Account increased over the valuation period from 124.5% to 128.8%. This was mainly due to the release of the Solvency Reserve.

Based on the valuation assumption applied in 2022, the fund was fully funded.

An interim actuarial valuation carried out on the retirement fund as at 31 March 2022 reflected;

The fund is 107.1% (2021:101%) funded as at valuation date at the overall level. A recommendation was that, the current surcharge of 35% of pensionable salaries continue to be paid to bring forward the elimination of historical discrimination by the improvement of benefits to members..

At the valuation report, the fund was in a sound financial position.

Provident funds

An interim valuation of the Provident Fund was performed as at 31 March 2022.

Assets exceeded the liabilities and reserves at the valuation date. Unallocated assets amounted to 0.2% of the assets after the release from the Risk and Expense Reserve and the Investment Reserve was 7.0% of member shares at the valuation date.

Members can elect a rate of contribution of 5%, 7.5% or 9.25% of pensionable salaries.

The default rate of continuation is set at 9.25% (the highest rate). This rate apply to each new employee unless he/she actively chooses to contribute as at a lower rate.

The fund is 100.2% (2021:100.6%) funded as at the valuation date.

At the valuation report, the fund was in a sound financial position.

Long Service Award

The independent valuers carried out a statutory valuation on the Long Service Awards benefits as at 30 June 2023.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

15. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	11.23 %	11.21 %
CPI (Consumer Price Inflation)	6.49 %	7.56 %
Normal Salary Increase Rate	7.49 %	8.56 %
Net Effective Discount Rate	3.48 %	3.40 %

Active members	442	439

The amount recognised in the statement of financial position are as follows;		
Opening balance	9 206 000	8 713 000
Interest cost	1 099 000	950 000
Expected employee payment/current service cost	969 000	966 000
Actuarial (gain) loss	(1 032 024)	(631 000)
Less: municipal paid benefits	(1 126 976)	(792 000)
	9 115 000	**9 206 000**

Net expense recognised in the statement of financial performance		
Current service cost	969 000	966 000
Interest cost	1 099 000	950 000
Actuarial (gain)/loss	(1 032 024)	(631 000)
	1 035 976	**1 285 000**

Current liabilities	1 295 000	966 000
Non current liabilities	7 820 000	8 240 000
	9 115 000	**9 206 000**

16. VAT payable

Tax refunds payables	5 867 251	958 885

The VAT 201's were submitted to SARS up to 30 June 2023. VAT is claimed on payment basis.

The amount disclosed is the net VAT on payables and receivables.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

17. Provisions

Reconciliation of provisions - 2023

	Opening Balance	Additions	Utilised during the year	Total
Performance Bonus	867 917	530 526	(531 902)	866 541

Reconciliation of provisions - 2022

	Opening Balance	Additions	Utilised during the year	Total
Performance Bonus	921 490	899 977	(953 550)	867 917

The provision for performance bonuses relates to the constructive obligation on payment of performance bonus for section 57 employees in previous years.

Performance bonuses are paid to the Section 57 employees after performance evaluation by the Council.

18. Long term loans

	2023	2022
At amortised cost		
DBSA Bank loan - Current portion	342 816	342 816
DBSA Bank loan - long term loan	1 777 780	2 131 212
	2 120 596	**2 474 028**
	2 120 596	**2 474 028**

DBSA Bank loan bears an interest of 12.42% and redeemed bi-annually with interest ending 2029

	2023	2022
Non-current liabilities		
At amortised cost	1 777 780	2 131 212
Current liabilities		
At amortised cost	342 816	342 816

19. Housing development fund

	2023	2022
Loans extinguished by Government on 1 April 1998	828 828	828 828
Installments received from borrowers	4 762 381	4 762 381
Accumulated deficit	(1 583 387)	(1 813 134)
	4 007 822	**3 778 075**

	2023	2022
Reconciliation of the Housing Development Fund		
Opening balance	3 778 075	3 663 422
Transfer from accumulated surplus (Interest)	229 747	114 653
	4 007 822	**3 778 075**

Notes to the Annual Financial Statements

Figures in Rand

20. Accumulated surplus

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

	Capital replacement reserve	Electrical upgrade	SMME Establishment	Electricity	Indigent Support	Accumulated Surplus	Total
Opening balance	82 462 558	11 285 309	2 505 913	34 399 130	295 943	759 627 376	890 576 229
Net surplus or (deficit) for the year	-	-	-	-	-	(17 966 300)	(17 966 300)
Transfers	(51 236 711)	(10 888 688)	237 200	-	18 464	61 869 735	-
Other 2	-	-	-	-	-	(229 748)	(229 748)
	31 225 847	**396 621**	**2 743 113**	**34 399 130**	**314 407**	**803 301 063**	**872 380 181**

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

	Capital replacement reserve	Capitalisation reserve	SMME Establishement	Electricity	Indigent Support	Accumulated Surplus	Total
Opening balance	82 462 558	11 285 309	2 505 913	34 399 130	295 943	778 717 057	909 665 910
Net Surplus/ (Deficit for the year	-	-	-	-	-	(18 975 025)	(18 975 025)
Transfer from accumulated surplus	-	-	-	-	-	(114 656)	(114 656)
	82 462 558	**11 285 309**	**2 505 913**	**34 399 130**	**295 943**	**759 627 376**	**890 576 229**

21. Service charges

Sale of electricity	78 364 292	78 145 922
Solid waste	14 869 348	14 138 808
	93 233 640	**92 284 730**

22. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	1 199 035	1 558 996

Figures in Rand	2023	2022

22. Rental of facilities and equipment (continued)

23. Fines, Penalties and Forfeits

Law Enforcement Fines	6 044	6 652
Overdue Books Fines	8 448	12 216
Municipal Traffic Fines	1 189 870	2 733 790
Disconnection Fees Penalties	204 386	196 192
Interest on availability charge	94 670	107 030
	1 503 418	**3 055 880**

24. Agency services

Vehicle Registration	2 156 185	1 732 100

The municipality entered into an agreement with the KwaZulu Natal Department of Transport, to collect process and collect driver licenses on behalf of the Department. The municipality act as an agent to this transaction in accordance with GRAP 109, Principal agent arrangements.

A fee of 8.55% of the revenue collected is payable to the Municipality by deducting the fee amount from the funds collected on a daily basis.

25. Licences and permits

Business licences	31 159	21 763
Road and Transport licences	1 920 627	2 061 079
	1 951 786	**2 082 842**

26. Licences and permits (non-exchange)

Road and Transport	36 101	1 875

27. Lease rentals on operating lease

Plant and equipment		
Contractual amounts	940 262	1 031 625
Lease rentals on operating lease - Weigh bridge		
Contractual amounts	632 288	604 745
Lease rentals on operating lease - Property rental		
Contractual amounts	227 059	244 308
	1 799 609	**1 880 678**

The municipality entered into a lease agreement with Track Scale to lease the weigh bridge for the disposal of waste. The commencement of the lease was 01 August 2021 and expires on 30 July 2024. An annual escalation applicable will be determined by the Consumer Price Index (CPI).

The municipality entered into a lease agreement with Konika Minolta to lease photocopying machines. The commencement of the lease was on the 01 May 2021 and expires on 30 April 2024. No escalation is applicable for the duration of the contract.

