



uMlalazi Local Municipality  
(Registration number KZN 284)  
Annual Financial Statements  
for the year ended 30 June 2024

# uMlalazi Local Municipality

(Registration number KZN 284)

Annual Financial Statements for the year ended 30 June 2024

## General Information

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### 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 Dlodla  
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 Ntanzu  
Member of Executive Committee - Cllr. SA Makhathini  
Member of Executive Committee - Cllr. K Khumalo  
Member of Executive Committee - Cllr. MMM Ntuli  
Member of Executive Committee - Cllr. SD Khubisa  
Chairperson of the Municipal Public Account Committee - Cllr. SB Larkan  
Cllr. AN Sibiyi  
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 Gasu  
Cllr. VM Xulu  
Cllr. MG Mzimela  
Cllr. BC Magwaza  
Cllr. B Nombekela  
Cllr. TH Biyela  
Cllr. NM Vilakazi  
Cllr. IQ Ngema  
Cllr. MS Xulu  
Cllr. Z Mpungose  
Cllr. EF Shange  
Cllr. NG Qwabe  
Cllr. BL Zungu

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## General Information

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	Cllr. MM Khanyile Cllr. ME Dlamini Cllr. GZ Ncanana Cllr. PTO Shange Cllr. TP Khoza Cllr. TL Ntanzi Cllr. B Khanyile Cllr. MF Mdluli Cllr. XB Mpungose Cllr. NN Cele Cllr. AA Khanyile Cllr. KR Khumalo
<b>Grading of local authority</b>	Grade 3
<b>Chief Finance Officer (CFO)</b>	NP Mgobhozi
<b>Accounting Officer</b>	NN Shandu
<b>Registered office</b>	Hutchinson Street Eshowe 3815
<b>Business address</b>	Hutchinson Street Eshowe 3815
<b>Postal address</b>	P O Box 37 Eshowe 3815
<b>Bankers</b>	First National Bank, Nedbank, Standard Bank, Investec Bank and ABSA Bank.
<b>Auditors</b>	Auditor-General South Africa
<b>Preparer</b>	The annual financial statements were internally compiled by: Divisional Manager Budget and Financial Reporting and reviewed by Chief Financial Officer and Internal Audit Unit.

# uMlalazi Local Municipality

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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
MDRG	Municipal Disaster Response Grant
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
MFMG	Municipal Finance Management Grant
INEP	Integrated National Electrification Programme
MIG	Municipal Infrastructure Grant

# uMlalazi Local Municipality

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## Report of the Accounting Officer

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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 2025 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 Bearers 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 2024 and were signed on its behalf by:

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**Accounting Officer**  
**NN Shandu**

**Saturday, 31 August 2024**

# uMlalazi Local Municipality

(Registration number KZN 284)

Annual Financial Statements for the year ended 30 June 2024

## Statement of Financial Position as at 30 June 2024

Figures in Rand	Note(s)	2024	2023 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	73 957 994	69 620 718
Inventories	4	3 315 422	2 815 269
Receivables from exchange transactions	5	43 059 718	34 987 871
Receivables from non-exchange transactions	7	35 451 958	30 908 127
Statutory receivables - VAT receivable	6	4 240 136	4 443 539
		<b>160 025 228</b>	<b>142 775 524</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	8	831 234 082	796 924 339
Investment property	9	32 478 000	31 333 000
Intangible assets	10	73 250	94 828
Heritage Assets	11	10 311 344	10 311 344
Investments	12	500	500
Receivables from exchange transactions	5	1 640 005	-
		<b>875 737 181</b>	<b>838 664 011</b>
<b>Total Assets</b>		<b>1 035 762 409</b>	<b>981 439 535</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	13	67 581 199	58 833 428
Consumer deposits	14	3 811 255	3 644 117
Unspent conditional grants and receipts	15	8 443 896	1 197 907
Employee benefits obligation	16	2 429 938	2 142 000
Provisions	17	1 066 508	866 541
Long term loans	18	2 305 137	407 335
		<b>85 637 933</b>	<b>67 091 328</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	16	27 076 649	26 293 000
Long term loans	18	27 335 407	1 713 261
		<b>54 412 056</b>	<b>28 006 261</b>
<b>Total Liabilities</b>		<b>140 049 989</b>	<b>95 097 589</b>
<b>Net Assets</b>		<b>895 712 420</b>	<b>886 341 946</b>
<b>Reserves</b>			
Housing operating account	19	4 323 868	4 007 822
Accumulated surplus	20	891 388 552	882 334 123
<b>Total Net Assets</b>		<b>895 712 420</b>	<b>886 341 945</b>

\* See Note 56

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Annual Financial Statements for the year ended 30 June 2024

## Statement of Financial Performance

Figures in Rand	Note(s)	2024	2023 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	21	107 269 076	93 233 640
Rental of facilities and equipment	22	1 424 831	1 199 035
Interest received - receivable from exchange transactions	29	2 933 963	1 220 285
Agency services	24	2 601 720	2 156 185
Licences and permits	25	2 283 512	1 951 786
Operational revenue	31	3 425 991	1 897 852
Interest earned - external investments	32	10 111 987	8 140 359
Gain on disposal of assets		59 789	2 216 945
Actuarial gains	30	2 103 674	3 973 592
Fair value adjustments	48	1 145 000	678 000
<b>Total revenue from exchange transactions</b>		<b>133 359 543</b>	<b>116 667 679</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	33	71 880 509	68 421 869
Property rates - penalties imposed	33	5 113 910	3 035 721
Licences and permits	26	18 016	36 101
Availability charge - electricity	27	1 470 528	1 316 579
Availability charge - interest on electricity		241 241	94 670
<b>Transfer revenue</b>			
Government grants & subsidies	35	316 969 011	285 405 790
Public contributions and donations		-	180 148
Fines, penalties and forfeits	23	2 952 157	1 408 748
<b>Total revenue from non-exchange transactions</b>		<b>398 645 372</b>	<b>359 899 626</b>
<b>Construction contract revenue: INEP</b>			
Construction contract revenue	47	-	3 156 604
<b>Total revenue</b>		<b>532 004 915</b>	<b>479 723 909</b>
<b>Expenditure</b>			
Employee related costs	36	186 745 738	175 108 551
Remuneration of councillors	37	25 158 075	23 223 213
Depreciation and amortisation	38	48 904 756	47 081 111
Impairment loss	39	5 728 289	8 513 818
Finance costs	40	3 146 984	276 858
Lease rentals on operating lease	28	1 966 989	1 767 321
Debt Impairment	41	9 918 654	5 136 165
Bad debts written off		-	1 136 759
Construction contract expenditure		-	3 156 604
Bulk purchases	43	89 665 933	73 697 110
Contracted services	44	81 201 396	85 984 425
Transfers and Subsidies	34	8 160 333	5 067 398
Inventory Consumed	45	16 928 172	16 213 128
Operational costs	42	45 110 224	51 177 874
<b>Total expenditure</b>		<b>522 635 543</b>	<b>497 540 335</b>
<b>Surplus (deficit) for the year</b>		<b>9 369 372</b>	<b>(17 816 426)</b>

\* See Note 56

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## Statement of Changes in Net Assets

Figures in Rand	Housing Operating Fund	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	3 778 075	890 575 929	894 354 004
Adjustments			
Correction of errors 56	-	9 804 366	9 804 366
<b>Balance at 01 July 2022 as restated*</b>	<b>3 778 075</b>	<b>900 380 296</b>	<b>904 158 371</b>
Changes in net assets			
Interest earned	229 747	(229 747)	-
Net income (losses) recognised directly in net assets	229 747	(229 747)	-
Deficit for the year	-	(17 816 426)	(17 816 426)
Total recognised income and expenses for the year	229 747	(18 046 173)	(17 816 426)
Total changes	229 747	(18 046 173)	(17 816 426)
<b>Restated* Balance at 01 July 2023</b>	<b>4 007 822</b>	<b>882 334 123</b>	<b>886 341 945</b>
Changes in net assets			
Surplus for the year	-	9 369 372	9 369 372
Interest earned	314 943	(314 943)	-
Impairment reversal	1 102	-	1 102
Total changes	316 045	9 054 429	9 370 474
<b>Balance at 30 June 2024</b>	<b>4 323 868</b>	<b>891 388 552</b>	<b>895 712 420</b>
Note(s)	19		

\* See Note 56

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## Cash Flow Statement

Figures in Rand	Note(s)	2024	2023 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property Rates		48 282 586	52 750 959
Sale of goods and services		99 257 627	90 272 616
Government grants		316 251 870	289 079 818
Interest income		13 045 949	8 140 359
		<u>476 838 032</u>	<u>440 243 752</u>
<b>Payments</b>			
Employee cost		(209 016 490)	(190 116 308)
Suppliers		(190 839 410)	(223 037 524)
Finance costs		(3 146 984)	(276 858)
Transfers and grants		(8 156 360)	(5 067 398)
		<u>(411 159 244)</u>	<u>(418 498 088)</u>
<b>Net cash flows from operating activities</b>	46	<b><u>65 678 788</u></b>	<b><u>21 745 664</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(90 025 277)	(53 990 528)
Proceeds from sale of property, plant and equipment	8	1 163 817	2 625 000
Movement in housing rental		-	7 645
		<u>(88 861 460)</u>	<u>(51 357 883)</u>
<b>Cash flows from financing activities</b>			
(Repayment of)/ Proceeds from long term loans		27 519 948	(353 432)
		498 241	(62 000)
		<u>28 018 189</u>	<u>(415 432)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>4 835 517</b>	<b>(30 027 651)</b>
Cash and cash equivalents at the beginning of the year		69 620 718	99 586 369
<b>Cash and cash equivalents at the end of the year</b>	3	<b><u>74 456 235</u></b>	<b><u>69 558 718</u></b>

\* See Note 56

# uMlalazi Local Municipality

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## 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
<b>2024</b>											
<b>Financial Performance</b>											
Property rates	74 460 520	741 090	75 201 610	-		75 201 610	71 880 509		(3 321 101)	96 %	97 %
Service charges	107 989 610	218 790	108 208 400	-		108 208 400	107 269 076		(939 324)	99 %	99 %
Interest earned - external investments	7 817 190	230 000	8 047 190	-		8 047 190	10 111 987		2 064 797	126 %	129 %
Transfers recognised - operational	255 963 750	785 700	256 749 450	-		256 749 450	257 393 011		643 561	100 %	101 %
Other own revenue	26 248 240	3 585 320	29 833 560	-		29 833 560	25 774 330		(4 059 230)	86 %	98 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>472 479 310</b>	<b>5 560 900</b>	<b>478 040 210</b>	-		<b>478 040 210</b>	<b>472 428 913</b>		<b>(5 611 297)</b>	<b>99 %</b>	<b>100 %</b>
Employee costs	(186 227 850)	(1 519 800)	(187 747 650)	-	-	(187 747 650)	(186 745 738)	-	1 001 912	99 %	100 %
Remuneration of councillors	(23 929 730)	(1 270 750)	(25 200 480)	-	-	(25 200 480)	(25 158 075)	-	42 405	100 %	105 %
Depreciation and asset impairment	(53 629 710)	(2 520 000)	(56 149 710)			(56 149 710)	(48 904 757)	-	7 244 953	87 %	91 %
Finance charges	(3 755 830)	605 830	(3 150 000)	-	-	(3 150 000)	(3 146 984)	-	3 016	100 %	84 %
Bulk purchases	(87 414 150)	(2 300 000)	(89 714 150)	-	-	(89 714 150)	(89 665 933)	-	48 217	100 %	103 %
Transfers and grants	(7 672 840)	(721 920)	(8 394 760)	-	-	(8 394 760)	(8 160 333)	-	234 427	97 %	106 %
Other expenditure	(158 432 860)	(2 640 170)	(161 073 030)	-	-	(161 073 030)	(160 853 721)	-	219 309	100 %	102 %
<b>Total expenditure</b>	<b>(521 062 970)</b>	<b>(10 366 810)</b>	<b>(531 429 780)</b>	-	-	<b>(531 429 780)</b>	<b>(522 635 541)</b>	-	<b>8 794 239</b>	<b>98 %</b>	<b>100 %</b>
<b>Surplus/(Deficit)</b>	<b>(48 583 660)</b>	<b>(4 805 910)</b>	<b>(53 389 570)</b>	-		<b>(53 389 570)</b>	<b>(50 206 628)</b>		<b>3 182 942</b>	<b>94 %</b>	<b>103 %</b>