The municipality entered into a lease agreement with Transnet to lease property.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

27. Lease rentals on operating lease (continued)

Minimum lease due		
Within one year	1 358 662	1 448 011
In a second to fifth year	62 911	1 421 573
	1 421 573	**2 869 584**

28. Interest received - receivables from exchange transactions

Interest - Waste Management Receivables	490 632	618 078
Interest - Electricity Receivables	540 063	650 578
Interest - Sundry debtors	189 590	354 154
	1 220 285	**1 622 810**

29. Operational Revenue

Admin handling fees	19 728	444 654
Breakages and losses recovered	1 302	1 120
Building plans	365 662	1 225 199
Burial fees	181 163	190 401
Cleaning and removal	47 495	21 323
Rates clearance certificate	88 778	84 595
Municipal information and statistics	1 503	-
Skills development refunds	268 190	237 314
Photocopies, faxes and telephone charges	777 195	454 258
Town planning and servitudes	82 996	135 367
	1 834 012	**2 794 231**

30. Investment revenue

Interest revenue		
Interest received - Primary and Call accounts	391 788	437 942
Interest received - Investments	7 748 571	5 998 996
	8 140 359	**6 436 938**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

31. Property rates

Rates received

Residential	23 670 143	22 463 699
Commercial	15 188 965	14 431 994
State owned properties	17 085 982	16 303 517
Agriculture	5 341 512	5 202 813
Vacant land	4 854 160	4 744 948
Mining	1 218 269	1 162 457
Public service infrastructure	1 062 838	2 162 653
	68 421 869	66 472 081
Property rates - penalties imposed	3 035 721	2 534 701
	71 457 590	**69 006 782**

Valuation Roll Market Values

	R'000	R'000
Residential	3 265 997	3 214 606
Commercial	927 856	926 137
State	1 181 300	1 181 210
Agricultural	3 413 156	3 412 898
Municipal	189 771	188 621
Public Benefits	109 912	109 912
Vacant Land	304 266	307 841
Mining	75 985	75 985
Public Service Infrastructure	3 786 241	3 786 241
	13 254 484	**13 203 451**

Valuation Roll Randages

Residential	1.2343	1.1722
Industrial/Commercial/Business	1.5429	1.4652
Agricultural	0.3086	0.2930
Public Service Infrastructure	0.3086	0.2930
Vacant Land	2.4686	2.3444
Public Benefit Organisation	0.3086	0.2930
Mining	2.4686	2.3444
Organ of State	1.5429	1.4652

Valuations on land and buildings are performed every five years. The last general valuation came into effect on 1 July 2020.

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

Supplementary Valuation rolls have been received for 2022/2023 financial year.

Impermissible rebates are applied to residential properties valued less than or equal to R150 000 on market values.

Rates are levied on an annual basis with the final date for payment being Monday, 31 July 2023. Interest is raised on overdue accounts at prime plus % per annum in accordance with the National Credit Act. Interest charged 10.75%.

The new general valuation will be implemented on 01 July 2025.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

32. Transfer and subsidies

Other subsidies		
Fencing of Communal gardens SMME equipment and irrigation system	-	2 008 636
SPCA Grant- In-Aid	160 000	155 000
Tourism Grant-In-Aid	235 000	230 000
Households (Groceries,temporal shelters and food parcels)	4 172 898	4 353 781
Bursaries - non employees	134 500	203 581
Social welfare Grant-In-Aid	165 000	160 000
Museum Grant-In-Aid	200 000	396 570
	5 067 398	**7 507 568**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

33. Government grants & subsidies

	2023	2022
Operating grants		
Equitable share	226 654 000	206 125 000
Finance Management Grant (FMG)	1 720 000	1 720 000
Community Library Grant	5 471 000	5 211 000
Expanded Public Works Programme Grant (EPWP)	4 098 000	3 416 000
Integrated National Electrification Programme Grant (INEP)	651 790	4 149 008
Museum Grant	984 000	939 000
	239 578 790	**221 560 008**
Capital grants		
Municipal Infrastructure Grant (MIG)	45 827 000	42 551 000
	285 405 790	**264 111 008**

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 in accordance with the municipality's approved Indigent Policy.

Finance Management Grant (FMG)

	2023	2022
Current-year receipts	1 720 000	1 720 000
Conditions met - transferred to revenue	(1 720 000)	(1 720 000)
	-	-

Conditions met - transferred to revenue (see note 14).

This grant is utilised for Intern's salaries to advance the implementation of the MFMA, training of officials to meet the minimum competency requirements, and for Asset Management and Financial system enhancements and training. No funds have been withheld.

Municipal Infrastructure Grant (MIG)

	2023	2022
Current-year receipts	45 827 000	42 551 000
Conditions met - transferred to revenue	(45 827 000)	(42 551 000)
	-	-

Conditions met - transferred to revenue (see note 14).

The grant is utilised to construct roads, bridges, sportfields, community halls and streetlights as part of the upgrading of informal settlement areas. No funds were withheld.

Integrated National Electrification Programme Grant (INEP)

	2023	2022
Balance unspent at beginning of year	78 930	-
Current-year receipts	841 156	4 227 639
Conditions met - transferred to revenue	(841 156)	(4 148 709)
Withheld by treasury	(78 930)	-
	-	**78 930**

Conditions met - transferred to revenue (see note 14).

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

33. Government grants & subsidies (continued)

The municipality received a schedule 5B in a licensed area such as Sunnydale for the 2022-2023 financial year. The purpose of this grant is to provide capital subsidies to the municipality to address the electrification backlog.Funds unspent from the previous financial year were withheld by National Treasury through Equitable Share.

Expanded Public Works Programme Grant (EPWP)

Current-year receipts	4 098 000	3 416 000
Conditions met - transferred to revenue	(4 098 000)	(3 416 000)
	-	-

Conditions met - transferred to revenue (see note 14).

The Expanded Public Works Programme is a government programme aimed at the alleviation of poverty and unemployment. This programme ensures the full engagement on Labour Intensive Methods of Construction to workers for skills development. No funds have been withheld.

Community Library Grant

Current-year receipts	5 471 000	5 211 000
Conditions met - transferred to revenue	(5 471 000)	(5 211 000)
	-	-

Conditions met - transferred to revenue (see note 14).

The grant is utilised to subsidise expenditure and upgrading of libraries. No funds have been withheld.

Museum Grant

Current-year receipts	984 000	939 000
Conditions met - transferred to revenue	(984 000)	(939 000)
	-	-

Conditions met - transferred to revenue (see note 14).

The grant is utilised to subsidise expenditure incurred solely for the Museums. No funds have been withheld.

Title Deeds Registration Grant

Balance unspent at beginning of year	1 081 699	1 081 699

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

The grant is utilised to register title deeds for houses beneficiaries.No funds have been withheld.

Department of Human Settlement Grant

Balance unspent at beginning of year	116 208	116 208

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

The grant is for construction of rural housing scheme. No funds have been withheld.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

34. Employee related costs

Basic	107 044 878	103 039 039
Bonus	8 651 538	8 933 442
Medical aid - company contributions	8 400 569	7 805 460
Leave pay provision charge	4 869 917	4 157 980
Post-retirement medical aid	3 311 001	3 013 477
Overtime payments	10 509 381	11 002 991
Long-service awards	2 068 000	2 093 148
Car allowance	4 748 463	5 228 624
Housing benefits and allowances	1 334 948	1 685 654
Rental allowance	72 524	67 105
Group life insurance	1 827 436	1 753 399
Performance bonuses	530 526	867 916
Cellphone allowance	1 731 301	1 538 000
Pension and UIF Contributions	20 008 069	19 448 989
	175 108 551	**170 635 224**

Remuneration of Municipal Manager

Annual Remuneration	1 092 635	1 003 949
Car Allowance	186 000	180 000
Performance Bonuses	140 744	194 129
Contributions to UIF, Medical and Pension Funds	62 174	182 836
Group Life	6 692	20 079
Leave	150 097	-
	1 638 342	**1 580 993**

Remuneration of Chief Finance Officer

Annual Remuneration	405 041	342 873
Car Allowance	79 000	75 000
Performance Bonuses	-	158 685
Contributions to UIF, Medical and Pension Funds	9 224	25 064
Other	-	6 857
	493 265	**608 479**

Remuneration of Director Corporate Services

Annual Remuneration	1 159 036	1 011 565
Car Allowance	90 000	120 000
Performance Bonuses	161 065	158 685
Contributions to UIF, Medical and Pension Funds	2 125	2 125
Leave pay	301 481	-
	1 713 707	**1 292 375**

Remuneration of Director Engeneering Services

Annual Remuneration	804 666	957 815
Car Allowance	25 204	100 000
Performance Bonuses	80 533	136 016
Contributions to UIF, Medical and Pension Funds	25 318	2 125
Leave pay	73 750	73 750
Housing	889	-
	1 010 360	**1 269 706**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

34. Employee related costs (continued)

Remuneration of Director Community Services

Annual Remuneration	1 098 859	775 221
Car Allowance	75 000	180 000
Performance Bonuses	149 560	147 350
Contributions to UIF, Medical and Pension Funds	79 201	161 176
Leave pay	161 176	-
	1 563 796	**1 263 747**

Remuneration of Director Planning and Development Services

Annual Remuneration	498 061	737 135
Car Allowance	60 000	400 000
Performance Bonuses	-	158 685
Contributions to UIF, Medical and Pension Funds	44 598	1 948
Group Life	-	9 216
Housing allowance	-	356 800
	602 659	**1 663 784**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

35. Remuneration of councillors

Basic allowance	19 492 640	16 161 823
Travel allowance	1 312 873	1 734 376
Cellphone allowance	2 244 000	2 232 238
Data Allowance	-	196 186
Pension fund contribution	173 700	359 453
	23 223 213	**20 684 076**

Mayor	946 965	912 437
Deputy Mayor	762 449	726 091
Mayoral Committee Members	5 690 404	4 009 796
Speaker	766 451	723 633
Councillors	14 344 333	13 777 744
Chief Whip	712 611	534 721
	23 223 213	**20 684 422**

Remuneration of the Mayor

Basic allowance	632 328	590 579
Travel allowance	227 441	216 697
Cellphone allowance	40 800	42 048
Data allowance	-	3 600
Pension Fund contribution	46 396	59 513
	946 965	**912 437**

Remuneration of the Deputy Mayor

Basic allowance	540 337	550 139
Travel allowance	181 312	107 880
Cellphone allowance	40 800	47 106
Data allowance	-	3 600
Pension Fund contribution	-	17 367
	762 449	**726 092**

Remuneration of the Speaker

Basic allowance	543 338	486 968
Travel allowance	182 313	169 808
Cellphone allowance	40 800	40 800
Data allowance	-	3 600
Pension Fund contribution	-	22 457
	766 451	**723 633**

Remuneration of the Whip of Council

Basic allowance	437 902	318 960
Travel allowance	168 853	122 268
Cellphone allowance	40 800	42 048
Data allowance	-	3 600
Pension Fund allowance	65 056	47 844
	712 611	**534 720**

Remuneration of the Executive Committee

Basic Allowance	5 160 354	3 145 000
Travel allowance	168 853	427 250
Cellphone allowance	326 400	313 906
Data allowance	-	27 698

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

35. Remuneration of councillors (continued)

Pension Fund allowance	34 797	95 942
	5 690 404	**4 009 796**

Remuneration of ordinary Councillors

Basic allowance	12 178 382	11 070 177
Travel allowance	384 101	690 472
Cellphone allowance	1 754 400	1 746 330
Data allowance	-	154 088
Pension Fund allowance	27 450	116 331
	14 344 333	**13 777 398**

In-kind benefits

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

The Mayor has two full time bodyguards and use of a Council owned vehicle.

The Deputy Mayor has a use of Council owned vehicle.

The Speaker has has two full time bodyguards and use of a Council owned vehicle.

The Chief Whip has a use of Council owned vehicle.

36. Depreciation and amortisation

Property, plant and equipment	46 106 991	53 619 120
Intangible assets	32 774	127 001
	46 139 765	**53 746 121**

37. Impairment loss

Impairments

Property, plant and equipment	8 889 940	271 206

38. Finance costs

Current borrowings	276 858	319 443

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

39. Debt impairment

Debt impairment	5 136 165	3 782 775

Debt impairment for consumer debtors is R2 321 437 (2022:R 3 018 705)

Increase in provision from (2022:R232 048 323) to (2023:R226 678 621). An amount of R1 136 759 (2022:R561 109) bad debt was written off.

Debt impairment for Traffic fines is R2 814 728 , the provision increased from 30 June 2022: R171 569 849 to 30 June 2023:R174 384 577.

40. Operational costs

Advertising	5 045 214	2 867 665
Auditors remuneration	2 485 250	2 153 631
Bank charges	314 006	237 905
Cleaning	17 205	4 523
Commission paid	64 566	58 708
Communications	1 305 061	3 011 373
Entertainment	145 615	181 743
Hire charges	1 212 915	974 830
Insurance	2 908 097	2 325 190
IT expenses	11 924 408	8 744 174
Levies	1 577 920	1 493 107
Printing and stationery	788	1 700
Protective clothing	1 600 702	1 721 150
Performing Arts	4 086	3 101
Subscriptions and membership fees	31 943	41 377
Vehicle tracking	134 110	182 585
Transport	1 368 649	808 224
Training	1 816 030	1 220 744
Subsistence and Travel allowance	3 082 704	2 485 074
Loose Tools	149 139	113 373
Utilities	3 314 405	2 893 325
Archiving	169 110	87 996
Bargaining Council	2 009 511	1 926 601
Employee bursaries	417 192	731 491
Honoraria (voluntary workers)	714 418	500 450
Indigent relief	5 440 999	5 402 193
Ward committees	3 255 800	2 547 993
Road worthy tests	8 368	4 497
Sitting allowance for traditional leaders	2 000	4 000
Crematorium Atmospheric licence	-	200 080
Signange	29 600	83 900
Workman's Compensation Fund	1 208 784	1 290 573
	51 758 595	**44 303 276**

41. Bulk purchases

Electricity - Eskom	73 697 110	70 135 684

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

41. Bulk purchases (continued)

Electricity losses

	Units	Units		
Purchases	44 407 645	48 851 728	73 652 698	70 135 684
Sales	(36 505 031)	(39 963 480)	(60 545 747)	(57 374 961)
Total loss	**7 902 614**	**8 888 248**	**13 106 951**	**12 760 723**
Comprising of:				
Technical losses	2 441 819	2 687 486	4 049 901	3 858 382
Non-technical losses	5 460 795	6 200 762	9 057 050	8 902 341
Total	**7 902 614**	**8 888 248**	**13 106 951**	**12 760 723**
Percentage Loss:				
Technical losses	6 %	6 %	6 %	6 %
Non-technical losses	12 %	12 %	12 %	12 %
Total	**18 %**	**18 %**	**18 %**	**18 %**

42. Contracted services

	2023	2022
Outsourced Services		
Alien Vegetation Control	76 850	188 000
Animal Care	624 000	631 800
Burial Services	1 547 100	1 536 800
Business and Advisory	3 674 853	3 467 170
Clearing and Grass Cutting Services	3 288 486	3 113 096
Hygiene Services	-	182 080
Medical Services	65 760	54 250
Personnel and Labour	11 109 583	10 843 215
Connection/Dis-connection	10 954	1 000
Refuse Removal	6 296 031	6 477 464
Security Services	23 298 752	19 976 815
Traffic Fines Management	161 692	381 705
Consultants and Professional Services		
Business and Advisory	3 460 312	909 776
Infrastructure and Planning	2 314 060	892 042
Legal Cost	1 224 886	520 979
Contractors		
Artists and Performers	294 300	432 128
Catering Services	2 912 453	1 937 735
Graphic Designers	42 077	34 227
Maintenance of Buildings and Facilities	2 339 941	717 859
Maintenance of Equipment	778 858	711 257
Maintenance of Unspecified Assets	19 170 615	29 417 441
Pest Control and Fumigation	-	11 900
Prepaid Electricity Vendors	1 849 735	2 076 725
Stage and Sound Crew	631 640	484 779
Air Traffic and Navigation	811 487	581 640
	85 984 425	**85 581 883**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

43. Inventory consumed

Stationery and cleaning materials	11 072 261	8 381 188
Materials and supplies	5 142 577	5 262 681
	16 214 838	**13 643 869**

44. Cash generated from operations

Deficit	(17 928 049)	(18 975 025)
Adjustments for:		
Depreciation and amortisation	46 139 765	53 746 121
Gain/Loss on sale of assets and liabilities	(2 216 945)	41 950
Fair value adjustments	(678 000)	(4 210 000)
Actuarial gains (non-cash)	(3 973 592)	(1 174 000)
Impairment deficit	8 889 940	271 206
Debt impairment	5 136 165	3 782 775
Bad debts written off	1 136 759	561 109
Post-employment medical aid	2 511 569	2 296 477
Movements in bonus provision	(447 217)	30 626
Long service award	941 024	1 301 148
Changes in working capital:		
Inventories	640 983	847 143
Receivables from exchange transactions	(5 737 601)	(10 010 616)
Receivables from non-exchange transactions	(15 417 540)	(3 998 892)
Housing installments	-	-
Payables from exchange transactions	1 663 702	(7 303 159)
VAT	4 908 366	1 848 855
Unspent conditional grants and receipts	(78 930)	(443 821)
Consumer deposits	287 870	239 129
	25 778 269	**18 851 026**

45. Contruction contract

Advances received		
Intergrated National Electrification Programe (INEP)	3 630 095	6 597 361

Contruction contract		
Contract revenue	3 156 604	5 736 536
Contract costs	(3 156 604)	(5 736 536)
	-	-

The municipality received a schedule 5B grant to an un-licenced areas such as Ohabeni and Izinsundu electrification projects. The municipality is undertaking construction activities as a primary contrcactor on behalf of Department of Mineral Resources and Energy and ESKOM in areas where it does not have an approved license for the supply of electrity. The municipality has accounted for this transaction according to GRAP 11, Construction contract.