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## 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	66 136 250	3 050 700	69 186 950	-		69 186 950	59 576 000		(9 610 950)	86 %	90 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>17 552 590</b>	<b>(1 755 210)</b>	<b>15 797 380</b>	<b>-</b>		<b>15 797 380</b>	<b>9 369 372</b>		<b>(6 428 008)</b>	<b>59 %</b>	<b>53 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>17 552 590</b>	<b>(1 755 210)</b>	<b>15 797 380</b>	<b>-</b>		<b>15 797 380</b>	<b>9 369 372</b>		<b>(6 428 008)</b>	<b>59 %</b>	<b>53 %</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	110 174 690	3 996 220	114 170 910	-		114 170 910	89 274 061		(24 896 849)	78 %	81 %
<b>Sources of capital funds</b>											
Transfers recognised - capital	66 136 250	3 050 700	69 186 950	-		69 186 950	52 935 993		(16 250 957)	77 %	80 %
Borrowing	30 000 000	-	30 000 000	-		30 000 000	23 403 138		(6 596 862)	78 %	78 %
Internally generated funds	14 038 440	945 520	14 983 960	-		14 983 960	12 934 930		(2 049 030)	86 %	92 %
<b>Total sources of capital funds</b>	<b>110 174 690</b>	<b>3 996 220</b>	<b>114 170 910</b>	<b>-</b>		<b>114 170 910</b>	<b>89 274 061</b>		<b>(24 896 849)</b>	<b>78 %</b>	<b>81 %</b>
<b>Financial position</b>											
Total current assets	130 685 000	725 000	131 410 000	-		131 410 000	160 025 228		28 615 228	122 %	122 %
Total non current assets	980 381 000	(86 065 000)	894 316 000	-		894 316 000	875 737 181		(18 578 819)	98 %	89 %
Total current liabilities	(61 750 000)	(5 042 000)	(66 792 000)	-		(66 792 000)	(85 637 933)		(18 845 933)	128 %	139 %
Total non current liabilities	(61 087 000)	(584 000)	(61 671 000)	-		(61 671 000)	(54 412 056)		7 258 944	88 %	89 %
Community wealth/Equity	988 229 000	(90 966 000)	897 263 000	-		897 263 000	895 712 420		(1 550 580)	100 %	91 %

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## 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
<b>Cash flows</b>											
Net cash from (used) operating	56 844 000	(5 723 000)	51 121 000	-		51 121 000	65 678 788		14 557 788	128 %	116 %
Net cash from (used) investing	(106 155 000)	13 368 000	(92 787 000)	-		(92 787 000)	(88 861 461)		3 925 539	96 %	84 %
Net cash from (used) financing	30 000 000	-	30 000 000	-		30 000 000	27 519 948		(2 480 052)	92 %	92 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(19 311 000)</b>	<b>7 645 000</b>	<b>(11 666 000)</b>	<b>-</b>		<b>(11 666 000)</b>	<b>4 337 275</b>		<b>16 003 275</b>	<b>(37)%</b>	<b>(22)%</b>
Cash and cash equivalents at the beginning of the year	83 780 000	(10 126 000)	73 654 000	-		73 654 000	69 620 718		(4 033 282)	95 %	83 %
<b>Cash and cash equivalents at year end</b>	<b>64 469 000</b>	<b>(2 481 000)</b>	<b>61 988 000</b>	<b>-</b>		<b>61 988 000</b>	<b>73 957 993</b>		<b>(11 969 993)</b>	<b>119 %</b>	<b>115 %</b>

## **uMlalazi Local Municipality**

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### **Statement of budget and actuals**

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**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 decrease emanates from the review of useful lifes base on the condition assessment which adjusted the estimate downwards..

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Accounting Policies

Figures in Rand	Note(s)	2024	2023
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### 1. Significant accounting 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.

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Accounting Policies

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### 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 16.

#### 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.

# uMlalazi Local Municipality

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## Accounting Policies

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### 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.

# **uMlalazi Local Municipality**

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## **Accounting Policies**

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### **1.5 Significant judgments and sources of estimation uncertainty (continued)**

#### **Accounting by principals and agent**

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## Accounting Policies

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### 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 67.

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Annual Financial Statements for the year ended 30 June 2024

## Accounting Policies

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### 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

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## Accounting Policies

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### 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.

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## Accounting Policies

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### 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 8).

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.

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## Accounting Policies

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### 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:

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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.

# uMlalazi Local Municipality

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## Accounting Policies

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### 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 8).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 8).

### 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:

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## Accounting Policies

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### 1.8 Intangible assets (continued)

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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 10).

### 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 11).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

### 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.

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## Accounting Policies

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### 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.

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### 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.

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### 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:

<b>Class</b>	<b>Category</b>
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:

<b>Class</b>	<b>Category</b>
Borrowings	Financial liability measured at amortised cost
Payable from exchange transactions	Financial liability measured at amortised cost

### 1.11 Statutory receivables

#### Identification

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### 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:

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### 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.

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### 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 formula is used for all inventories having a similar nature and use to the municipality.

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

### 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.

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### 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.

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### 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.

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### 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.

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### 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.

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### 1.16 Impairment of non-cash-generating assets (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 oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

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### 1.16 Impairment of non-cash-generating assets (continued)

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Reversal of an impairment loss

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

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

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

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

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

#### 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.

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### 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.

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### 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.

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### 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.

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### 1.17 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

The 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.

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### 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.

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### 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.

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.

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## Accounting Policies

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### 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 52.

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.

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## **Accounting Policies**

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### **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.

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### 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.

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## **Accounting Policies**

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### **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.

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## Accounting Policies

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### 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.

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### 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 it is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

#### Recognition

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

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

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Accounting Policies

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### 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);

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(Registration number KZN 284)

Annual Financial Statements for the year ended 30 June 2024

## Accounting Policies

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### 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 2023/07/01 to 2024/06/30.

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.

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Accounting Policies

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### 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.

# **uMlalazi Local Municipality**

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Annual Financial Statements for the year ended 30 June 2024

## **Accounting Policies**

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### **1.35 Material expenditure line items**

#### **Transfers and Subsidies**

Transfers and subsidies refer to donations from the municipality in the provision of municipal services such as museum, tourism, households, bursaries in a form of grants in and support in cases of disaster events. Transfers and subsidies are recognised in the period in which the services are rendered.

#### **Contracted Services**

Contracted services refer to services provided by external entities or individuals that are engaged to perform specific tasks or functions on behalf of a municipality.

Contracted services are measured at the actual cost incurred. This includes direct payments to contractors and any directly attributable costs associated with the provision of contracted services.

Contracted services are recognised as expenses in the period in which the services are rendered.

#### **Operational expenditure**

Operational costs refer to the ongoing expenses incurred by a municipality in the daily functioning of its services and programs. This relates to the provision of goods and services to the municipality, rather than performing specific tasks or functions on behalf of the municipality.

#### **Bulk purchases**

Bulk purchases refer to electricity purchased from Eskom as well as alternative service providers. It is measured at the actual cost incurred and are recognised as expenses in the period in which the services are rendered.

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

Figures in Rand

2024

2023

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

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

##### **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.

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 is 01 April 2023.

The municipality has adopted the revisions for the first time in the 2023/2024 financial year.

The impact of the revisions is not material.

##### **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.

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

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 has adopted the revisions for the first time in the 2023/2024 financial year.

The impact of the revisions is not material.

#### **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 is 01 April 2023.

The municipality has adopted the interpretation for the first time in the 2023/2024 financial year.

The impact of the interpretation is not material.

### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality’s accounting periods beginning on or after 01 July 2024 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.

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

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 104 (as revised): Financial Instruments

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 impact of this standard is currently being assessed.

#### GRAP 1 (amended): Presentation of Financial Statements

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

Summary of amendments are:

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### 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.

### 2.3 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 2024 or later periods but are not relevant to its operations:

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## Notes to the Annual Financial Statements

Figures in Rand	2024	2023
<b>3. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Cash on hand	15 940	15 940
Bank balances	8 607 729	6 487 401
Short-term investment	65 334 325	63 117 377
	<b>73 957 994</b>	<b>69 620 718</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	30 June 2024	30 June 2023	30 June 2024	30 June 2023
Standard Bank - Call Account - 068872208 - 001	879 414	816 805	879 414	816 805
Standard Bank - Fixed Deposit- 068872208 - 002	2 096 017	1 926 308	2 096 017	1 926 308
Standard Bank - Call Account - 068872208 - 004	24 578 493	31 225 847	24 578 493	31 225 847
Standard Bank - Call Account - 068872208 - 005	5 720 314	11 681 871	5 720 314	11 681 871
Standard Bank - Call Account - 068872208 - 008	1 700 487	2 122 784	1 700 487	2 122 784
Standard Bank - Call Account - 068872208 - 009	-	553 413	-	553 413
First National Bank - Cheque Account - 52191090523	8 356 855	18 593 209	8 594 924	6 420 499
First National Bank - Cheque Account - 62094589036	10 718	1 936	10 718	1 936
First National Bank - Cheque Account - 62071691309	2 087	64 966	2 086	64 966
First National Bank - Fixed Deposit - 74238125451	311 995	311 995	311 995	311 995
First National Bank - Call Account - 62120320081	4 808 771	84 626	4 808 771	84 626
First National Bank - Call Account - 62151319186	939 342	1 725 311	939 342	1 725 311
First National Bank - Call Account - 62124937246	217 032	201 457	217 032	201 457
First National Bank - Call Account - 62378736593	4 388 427	4 073 484	4 388 427	4 073 484
First National Bank - Call Account - 62024283038	338 715	314 406	338 715	314 406
First National Bank - Call Account - 62239675260	245 071	70 856	245 071	70 856
Investec Bank - Call Account - 1100511779500	52 182	48 052	52 182	48 052
Investec Bank - Call Account - 1100511779504	1 333 151	1 230 190	1 333 151	1 230 190
Nedbank - Call Account - 037165024212	1 713	1 580	1 713	1 580
Nedbank - Call Account - 037165024182	4 505 937	4 157 633	4 505 937	4 157 633
Nedbank - Call Account - 037165024204	2 786 123	2 570 759	2 786 123	2 570 759
ABSA - Call Account - 9386989371	10 431 141	-	10 431 141	-
<b>Total</b>	<b>73 703 985</b>	<b>81 777 488</b>	<b>73 942 053</b>	<b>69 604 778</b>

### 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	34 974 723	48 327 027
First National Bank	11 249 355	6 782 135
Investec Bank	1 385 333	1 278 242
Nedbank	7 293 773	6 729 972
ABSA Bank	10 431 141	-
	<b>65 334 325</b>	<b>63 117 376</b>

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 R238 069 is attributable to reconciling difference mainly cashier receipts that were captured in June 2024 on cashbook but only reflected on bank in July 2024.

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

Figures in Rand	2024	2023
<b>4. Inventories</b>		
Materials and supplies	1 881 671	1 583 740
Consumables stores	1 433 751	1 231 529
	<b>3 315 422</b>	<b>2 815 269</b>
<b>5. Receivables from exchange transactions</b>		
<b>Gross balances</b>		
Electricity	28 428 374	19 903 627
Refuse	18 424 806	15 800 761
Housing rental	-	1 204
Sundry debtors	16 119 247	13 484 943
Input Vat accrual	1 756 330	1 369 480
	<b>64 728 757</b>	<b>50 560 015</b>
<b>Less: Allowance for impairment</b>		
Electricity	(2 617 350)	(2 528 814)
Refuse	(12 741 792)	(8 133 312)
Housing rental	-	(1 103)
Sundry debtors	(6 309 897)	(4 908 915)
	<b>(21 669 039)</b>	<b>(15 572 144)</b>
<b>Net balance</b>		
Electricity	25 811 024	17 374 813
Refuse	5 683 014	7 667 449
Housing rental	-	101
Sundry debtors	9 809 350	8 576 028
Input Vat accrual	1 756 330	1 369 480
	<b>43 059 718</b>	<b>34 987 871</b>
<b>Electricity</b>		
Current (0 -30 days)	7 754 339	4 790 273
31 - 60 days	1 353 085	1 194 549
61 - 90 days	1 276 657	963 776
91 - 120 days	1 241 000	763 573
121 - 365 days	5 901 183	3 326 172
> 365 days	10 902 110	8 865 284
	<b>28 428 374</b>	<b>19 903 627</b>
<b>Refuse</b>		
Current (0 -30 days)	1 853 130	1 248 488
31 - 60 days	540 950	643 574
61 - 90 days	470 628	476 604
91 - 120 days	410 615	411 094
121 - 365 days	2 515 919	2 281 932
> 365 days	12 633 564	10 739 069
	<b>18 424 806</b>	<b>15 800 761</b>
<b>Housing Rental</b>		
> 365 days	-	1 204

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

Figures in Rand	2024	2023
<b>5. Receivables from exchange transactions (continued)</b>		
<b>Sundry Debtors</b>		
Current (0 -30 days)	552 011	2 034 703
31 - 60 days	176 125	15 618
61 - 90 days	215 793	12 628
91 - 120 days	8 877	152 818
121 - 365 days	365 757	296 193
> 365 days	14 800 684	10 972 983
	<b>16 119 247</b>	<b>13 484 943</b>

### Summary of debtors by customer classification

Residential	24 716 619	17 929 362
Commercial and Industrial	20 759 900	15 557 312
Organs of State	12 029 624	7 402 196
Other debtors	7 222 614	9 671 145
	<b>64 728 757</b>	<b>50 560 015</b>

### Reconciliation of allowance for impairment

Balance at beginning of the year	(15 572 144)	(14 529 405)
Contributions to allowance	(6 096 895)	(1 042 739)
	<b>(21 669 039)</b>	<b>(15 572 144)</b>

Included in other debtors are employee bursaries, payments made in advance and input vat accrual .