To measure reliably the work performed, the completion of a contract is determined by the proportion that contract costs incurred for work perfomed to date bear to the estimated total contract costs and the completion of a physical proportion of the contract work.

As at end of June 2023, there was no retention due for electrification projects.

As at end of 30 June 2023, there were no gross amount due from customers for work as an asset and the gross amount due to customers for work as a liability.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

45. Contruction contract (continued)

The municipality will transfer these projects to Eskom after completion as per the Memorandum of understanding signed between the Municipality and ESKOM.

46. Fair value adjustments

Investment property (Fair value model)	678 000	4 210 000

47. Gain/(loss) on disposal of assets

Gain/(loss) on disposal of property plant and equipment	2 216 945	(41 950)

48. Commitments

Authorised capital expenditure

Approved and contracted		
• Property, plant and equipment	31 431 522	19 110 330
This expenditure will be financed from:		
• Government grants	21 397 542	18 554 312
• Internally funded	10 033 980	556 018
	31 431 522	**19 110 330**
Total capital commitments		
Already contracted and approved	31 431 522	19 110 330

49. Operating lease as a lessor (Income)

Minimum lease payments due		
- within one year	979 592	1 048 828
- in second to fifth year inclusive	4 469 143	4 834 236
- later than five years	12 192 833	18 149 089
	17 641 568	**24 032 153**

Certain of the municipal's properties are held to generate rental income and provide services to the community to assist with local economic and social development. Lease agreements are cancellable by both parties.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

50. Contingencies

Contingent liabilities

The municipality is defending a case for property rates dispute on Erf 331c,at Mtunzini. The matter is. Case No. BU0001.	20 000	20 000
The municipality is defending a case arising from the termination of road construction contract at the King Dinizulu Surburb.	10 754 222	10 754 222
The municipality is defending a case arising from the termination Project Management Unit Services contract.	702 240	702 240
The municipality is defending a case arising from the breach of consulting contract for the Kwabulawayo Sport field.	1 002 251	1 002 251
The municipality is defending a case arising from labour practice on review of an arbitration award for reinstatement in the Labour Court. The matter is still pending at the Durban Labour Court, no prospect.	400 000	350 905
The municipality is defending a case arising from from damages caused to the plantiff's vehicles when it drove into a drain hole allegedly left open by the Municipality. The matter is dominis litis and the success of the matter is 50% in favor of the Council, in all reasonable probabilities. Case No. 590/2019	38 000	38 000
The municipality is defending a case arising from idamages to a motor vehicle caused by a vehicle driving over a pothole. The matter has been settled by both parties. Case No. AL:U009(2)/23:GCL	21 877	-
The municipality is defending a case arising from alleged unfair labour practice and unfair dismissal. Bargaining Council favoured with the employee to be reinstated. The municipality has since requested a legal advice on the prospect of the case. Currently there are no merit in reviewing the said award. Case No. KPD012222.	1 100 000	-
	14 038 590	**12 867 618**

Contingent assets

No contingent assets exist for the period ended 30 June 2023 (2022:R0).

51. Section 45 of Supply Chain Managements Regulations - Awards made to close family members of persons in the service of the State-

The municipality conducted business during the financial period with the below mentioned services providers of which the directors are closely related to a person employed in the service of the state.

Sgcumaza Mdu - An employee of the State	78 900	17 000
Olugaju Cleaning Services - An employee of the State	-	89 000
Zakanisto Entertainment - Associate employed at the municipality in tourism Section. The associate has no influence in terms of any awards in accordance with the post	29 400	14 000
ManTK IT Solution - Associate employed at the municipality in tourism Section. The associate has no influence in terms of any awards in accordance with the post	848 328	105 000
Mfanex - Associate employed at the municipality IDP Section. The associate has no influence in terms of any awards in accordance with the post.	31 230	3 000
N Muji - Associate is a councillor of the municipality.	-	43 411
Iyanqoba - Associate is a councillor of the municipality.	-	14 000
	987 858	**285 411**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

52. Related parties

Related party balances

Related party transactions

Key Management Personal and Councillors Remuneration.

Remuneration of Key Management Personal and Councillors is set out in Note 35 & 36 to the annual financial statements.

53. Change in estimate

Property, plant and equipment

The municipality has revised the remaining useful lives of assets which had reached the end of their useful lives based on the asset conditions in terms of GRAP 17 paragraph 56.

The effect of the revision has decreased a depreciation by R2 490 079.48

Depreciation	Depreciation per annum before	Depreciation per annum after	Change in depreciation per annum
Community assets	(645 176)	254 479	(390 697)
Computer equipment	(524 515)	198 124	(326 391)
Electricity infrastructure	(10 391)	574	(9 817)
Furniture and equipment	(389 267)	125 772	(263 495)
Intangible assets	(67 322)	32 774	(34 548)
Machinery and equipment	(201 390)	66 487	(134 903)
Roads infrastructure	(530 520)	98 516	(432 004)
Storm water infrastructure	(1 767)	413	(1 354)
Vehicles	(1 244 875)	348 006	(896 869)
	(3 615 223)	**1 125 145**	**(2 490 078)**

Debt impairment

The municipality has revised the debt impairment provision for consumer debtors both exchange and non exchange transactions.

The effect of the revision has decreased the provision by R6 760 695.

The effect of the change in provision for the debts are as follows:

Debt impairment provision	Impairment per annum before	Impairment per annum after	Change in impairment per annum
Property rates	(41 763 816)	39 126 141	(2 637 675)
Electricity	(8 213 796)	5 494 275	(2 719 521)
Refuse	(9 437 572)	8 133 311	(1 304 261)
Sundry debtors	(5 008 153)	4 908 915	(99 238)
	(64 423 337)	**57 662 642**	**(6 760 695)**

Notes to the Annual Financial Statements

54. Prior Period Adjustments

Statement of Financial Position

	Audited	Prior year adjustments	Reclassifying adjustments	Restated
Assets				
Current Assets				
Cash and cash equivalents	99 560 271	26 098	-	99 586 369
Receivables from exchange transactions	29 190 214	-	(1 323 301)	27 866 911
Inventories	3 456 353	-	-	3 456 353
Receivables from non-exchange transactions	18 494 249	-	1 323 301	19 817 550
Housing installments	7 645	-	-	7 645
	150 708 732	**26 098**	**-**	**150 734 828**
Non-Current Assets				
Investment property	38 140 000	(7 485 000)	-	30 655 000
Property, plant and equipment	850 674 715	(59 745 387)	-	790 929 328
Intangible assets	128 458	(857)	-	127 601
Heritage Assets	10 311 344	-	-	10 311 344
Investments	1 000	-	-	1 000
	899 255 517	**(67 231 244)**	**-**	**832 024 273**
Total Assets	**1 049 964 249**	**(67 205 146)**	**-**	**982 759 101**
Liabilities				
Current Liabilities				
Consumer deposits	3 429 478	-	(73 231)	3 356 247
Long term loans	342 816	-	-	342 816
Provisions	867 917	-	-	867 917
Payables from exchange transactions	53 147 647	(2 706 000)	73 231	50 514 878
Unspent conditional grants and receipts	1 276 837	-	-	1 276 837
VAT payable	98 360	860 525	-	958 885
Employee benefit obligation	1 875 000	-	-	1 875 000
	61 038 055	**(1 845 475)**	**-**	**59 192 580**
Non-Current Liabilities				
Long term loans	2 131 212	-	-	2 131 212
Employee benefit obligation	27 081 000	-	-	27 081 000
	29 212 212	**-**	**-**	**29 212 212**
Net Assets				
Reserves				
Housing development fund	5 212 302	(1 434 227)	-	3 778 075
Accumulated surplus	954 501 680	(63 925 451)	-	890 576 229
Total Net Assets	**959 713 982**	**(65 359 678)**	**-**	**894 354 304**

Notes to the Annual Financial Statements

54. Prior Period Adjustments (continued)

54.1. Cash and cash equivalents

Balance previously reported	99 560 271
Prior period adjustment	26 098
	99 586 369

Interest on investments was recognised incorrectly in the prior financial year.

54.2 Receivables from exchange transactions

Balance previously reported	29 190 214
Prior period adjustment	(1 323 301)
	27 866 913

The municipality reclassified the availability charge from exchange transactions to non exchange transactions as per GRAP 23. This is a reclassification adjustment.

54.3 Receivables from non-exchange transactions

Balance previously reported	18 494 249
Prior period adjustment	1 323 301
	19 817 550

The municipality reclassified the availability charge from exchange transactions to non exchange transactions as per GRAP 23. This is a classification adjustment.

54.4 Property, plant and equipment

Balance previously reported	850 674 715
Prior period adjustment	(59 745 387)
	790 929 318

The municipality made restatements on depreciation previously accounted after assets were disposed, adjustment on properties not owned by the municipality such as land previously accounted as investment properties..

The municipality erroneously accounted for construction costs as work in progress. GRAP 11, contract costs requires the expenditure to be expensed.

54.5 Intangible assets

Balance previously reported	128 458
Prior period adjustment	(857)
	127 601

Intangible assets were previously disclosed with the depreciation of assets previously disposed.

54.6 Investment property

Balance previously reported	38 140 000
Prior period adjustment	(7 485 000)
	30 655 000

Investment property previously incorrectly classified was reclassified to Property, Plant and Equipment, in accordance with GRAP 17.

Notes to the Annual Financial Statements

54. Prior Period Adjustments (continued)

54.7 Payables from exchange transactions

Balance previously reported	53 147 647
Prior year adjustment	(2 632 769)
	50 514 878

Prior period adjustments for the hall deposits incorrectly classified under consumer deposits, accounting for retention previously not accounted for and overtime/standby accrued.

54.8 Consumer deposits

Balance previously reported	3 429 478
Prior year adjustment	(73 231)
	3 356 247

Consumer deposits were previously incorrectly classified with the hall deposits. This is a reclassification adjustment.

54.9 VAT payable

Balance previously reported	98 360
Prior period adjustment	860 525
	958 885

Integrated National Electrification grant previously recognised with VAT. This is in accordance with the National Treasury guideline on INEP and GRAP 11.

54.10 Housing development fund

Balance previously reported	5 212 302
Prior period adjustment	(1 434 227)
	3 778 075

A restatement was made to account for the movement between the fund and accummulated surplus.

54.11 Accumulated surplus

Balance previously reported	954 501 680
Prior period adjustment	(63 925 451)
	890 576 229

Adjustments were made to the restatement of cash and cash equivalents, trade payables, PPE, Investment, Intangible assets and receivables from exchange and non - exchange transactions.

Notes to the Annual Financial Statements

54. Prior Period Adjustments (continued)

Statement of Financial Performance

	Audited	Prior year adjustments	Reclassifying adjustments	Restated
Revenue				
Revenue from exchange transactions				
Service charges	93 532 573	(1 247 843)	-	92 284 730
Rental of facilities and equipment	1 558 996	-	-	1 558 996
Interest received - receivable from exchange transactions	1 729 840	(107 030)	-	1 622 810
Agency services	1 732 100	-	-	1 732 100
Licences and permits	2 082 842	-	-	2 082 842
Interest received - External investments	8 140 359	-	-	8 140 359
Investment revenue	6 436 938	-	-	6 436 938
Operational income	6 768 379	-	(3 974 148)	2 794 231
Actuarial gains	-	-	1 174 000	1 174 000
Gain on fair value adjustment	4 210 000	-	-	4 210 000
Increase in inventory net realisable value	-	-	-	-
Revenue from non-exchange transactions				
Taxation revenue				
Property rates	66 472 081	-	-	66 472 081
Property rates - penalties and interest	2 534 701	-	-	2 534 701
Transfer revenue				
Government grants & subsidies	270 708 070	(6 597 062)	-	264 111 008
Public contributions and donations	-	-	2 800 148	2 800 148
Fines, Penalties and Forfeits	2 948 850	107 030	-	3 055 880
Availability charge	-	1 247 843	-	1 247 843
Total revenue from non-exchange transactions	**342 665 577**	**(5 242 189)**	**-**	**340 223 536**
Expenditure				
Employee related costs	(170 635 224)	-	-	(170 635 224)
Remuneration of councillors	(20 684 422)	-	-	(20 684 422)
Depreciation and amortisation	(53 987 423)	241 302	-	(53 746 121)
Impairment of cash and non-cash generating assets	(271 206)	-	-	(271 206)
Finance costs	(319 443)	-	-	(319 443)
Debt impairment	(3 782 775)	-	-	(3 782 775)
Lease rentals on operating lease	(2 061 522)	-	180 844	(1 880 678)
Bulk purchases	(70 135 684)	-	-	(70 135 684)
Contracted services	(85 581 883)	-	-	(85 581 883)
Transfers and subsidies	(7 507 568)	-	-	(7 507 568)
Inventory consumed	(13 643 869)	-	-	(13 643 869)
Operational expenditure	(44 122 433)	-	(180 844)	(44 303 276)
Loss on disposal of assets	(29 505)	(12 445)	-	(41 950)
Bad debts written off	(561 109)	-	-	(561 109)
Total expenditure	**(473 324 066)**	**228 857**	**-**	**(473 095 208)**
Deficit for the year	**(12 606 820)**	**-**		**(18 975 025)**

Notes to the Annual Financial Statements

54. Prior Period Adjustments (continued)

54.12 Service charges

Balance previously reported	93 532 573
Prior period adjustment	(1 247 843)
	92 284 730

Prior period billing relating to the availability charge for electricity was classified under exchange transactions instead of non exchange transactions in the prior year, and has been restated.

54.13 Interest received - receivables

Balance previously reported	1 729 840
Prior period adjustment	(107 030)
	1 622 810

Interest earned on receivables for availability charges were reclassified in accordance with the nature of the originating debt, being non exchange transaction.

54.14 Operational revenue

Balance previously reported	6 768 379
Prior period adjustment	(3 974 148)
	2 794 231

Actuarial gains and donations were disclosed under Operational revenue to ensure improved presentation to the users of the financial statements and alignment to the mSCOA reporting formats.

54.15 Actuarial gains

Prior period adjustment	1 174 000

In accordance with National Treasury guideline issued on disclosure of the actuarial gains resulting from employee benefits, this was reclassified from operational revenue..

54.16 Availability charges

Prior period adjustment	1 247 843

Availability charges previously reported under exchange transactions. This is a reclassification adjustment.

54.17 Government grants & subsidies

Balance previously reported	270 708 070
Prior period adjustment	(860 526)
	269 847 544

VAT on Integrated National Electrification Programme Grant was previously recognised to revenue. This is in accordance with National Treasury Guideline and GRAP 11.

Notes to the Annual Financial Statements

54. Prior Period Adjustments (continued)

54.18 Public contribution and donations

	-
Prior period adjustment	2 800 148
	2 800 148

Public contributions and donations were reclassified under non exchange transactions as previously classified under operational revenue under revenue from exchange transactions. This is a reclassification adjustment.

54.19 Fines, Penalties and Forfeits

Balance previously reported	2 948 850
Prior period adjustment	107 030
	3 055 880

Interest charged on availability charges were reported under exchange transactions. This is a reclassification adjustment.

54.20 Depreciation and amortisation

Balance previously reported	(53 987 432)
Prior period adjustment	241 302
	(53 746 130)

Depreciation adjustments relates to the prior period adjustments made to the asset register for the year under review.
.