### Non-Current Assets

Prepayments - non-current portion	1 640 005	-
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### 6. Statutory receivable - VAT receivable

VAT	4 240 136	4 443 539
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2023/2024 VAT 201's were submitted to SARS up until 30 June 2024. VAT is claimed on payment basis.

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

### Transaction (s) arising from the statute

VAT is levied in terms of Value Added Tax Act 89 of 1991.

### Determination of transaction amount

15% of the Vatable/Taxable supply.

### Statutory receivables impaired

Carrying amount of the receivable amount disclosed is not impaired.

# uMlalazi Local Municipality

(Registration number KZN 284)

Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

Figures in Rand	2024	2023
<b>7. Receivables from non exchange transactions</b>		
<b>Gross balances</b>		
Consumer debtors - Rates	69 578 173	61 355 446
Consumer debtors - Availability charge - electricity	4 956 940	4 378 259
Consumer debtors - Fines	182 188 304	181 650 601
	<b>256 723 417</b>	<b>247 384 306</b>
<b>Less: Allowance for impairment</b>		
Consumer debtors - Rates	(39 719 427)	(39 126 141)
Consumer debtors - Availability charge - electricity	(4 283 825)	(2 965 461)
Consumer debtors - Fines	(177 268 207)	(174 384 577)
	<b>(221 271 459)</b>	<b>(216 476 179)</b>
<b>Net balance</b>		
Consumer debtors - Rates	29 858 746	22 229 305
Consumer debtors - Availability charge - electricity	673 115	1 412 798
Consumer debtors - Fines	4 920 097	7 266 024
	<b>35 451 958</b>	<b>30 908 127</b>
<b>Summary of ageing of debtors (Property rates)</b>		
Current (0 -30 days)	4 473 250	2 366 991
31 - 60 days	1 255 080	1 611 481
61 - 90 days	1 110 647	1 190 809
91 - 120 days	1 039 855	1 041 736
121 - 365 days	21 595 510	20 156 741
> 365 days	40 103 831	34 987 688
	<b>69 578 173</b>	<b>61 355 446</b>
<b>Summary of property rates consumer classification</b>		
Residential	28 068 601	27 247 010
Commercial	3 473 590	2 928 840
Organ of State	18 386 271	19 766 267
Other	19 649 711	11 413 329
	<b>69 578 173</b>	<b>61 355 446</b>
<b>Summary of ageing of debtors (Availability charge - electricity)</b>		
Current (0 -30 days)	237 968	120 513
31 - 60 days	98 419	95 371
61 - 90 days	92 051	87 415
91 - 120 days	93 014	83 523
121 - 365 days	610 943	81 001
> 365 days	3 824 545	3 910 436
	<b>4 956 940</b>	<b>4 378 259</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	(216 476 179)	(212 149 216)
Contributions to allowance	(4 795 280)	(4 326 963)
	<b>(221 271 459)</b>	<b>(216 476 179)</b>

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## Notes to the Annual Financial Statements

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### 7. 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 12.75% 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 7 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 2024, 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 2024, 45 737 780 (2023: 23 229 590) were past due but not impaired.

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

1 month past due

197 083

176 842

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## Notes to the Annual Financial Statements

Figures in Rand	2024	2023
<b>7. Receivables from non exchange transactions (continued)</b>		
2 months past due	84 862	54 467
3 months past due	45 455 835	22 998 281

### Statutory receivables impaired

#### Traffic fines

As of 30 June 2024, Traffic fines of 182 188 304 (2023: 181 650 601) were impaired and provided for.

The amount of the provision was 177 268 207 as of 30 June 2024 (2023: 174 384 577).

The net balance is R4 920 097 (2023: R7 266 025).

#### Property rates

As of 30 June 2024, Property rates of R69 578 173 (2023: R61 355 446) were impaired and provided for.

The amount of the provision was R39 719 427 (2023: R39 126 141).

The net balance is R29 858 746 (2023: R22 229 305).

## uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

### Notes to the Annual Financial Statements

Figures in Rand

#### 8. Property, plant and equipment

	2024			2023		
	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	(14 048 300)	6 778 865	20 827 165	(13 447 593)	7 379 572
Plant and machinery	14 821 426	(8 910 769)	5 910 657	15 659 530	(8 640 120)	7 019 410
Furniture and fixtures	8 224 193	(6 317 539)	1 906 654	8 014 499	(6 208 283)	1 806 216
Motor vehicles	65 603 582	(33 242 137)	32 361 445	45 629 823	(30 192 836)	15 436 987
IT equipment	17 956 723	(13 423 810)	4 532 913	18 816 380	(12 834 314)	5 982 066
Community	417 389 473	(193 925 338)	223 464 135	394 776 721	(177 230 999)	217 545 722
Infrastructure: Storm water	121 498 907	(74 961 182)	46 537 725	108 503 683	(74 380 750)	34 122 933
Infrastructure: Roads	623 905 424	(300 508 011)	323 397 413	596 091 030	(277 848 071)	318 242 959
Infrastructure: Electricity	80 875 301	(45 251 377)	35 623 924	81 701 465	(43 033 342)	38 668 123
<b>Total</b>	<b>1 521 822 545</b>	<b>(690 588 463)</b>	<b>831 234 082</b>	<b>1 440 740 647</b>	<b>(643 816 308)</b>	<b>796 924 339</b>

## uMlalazi Local Municipality

(Registration number KZN 284)

Annual Financial Statements for the year ended 30 June 2024

### Notes to the Annual Financial Statements

Figures in Rand

#### 8. Property, plant and equipment (continued)

##### Reconciliation of property, plant and equipment - 2024

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Impairment reversal	Total
Land	150 720 351	-	-	-	-	-	150 720 351
Buildings	7 379 572	-	-	(600 707)	-	-	6 778 865
Plant and machinery	7 019 410	440 765	(8 905)	(1 570 514)	(102 842)	132 743	5 910 657
Furniture and fixtures	1 806 216	482 171	(4 742)	(364 239)	(17 924)	5 172	1 906 654
Motor vehicles	15 436 987	23 490 093	(546 705)	(5 966 893)	(52 037)	-	32 361 445
IT equipment	5 982 066	380 612	(52 898)	(1 655 851)	(172 581)	51 565	4 532 913
Community Infrastructure: Storm water	217 545 722	23 768 157	(104 914)	(10 486 267)	(7 618 560)	359 997	223 464 135
Infrastructure: Roads	34 122 933	13 194 249	-	(2 604 113)	(434 843)	2 259 499	46 537 725
Infrastructure: Electricity	318 242 959	28 074 732	(30 888)	(22 528 904)	(414 834)	54 348	323 397 413
	38 668 123	194 498	(354 976)	(3 105 691)	(310 894)	532 864	35 623 924
	<b>796 924 339</b>	<b>90 025 277</b>	<b>(1 104 028)</b>	<b>(48 883 179)</b>	<b>(9 124 515)</b>	<b>3 396 188</b>	<b>831 234 082</b>

##### 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	18 800 020	615 838	-	(3 945 259)	(33 612)	15 436 987
IT equipment	7 381 320	1 345 453	(25 204)	(2 363 295)	(356 208)	5 982 066
Community Infrastructure: Storm water	210 549 301	21 675 131	(125 145)	(11 075 326)	(3 478 239)	217 545 722
Infrastructure: Roads	34 549 228	5 271 368	-	(2 758 339)	(2 939 324)	34 122 933
Infrastructure: Electricity	319 556 853	20 053 290	-	(21 092 593)	(274 591)	318 242 959
	41 756 778	1 015 142	-	(3 113 803)	(989 994)	38 668 123
	<b>798 904 020</b>	<b>53 990 528</b>	<b>(408 055)</b>	<b>(47 048 337)</b>	<b>(8 513 817)</b>	<b>796 924 339</b>

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

Figures in Rand 2024 2023

### 8. Property, plant and equipment (continued)

#### Leased Assets

The municipality has no finance leased assets included in the Property, plant and equipment in the 2023/2024 financial year.

#### Donations

Computer Equipment	-	70 248
Machinery and equipment	-	109 900
	<b>-</b>	<b>180 148</b>

The municipality did not receive any capital donations during the current financial year as at 30 June 2024.

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.

#### Reconciliation of Work-in-Progress 2024

	Included within Infrastructure	Included within Community	Total
Opening balance	33 776 015	39 963 759	73 739 774
Additions/capital expenditure	41 268 980	23 768 158	65 037 138
Transferred to completed items	(40 858 110)	(9 087 360)	(49 945 470)
	<b>34 186 885</b>	<b>54 644 557</b>	<b>88 831 442</b>

#### Reconciliation of Work-in-Progress 2023

	Included within Infrastructure	Included within Community	Total
Opening balance	20 699 234	20 842 540	41 541 774
Additions/capital expenditure	26 056 186	21 120 771	47 176 957
Transferred to completed items	(12 979 405)	(1 999 552)	(14 978 957)
	<b>33 776 015</b>	<b>39 963 759</b>	<b>73 739 774</b>

# uMlalazi Local Municipality

(Registration number KZN 284)

Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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Figures in Rand	2024	2023
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### 8. 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

Labour cost (amount paid to employees)	25 993 958	25 903 150
Contracted services (amount paid to suppliers)	8 127 541	5 389 057
Materials	5 779 296	5 350 201
Fuel and Oil	1 964 719	1 910 522
	<b>41 865 514</b>	<b>38 552 930</b>

Amount paid to employees R25 993 958 (2023: R25 903 150), is included in the Employee related cost (Note 36) in the Statement of Financial Performance.

Amount paid to suppliers R8 127 541 (2023: R5 389 057), is included in the contracted services (Note 44) in the Statement of Financial Performance.

Materials amounting to R5 779 296 (2023: R5 350 201), is included in the inventory consumed (note 45) in the Statement of Financial Performance.

Fuel and Oil amounting to R 1 964 719 (2023: R1 910 522), is included in the inventory consumed (Note 45) in the Statement of Financial Performance.

#### Capital projects that have been significantly delayed

King Dinuzulu Sport complex	32 769 290	25 104 532
Eyetheni phase one and two	9 813 247	7 618 370
Urban roads	8 506 301	1 950 885
Construction of Eshowe Testing Station	1 003 402	1 003 402
Upgrade of Sunnydale Intersection	164 663	164 663
Construction of Eshowe waste station shelter	73 600	73 600
	<b>52 330 503</b>	<b>35 915 452</b>

# uMlalazi Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand

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### 8. Property, plant and equipment (continued)

#### 2024 financial year

King Dinuzulu sport complex - The contractor was terminated in 2023 financial year due to slow performance of appointed contractor and the project was budgeted for in the 2023/2024 financial year. The new contractor has been appointed and has commenced with the work.

Eyetheni phase one and two - The delay was attributable to unfavourable weather conditions. The contractor was granted an extension of contract. This project has been completed during 2023/2024 financial year.

Urban roads - The delay was attributable to poor performance from the appointed contractor. The municipality has implemented contract management. The contractor was terminated. The new contractor was appointed and the project is in progress.

Construction of Eshowe Testing Station - The delay is attributable to insufficient funding, the municipality is currently engaging with Provincial Departments to source funding.

Upgrade of Sunnysdale intersection - The delay is attributable to this project being shared with the Provincial Department of Transport. The municipality is currently engaging with the Department to unlock challenges between the Municipality and the Department.

Construction of Eshowe waste station shelter - The delay is attributable to budget allocation. The budget allocation is anticipated to be done through the adjustments budget 2024/2025.

#### 2023 financial year

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

Construction of Eshowe testing Station - The delay is attributable to insufficient funding, the municipality is currently engaging with Provincial Departments to source funding.

Upgrade of Sunnysdale intersection - The delay is attributable to this project being shared with the Provincial Department of Transport. The Municipality is currently engaging with the department to unlock challenges between the municipality and the department.

Construction of Eshowe Waste Station shelter - The delay is attributable to budget allocation. The budget allocation is anticipated to be done through the adjustments budget 2024/2025.

The Municipality have tested for possible impairment.

# uMlalazi Local Municipality

(Registration number KZN 284)

Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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Figures in Rand	2024	2023
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### 8. 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	15 389 779	19 883 463
Community assets	7 510 602	11 548 059
	<b>22 900 381</b>	<b>31 431 522</b>

#### Approved and contracted

Property plant and equipment	22 900 381	31 431 522
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#### This expenditure will be financed from

Government grants	20 854 068	21 397 542
Internal funded	2 046 313	10 033 980
	<b>22 900 381</b>	<b>31 431 522</b>

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Investment property

	2024			2023		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	32 478 000	-	32 478 000	31 333 000	-	31 333 000

#### Reconciliation of investment property - 2024

	Opening balance	Fair value adjustments	Total
Investment property	31 333 000	1 145 000	32 478 000

#### Reconciliation of investment property - 2023

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

#### 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 2024. 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.

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Intangible assets

	2024			2023		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	336 250	(263 000)	73 250	336 250	(241 422)	94 828

#### Reconciliation of intangible assets - 2024

	Opening balance	Amortisation	Total
Computer software	94 828	(21 578)	73 250

#### Reconciliation of intangible assets - 2023

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

# uMlalazi Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand

### 11. Heritage Assets

	2024			2023		
	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
<b>Total</b>	<b>10 311 344</b>	<b>-</b>	<b>10 311 344</b>	<b>10 311 344</b>	<b>-</b>	<b>10 311 344</b>

#### Reconciliation of heritage assets 2024

	Opening balance	Total
Historical monuments	9 232 212	9 232 212
Ceremonial chains	1 079 132	1 079 132
	<b>10 311 344</b>	<b>10 311 344</b>

#### Reconciliation of heritage assets 2023

	Opening balance	Total
Historical monuments	9 232 212	9 232 212
Ceremonial chains	1 079 132	1 079 132
	<b>10 311 344</b>	<b>10 311 344</b>

### 12. Investments

#### At amortised cost

Shares in co-operatives

500

500

# uMlalazi Local Municipality

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## Notes to the Annual Financial Statements

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<b>12. Investments (continued)</b>		
<b>Non-current assets</b>		
Unlisted	500	500
<b>13. Payables from exchange transactions</b>		
Trade payables	31 114 783	21 005 270
Payments received in advanced	6 413 092	6 641 611
Retention	7 114 649	6 868 755
Bonus payables	4 710 690	4 956 954
Unallocated deposits	314 578	4 413 055
Vat output accrual	4 516 441	4 800 013
Sundry payables	86 482	101 512
Accrued leave pay	12 277 319	8 649 516
Salary Control	1 033 165	1 396 742
	<b>67 581 199</b>	<b>58 833 428</b>
<b>14. Consumer deposits</b>		
Electricity and refuse	3 811 255	3 644 117
Interest is not paid on Consumer Deposits.		
<b>15. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Department of Human Settlement Grant	116 208	116 208
Integrated National Electrification Grant (INEP)	1 695 561	-
Title Deeds Registration Grant	1 081 699	1 081 699
Municipal Disaster Response Grant (MDRG)	5 550 428	-
	<b>8 443 896</b>	<b>1 197 907</b>

# uMlalazi Local Municipality

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## Notes to the Annual Financial Statements

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### 16. 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 2024 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 %	14.23 %
CPI (Inflation rate)	6.82 %	9.11 %
Medical Aid contribution inflation	7.82 %	10.11 %
Net Effective discount rate	4.42 %	3.74 %

Inservice members	296	300
Continuation members	17	15
	<b>313</b>	<b>315</b>

# uMlalazi Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand 2024 2023

### 16. Employee benefit obligations (continued)

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

#### Carrying value

Opening balance	19 320 000	19 750 000
Interest cost	2 500 000	2 345 000
Expected employee benefit payment/current service cost	915 000	966 000
Actuarial (gain) losses	(1 588 118)	(2 941 568)
Less: municipal paid benefits	(756 880)	(799 432)
	<b>20 390 002</b>	<b>19 320 000</b>

#### Sensitivity Testing - Mortality rate

	-20% Withdrawal Rate (R')	Base result (R')	+20 Withdrawal (R')
Accrued liability	21 381 083	20 390 002	19 480 868

A 20% increase in the mortality rates results in a 4.46% decrease in accrued liability, while a 20% decrease in the mortality rates in a 4.86% increase in the accrued liability.

#### Sensitivity Testing - Medical aid inflation

	1% Decrease	Base result (R')	1% Increase (R')
Accrued liability	20 260 807	20 390 002	20 507 595

A 1% increase in the medical aid contribution inflation rate results in a 0.58% increase in accrued liability, while a 1% decrease in medical aid contribution inflation rate results in a 0.63% decrease in the accrued liability.

#### Net expense recognised in the statement of financial performance

Expected employee benefit payment/current service cost	915 000	966 000
Interest cost	2 500 000	2 345 000
Actuarial (gains) losses	(1 588 118)	(2 941 568)
	<b>1 826 882</b>	<b>369 432</b>

#### Liability classification

Current liabilities	1 345 241	847 000
Non current liabilities	19 044 761	18 473 000
	<b>20 390 002</b>	<b>19 320 000</b>

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 16. Employee benefit obligations (continued)

#### Superannuation funds

The latest statutory valuation of the Superannuation Fund (defined benefit) as at 31 March 2023 concluded that:

The fund's liabilities for service to the valuation date was 107.6% (2023:107.6%) funded on the discounted cash flow method at the valuation date.

The fund is 107.6% 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 2023 reflect;

The funding level of the Pensions Memorandum Account decreased over the valuation period from 128.8% to 122.8%. This was mainly due to the lower-than-expected investment returns over the valuation period.

Based on the valuation assumption applied in 2023, the fund was fully funded.

An interim actuarial valuation carried out on the retirement fund as at 31 March 2023 reflected;

The fund is 106.8% (2023:106.8%) 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 assure the affordability of the full improvement in benefits as well as to build up a Solvency Reserve to afford the Fund a measure of protection.

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 2023.

Assets exceeded the liabilities and reserves at the valuation date. Unallocated assets amounted to 0.6% 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 100.6% (2023:100.6%) funded as at the valuation date.

At the valuation date, 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 2024.

# uMlalazi Local Municipality

(Registration number KZN 284)

Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

Figures in Rand 2024 2023

### 16. Employee benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	12.59 %	11.23 %
CPI (Consumer Price Inflation)	6.82 %	6.49 %
Normal Salary Increase Rate	7.82 %	7.49 %
Net Effective Discount Rate	4.42 %	3.48 %

Active members	474	442
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#### The amount recognised in the statement of financial position are as follows;

Opening balance	9 115 000	9 206 000
Interest cost	1 023 000	1 099 000
Expected employee payment/current service cost	975 000	969 000
Actuarial (gain)loss	(515 556)	(1 032 024)
Less: municipal paid benefits	(1 480 860)	(1 126 976)
	<b>9 116 584</b>	<b>9 115 000</b>

#### Net expense recognised in the statement of financial performance

Expected employee payment/current service cost	975 000	969 000
Interest cost	1 023 000	1 099 000
Actuarial (gain)loss	(515 556)	(1 032 024)
	<b>1 482 444</b>	<b>1 035 976</b>

#### Liability classification

Current liabilities	1 084 697	1 295 000
Non current liabilities	8 031 888	7 820 000
	<b>9 116 585</b>	<b>9 115 000</b>

#### Sensitivity Testing - Withdrawal rate

	-20% Withdrawal Rate (R'000)	Base Result (R'000)	+20% Withdrawal Rate (R'000)
Accrued liability	9 570	9 117	8 698

A 20% increase in the withdrawal rates results in a 4,59% decrease in accrued liability, while a 20% decrease in the withdrawal rates results in a 5,07% increase in the accrued liability.

#### Sensitivity Testing - Normal salary inflation

	1% Decrease (R'000)	Base result (R'000)	1% Increase (R'000)
Accrued liability	8 610	9 117	9 674

A 1% increase in the salary inflation rate results in a 6.11% increase in accrued liability, while a 1% decrease in salary inflation rate results in a 5.56% decrease in the accrued liability.

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Figures in Rand 2024 2023

### 17. Provisions

#### Reconciliation of provisions - 2024

	Opening Balance	Additions	Utilised during the year	Total
Performance Bonus	866 541	657 062	(457 095)	1 066 508

#### Reconciliation of provisions - 2023

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

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

#### At amortised cost

DBSA Bank loan - Current portion	396 914	407 335
NEDBank loan - Current portion	1 908 223	-
DBSA Bank loan - long term loan	1 370 446	1 713 261
NEDBank loan - Long term loan	25 964 961	-
	<b>29 640 544</b>	<b>2 120 596</b>
	<b>29 640 544</b>	<b>2 120 596</b>

DBSA Bank loan bears an interest of 12.42% and redeemed bi-annually with interest ending 2029. NEDBANK loan bears an interest of 11.42% and redeemed bi-annually with interest ending 2033.

#### Non-current liabilities

At amortised cost	27 335 407	1 713 261
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#### Current liabilities

At amortised cost	2 305 137	407 335
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### 19. Housing development fund

Loans extinguished by Government on 1 April 1998	828 828	828 828
Installments received from borrowers	4 762 381	4 762 381
Accumulated deficit	(1 267 341)	(1 583 387)
	<b>4 323 868</b>	<b>4 007 822</b>

#### Reconciliation of the Housing Development Fund

Opening balance	4 007 822	3 778 075
Transfer from accumulated surplus (Interest)	314 944	229 747
Impairment reversal	1 102	-
	<b>4 323 868</b>	<b>4 007 822</b>

## uMlalazi Local Municipality

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### Notes to the Annual Financial Statements

Figures in Rand

#### 20. Accumulated surplus

##### Ring-fenced internal funds and reserves within accumulated surplus - 2024

	Capital replacement reserve	Electrical upgrade	SMME Establishment	Electricity	Indigent Support	accumulated Surplus	Total
Opening balance	31 225 847	396 621	2 743 113	34 399 130	314 407	813 255 006	882 334 124
Net Surplus or (deficit) for the year	-	-	-	-	-	9 369 372	9 369 372
Transfers	(6 647 354)	4 412 151	232 317	-	24 309	1 978 577	-
Interest transferred to Housing Operating Account	-	-	-	-	-	(314 943)	(314 943)
	<b>24 578 493</b>	<b>4 808 772</b>	<b>2 975 430</b>	<b>34 399 130</b>	<b>338 716</b>	<b>824 288 012</b>	<b>891 388 553</b>

##### 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	769 431 444	900 380 297
Net Surplus or (deficit) for the year	-	-	-	-	-	(17 816 425)	(17 816 425)
Transfers	(51 236 711)	(10 888 688)	237 200	-	18 464	61 869 735	-
Interest transferred to Housing Operating Account	-	-	-	-	-	(229 748)	(229 748)
	<b>31 225 847</b>	<b>396 621</b>	<b>2 743 113</b>	<b>34 399 130</b>	<b>314 407</b>	<b>813 255 006</b>	<b>882 334 124</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2024	2023
<b>21. Service charges</b>		
Sale of electricity	91 521 052	78 364 292
Solid waste	15 748 024	14 869 348
	<b>107 269 076</b>	<b>93 233 640</b>
<b>22. Rental of facilities and equipment</b>		
<b>Facilities and equipment</b>		
Rental of facilities	1 424 831	1 199 035
<b>23. Fines, Penalties and Forfeits</b>		
Law Enforcement Fines	147 103	6 044
Overdue Books Fines	16 802	8 448
Municipal Traffic Fines	780 600	1 189 870
Disconnection Fees Penalties	50 712	204 386
Retention Forfeits	1 956 940	-
	<b>2 952 157</b>	<b>1 408 748</b>
<b>24. Agency services</b>		
Vehicle Registration	2 601 720	2 156 185
<p>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.</p> <p>A fee of 8.62% of the revenue collected is payable to the Municipality by deducting the fee amount from the funds collected on a daily basis.</p>		
<b>25. Licences and permits</b>		
Business licences	49 767	31 159
Road and Transport licences	2 233 745	1 920 627
	<b>2 283 512</b>	<b>1 951 786</b>
<b>26. Licences and permits (non-exchange)</b>		
Road and Transport	18 016	36 101
<b>27. Availability charge - electricity</b>		
Availability charges	1 470 528	1 316 579

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## Notes to the Annual Financial Statements

Figures in Rand

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### 28. Lease rentals on operating lease

#### Plant and equipment

Contractual amounts	1 097 631	940 262
<b>Lease rentals on operating lease - Weigh bridge</b>		
Contractual amounts	600 000	600 000
<b>Lease rentals on operating lease - Property rental</b>		
Contractual amounts	269 358	227 059
	<b>1 966 989</b>	<b>1 767 321</b>

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 expired on 30 April 2024 and extended for two months (01 May 2024 to 30 June 2024). No escalation is applicable for the duration of the contract.