54.21 Contracted services

Balance previously reported	85 581 883
Prior period adjustment	5 736 536
	91 318 419

Contracted services were restated to account for Integrated National Electrification projects as per the National Treasury guideline and GRAP 11.

54.22 Lease rentals on operating leases

Balance previously reported	2 061 522
Prior period adjusment	(180 844)
	1 880 678

Operational costs on operating leases were previously classified as part of operating leases. Operational costs have been reclassified to enable better presentation to the users of the financial statements, and to report based on the nature of the expenditure accordingly.

54.23 Loss on disposal of assets

Balance previously reported	(29 505)
Prior period adjustment	(12 445)
	(41 950)

Operational costs on operating leases were previously classified as part of operating leases. Operational costs have been reclassified to enable better presentation to the users of the financial statements, and to report based on the nature of the expenditure accordingly.

Notes to the Annual Financial Statements

54. Prior Period Adjustments (continued)

54.24 Operational expenditure

Balance previously reported	44 122 433
Prior period adjustment	180 844
	-
	44 303 277

Restatement of operational expenditure was corrected due to errors in duplication of transactions identied.

55. Risk management

Financial risk management

Due to the largely non trading nature of the activities and the way in which they are financed, the municipalities are not exposed to the degree of financial risk faced by business entities.

The Municipality's finance functions monitors and manages the financial risks relating to the operations of the municipality. These risks include credit risk,liquidity risk,risk market relating to interest risk.

Liquidity risk

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. Cash flow forecasts are prepared and monitored on a regular basis.

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

Borrowings	342 816	342 816
Trade and other payables	52 178 580	50 514 878
	52 521 396	**50 857 694**

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Except as detailed below, the carrying amount of financial assets recorded in the annual financial statements, which is net of impairment losses, represents the municipality's maximum exposure to credit without taking account of the value of any collateral obtained.

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

Financial instrument	2023	2022
Cash and cash equivalents	73 653 622	99 586 369
Trade and other receivables	32 104 184	27 866 911

Market risk

Interest rate risk

The municipality's interest rate risk arises from long-term borrowings does not affect the municipality as the interest is fixed.

Cash and cash equivalents	73 653 622	99 586 369

Notes to the Annual Financial Statements

55. Risk management (continued)

Price risk

Due to a legislation restrictions, the municipality does not trade these investments.

56. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus (deficit) of 872 418 432 and that the municipality's total liabilities exceed its assets by 876 426 254.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the sound financial management will remain in force for so long as it takes to maintain the solvency of the municipality.

Based on the above, the annual financial statements have been prepared on a going concern as sufficient measures are in place to curb the impact of the economic changes.

Repayments of long-term debt
The municipality has not defaulted in meeting its obligations to repay its long-term debt, and currently has the same one existing loan.

Grant funding in terms of DoRA
Capital projects as well as operational expenditure are partially funded through gazetted transfers to the Municipality to ensure continued operations in terms of the budgeted expenditure for the 2023/2024 financial year.

Revenue Enhancement Strategy
The municipality is in a process of developing and implanting a Revenue Enhancement Strategy to ensure all monies that are due is collected. It must be noted that the municipality has opened opportunities for consumers to enter into debt payment arrangements with the municipality to improve revenue collection. Further more the municipality is continuing with the implementation of Credit Control and Legal action to reduce the outstanding debt. The municipality has also adequately budgeted for the provision for bad debts in the 2023/2024 financial year.

Payment of Creditors within thirty (30) days
The municipality has not defaulted in making creditors payments timeously, except where there are delays in receiving the necessary documents to process payments and delays are experienced with service providers who are not adhering to disclosing the correct required information on invoices submitted.

Payment of Bulk Services
The municipality has not defaulted in paying Eskom for bulk service supplied. All payments are made before the due date.

Investments and Positive Bank Balance - The municipality has maintained a positive bank balance for a number of years, and surplus funds are invested or transferred to a call account to maximise interest revenue.

Cash Flow Monitoring
The municipality prepares monthly cash flow report to monitor the cash resources in terms of revenue collection and payments. These reports are reported to Council to monitor the cash flow of the Municipality.

Transactions and events after reporting
Transactions after year end on the general ledger were considered and no negative implications were identified that could change the going concern assumption. No events were identified that could change the going concern.

The municipality's budget for the 2023/2024 financial year indicates a surplus in terms of cash backed reserves, and budgeted cash flows. Furthermore Provincial Treasury has confirmed that the municipality's 2023/2024 budget is funded.

The current ration of the Municipality is 1:1.7 which shows that the Municipality can be able to honour its obligations.

% of unspent Grants Funded is 100%

Debts to total Assets ration is 0.09 or 10%. This reflects a strong results in terms of all debts covered by total assets, thus Municipality is Solvent.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

56. Going concern (continued)
Cash and Cash equivalent
The municipality's cash and cash equivalent is sitting at R 73 653 622 as at 30 June 2023.

Taking the above into account, there were no factors identified that would cast significant's doubt on the Municipality's ability to continue as a going concern. Therefore, the Annual Financial Statements were on a going concern basis.

57. Events after the reporting date

Nature of the event: Councillors remuneration

A notice of Determination of Upper Limits of Salaries, Allowances and Benefits of different members of the municipal Council Gazette was published on the 18th of August 2023 and takes effect as from 01 July 2022. The notice sets up the upper limits of councillor remunerations and allowances. The municipality received a letter from the Chief Executive Officer: SALGA Provincial approving 3.8% of the councillors upper limits on the 21 August 2023 after the end of the reporting date: 30 June 2023 but before the submission of the annual financial statements: 31 August 2023.

Estimate of financial effect is R1 124 388.84

Nature of the event: Litigation

The municipality has been sued by Lawrence Brian Polkinghorn for the damages that he suffered allegedly by colliding with a pothole that is allegedly to be found at the road belonging to the municipality. The damages claimed were to the total amount of R21 876.93, however upon the negotiations with the applicant. On the 23 August 2023, the municipality managed to enter into a settlement agreement of R10 938.46 which was paid on the 25 August 2023 which was after the reporting date:30 June 2023 but before the submission of the annual financial statements:31 August 2023.

58. Unauthorised expenditure

	2023	2022
Opening balance as previously reported	25 543 808	-
Add: Unauthorised expenditure - current	13 193 765	25 543 808
Less: Amount authorised/Approved/Written off by Council	(25 543 808)	-
Closing balance	**13 193 765**	**25 543 808**

2021/2022 Incidents

The municipality incurred an amount of R3 754 660 for depreciation and impairment. this is due to revision on assets useful lives and condition assessment of the assets.This has been referred for investigation in accordance with Section 32 of MFMA. An amount of R3 754 660 has been written off by the Council as irrecoverable and the nature is a non cash transaction.

The municipality incurred an amount of R3 782 775 for debt impairment on consumers and traffic fines. This is due to the inability of the consumers to pay for the June taxes/services rendered by the municipality. Result in increase of debt impairment. This has been referred for investigation in accordance with Section 32 of MFMA. An amount of R3 782 775 has been written off by the Council as irrecoverable and the nature is a non cash item.

The municipality incurred an amount of R18 006 373 from different line items being bulk purchases,contracted services,employee related costs, transfers and subsidies and other material. This is due to over spending from the budgeted amount. This has been referred for investigation in accordance with Section 32 of MFMA. An amount of R18 006 373 has been written off by the Council as irrecoverable after following of Section 32 of the MFMA.