The municipality entered into a lease agreement with Transnet to lease property. This lease was on a month to month contract and has been terminated as at the of 30 June 2024.

#### Minimum lease due

Within one year	62 911	1 358 662
In second to fifth- year	-	62 911
	<b>62 911</b>	<b>1 421 573</b>

### 29. Interest received - receivables from exchange transactions

Interest - Waste Management Receivables	1 240 539	490 632
Interest - Electricity Receivables	1 524 933	540 063
Interest - Sundry debtors	168 491	189 590
	<b>2 933 963</b>	<b>1 220 285</b>

### 30. Actuarial gains

Remeasurement on Long Service Awards	515 556	1 032 024
Remeasurement on Post Retirement Medical Aid	1 588 118	2 941 568
	<b>2 103 674</b>	<b>3 973 592</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2024	2023
<b>31. Operational Revenue</b>		
Admin handling fees	45 068	19 728
Breakages and losses recovered	1 585	1 302
Advertisement fees	848	-
Building plans	451 820	365 662
Burial fees	224 228	181 163
Cleaning and removal	34 512	47 495
Rates clearance certificate	69 293	88 778
Municipal information and statistics	-	1 503
Skills development refunds	166 322	268 190
Photocopies, faxes and telephone charges	205 798	777 195
Town planning and servitudes	261 924	82 996
Incidental cash surpluses	1 964 593	63 840
	<b>3 425 991</b>	<b>1 897 852</b>

Included in the incidental cash surpluses is the interest earned on land sale transaction and long unclaimed monies from unallocated deposits.

### 32. Interest earned - external investments

#### Interest earned

Interest received - Primary and Call accounts	815 201	391 788
Interest received - Investments	9 296 786	7 748 571
	<b>10 111 987</b>	<b>8 140 359</b>

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## Notes to the Annual Financial Statements

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### 33. Property rates

#### Rates received

Residential	28 578 734	23 670 143
Commercial	13 481 468	15 188 965
State owned properties	16 832 518	17 085 982
Agriculture	5 656 114	5 341 512
Vacant land	4 869 069	4 854 160
Mining	1 282 860	1 218 269
Public service infrastructure	1 179 746	1 062 838
	<b>71 880 509</b>	<b>68 421 869</b>
Property rates - penalties imposed	5 113 910	3 035 721
	<b>76 994 419</b>	<b>71 457 590</b>

#### Valuation Roll Market Values

	R'000	R'000
Residential	3 318 930	3 265 997
Commercial	933 744	927 856
State	1 181 210	1 181 300
Agricultural	3 413 156	3 413 156
Municipal	188 943	189 771
Public Benefits	109 912	109 912
Vacant Land	297 311	304 266
Mining	75 985	75 985
Public Service Infrastructure	3 751 242	3 786 241
	<b>13 270 433</b>	<b>13 254 484</b>

#### Valuation Roll Randages

Residential	1.2343	1.1722
Commercial	1.5429	1.4652
Agricultural	0.3085	0.2930
Public Service Infrastructure	0.3085	0.2930
Vacant Land	2.4687	2.3444
Public Benefit Organisation	0.3085	0.2930
Mining	2.4687	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 2023/2024 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 Wednesday, 31 July 2024. Interest is raised on overdue accounts at 12.75%.

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

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## Notes to the Annual Financial Statements

Figures in Rand

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### 34. Transfer and subsidies

#### Other subsidies

SPCA Grant- In-Aid	165 000	160 000
Tourism Grant-In-Aid	240 000	235 000
Households (Groceries,temporal shelters and food parcels)	7 248 573	4 172 898
Bursaries - non employees	131 760	134 500
Social welfare Grant-In-Aid	170 000	165 000
Museum Grant-In-Aid	205 000	200 000
	<b>8 160 333</b>	<b>5 067 398</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2024	2023
<b>35. Government grants &amp; subsidies</b>		
<b>Operating grants</b>		
Equitable share	241 259 000	226 654 000
Finance Management Grant (FMG)	1 720 000	1 720 000
Community Library Grant	5 471 000	5 471 000
Expanded Public Works Programme Grant (EPWP)	3 146 000	4 098 000
Integrated National Electrification Programme Grant (INEP)	1 804 439	651 790
Museum Grant	1 043 000	984 000
Municipal Disaster Response Grant (MDRG)	2 949 572	-
	<b>257 393 011</b>	<b>239 578 790</b>
<b>Capital grants</b>		
Department of Economic Development and Tourism Grant	1 000 000	-
Municipal Infrastructure Grant (MIG)	58 576 000	45 827 000
	<b>59 576 000</b>	<b>45 827 000</b>
	<b>316 969 011</b>	<b>285 405 790</b>

### 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)

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 15).

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)

Current-year receipts	58 576 000	45 827 000
Conditions met - transferred to revenue	(58 576 000)	(45 827 000)
	-	-

Conditions met - transferred to revenue (see note 15).

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)

Balance unspent at beginning of year	-	78 930
Current-year receipts	3 500 000	841 156
Conditions met - transferred to revenue	(1 804 439)	(841 156)
Withheld by Treasury	-	(78 930)
	<b>1 695 561</b>	<b>-</b>

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## Notes to the Annual Financial Statements

Figures in Rand 2024 2023

### 35. Government grants & subsidies (continued)

Conditions still to be met - remaining liabilities (see note 15).

The municipality received a schedule 5B in a licensed area at King Dinuzulu Township for the 2023-2024 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.

#### Community Library Grant

Current-year receipts	5 471 000	5 471 000
Conditions met - transferred to revenue	(5 471 000)	(5 471 000)
	<u>-</u>	<u>-</u>

Conditions met - transferred to revenue (see note 15).

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

#### Museum Grant

Current-year receipts	1 043 000	984 000
Conditions met - transferred to revenue	(1 043 000)	(984 000)
	<u>-</u>	<u>-</u>

Conditions met - transferred to revenue (see note 15).

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
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Conditions still to be met - remaining liabilities (see note 15).

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
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Conditions still to be met - remaining liabilities (see note 15).

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

#### Expanded Public Works Programme Grant (EPWP)

Current-year receipts	3 146 000	4 098 000
Conditions met - transferred to revenue	(3 146 000)	(4 098 000)
	<u>-</u>	<u>-</u>

Conditions met - transferred to revenue (see note 15).

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.

#### Informal Traders Infrastructure Grant

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## Notes to the Annual Financial Statements

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Figures in Rand	2024	2023
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### 35. Government grants & subsidies (continued)

Current-year receipts	1 000 000	-
Conditions met - transferred to revenue	(1 000 000)	-
	<hr/>	<hr/>
	-	-

Conditions met - Transferred to revenue (see note 15).

The grant is utilised to construct informal traders infrastructure as part of promoting Local Economic Development. No funds have been withheld.

### Municipal Disaster Response Grant (MDRG)

Current-year receipts	8 500 000	-
Conditions met - transferred to revenue	(2 949 572)	-
	<hr/>	<hr/>
	<b>5 550 428</b>	-

Conditions still to be met - remain liabilities (see note 15).

The grant is utilised to restore municipal infrastructures damaged during bad weather conditions experienced during 2023/2024 financial year. No funds have been withheld.

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Figures in Rand	2024	2023
<b>36. Employee related costs</b>		
Basic	116 308 570	107 044 878
Bonus	8 714 858	8 651 538
Medical aid - company contributions	9 186 487	8 400 569
Leave pay provision charge	5 999 404	4 869 917
Post-retirement medical aid	3 415 000	3 311 001
Overtime payments	8 498 272	10 509 381
Long-service awards	1 998 000	2 068 000
Car allowance	5 466 559	4 748 463
Housing benefits and allowances	1 378 904	1 334 948
Rental allowance	73 192	72 524
Group life insurance	1 957 507	1 827 436
Performance bonuses	657 063	530 526
Cellphone allowance	1 823 467	1 731 301
Pension and UIF Contributions	21 268 455	20 008 069
	<b>186 745 738</b>	<b>175 108 551</b>
<b>Remuneration of Municipal Manager</b>		
Annual Remuneration	1 299 714	1 092 635
Car Allowance	216 000	186 000
Performance Bonuses	118 389	140 744
Contributions to UIF, Medical and Pension Funds	2 125	62 174
Group life	-	6 692
Leave	-	150 097
	<b>1 636 228</b>	<b>1 638 342</b>
<b>Remuneration of Chief Finance Officer</b>		
Annual Remuneration	830 963	405 041
Car Allowance	300 000	79 000
Contributions to UIF, Medical and Pension Funds	108 948	9 224
	<b>1 239 911</b>	<b>493 265</b>
<b>Remuneration of Director Corporate Services</b>		
Annual Remuneration	1 122 298	1 159 036
Car Allowance	120 000	90 000
Performance Bonuses	165 897	161 065
Contributions to UIF, Medical and Pension Funds	2 125	2 125
Leave pay	-	301 481
	<b>1 410 320</b>	<b>1 713 707</b>
<b>Remuneration of Director Engineering Services</b>		
Annual Remuneration	944 831	804 666
Car Allowance	144 000	25 204
Performance Bonuses	-	80 533
Contributions to UIF, Medical and Pension Funds	153 009	25 318
Leave pay	-	73 750
Housing	-	889
	<b>1 241 840</b>	<b>1 010 360</b>

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## Notes to the Annual Financial Statements

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### 36. Employee related costs (continued)

#### Remuneration of Director Community Services

Annual Remuneration	1 167 835	1 098 859
Car Allowance	120 000	75 000
Performance Bonuses	89 861	149 560
Contributions to UIF, Medical and Pension Funds	2 125	79 201
Leave pay	-	161 176
	<b>1 379 821</b>	<b>1 563 796</b>

#### Remuneration of Director Planning and Development Services

Annual Remuneration	1 024 401	498 061
Car Allowance	120 000	60 000
Performance Bonuses	82 948	-
Contributions to UIF, Medical and Pension Funds	101 573	44 598
	<b>1 328 922</b>	<b>602 659</b>

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Figures in Rand	2024	2023
<b>37. Remuneration of councillors</b>		
Basic allowance	20 440 057	19 492 640
Travelling allowance	1 422 436	1 312 873
Cellphone allowance	2 924 610	2 244 000
Pension fund contribution	370 972	173 700
	<b>25 158 075</b>	<b>23 223 213</b>
Mayor	1 003 885	946 965
Deputy Mayor	813 772	762 449
Mayoral Committee Members	6 129 897	5 690 404
Speaker	813 772	766 451
Councillors	15 630 512	14 344 333
Chief Whip	766 237	712 611
	<b>25 158 075</b>	<b>23 223 213</b>
<b>Remuneration of the Mayor</b>		
Basic allowance	663 282	632 328
Travelling allowance	237 676	227 441
Cellphone allowance	53 181	40 800
Pension fund contribution	49 746	46 396
	<b>1 003 885</b>	<b>946 965</b>
<b>Remuneration of the Deputy Mayor</b>		
Basic allowance	570 423	540 337
Travelling allowance	190 141	181 312
Cellphone allowance	53 208	40 800
	<b>813 772</b>	<b>762 449</b>
<b>Remuneration of the Speaker</b>		
Basic allowance	708 227	543 338
Travelling allowance	52 337	182 313
Cellphone allowance	53 208	40 800
	<b>813 772</b>	<b>766 451</b>
<b>Remuneration of the Whip of Council</b>		
Basic allowance	465 019	437 902
Travelling allowance	178 257	168 853
Cellphone allowance	53 208	40 800
Pension fund contribution	69 753	65 056
Subsistence and travel reimbursements	12 304	-
	<b>778 541</b>	<b>712 611</b>
<b>Remuneration of the Executive Committee</b>		
Basic allowance	5 202 869	5 160 354
Travelling allowance	321 303	168 853
Cellphone allowance	425 664	326 400
Pension fund contribution	180 060	34 797
Subsistence and travel reimbursements	60 955	54 276
	<b>6 190 851</b>	<b>5 744 680</b>
<b>Remuneration of ordinary Councillors</b>		
Basic allowance	12 830 237	12 178 382

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## Notes to the Annual Financial Statements

Figures in Rand	2024	2023
<b>37. Remuneration of councillors (continued)</b>		
Travelling allowance	442 721	384 101
Cellphone allowance	2 286 141	1 754 400
Pension fund contribution	71 413	27 450
Subsistence and travel reimbursements	126 884	124 524
	<b>15 757 396</b>	<b>14 468 857</b>

### 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 two full time bodyguards and 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 two full time bodyguards.

### Subsistence and travelling reimbursement

The councillors' subsistence and travelling reimbursement R200 142.64 (2023: R178 800.05) is included under operational cost in the Statement of Financial Performance.

### 38. Depreciation and amortisation

Property, plant and equipment	48 883 179	47 048 337
Intangible assets	21 577	32 774
	<b>48 904 756</b>	<b>47 081 111</b>

### 39. Impairment loss

#### Impairments

Property, plant and equipment	9 124 515	8 513 818
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#### Reversal of impairments

Property, plant and equipment	(3 396 226)	-
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<b>Total impairment losses recognised (reversed)</b>	<b>5 728 289</b>	<b>8 513 818</b>
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The municipality recognised R9 124 515 as impairment loss for 2023/2024 financial year due to bad weather conditions experienced by the municipality which affected some municipal asset conditions.

The municipality also recognised an impairment reversal as a result of assets that were not verified in 2022/2023 financial year and were impaired. During the 2023/2024 financial year the municipality conducted a special investigation and some of these assets were found.

### 40. Finance costs

Current borrowings	3 146 984	276 858
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## Notes to the Annual Financial Statements

Figures in Rand 2024 2023

### 41. Debt impairment

Debt impairment 9 918 654 5 136 165

Debt impairment for consumer debtors is R7 034 985 (2023:R 2 321 437)

Increase in provision from ( 2023:232 048 323) to (2024:R242 940 498). No bad debt written off as at 30 June 2024 (2023:R1 136 759).

Debt impairment for Traffic fines is R2 883 630 (2023:R2 814 728), the provision increased from 30 June 2023: R174 384 577 to 30 June 2024:R177 281 890.

### 42. Operational costs

Advertising	2 800 304	4 841 214
Auditors remuneration	2 356 117	2 485 250
Bank charges	303 294	294 774
Cleaning	16 026	17 205
Commission paid	64 920	64 566
Communications	1 494 786	1 509 061
Entertainment	148 396	145 615
Hire charges	757 370	1 212 915
Insurance	2 982 649	2 908 097
IT expenses	10 216 186	11 910 642
Levies	1 682 651	1 577 920
Motor vehicle licence and registrations	547 670	667 700
Printing and stationery	-	788
Protective clothing	1 269 275	1 470 171
Performing Arts	1 613	4 086
Subscriptions and membership fees	33 206	31 943
Vehicle tracking	193 943	134 110
Transport	569 500	1 368 649
Training	1 170 846	1 816 030
Subsistence and Travel allowance	2 827 821	3 082 704
Loose Tools	131 103	149 139
Utilities	3 091 057	3 314 405
Archiving	259 229	169 110
Bargaining Council	2 182 202	2 009 511
Honoraria (voluntary workers)	6 000	46 718
Indigent relief	5 029 607	5 440 999
Ward committees	3 915 000	3 255 800
Road worthy tests	12 522	8 368
Sitting allowance for traditional leaders	-	2 000
Signage	155 017	29 600
Workman's Compensation Fund	891 914	1 208 784
	<b>45 110 224</b>	<b>51 177 874</b>

### 43. Bulk purchases

Electricity - Eskom 89 665 933 73 697 110

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## Notes to the Annual Financial Statements

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### 43. Bulk purchases (continued)

#### Electricity losses

	Units 2024	Units 2023		
Purchases	46 506 142	44 407 645	89 665 933	73 697 110
Sales	(38 092 866)	(36 505 031)	(73 444 759)	(60 582 255)
<b>Total loss</b>	<b>8 413 276</b>	<b>7 902 614</b>	<b>16 221 174</b>	<b>13 114 855</b>
Comprising of:				
Technical losses	2 557 838	2 441 819	4 931 626	3 987 231
Non-technical losses	5 855 438	5 460 795	11 289 548	9 127 624
<b>Total</b>	<b>8 413 276</b>	<b>7 902 614</b>	<b>16 221 174</b>	<b>13 114 855</b>
Percentage Loss:				
Technical losses	6 %	6 %	6 %	6 %
Non-technical losses	12 %	12 %	12 %	12 %
<b>Total</b>	<b>18 %</b>	<b>18 %</b>	<b>18 %</b>	<b>18 %</b>

### 44. Contracted services

#### Outsourced Services

Alien Vegetation Control	102 464	76 850
Animal Care	601 239	624 000
Burial Services	1 571 011	1 547 100
Business and Advisory	4 490 994	3 674 853
Clearing and Grass Cutting Services	4 111 356	3 288 486
Medical Services	20 370	65 760
Personnel and Labour	8 874 980	11 109 583
Connection/Dis-connection	7 504	10 954
Refuse Removal	7 412 977	6 296 031
Security Services	19 647 724	23 298 752
Traffic Fines Management	20 752	161 692
Electrical	1 486 270	811 487

#### Consultants and Professional Services

Business and Advisory	1 628 271	3 460 312
Infrastructure and Planning	640 086	2 314 060
Legal Cost	1 435 924	1 224 886

#### Contractors

Artists and Performers	1 013 971	294 300
Catering Services	1 830 752	2 912 453
Graphic Designers	3 200	42 077
Maintenance of Buildings and Facilities	3 664 248	2 339 941
Maintenance of Equipment	1 087 703	778 858
Maintenance of Unspecified Assets	20 444 087	19 170 615
Pest Control and Fumigation	8 950	-
Prepaid Electricity Vendors	826 563	1 849 735
Stage and Sound Crew	270 000	631 640

**81 201 396**      **85 984 425**

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<b>45. Inventory consumed</b>		
Stationery, cleaning materials , fuel, oil and other materials	11 331 153	11 056 963
Materials and supplies	5 597 019	5 156 165
	<b>16 928 172</b>	<b>16 213 128</b>
<b>46. Cash generated from operations</b>		
Surplus (deficit)	9 369 372	(17 816 426)
<b>Adjustments for:</b>		
Depreciation and amortisation	48 904 756	47 081 111
Gain/Loss on sale of assets and liabilities	(59 789)	(2 216 945)
Gain on foreign exchange	(2 103 674)	(3 973 592)
Fair value adjustments	(1 145 000)	(678 000)
Actuarial gains (non-cash)	(2 103 674)	(3 973 592)
Impairment deficit	5 728 289	8 513 818
Debt impairment	9 918 654	5 136 165
Bad debts written off	-	1 136 759
Post-employment medical aid	2 678 123	2 511 569
Movements in bonus provision	199 967	(447 217)
Long service award	-	941 024
<b>Changes in working capital:</b>		
Inventories	(500 153)	640 983
Receivables from exchange transactions	(17 990 501)	(5 771 428)
Receivables from non-exchange transactions	(4 543 831)	(15 417 540)
Prepayments	(1 640 005)	-
Payables from exchange transactions	8 747 771	1 663 702
VAT	2 805 356	4 206 333
Unspent conditional grants and receipts	7 245 989	(78 930)
Consumer deposits	167 138	287 870
<b>Cash generated from operations</b>	<b>65 678 788</b>	<b>21 745 664</b>
<b>47. Construction contract</b>		
<b>Advances received</b>		
Integrated National Electrification Programme	-	3 630 095
<b>Construction contract</b>		
Contract Revenue	-	3 156 604
Contract costs	-	(3 156 604)
	-	-

### 2023/2024 Financial Year

The municipality did not receive any schedule 5B grant in respect of un-licenced areas, the total schedule 5B grant received by the the municipality in 2023/2024 financial year is utilised on licenced areas only.

### 2022/2023 Financial Year

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 contractor 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 electricity. 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 performed to date bear to the estimated total contract costs and the completion of a physical proportion of the contract work.

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## Notes to the Annual Financial Statements

Figures in Rand	2024	2023
<b>47. Construction contract (continued)</b>		
As at 30 June 2023, there was no retention due for electrification projects.		
As at 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.		
The municipality will transfer these projects to Eskom after completion as per the Memorandum of understanding signed between the Municipality and ESKOM.		
<b>48. Fair value adjustments</b>		
Investment property (Fair value model)	1 145 000	678 000
<b>49. Gain/(loss) on disposal of assets</b>		
Gain/(loss) on disposal of property plant and equipment	59 789	2 216 945
<b>50. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Approved and contracted</b>		
• Property, plant and equipment	22 900 381	31 431 522
<b>This expenditure will be financed from:</b>		
• Government grants	20 854 068	21 397 542
• Internally funded	2 046 313	10 033 980
	<b>22 900 381</b>	<b>31 431 522</b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	22 900 381	31 431 522
<b>51. Operating lease as a lessor (Income)</b>		
<b>Minimum lease payments due</b>		
Within one year	821 772	377 262

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 cancelable by both parties.

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Figures in Rand	2024	2023
<b>52. Contingencies</b>		
<b>Contingent liabilities</b>		
The municipality is defending a case arising from the termination of road construction contract at the King Dinuzulu Suburb. Plaintiff has appointed a new attorney. Awaiting trial.	10 754 222	10 754 222
The municipality is defending a case arising from the termination of Project Management Unit Service contract. Awaiting the setting of the matter down for pre trial and trial.	702 240	702 240
The municipality is defending a case arising from damages caused to the plaintiff'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. Notice of intention to defend and pleadings are not yet closed.has been filed Case number 590/2019	38 000	38 000
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 advise on the prospect of the case. Currently there are no merit in reviewing the said award. Case number KPD012222	887 023	1 100 000
The municipality is defending a case arising from the labour practice on review of an arbitration award for reinstate in the Labour Court. The matter has been closed and the employee has been reinstated.	-	400 000
	<b>12 381 485</b>	<b>12 994 462</b>

The municipality made the following amendments to 2022/2023 contingent liabilities;

The municipality defending a case for property rates dispute on Ert 331, this was incorrectly classified as a contingent liability.

The municipality defending a case arising from the breach of consulting contract for Kwabulawayo sportsfield, this case was withdrawn by the applicant during 2022/2023 financial year.

The municipality defending a case arising from damages to a motor vehicle caused by a pothole, this matter was settled both parties during 2022/2023 financial year.

Based on the developments that occurred during 2022/2023 financial year these cases were no longer contingent liabilities on the reporting date 2022/2023.

### Contingent assets

No contingent assets exist for the period ended 30 June 2024 (2023:R0).

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

The municipality did not conduct business with services providers of which the directors are closely related to a person employed in the service of the state (2023: R987 858).