2022/2023 Incidents

The municipality incur R13 193 765 unauthorised expenditure during 2022/2023 financial year.This is a result of non cash items being depreciation, impairmet and contribution of employee benefit obligation being higher that anticipated.The municpality is following Section 32 of the MFMA for the expenditure incurred.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

58. Unauthorised expenditure (continued)

Analysed as follows: non-cash

Employee related cost	755 087	-
Depreciation and amortisation	3 511 979	3 754 660
Provision of impairment	7 789 940	3 782 775
Bad debts written off	1 136 759	-
	13 193 765	**7 537 435**

Analysed as follows: cash

Bulk purchases	-	4 935 674
Contracted services	-	4 888 069
Other material	-	808 071
Employee related costs	-	7 348 501
Transfers and subsidies	-	26 058
	-	**18 006 373**

59. Fruitless and wasteful expenditure

Opening balance as previously reported	1 610	1 275
Add: Fruitless and wasteful expenditure identified - current	-	28 835
Less: Amount written off - prior period	(1 610)	(28 500)
Closing balance	**-**	**1 610**

2020/2021 Incidents

The municipality incurred an amount of R1 275 in respect of traffic fines handling fees for avis hired car and hotel consumables.This has been referred for investigation in accordance with Section 32 of MFMA. An amount of R1 275 has been written off by the Council as irrecoverable

2021/2022 Incidents

The municipality incurred an amount of R28 835 in respect of catering for an event that was cancelled.This has been referred for investigation in accordance with Section 32 of MFMA. An amount of R28 835 has been written off by the Council as irrecoverable. A balance of R1 610 has been referred for investigation and written off as irrecoverable by the Council after following Section 32 of the MFMA.

2022/2023 Incidents

The municipality did not incur any fruitless and wasteful expenditure as at 30 June 2023.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

60. Irregular expenditure

Opening balance as previously reported	6 482 810	4 554 633
Add: Irregular expenditure - current	4 382 640	2 559 881
Add: Irregular expenditure - prior period	3 743 488	12 225 853
Less: Amount written off - current	(4 382 640)	(12 225 853)
Less: Amount written off - prior period	(10 226 298)	(631 704)
Closing balance	**-**	**6 482 810**

60. Irregular expenditure (continued)

2020/2021 and prior year incidents

The municipality incurred an amount of R311 298.45 for the provision of fleets management system. The contract was extended in accordance with Section 116 of the MFMA for the period beyond a year. This has been referred for investigation in accordance with Section 32 of the MFMA. An amount of R311 298.45 has been written off by Council as irrecoverable.This irregular expenditure has been identified during 2022/2023 financial year.

The municipality incurred an amount of R2 265 144 for the provision of animal pound services. The contract was extended in accordance with Section 116 of the MFMA for the period beyond a year. This has been referred for investigation in accordance with Section 32 of the MFMA. An amount of R2 265 144 has been written of by Council as irrecoverable.This irregular expenditure has been identified during 2022/2023 financial year.

2021/2022 Incidents

The municipality incurred an amount of R209 972.23 for the provision of fleets management system. The contract was extended in accordance with Section 116 of the MFMA for the period beyond a year. This has been referred for investigation in accordance with Section 32 of the MFMA. An amount of R209 972.23 has been written off by Council as irrecoverable. This irregular expenditure has been identified during 2022/2023 financial year.

The municipality incurred an amount of R655 200 for the provision of animal pound services. The contract was extended in accordance with Section 116 of the MFMA for the period beyond a year. This has been referred for investigation in accordance with Section 32 of the MFMA. An amount of R655 200 has been written of by Council as irrecoverable.This irregular expenditure has been identified during 2022/2023 financial year.

The municipality incurred an amount of R1 613 844.53 for the provision of performance management system services. The contract was extended in accordance with Section 116 of the MFMA for the period beyond a year. This has been referred for investigation in accordance with section 32 of the MFMA. An amount of R has been written of by Council as irrecoverable.

The municipality incurred an amount of R4 868 963.82 for the provision of prepaid vending system services. The contract was extended in accordance with Section 116 of the MFMA for the period beyond a year. This has been referred for investigation in accordance with Section 32 of the MFMA. An amount of R has been written of by Council as irrecoverable.

2022/2023 Incidents

The municipality paid an amount of R837 568.37 for the provision of security services to a service provider whose tax matters were not in order. This has been referred for investigation in accordance with section 32 of the MFMA. An amount of R837 568.37 has been written off by Council as irrecoverable.

The municipality incurred an amount of R2 131 305.78 for the provision of prepaid vending system services. The contract was extended in accordance with section 116 of the MFMA for the period beyond a year. This has been referred for investigation in accordance with Section 32 of the MFMA. An amount of R2 131 305.78 has been written of by Council as irrecoverable. This expenditure was identified in the previous year.

The municipality incurred an amount of R774 613.55 for the provision of performance management system services. The contract was extended in accordance with Section 116 of the MFMA for the period beyond a year. This has been referred for investigation in accordance with Section 32 of the MFMA. An amount of R has been written of by Council as irrecoverable. An amount of R774 613.55 has been written off by Council as irrecoverable. This expenditure was identified in the previous year.

The municipality incurred an amount of R154 226.14 for the provision of fleets management system. The contract was extended in accordance with Section 116 of the MFMA for the period beyond a year. This has been referred for investigation in accordance with Section 32 of the MFMA. An amount of R154 226.14 has been written off by Council as irrecoverable. This irregular expenditure has been identified during 2022/2023 financial year.

The municipality incurred an amount of R478 400 for the provision of animal pound services. The contract was extended in accordance with Section 116 of the MFMA for the period beyond a year. This has been referred for investigation in accordance with Section 32 of the MFMA. An amount of R478 400 has been written of by Council as irrecoverable.This irregular expenditure has been identified during 2022/2023 financial year.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

60. Irregular expenditure (continued)

The municipality incurred an amount of R22 400 for the provision of medical services. The The panel members provided a medical certificate that was not under the company name. This has been referred for investigation in accordance with Section 32 of the MFMA. An amount of R22 400 has been written of by Council as irrecoverable.

The municipality incurred an amount of R285 999 in respect of procurement relating to Mayoral program. Goods that should have been procured through tender process as per the municipal policy was procured through quotation system. This has been referred for investigation in accordance with Section 32 of the MFMA. An amount of R285 999 has been written of by Council as irrecoverable.

61. In-kind donations and assistance

Donations received	252 448	2 800 148

The municipality received donations and assistance in a form of a school uniform from different donors during the year , amount to R72 300.

The municipality received computers and a generator for municipal library from the Department of Art and Culture amount to R180 148 (2022:R2 800 148).

62. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 952 389	1 548 271
Amount paid - current year	(1 952 389)	(1 548 271)
	-	-

Audit fees

Current year subscription / fee	2 485 250	2 153 631
Amount paid - current year	(2 485 250)	(2 153 631)
	-	-

PAYE,UIF and SDL

Current year subscription / fee	29 312 894	25 008 509
Amount paid - current year	(29 312 894)	(25 008 509)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	42 093 516	40 093 263
Amount paid - current year	(42 093 516)	(40 093 263)
	-	-

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

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

Councillors' arrear consumer accounts

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

30 June 2023	Outstanding more than 90 days	Total
Cllr. BE Qwabe	1 317	1 317
Cllr. NF Mthabela	2 280	2 280
	3 597	**3 597**

30 June 2022	Outstanding more than 90 days	Total
Cllr. BE Qwabe	201	201

63. Deviation from supply chain management regulations

In terms of regulations 36 of the Municipal Supply Chain Management Regulations any deviations from the Supply Chain Management Policy needs to be approved by the Municipal Manager and noted by Council.