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## Notes to the Annual Financial Statements

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### 53. Section 45 of Supply Chain Managements Regulations - Awards made to close family members of persons in the service of the State- (continued)

Lwandle Entertainment and Production - an employee of the state	-	78 900
Zakanisto Entertainment - An 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
ManTK IT Solution - An 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
Mfanex - An associate employed at the municipality in IDP Section. The associate has no influence in terms of any awards in accordance with the post.	-	31 230
	-	<b>987 858</b>

### 54. 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 36 & 37 to the annual financial statements.

### 55. 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 091 750

#### Depreciation

	Depreciation per annum before	Depreciation per annum after	Change in depreciation per annum
Community assets	(450 627)	141 882	(308 745)
Computer equipment	(1 474 207)	768 500	(705 707)
Electricity infrastructure	(559)	313	(246)
Furniture and equipment	(143 584)	134 584	(9 000)
Intangible assets	(32 775)	21 584	(11 191)
Machinery and equipment	(924 191)	563 852	(360 339)
Roads infrastructure	(96 577)	68 792	(27 785)
Storm water infrastructure	(440 230)	189 274	(250 956)
Vehicles	(845 867)	428 086	(417 781)
	<b>(4 408 617)</b>	<b>2 316 867</b>	<b>(2 091 750)</b>

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

### 56. Prior Period Adjustments

#### Statement of Financial Position

	Audited	Prior year adjustments	Reclassifying adjustments	Restated
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	73 653 622	(4 032 904)	-	69 620 718
Receivables from exchange transactions	32 104 184	2 065 296	818 390	34 987 871
VAT receivable	-	-	4 445 539	4 443 539
	<b>105 757 806</b>	<b>(1 967 608)</b>	<b>5 263 929</b>	<b>109 052 128</b>
<b>Non-Current Assets</b>				
Property, plant and equipment	789 514 572	7 409 767	-	796 924 339
Investments	1 000	(500)	-	500
	<b>789 515 572</b>	<b>7 409 267</b>	<b>-</b>	<b>796 924 839</b>
<b>Total Assets</b>	<b>895 273 378</b>	<b>5 441 659</b>	<b>5 263 929</b>	<b>905 976 967</b>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Long term loans	342 816	-	64 519	407 335
Payables from exchange transactions	52 178 580	1 854 835	4 800 013	58 833 428
VAT payable	5 867 251	(4 032 904)	(1 834 347)	-
	<b>58 388 647</b>	<b>(2 178 069)</b>	<b>3 030 185</b>	<b>59 240 763</b>
<b>Non-Current Liabilities</b>				
Long term loans	1 777 780	-	(64 519)	1 713 261
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>(64 519)</b>	<b>-</b>
<b>Net Assets</b>				
Accumulated surplus	872 418 432	9 915 691	-	882 334 123

#### 56.1. Cash and cash equivalents

Amount as reported on audited AFS - 30 June 2023

Prior period adjustment restating the 2022/2023 movement

73 653 622

(4 032 904)

**69 620 718**

Short term investment withdrawal account number. 52191090523 from First National Bank (Primary Bank Account) was incorrectly recognised as a vatable transaction.

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 56. Prior Period Adjustments (continued)

#### 56.2 Receivables from exchange transactions

Amount as reported on audited AFS - 30 June 2023	32 104 184
Prior period adjustment restating the opening balance as at 1 July 2022	1 420 734
Prior period adjustment restating the 2022/2023 movement	1 462 952
	<b>34 987 870</b>

The municipality made adjustments on reclassification of vat receivable and vat accruals.

The municipality erroneously did not recognise prepayment made to attorneys for property acquisition made in 2016 and the interest earned. The municipality paid for employee bursaries but were not recognised as debtors. The municipality accounted for vat accrual incorrectly accounted in 2023/2024 instead of 2022/2023 financial year.

#### 56.3 VAT receivable

Prior period adjustment restating the 2022/2023 movement	4 443 539
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Reclassification of vat receivable from SARS after it has been separated from vat accruals previously disclosed under current liabilities.

#### 56.4 Property, plant and equipment

Amount as reported on audited AFS - 30 June 2023	789 514 572
Prior period adjustment restating the opening balance as at 1 July 2022	8 707 775
Prior period adjustment restating the 2022/2023 movement	(1 298 010)
	<b>796 924 337</b>

The municipality recognised the donation of 9 creches which were donated in 2016 by Divine Life but were not taken on as part of municipal assets and Sunnydale low cost housing internal roads which was co-funded by the department of Human Settlement.

#### 56.5 Investments

Amount as reported on audited AFS - 30 June 2023	1 000
Prior period adjustment restating the 2022/2023 movement	(500)
	<b>500</b>

The municipality accounted investment refund from coastal farmers.

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 56. Prior Period Adjustments (continued)

#### 56.6 Payables from exchange transactions

Amount as reported on audited AFS - 30 June 2023	52 178 580
Prior period adjustment restating the opening balance as at 1 July 2022	51 977
Prior period adjustment restating the 2022/2023 movement	6 602 871
	<b>58 833 428</b>

Prior period adjustment on lease provisions previously raised as an average lease payments but was not reversed during the actual payments. Reversal of retention that was incorrectly raised and reclassification of vat receivable and vat accruals.

#### 56.7 Long term loans

Amount as reported on audited AFS 30 - June 2023	342 816
Prior period adjustment restating the 2022/2023 movement	64 519
	<b>407 335</b>

Reclassification of current long term loan portion which was reflected under non current long term loan.

#### 56.8 VAT payable

Amount as reported on audited AFS - 30 June 2023	5 867 251
Prior period adjustment restating the 2022/2023 movement	(5 867 251)
	<b>-</b>

Reclassification of vat as per new GRAP standard 108 requirements and a short term investment withdrawal was incorrectly recognised as a vatable transaction.

#### 56.9 Long term loans

Amount as reported on audited AFS - 30 June 2023	1 777 780
Prior period adjustment restating the 2022/2023 movement	(64 519)
	<b>1 713 261</b>

Reclassification of current long term loan portion which was disclosed under non current long term loan

#### 56.10 Accumulated surplus

Amount as reported on audited AFS - 30 June 2023	872 418 432
Prior period adjustment restating the opening balance as at 1 July 2022	9 804 366
Prior period adjustment restating the 2022/2023 movement	111 625
	<b>882 334 423</b>

Adjustments were made to the restatement of cash and cash equivalents, trade payables, PPE and receivables from exchange.

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

### 56. Prior Period Adjustments (continued)

#### Statement of Financial Performance

	Audited	Prior year adjustments	Reclassifying adjustments	Restated
<b>Revenue</b>				
<b>Revenue from exchange transactions</b>				
Operational income	1 834 012	63 840	-	1 897 852
<b>Revenue from non-exchange transactions</b>				
<b>Transfer revenue</b>				
Fines, Penalties and Forfeits	1 503 418	-	(94 670)	1 408 748
Availability charge - interest on availability charge	-	-	94 670	94 670
<b>Total revenue from non-exchange transactions</b>	<b>479 660 069</b>	<b>63 840</b>	<b>-</b>	<b>479 723 909</b>
<b>Expenditure</b>				
Depreciation and amortisation	(46 139 765)	(941 346)	-	(47 081 111)
Impairment loss	(8 889 940)	376 122	-	(8 513 818)
Lease rentals on operating lease	(1 799 609)	32 288	-	(1 767 321)
Operational expenditure	(51 758 595)	580 721	-	51 177 874
<b>Total expenditure</b>	<b>(108 587 909)</b>	<b>47 785</b>	<b>-</b>	<b>(108 540 124)</b>
<b>Deficit for the year</b>	<b>(17 928 049)</b>	<b>111 625</b>		<b>(17 816 424)</b>

#### 56.11 Operational revenue

Amount as reported on audited AFS - 30 June 2023	1 834 012
Prior period adjustment	63 840
	<b>1 897 852</b>

Interest on land sale acquisition, the money was kept in the attorney's trust account which was not recognised.

#### 56.12 Availability charges - interest charge

Prior period adjustment	94 670
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Reclassification of interest on electricity availability charge from fines, penalties and forfeits.

#### 56.13 Fines, Penalties and Forfeits

Amount as reported on audited AFS - 30 June 2023	1 503 418
Prior period adjustment	(94 670)
	<b>1 408 748</b>

Reclassification of interest on electricity availability charge from fines, penalties and forfeits.

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 56. Prior Period Adjustments (continued)

#### 56.14 Depreciation and amortisation

Amount as reported on audited AFS - 30 June 2023	(46 139 765)
Prior period adjustment	(941 346)
	<u>(47 081 111)</u>

Depreciation adjustments relates to the prior period adjustments made within the roads, community and vehicle asset class.

#### 56.15 Impairment loss

Amount as reported on audited AFS - 30 June 2023	8 889 940
Prior period adjustment restating the 2022/2023 movement	(376 122)
	<u>8 513 818</u>

Impairment adjustment relates to the prior period adjustment on disposal of vehicles.

#### 56.16 Lease rentals on operating leases

Amount as reported on audited AFS - 30 June 2023	1 799 609
Prior period adjustment	(32 288)
	<u>1 767 321</u>

Prior period adjustment for lease provisions previously raised as and average lease payments but was not reversed during actual payments.

#### 56.17 Operational expenditure

Balance previously reported	51 758 595
Prior period adjustment	(580 721)
	<u>51 177 874</u>

The municipality paid for employee bursaries but not recognised as debtors and correction vat on store issued items.

### 57. 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.

# uMlalazi Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

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### 57. Risk management (continued)

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities. 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	2 305 137	407 335
Trade and other payables	67 581 199	58 833 428
	<u>69 886 336</u>	<u>59 240 763</u>

#### Credit risk

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

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	2024	2023
Cash and cash equivalent	73 957 994	69 620 718
Trade and other receivables	43 059 718	34 987 871

#### 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	<u>73 957 994</u>	<u>69 620 718</u>
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##### Price risk

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

# uMlalazi Local Municipality

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## Notes to the Annual Financial Statements

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### 58. Going concern

We draw attention to the fact that at 30 June 2024, the municipality had an accumulated surplus of 891 388 552 and that the municipality's total liabilities exceed its assets by 895 712 420.

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 debts.

#### 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 2024/2025 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 will adequately budgeted for the provision for bad debts in the 2024/2025 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 2024/2025 financial year indicates a surplus in terms of cash backed reserves, and budgeted cash flows. Furthermore Provincial Treasury has confirmed that the municipality's 2024/2025 budget is funded.

The current ratio of the Municipality is 1:1.87 which shows that the Municipality can be able to honour its obligations.

% of unspent Grants Funded is 100%

Debts to total Assets ration is 0.13 or 13%. This reflects a strong results in terms of all debts covered by total assets, thus Municipality is Solvent.

#### Cash and Cash equivalent

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### 58. Going concern (continued)

The municipality's cash and cash equivalent is sitting at R 73 957 994 as at 30 June 2024.

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.

### 59. Events after the reporting date

The following were events happened after the reporting date 30 June 2024.

#### Nature of Event

A notice for consultation of Determination of Upper Limits of Salaries, Allowances and Benefits of different members of Municipal Councils Circular No. 19/2024, was issued on the 19 August 2024 for 2023/2024 and 2024/2025 financial year.

The notice set out proposal and seek comments on draft upper limits of councillors salaries and allowances, after the end of the reporting date: 30 June 2024 but before the submission of the Annual Financial Statements: 31 August 2024.

Estimate of Financial effect is R 529 433 (2023: R1 135 327)

#### Nature of Event.

The municipality entered into an agreement with for debt owed to the municipality on municipal services (customer account no. 1538800). The agreement period is 36 months with repayment of debt amounting R 141 500 per month.

Estimate of Financial effect is that, the municipality did not impair this debt in the presence of this agreement.

### 60. Unauthorised expenditure

Opening balance as previously reported	13 193 765	25 543 808
Add: Unauthorised expenditure - current	7 546 942	13 193 765
Less: Amount authorised/Approved/written off by council	(13 193 765)	(25 543 808)
<b>Closing balance</b>	<b>7 546 942</b>	<b>13 193 765</b>

### 2023/2024 Incidents

The Municipality incurred R7 546 942 unauthorised expenditure during 2023/2024 financial year. This is a result of non cash items being debt impairment and impairment loss of property plan and equipment. The municipality experienced a number of natural disasters during the financial year and that contributed to an increase in impairment of assets. Collection of debts from government departments remains a challenge to the municipality.

The municipality incurred R13 193 765 unauthorised expenditure during 2022/2023 financial year. This is a result of non cash items being depreciation, impairment and contribution of employee benefit obligation being higher than anticipated. The municipality has followed Section 32 of the MFMA in dealing with prior year's expenditure. The full amount of R13 193 765 has been written off by Council.