Impractical to follow SCM processes	3 024 591	1 520 845
Emergency	1 816 300	8 907 732
Sole supplier	-	66 334
	4 840 891	**10 494 911**

64. Segment information

General information

Identification of segments

The municipality is organised and reports to management on the basis of three major functional areas: primary, secondary and tertiary educational services. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. 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 Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout were sufficiently similar to warrant aggregation.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

64. 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
Segment 1	Cemeteries
Segment 2	Electricity
Segment 3	Housing
Segment 4	Road and Storm water
Segment 5	Refuse Removal

Notes to the Annual Financial Statements

Figures in Rand

64. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2023

	Cemeteries	Electricity	Housing	Roads and Storm Water	Refuse Removal	Total
Revenue						
Revenue from non-exchange transactions	1 888 830	21 076 017	3 464 892	63 637 735	10 296 080	100 363 554
Revenue from exchange transactions	181 163	79 682 514	93 882	-	14 916 843	94 874 402
Total segment revenue	**2 069 993**	**100 758 531**	**3 558 774**	**63 637 735**	**25 212 923**	**195 237 956**
Unreconciled - Revenue from non-exchange transactions						259 536 072
Unreconciled - Revenue from exchange transactions revenue						21 729 437
Unallocated - Other revenue						3 156 604
Total revenue reconciling items						**284 422 113**
Entity's revenue						**479 660 069**
Expenditure						
Employee related cost	519 626	8 789 214	3 108 228	14 211 475	10 972 853	37 601 396
Contracted services	1 547 100	5 925 571	372 372	18 279 266	9 996 843	36 121 152
Bulk purchases	-	73 697 109	-	-	-	73 697 109
Depreciation	-	2 205 564	-	27 141 017	-	29 346 581
Finance charges	-	-	-	276 858	-	276 858
Inventory consumed	-	2 192 226	-	3 203 038	2 953 223	8 348 487
Operational expenditure	3 267	7 948 847	78 174	526 081	1 290 004	9 846 373
Total segment expenditure	**2 069 993**	**100 758 531**	**3 558 774**	**63 637 735**	**25 212 923**	**195 237 956**
Total segmental surplus/(deficit)	**-**	**-**	**-**	**-**	**-**	**-**

Notes to the Annual Financial Statements

Figures in Rand

	Cemeteries	Electricity	Housing	Roads and Storm Water	Refuse Removal	Total
64. Segment information (continued)						
Unreconciled - Employee related costs						137 507 155
Unreconciled - Remuneration of Councillors						23 223 213
Unreconciled - Contracted services						53 019 877
Unreconciled - Depreciation						16 793 184
Unreconciled - Debt impairment						6 236 165
Unreconciled - Transfers nd subsidies						5 067 398
Unreconciled - Inventory consumed						7 864 639
Unreconciled - Operational expenditure						52 638 530
Entity's surplus (deficit) for the period						**(17 928 049)**
Assets						
Segment assets acquisitions	4 697 226	1 855 141	-	24 761 515	1 042 696	32 356 578
Unreconciled - Assets acquisitions						21 633 650
Total assets as per Statement of financial Position						**53 990 228**

Notes to the Annual Financial Statements

Figures in Rand

64. Segment information (continued)

Significant reconciling differences

A reconciling item of R262 692 676 in respect of revenue from non-exchange transactions is as mainly attributable to revenue from rates and other revenue of a similar nature that can not be allocated to a specific reportable segment.

A reconciling item of R21 691 187 in respect of revenue from exchange transactions is as a result of transaction like interest from external investments and fair value adjustment and similar transactions which are not linked with specific reportable segment.

An amount of R137 507 155 reflected as employee related cost represent remuneration for all employees that are not associated with any of the reportable segment like employee in finance department and corporate services department and executive department being support departments.

An amount of R53 019 877 reconciling item for contracted services is mainly attributable to contracts like securities and other similar contracts that are not directly linked with any of the reportable segment.

An amount of R16 793 184 for depreciation could not be allocated to any reportable segment as it relates to assets that are used for administrative purposes and other assets that are used as support in running of the municipality.

An amount of R23 223 213 for remuneration of councillors cannot be allocated to any reportable segment as councillors are playing an oversight role in the running of the municipality as a whole and are not linked with a specific reportable segment.

A reconciling item of R52 638 530 is in respect of municipal running costs for mainly administration purposes like advertising expenses, audit fees, councillors communications and other related expenses which are not directly linked with any of the reportable segment.

2022

	Cemeteries	Electricity	Housing	Roads and Storm water	Refuse removal	Total
Revenue						
Revenue from non-exchange transactions	2 220 363	28 225 389	1 710 368	87 153 267	14 198 908	133 508 295
Revenue from exchange transactions	190 401	79 393 852	597 903	-	14 160 132	94 342 288
Total segment revenue	**2 410 764**	**107 619 241**	**2 308 271**	**87 153 267**	**28 359 040**	**227 850 583**

Notes to the Annual Financial Statements

64. Segment information (continued)

Unreconciled - Revenue from non-exchange transactions						206 715 241
Unreconciled - Revenue from exchange transactions						19 554 359
Unallocated - Other revenue						5 736 536
Total revenue reconciling items						**232 006 136**
Entity's revenue						**459 856 719**
Expenditure						
Employee related costs	667 020	8 315 162	1 980 982	14 747 474	11 154 479	36 865 117
Contracted services	1 536 800	2 759 117	250 069	28 971 792	13 518 635	47 036 413
Bulk purchases	-	70 135 684	-	-	-	70 135 684
Depreciation	-	-	-	40 083 776	-	40 083 776
Finance charges	-	-	-	319 443	-	319 443
Inventory consumed	-	1 747 329	-	2 538 995	2 469 784	6 756 108
Operational costs	206 944	8 164 143	77 220	491 787	1 216 142	10 156 236
Total segment expenditure	**2 410 764**	**91 121 435**	**2 308 271**	**87 153 267**	**28 359 040**	**211 352 777**
	-	-	-	-	-	-
Unreconciled - Employee related costs						133 770 107
Unreconciled - Remuneration of Councillors						20 684 423
Unreconciled - Contracted services						44 282 006
Unreconciled - Debt impairment						4 343 884
Unreconciled - Depreciation						13 662 345
Unreconciled - Transfers and subsidies						7 507 568
Unreconciled - Inventory consumed						6 887 760
Unreconciled - Operational costs						36 340 874
Entity's surplus (deficit) for the period						**(18 975 025)**
Assets						
Segment assets acquisitions	383 000	4 369 878	-	38 331 769	689 920	43 774 567
Unreconciled - Assets requisitions						21 711 285
Total assets as per Statement of financial Position						**65 485 852**

64. Segment information (continued)

Information about geographical areas

The table below indicates the relevant geographical information after eliminating inter segmental transfers:

2023

	External revenues from non-exchange transactions	External revenues from exchange transactions	Total expenditure	Non-current assets*
Urban areas	68 241 868	94 550 219	162 838 135	66 335 524
Rural areas	-	-	-	109 432 550
The whole of municipality	294 814 362	22 015 370	334 749 983	794 929 621
Total	**363 056 230**	**116 565 589**	**497 588 118**	**970 697 695**

2022

	External revenues from non-exchange transactions	External revenues from exchange transactions	Total expenditure	Non-current assets*
Urban Areas	66 472 081	93 532 573	161 454 103	67 159 776
Rural Areas	-	-	-	110 792 305
The whole of municipality	279 487 991	20 364 074	317 377 641	804 807 019
Total	**345 960 072**	**113 896 647**	**478 831 744**	**982 759 100**

65. Accounting by principals and agents

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

Notes to the Annual Financial Statements

65. Accounting by principals and agents (continued)

Details of the arrangement(s) is|are as follows:Details of the arrangement(s) is|are as follows:

Housing Development Project

The municipality is a party to a principal-agent arrangement in terms the Housing Development Projects. The municipality is considered to be an agent in accordance with GRAP 109, with the Provincial Department of Human Settlements being the principal in this arrangement.

Details of arrangement is as follows;

The purpose of the arrangement is to construct low-cost houses for the identified beneficiaries. The funding is provided by the Provincial Department of Human Settlements.

Significant terms and conditions of the arrangement are as follows;

The municipality is responsible to manage and procure the implementation of the project.

Design the product in consultation with all stakeholders.

Investigate building systems and designs that are acceptable with the community, the municipality and the Department.

Construct the project in accordance with the drawings and specifications within the period of the agreement.

Significant risks have been identified as follows;

Delays in land acquisitions, and funding approval.

Social unrest, Inadequate funding to meet the requirements, and environmental risks.

Mitigation strategy and benefits associated with the relationship are as follows;

Negotiating with land owners prior to the construction.

Ensuring compliance with the agreements to ensure speedy release of the funding.

Constant communication with the community and ensuring public participation.

Be pro-active in the feasibility study to be aware of the environmental per-conditions.

Entity as agent

Revenue recognised

The municipality does not receive compensation for the transactions carried out on behalf of the principal, in terms of the arrangement, and no revenue has been recognised in the current and prior financial year.

The municipality did not receive funds in addition to the unspent opening balance of R 116 208. The remaining funds to be spent at end of the financial year is R116 208. See note 15 .

Liabilities and corresponding rights of reimbursement recognised as assets

No liabilities have been incurred on behalf of the Department of Human Settlement and have been recognised by the municipality.

Fee paid