### 2022/2023 Incidents

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

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<b>60. Unauthorised expenditure (continued)</b>		
<b>Analysed as follows: non-cash</b>		
Employee related cost	-	755 087
Depreciation and amortisation	-	3 511 979
Provision of impairment	4 338 653	7 789 940
Bad debts written off	-	1 136 759
Impairment loss	3 208 289	-
	<b>7 546 942</b>	<b>13 193 765</b>
<b>61. Fruitless and wasteful expenditure</b>		
Opening balance as previously reported	-	1 610
Less: Amount written off - prior period	-	(1 610)
<b>Closing balance</b>	<b>-</b>	<b>-</b>

### 2023/2024 Incidents

The municipality did not incur any fruitless and wasteful expenditure as 30 June 2024

### 2022/2023 Incidents

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

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<b>62. Irregular expenditure</b>		
Opening balance as previously reported	-	6 482 810
Add: Irregular expenditure - current	-	4 382 640
Add: Irregular expenditure - prior period	1 441 602	3 743 488
Less: Amount written off - current	(1 441 602)	(4 382 640)
Less: Amount written off - prior period	-	(10 226 298)
<b>Closing balance</b>	<b>-</b>	<b>-</b>

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### 62. Irregular expenditure (continued)

#### 2023/2024 Incidents

The municipality incurred an amount of R601 489.06 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 R601 489.06 has been written off by Council as irrecoverable. This expenditure was identified in the previous year. To date, the new contract was entered between umlalazi municipality and Contour effective from 1 September 2023

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 off by Council as irrecoverable. This irregular expenditure has been identified in the previous financial year. To date, the new contract was entered between Umlalazi municipality and Njomisa Boerdery effective from 1 March 2024.

The municipality incurred an amount of R263 828.40 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 R263 828.40 has been written off by Council as irrecoverable. This expenditure was identified in the previous year. To date, the new contract was entered between umlalazi municipality and IGS Solutions effective from 3 October 2023.

The municipality incurred an amount of R 97 884.60 for the provision of fleet management system services. The contract was extended in accordance with section 116 of The MFMA for the period beyond a year. This will be referred for investigation in accordance with section 32 of the MFMA. This expenditure was identified in the previous year. To date, the new contract was entered between uMlalazi municipality and Ctrack Mzansi effective from 7 October 2024. An amount R97 884.60 has been written off 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 off 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 off 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 off by Council as irrecoverable. This irregular expenditure has been identified during 2022/2023 financial year.

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 off by Council as irrecoverable.

The municipality incurred an amount of R285 999 in respect of procurement relating to Mayoral program. Goods that should

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## Notes to the Annual Financial Statements

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### 62. Irregular expenditure (continued)

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.

### 63. In-kind donations and assistance

Donations received 299 000 252 448

The municipality received donations and assistance such as wheel chairs and uniform from different donors, amounting to R299 000 (2023: R252 448).

### 64. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Current year subscription / fee	2 122 810	1 952 389
Amount paid - current year	(2 122 810)	(1 952 389)
	<u>-</u>	<u>-</u>

#### Audit fees

Current year subscription / fee	2 356 117	2 485 250
Amount paid - current year	(2 356 117)	(2 485 250)
	<u>-</u>	<u>-</u>

#### PAYE, UIF and SDL

Current year subscription / fee	30 773 899	29 312 894
Amount paid - current year	(30 773 899)	(29 312 894)
	<u>-</u>	<u>-</u>

#### Pension and Medical Aid Deductions

Current year subscription / fee	45 227 046	42 093 516
Amount paid - current year	(45 227 046)	(42 093 516)
	<u>-</u>	<u>-</u>

#### Councillors' arrear consumer accounts

There are no Councillors with arrear accounts outstanding for more than 90 days at 30 June 2024.

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

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### 65. 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	462 417	3 024 591
Emergency	14 548	1 816 300
	<b>476 965</b>	<b>4 840 891</b>

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### 66. Segment information

#### General information

#### Identification of segments

The municipality is organised and reports to management on the basis of five major functional areas: Basic Services, Good Governance, Public Participation, Financial Management and institutional Capacity. The segments were organised around the type of service delivered. 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 service delivered as management consider that the economic characteristics of the segments throughout were sufficiently similar to warrant aggregation

#### Types of goods and/or services by segment

The 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	Roads and Storm Water
Segment 5	Refuse

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### 66. Segment information (continued)

#### Segment surplus or deficit, assets and liabilities

2024

	Cemeteries	Electricity	Housing	Roads and Storm Water	Refuse Removal	Total
<b>Revenue</b>						
Revenue from exchange - Interest received - receivable from exchange transactions	-	1 524 933	-	-	1 240 538	2 765 471
Revenue from exchange - Rental of facilities and equipment	-	-	234 667	-	-	234 667
Revenue from exchange - Operational revenue	224 228	7 403	-	-	34 512	266 143
Revenue from exchange - Service charges	-	91 521 052	-	-	15 748 024	107 269 076
Revenue from non-exchange - Fines, penalties and forfeits	-	-	-	140 381	-	140 381
Revenue from non-exchange - Availability charge	-	1 470 528	-	-	-	1 470 528
Revenue from non-exchange - Transfers and subsidies	2 437 455	17 032 158	2 093 656	79 022 705	6 927 429	107 513 403
<b>Total segment revenue</b>	<b>2 661 683</b>	<b>111 556 074</b>	<b>2 328 323</b>	<b>79 163 086</b>	<b>23 950 503</b>	<b>219 659 669</b>
Revenue from exchange - Interest received						10 521 719
Revenue from exchange - Agency services						2 601 720
Revenue from exchange - licences and permits						2 283 512
Revenue from exchange - Operational revenue						1 248 176
Revenue from exchange - Rental of facilities and equipment						1 190 164
Revenue from exchange - Actuarial gains						2 103 674
Revenue from exchange - Fair value adjustments						1 145 000
Revenue from exchange - Gain on disposal of assets						59 787
Revenue from non-exchange - Fines, penalties and forfeits						4 723 448
Revenue from non-exchange - Property rates - penalties imposed						5 113 910
Revenue from non-exchange - Licences and permits						18 016
Revenue from non-exchange - Property rates						71 880 510
Revenue from non-exchange - Government grants & subsidies						209 455 608
<b>Total revenue reconciling items</b>						<b>312 345 244</b>
<b>Entity's revenue</b>						<b>532 004 913</b>

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	Cemeteries	Electricity	Housing	Roads and Storm Water	Refuse Removal	Total
<b>66. Segment information (continued)</b>						
<b>Expenditure</b>						
Employee related cost	928 276	8 257 925	2 104 803	14 912 605	10 568 779	36 772 388
Contracted services	1 730 296	1 635 870	223 520	21 348 162	10 102 703	35 040 551
Bulk purchases	-	89 665 933	-	-	-	89 665 933
Depreciation	-	2 896 338	-	28 497 690	-	31 394 028
Impairment loss	-	-	-	5 728 289	-	5 728 289
Finance charges	-	-	-	3 146 984	-	3 146 984
Inventory consumed	-	2 173 266	-	5 001 692	2 329 791	9 504 749
Operational expenditure	3 111	6 926 742	-	527 664	949 230	8 406 747
<b>Total segment expenditure</b>	<b>2 661 683</b>	<b>111 556 074</b>	<b>2 328 323</b>	<b>79 163 086</b>	<b>23 950 503</b>	<b>219 659 669</b>
<b>Total segmental surplus/(deficit)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Unreconciled - Employee related costs						149 973 350
Unreconciled - Remuneration of Councillors						25 158 075
Unreconciled - Contracted services						46 160 843
Unreconciled - Depreciation						17 510 728
Unreconciled - Debt impairment						9 918 654
Unreconciled - Transfers and subsidies						8 160 333
Unreconciled - Inventory consumed						7 423 418
Unreconciled - Operational expenditure						38 670 466
<b>Entity's surplus (deficit) for the period</b>						<b>9 369 372</b>
<b>Assets</b>						
Segment assets acquisitions	3 210 520	1 569 077	-	61 814 171	11 739	66 605 507
Unreconciled - Assets acquisitions						22 668 554
<b>Total assets as per Statement of financial Position</b>						<b>89 274 061</b>

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### 66. Segment information (continued)

#### Significant reconciling differences

An amount of R150 044 740 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 R45 190 613 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 R17 510 728 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 R25 158 075 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 R 38 611 073 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.

### 2023

	Cemeteries	Electricity	Housing	Roads and Storm water	Refuse removal	Total
<b>Revenue</b>						
Revenue from exchange - Interest received - receivable from exchange transactions	-	490 631	-	-	634 732	1 125 363
Revenue from exchange - Rental of facilities and equipment	-	-	74 154	-	-	74 154
Revenue from exchange - Operational revenue	-	-	19 728	-	-	19 728
Revenue from exchange - Service charges	-	78 364 292	-	-	14 869 348	93 233 640
Revenue from non-exchange - Fines, penalties and forfeits	-	204 386	-	-	-	204 386
Revenue from non-exchange - Availability charge	-	1 316 579	-	-	-	1 316 579
Revenue from non-exchange - Transfers and subsidies	2 069 993	20 287 973	3 464 892	63 637 735	9 708 843	99 169 436
Revenue from non-exchange - Interest on availability charge	-	94 670	-	-	-	94 670
<b>Total segment revenue</b>	<b>2 069 993</b>	<b>100 758 531</b>	<b>3 558 774</b>	<b>63 637 735</b>	<b>25 212 923</b>	<b>195 237 956</b>

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### 66. Segment information (continued)

Revenue from exchange - Interest received - receivable from exchange transactions	8 140 359
Revenue from exchange - Rental of facilities and equipment	1 124 881
Revenue from exchange - Operational revenue	1 878 124
Revenue from exchange - Agency services	2 156 185
Revenue from exchange - Licences and permits	1 652 732
Revenue from exchange - Interest received - receivable from exchange transactions	189 590
Revenue from exchange - Gains on disposal	2 216 945
Revenue from exchange - Actuarial gains	3 973 592
Revenue from exchange - Fair value adjustment	678 000
Revenue from non-exchange - Property rates	68 421 869
Revenue from non-exchange - Property rates penalties imposed	3 035 721
Revenue from non-exchange - Licences and permits	36 101
Construction contract revenue	3 156 604
Revenue from non-exchange - Government grants & subsidies	186 416 502
Revenue from non-exchange - Fines, penalties and forfeits	1 408 748
<b>Total revenue reconciling items</b>	<b>284 485 953</b>
<b>Entity's revenue</b>	<b>479 723 909</b>

### Expenditure

Employee related costs	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 costs	3 267	7 948 847	78 174	526 081	1 290 004	9 846 373
<b>Total segment expenditure</b>	<b>2 069 993</b>	<b>100 758 531</b>	<b>3 558 774</b>	<b>63 637 735</b>	<b>25 212 923</b>	<b>195 237 956</b>
<b>Total segment surplus/(deficit)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

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	Cemeteries	Electricity	Housing	Roads and Storm water	Refuse removal	Total
<b>66. Segment information (continued)</b>						
Unreconciled - Employee related costs						137 507 155
Unreconciled - Remuneration of Councillors						23 223 213
Unreconciled - Contracted services						53 019 877
Unreconciled - Depreciation						17 734 530
Unreconciled - Debt impairment						6 236 165
Unreconciled - Transfers and subsidies						5 067 398
Unreconciled - Inventory consumed						7 864 639
Unreconciled - Operational costs						52 466 220
<b>Entity's surplus (deficit) for the period</b>						<b>(17 816 425)</b>
<b>Assets</b>						
Segment assets acquisitions	4 697 226	1 855 141	-	24 761 515	1 042 696	32 356 578
Unreconciled - Assets requisitions						21 633 650
<b>Total assets as per Statement of financial Position</b>						<b>53 990 228</b>

#### Information about geographical areas

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

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### 66. Segment information (continued)

#### 2024

	External revenues from non-exchange transactions	External revenues from exchange transactions	Total expenditure	Non-current assets
Urban areas	78 643 808	110 436 710	170 839 238	76 776 637
Rural areas	-	-	-	124 843 234
The whole of municipality	320 001 564	23 156 504	351 796 303	674 117 309
<b>Total</b>	<b>398 645 372</b>	<b>133 593 214</b>	<b>522 635 541</b>	<b>875 737 180</b>

#### 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	291 657 758	22 117 460	334 702 199	662 895 937
<b>Total</b>	<b>359 899 626</b>	<b>116 667 679</b>	<b>497 540 334</b>	<b>838 664 011</b>

### 67. Accounting by principals and agents

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

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### 67. 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 14 .

##### 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.